

IPASS INC
Form 10-Q
August 11, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

R QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2008

£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from/to

000-50327
(Commission File Number)

iPass Inc.
(Exact name of Registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of Incorporation or
Organization)

93-1214598
(I.R.S. Employer Identification No.)

3800 Bridge Parkway
Redwood Shores, California 94065
(Address of principal executive offices, including zip code)

(650) 232-4100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the

Edgar Filing: IPASS INC - Form 10-Q

Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes R No ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act).

Large Accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares outstanding of the Registrant's Common Stock, \$0.001 par value, as of July 31, 2008 was 62,736,284.

iPASS INC. AND SUBSIDIARIES

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008

TABLE OF CONTENTS

Part I. Financial Information:

<u>Item 1. Financial Statements</u>	<u>3</u>
a) <u>Condensed Consolidated Balance Sheets as of June 30, 2008 and December 31, 2007</u>	<u>3</u>
b) <u>Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2008 and 2007</u>	<u>4</u>
c) <u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2008 and 2007</u>	<u>5</u>
d) <u>Notes to Condensed Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>14</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>26</u>
<u>Item 4. Controls and Procedures</u>	<u>27</u>
<u>Item 4T. Controls and Procedures</u>	<u>27</u>

Part II. Other Information:

<u>Item 1A. Risk Factors</u>	<u>28</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>28</u>
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	<u>28</u>
<u>Item 6. Exhibits</u>	<u>30</u>
<u>SIGNATURE</u>	<u>31</u>
<u>EXHIBIT INDEX</u>	<u>32</u>

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

iPASS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited, in thousands)

	June 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 52,130	\$ 70,907
Short-term investments	17,564	4,258
Accounts receivable, net of allowance for doubtful accounts of \$875 and \$2,792, respectively	37,911	35,938
Prepaid expenses and other current assets	6,888	7,116
Deferred income tax assets	575	575
Total current assets	115,068	118,794
Property and equipment, net of accumulated depreciation of \$32,658 and \$41,435, respectively	9,739	9,272
Other assets	6,305	4,876
Acquired intangible assets, net	7,404	9,504
Goodwill	79,543	79,543
Total assets	\$ 218,059	\$ 221,989
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 19,152	\$ 15,923
Accrued liabilities	13,236	15,788
Deferred revenue — short-term	5,749	6,606
Total current liabilities	38,137	38,317
Deferred tax liability — long-term	575	575
Deferred revenue — long-term	1,723	949
Other long-term liabilities	644	1,040
Total liabilities	41,079	40,881
Stockholders' equity:		
Common stock	63	62
Additional paid-in capital	240,421	241,703
Accumulated other comprehensive income (loss)	(14)	15
Accumulated deficit	(63,490)	(60,672)
Total stockholders' equity	176,980	181,108
Total liabilities and stockholders' equity	\$ 218,059	\$ 221,989

See Accompanying Notes to the Condensed Consolidated Financial Statements

iPASS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in thousands, except share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Revenues	\$ 48,616	\$ 47,597	\$ 96,728	\$ 94,485
Operating expenses (1):				
Network access	20,941	17,273	41,441	33,543
Network operations	8,725	8,783	17,399	16,981
Research and development	3,988	5,438	8,443	10,895
Sales and marketing	10,371	13,868	20,680	27,294
General and administrative	5,805	5,059	11,124	10,818
Restructuring charges	26	(169)	30	(152)
Amortization of intangibles	1,050	1,050	2,100	2,100
Total operating expenses	50,906	51,302	101,217	101,479
Operating loss	(2,290)	(3,705)	(4,489)	(6,994)
Interest income and other, net	367	851	956	1,600
Loss before income taxes	(1,923)	(2,854)	(3,533)	(5,394)
Benefit from income taxes	(478)	(541)	(715)	(2,623)
Net loss	\$ (1,445)	\$ (2,313)	\$ (2,818)	\$ (2,771)
Net loss per share, basic and diluted:	\$ (0.02)	\$ (0.04)	\$ (0.05)	\$ (0.04)
Number of shares used in per share calculations:	61,539,722	63,097,688	61,305,563	63,333,332

(1) Stock-based compensation is included in the following expense line items:

Network operations	\$ 285	\$ 258	\$ 558	\$ 393
Research and development	41	327	230	601
Sales and marketing	(176)	527	161	769
General and administrative	941	655	1,487	1,201

See Accompanying Notes to the Condensed Consolidated Financial Statements

iPASS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Six Months Ended June 30,	
	2008	2007
Cash flows from operating activities:		
Net loss	\$ (2,818)	\$ (2,771)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Amortization of stock-based compensation for employees	2,436	2,963
Amortization of acquired intangibles	2,100	2,100
Depreciation and amortization	2,930	2,612
Deferred income tax	—	(832)
Provision for doubtful accounts	(114)	(407)
Realized loss on investments	(29)	—
Changes in operating assets and liabilities:		
Accounts receivable	(1,859)	(2,750)
Prepaid expenses and other current assets	228	(1,645)
Other assets	(1,007)	80
Accounts payable	3,229	1,071
Accrued liabilities	(2,982)	(4,456)
Deferred revenues	(192)	—
Other liabilities	(396)	(48)
Net cash provided by (used in) operating activities	1,526	(4,083)
Cash flows from investing activities:		
Purchases of short-term investments	(137,287)	(238,957)
Maturities of short-term investments	123,969	281,265
Restricted cash pledged for letter of credit	(422)	(1,010)
Purchases of property and equipment	(3,385)	(2,629)
Net cash provided by (used in) investing activities	(17,125)	38,669
Cash flows from financing activities:		
Proceeds from issuance of common stock	494	1,673
Cash used in repurchase of common stock	(3,672)	(12,055)
Net cash used in financing activities	(3,178)	(10,382)
Net increase (decrease) in cash and cash equivalents	(18,777)	24,204
Cash and cash equivalents at beginning of period	70,907	15,492
Cash and cash equivalents at end of period	\$ 52,130	\$ 39,696

See Accompanying Notes to the Condensed Consolidated Financial Statements

iPASS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Presentation

The accompanying financial data has been prepared by iPass Inc. (the "Company" or "iPass"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The December 31, 2007 Condensed Consolidated Balance Sheet was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles. However, the Company believes that the disclosures are adequate to make the information presented not misleading.

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (which include normal recurring adjustments, except as disclosed herein) necessary to present fairly the Company's financial position, results of operations, and cash flows for the interim periods presented. The results of operations for the six months ended June 30, 2008 are not necessarily indicative of the operating results for the full fiscal year or any future periods.

Note 2. Summary of Significant Accounting Policies

The Company's significant accounting policies were described in Note 2 of the Company's audited Consolidated Financial Statements for the fiscal year ended December 31, 2007, included in the Annual Report on Form 10-K. These accounting policies have not significantly changed except as noted below.

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157 ("SFAS 157"), Fair Value Measurements, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements and is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB FSP 157-2 which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. These nonfinancial items include assets and liabilities such as reporting units measured at fair value in a goodwill impairment test and nonfinancial assets acquired and liabilities assumed in a business combination. Effective January 1, 2008, the Company adopted SFAS 157 for financial assets and liabilities recognized at fair value on a recurring basis. The partial adoption of SFAS 157 for financial assets and liabilities did not have a material impact on the condensed consolidated balance sheet, statement of operations or statement of cash flows. See Note 3 for information and related disclosures regarding fair value measurements.

Since adoption of SFAS No. 123 (revised 2004) ("SFAS 123(R)"), Share-Based Payment, the Company has elected to use the simplified method to estimate the expected term as permitted by Securities and Exchange Commission ("SEC")

Staff Accounting Bulletin 107 (“SAB 107”) due to the unknown effect on option holder behavior of the increased liquidity of the underlying options following the Company’s IPO. In December 2007, the SEC released Staff Accounting Bulletin No. 110 (“SAB 110”). SAB 110 amends SAB 107 to allow for the continued use, under certain circumstances, of the “simplified” method in developing an estimate of the expected term of “plain vanilla” stock options accounted for under SFAS 123(R). As a result, the Company will continue to use the simplified method until it has sufficient historical data to provide a reasonable basis to estimate the expected term.

Recent Accounting Pronouncements

With the exception of the financial accounting standards board statements defined below, there have been no significant changes in recent accounting pronouncements during the six months ended June 30, 2008 as compared to the recent accounting pronouncements described in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

In March 2008, the FASB issued Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. Statement 161 requires disclosures of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows.

Statement 161 is effective for fiscal years beginning after November 15, 2008, with early adoption permitted. The Company is currently evaluating the impact of the pending adoption of Statement 161 on its consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position (“FSP”) No. 142-3, “Determination of the Useful Life of Intangible Assets.” FSP 142-3 amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under FASB Statement No. 142, “Goodwill and Other Intangible Assets.” This new guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. FSP 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. Early adoption is prohibited. The impact of FSP 142-3 will depend on the Company’s future acquisition activity.

Note 3. Financial Instruments

SFAS 157, Fair Value Measurements, clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, SFAS 157 establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs other than the quoted prices in active markets that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which require us to develop our own assumptions. This hierarchy requires the use of observable market data, when available, and the minimization of the use of unobservable inputs when determining fair value.

Certain financial assets and liabilities are measured at fair value on a recurring basis, including available-for-sale fixed income and equity securities. Cash and investment instruments are classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. The fair value of these financial assets was determined using the following inputs at June 30, 2008 (in thousands):

Fair Value Measurements at Reporting Date Using					
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	Total				
Money market funds (1)	\$ 6,549	\$ 6,549	\$ —	\$ —	
Fixed income available-for-sale securities (2)	\$ 50,755	\$ —	\$ 50,755	\$ —	
Total	\$ 57,304	\$ 6,549	\$ 50,755	\$ —	

(1) Included in cash and cash equivalents on the Company's consolidated balance sheet.

(2) Fixed income available-for-sale securities include commercial paper (92% of total) and bonds of government agencies (8% of total). Included in fixed income available-for-sale securities is approximately \$33.1 million of cash equivalents. Cash equivalents consist of instruments with remaining maturities of three months or less at the date of purchase. The remaining balance of cash equivalents consists primarily of money market funds, for which the carrying amount is a reasonable estimate of fair value.

Note 4. Goodwill and Intangibles

The following table represents a rollforward of goodwill and acquired intangible assets, net (in thousands):

	December 31, 2007 Balance	Amortization	June 30, 2008 Balance
Goodwill	\$ 79,543	\$ —	\$ 79,543
Intangibles:			
Existing technology	2,749	(806)	1,943
Patent/Core technology	1,001	(281)	720
Maintenance agreements and certain relationships	189	(33)	156
Customer relationships	4,805	(836)	3,969
Supplier contracts	504	(119)	385

Edgar Filing: IPASS INC - Form 10-Q

Internally developed software	256	(25)	231
	\$ 89,047	\$ (2,100)	\$ 86,947

Total amortization expense related to acquired intangible assets is set forth in the table below (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Intangibles:				
Existing technology	\$ (403)	\$ (403)	\$ (806)	\$ (806)
Patent/Core technology	(141)	(141)	(281)	(281)
Maintenance agreements and certain relationships	(17)	(17)	(33)	(33)
Customer relationships	(418)	(418)	(836)	(836)
Supplier contracts	(58)	(58)	(119)	(119)
Internally developed software	(13)	(13)	(25)	(25)
	\$ (1,050)	\$ (1,050)	\$ (2,100)	\$ (2,100)

Edgar Filing: IPASS INC - Form 10-Q

The following tables set forth the carrying amount of other intangible assets that will continue to be amortized (in thousands):

		June 30, 2008		
		Gross		Net
	Amortization Life	Carrying	Accumulated	Carrying
		Amount	Amortization	Amount
Intangibles:				
Existing technology	4-8 yrs	\$ 7,900	\$ (5,957)	\$ 1,943
Patent/Core technology	4-8 yrs	2,800	(2,080)	720
Maintenance agreements and certain relationships	5 yrs	400	(244)	156
Customer relationships	4-7 yrs	8,100	(4,131)	3,969
Supplier contracts	4 yrs	950	(565)	385
Internally developed software	7 yrs	350	(119)	231
		\$ 20,500	\$ (13,096)	\$ 7,404

		December 31, 2007		
	Amortization Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangibles:				
Existing technology	4-8 yrs	\$ 7,900	\$ (5,151)	\$ 2,749
Patent/Core technology	4-8 yrs	2,800	(1,799)	1,001
Maintenance agreements and certain relationships	5 yrs	400	(211)	189
Customer relationships	4-7 yrs	8,100	(3,295)	4,805
Supplier contracts	4 yrs	950	(446)	504
Internally developed software	7 yrs	350	(94)	256
		\$ 20,500	\$ (10,996)	\$ 9,504

The following table presents the estimated future amortization of intangible assets (in thousands):

Fiscal Year	
Remaining 2008	\$ 1,800
2009	2,401
2010	1,241
2011	1,021
2012	876
2013 and thereafter	65
	\$ 7,404

Note 5. Accrued Restructuring and Acquisition Integration Plans

In June and September 2006, the Company recorded a restructuring charge totaling approximately \$1.7 million related to the workforce reduction of 58 iPass employees, across all functions. In November 2006, the Company recorded an additional restructuring charge of \$3.0 million related to excess iPass facilities. The severance costs were recorded pursuant to SFAS No. 112, Employers' Accounting for Postemployment Benefits—an amendment of FASB Statements No. 5 and 43, and the excess facility costs were recorded pursuant to SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities ("SFAS No. 146").

By June 2007, the Company finalized the aforementioned terminations, settled all negotiations and paid out the remaining severance. As a result of finalizing all such terminations, the Company adjusted the accrual for the difference between initial estimates of severance liability and the final payments ultimately made. This adjustment of approximately \$179,000 was credited to the restructuring expense in the second quarter of 2007. SFAS No. 146 requires that the excess facilities liabilities be recorded at fair value. The difference between the fair value of the liability at the time it was recorded and the total cash liability is accreted ratably over the expected term. This accretion is reported in the restructuring expense line on the condensed consolidated statements of operations.

In November 2007, the Company recorded an additional restructuring charge of approximately \$3.2 million related to (i) a workforce reduction of 72 employees spread across all functions though focused on sales and marketing, (ii) the abandonment of certain facilities and (iii) abandonment of certain capitalized assets totaling \$900,000. As of December 31, 2007, the Company finalized approximately 56 of the aforementioned terminations and had fully vacated the abandoned facilities.

By February 2008, the Company finalized the aforementioned terminations, settled all negotiations and paid out the remaining severance. As a result of finalizing all such terminations as well as some additional charges related to abandoned facilities, the Company adjusted the accrual for the difference between initial estimates of severance and facility liability and the final payments ultimately made. This adjustment of approximately \$17,000 was credited to the restructuring expense in the first quarter of 2008.

The following is a summary of restructuring activities for the six months ended June 30, 2008 (in thousands):

	Excess Facility Costs	Severance Costs	Total Restructuring Accrual
Balance as of December 31, 2007	\$ 1,966	\$ 768	\$ 2,734
Payments	(681)	(743)	(1,424)
Adjustments		(25)	(25)
Net book value accretion	47		47
Balance as of June 30, 2008	\$ 1,332	\$ —	\$ 1,332

In February 2006, in connection with the acquisition of GoRemote, the Company recorded an accrual of \$1.2 million for the lease costs associated with the acquired GoRemote corporate facilities that were expected to be abandoned. The accrual was recognized as part of the purchase price allocation pursuant to Emerging Issues Task Force Issue No. 95-3, Recognition of Liabilities in Connection with a Purchase Business Combination. The Company completed the relocation of employees and vacated facilities by April 2006. The accrued costs were fully utilized by the first quarter of 2008. The following is a summary of the acquisition-related restructuring activities for the quarter ended March 31, 2008 (in thousands):

	Excess Facility Costs
Balance as of December 31, 2007	\$ 100
Payments	(100)
Balance as of June 30, 2008	\$ —

As of June 30, 2008, the Company has classified \$688,000 of the restructuring liability in accrued liabilities and remaining \$644,000 in long-term liabilities based on the Company's expectation that the remaining lease payments will be paid over the remaining term of the related leases (net of expected sublease income).

Note 6. Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income in the period that includes the enactment date. A valuation allowance is recorded against deferred tax assets if it is more likely than not that all or a portion of the deferred tax assets will not be realized.

The Company recorded net deferred tax assets to the extent management believes these assets will more likely than not be realized. In making such determination, management considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. In the fourth quarter of 2007, the Company recorded the impact of a full valuation allowance on the remaining net balance of deferred income tax assets. In the event management were to determine that the Company would be able to realize the deferred income tax assets in the future in excess of their net recorded amount, the Company would make an adjustment to the valuation allowance which would reduce the provision for income taxes. To the extent the valuation allowance relates to acquired entities, the recognition of any future tax benefits would first reduce goodwill and then reduce the provision for income taxes.

On July 13, 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109 ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes, and prescribes a recognition threshold and measurement attributes for financial statement purposes of tax positions taken or expected to be taken on a tax return. Under FIN 48, the benefit of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position is not recognized if it has less than a 50% likelihood of being sustained. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The total amount of unrecognized tax benefits at June 30, 2008 is \$1.9 million, and at December 31, 2007 was \$3.8 million. If any of the remaining tax benefits that are unrecognized at June 30, 2008 should become recognizable at a future time, the Company would reverse \$1.8 million against the Company's deferred tax assets, and the remaining balance would be released into net income.

The decrease in unrecognized tax benefits is related to the State of California audit for the years 2002 to 2005, which the Company recently settled. Management had previously recorded reserves for the estimated liability related to the audit of \$2.4 million. Of these reserves, \$676,000 was reversed into net income during the quarter ended June 30, 2008, and \$1.1 million will be reversed into deferred tax assets, subject to 100% valuation allowance.

The Company recognizes accrued interest related to unrecognized tax benefits in the tax provision. At June 30, 2008, the Company's liability for unrecognized tax benefits includes an accrual for interest in the amount of \$26,000, and at December 31, 2007 the Company's liability was \$290,000.

The Company is subject to taxation in the United States and various other foreign jurisdictions. The Company records accruals for the estimated outcomes of these audits, and the accruals may change in the future due to new developments in each matter. Fiscal years 2004 to 2007 remain open to examination by the major taxing jurisdictions to which the Company is subject, with the exception of California which is open from 2003 to 2007. The Company is currently under audit for U.S. federal income tax matters for years 2004 to 2006. Due to the availability of U.S. federal tax net operating losses, Management does not expect the examination by the IRS will result in material payments. The Company also has income tax audits in progress in India. The years under examination by the Indian taxing authorities are 2005 to 2006. The Indian tax audit is considered a routine audit relating to transfer pricing calculations. Management does not believe the examination in India will result in material payments due to the availability of tax holidays, which effectively reduce the tax rate in India to 0% for tax years ending before March 31, 2007.

Note 7. Stock Repurchase Program

In February 2008, the Company's Board of Directors approved a two-year stock repurchase program which authorizes the Company to repurchase up to \$30.0 million of outstanding common stock from time to time on the open market or through privately negotiated transactions. The timing and amount of any repurchases will depend upon market conditions and other corporate considerations.

Through June 30, 2008, the Company repurchased a total of approximately 1.3 million shares of common stock for an aggregate purchase price of \$3.7 million. A total of \$3.2 million of stock was repurchased in the first quarter of 2008 and a total of \$500,000 of stock was repurchased in the second quarter of 2008, leaving approximately \$26.3 million that may be used for future repurchases. Of the shares repurchased to date, 1.1 million shares were retired during the second quarter of fiscal 2008 and the remainder will be retired by the end of the third quarter of fiscal 2008.

Note 8. Comprehensive Loss

Edgar Filing: IPASS INC - Form 10-Q

Comprehensive loss is a measure of all changes in equity of an enterprise that result from transactions and other economic events of the period other than transactions with stockholders. Comprehensive loss is the total of net loss and all other non-owner changes in equity. Comprehensive loss includes net loss and unrealized gains (losses) on available-for-sale securities.

Comprehensive loss is comprised of the following (in thousands):

	Three Months Ended June 30, 2008		Six Months Ended June 30, 2007	
	2008	2007	2008	2007
Net loss	\$ (1,445)	\$ (2,313)	\$ (2,818)	\$ (2,771)
Comprehensive loss:				
Net change in accumulated unrealized gain (loss) on available-for- sale securities	(19)	26	(29)	47
Total comprehensive loss	\$ (1, 464)	\$ (2,287)	\$ (2,847)	\$ (2,724)

Note 9. Net Loss Per Share

In accordance with SFAS 128, Earnings Per Share, basic net loss per share is computed by dividing net loss by the weighted daily average number of shares of common stock outstanding during the period. Diluted net loss per share is based upon the weighted daily average number of shares of common stock outstanding for the period plus dilutive potential common shares from the issuance of stock options and awards using the treasury-stock method.

The following table sets forth the computation of basic and diluted net loss per share (in thousands, except share and per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Numerator:				
Net loss	\$ (1,445)	\$ (2,313)	\$ (2,818)	\$ (2,771)
Denominator:				
Denominator for basic net loss per common share weighted average shares outstanding	61,539,722	63,097,688	61,305,563	63,333,332
Effect of dilutive securities:				
Options to purchase common stock	—	—	—	—
Restricted stock awards	—	—	—	—
Denominator for diluted net loss per common share — adjusted weighted average shares outstanding	61,539,722	63,097,688	61,305,563	63,333,332
Basic net loss per common share	\$ (0.02)	\$ (0.04)	\$ (0.05)	\$ (0.04)
Diluted net loss per common share	\$ (0.02)	\$ (0.04)	\$ (0.05)	\$ (0.04)

The following potential shares of common stock have been excluded from the computation of diluted net income (loss) per share because the effect of including these shares would have been anti-dilutive:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Options to purchase common stock	6,983,945	9,083,619	6,983,945	9,083,619
Restricted stock awards	1,506,916	855,813	1,506,916	855,813
Total	8,490,861	9,939,432	8,490,861	9,939,432

Note 10. Commitments

The Company has contracts with certain network service and mobile data providers which have minimum purchase commitments that expire on various dates through June 2011.

Future minimum purchase commitments under these agreements as of June 30, 2008 are as follows (in thousands):

Year ending December 31:	
Remaining 2008	8,030
2009	12,183
2010	9,995
2011	2,550
	\$ 32,758

Edgar Filing: IPASS INC - Form 10-Q

The Company leases facilities under non-cancelable operating leases that expire at various dates through October 2016. Future minimum lease payments under these operating leases as of June 30, 2008 are as follows (in thousands):

Year ending December 31:

Remaining 2008	\$ 3,649
2009	6,785
2010	4,651
2011	3,559
2012	2,728
2013 and thereafter	6,593
	\$ 27,965

At June 30, 2008, the Company had no material commitments for capital expenditures.

Foreign Currency Forward Contracts

Because the Company conducts business around the world, changes in foreign currency exchange rates can have an effect on the results of operations. The Company enters into forward contracts with financial institutions to manage currency exposure related to supplier payments and funding the operations of certain foreign subsidiaries. These forward contracts are to purchase British Pounds and Euros and are generally settled monthly. The derivative financial instruments are not used for trading purposes. The forward contracts do not eliminate but mitigate the impact of currency exchange rate movements. Gains and losses on forward contracts are included in Interest and Other Income (Expense) in our Condensed Consolidated Statements of Operations. As of June 30, 2008, there were nine outstanding forward contracts with total notional amounts totaling \$5.3 million, which resulted in a net gain of \$63,000.

Note 11. Segment Information

SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, establishes standards for reporting operating segments, products and services, geographic areas, and major customers by business entities. The method for determining what information is reported is based on the way that management organizes the operating segments within the Company for making operational decisions and assessments of financial performance. The Company's Chief Executive Officer ("CEO") is considered to be the Company's chief operating decision maker. The CEO reviews financial information presented on a consolidated basis for purposes of making operating decisions and assessing financial performance. The consolidated financial information reviewed by the CEO is similar to the information presented in the accompanying condensed consolidated financial statements. Therefore, the Company has determined that it operates in a single reportable segment.

No individual customer represented 10% or more of total revenues for the three or six months ended June 30, 2008 or 2007. The only individual foreign country to account for 10% or more of total revenues for the periods presented was the United Kingdom, which represented approximately 10% and 11% of total revenues for the three months ended June 30, 2008 and 2007, respectively, and 10% and 12% of total revenues for the six months ended June 30, 2008 and 2007, respectively.

Note 12. Legal Contingencies

On November 22, 2006, Blue Waters Management, L.L.C., a former iPass reseller, filed a claim against Carlson Companies, Inc. alleging breach of contract and conversion based upon the iPass services and software provided by Blue Waters to Carlson. Blue Waters has alleged damages of approximately \$9 million. On July 23, 2007, Carlson Companies filed a counter-claim against Blue Waters seeking damages for breach of contract, fraud and unjust enrichment. Carlson Companies had been a customer of Blue Waters from about December 2002 through September

2006, after which Carlson Companies entered into a contract with iPass in order to continue to use the iPass services and software. At the same time, Carlson terminated its agreement with Blue Waters. Blue Waters has claimed that Carlson's continued use of the iPass software after September 2006 is a violation of Carlson's agreement with Blue Waters. Blue Waters has not alleged a specific amount of damages with this portion of its complaint. In the counterclaim filed by Carlson, Carlson has claimed that iPass is required to indemnify Carlson to the extent Carlson is required to pay any damages to Blue Waters as a result of Carlson's continued use of the iPass software. On August 14, iPass filed a response to Carlson's claim denying any liability to Carlson. On or about June 12, 2008, iPass, Carlson and Blue Waters entered into a settlement agreement in which iPass agreed to pay Blue Waters \$50,000 in exchange for the release and settlement by Blue Waters and Carlson of all claims, known or unknown which either Blue Waters or Carlson has against iPass respecting the claims made by Blue Waters. As a result of the settlement agreement, Blue Waters and Carlson petitioned the Court to dismiss the causes of action brought by each against the other and against iPass. On June 26, 2008, the Court ordered the entire case dismissed.

In 2001, GoRemote Internet Communications, Inc. (formerly known as GRIC Communications, Inc., hereinafter, "GoRemote") and certain of its officers and directors were named as defendants in a class action shareholder complaint filed in the United States District Court for the Southern District of New York, now consolidated as In re GRIC Communications, Inc. Initial Public Offering Securities Litigation, Case No. 6771. In the amended complaint, the plaintiffs allege that GoRemote, certain of its officers and directors and the underwriters of its initial public offering ("IPO") violated Section 11 of the Securities Act of 1933, as amended, based on allegations that GoRemote's registration statement and prospectus failed to disclose material facts regarding the compensation to be received by, and the stock allocation practices of, the IPO underwriters. The complaint also contains a claim for violation of section 10(b) of the Securities Exchange Act of 1934, as amended, based on allegations that this omission constituted a deceit on investors. The plaintiffs seek unspecified monetary damages and other relief. Similar complaints were filed in the same court against hundreds of other public companies ("Issuers") that conducted IPOs of their common stock in the late 1990s and 2000 (the "IPO Lawsuits").

In October 2002, GoRemote's officers and directors were dismissed without prejudice pursuant to a stipulated dismissal and tolling agreement with the plaintiffs. In February 2003, the court dismissed the section 10(b) claim against GoRemote without leave to amend, but declined to dismiss the Section 11 claim. In June 2004, GoRemote and almost all of the other Issuers executed a settlement agreement with the plaintiffs. In February 2005, the court certified the litigation as a class action for settlement purposes and granted preliminary approval of the settlement, subject to modification of certain bar orders contemplated by the settlement. In August 2005, the court reaffirmed class certification and preliminary approval of the modified settlement. On February 24, 2006, the Court dismissed litigation filed against certain underwriters in connection with the claims to be assigned to the plaintiffs under the settlement. On April 24, 2006, the Court held a Final Fairness Hearing to determine whether to grant final approval of the settlement. On December 5, 2006, the Second Circuit Court of Appeals vacated the lower Court's earlier decision certifying as class actions the six IPO Lawsuits designated as "focus cases." Thereafter, the district court ordered a stay of all proceedings in all of the IPO Cases pending the outcome of plaintiffs' petition to the Second Circuit for rehearing en banc. On April 6, 2007, the Second Circuit denied plaintiffs' rehearing petition, but clarified that the plaintiffs may seek to certify a more limited class in the district court. Accordingly, the settlement was terminated and will not receive final approval.

Plaintiffs filed amended complaints in the six cases designated as "focus cases" on or about August 14, 2007. GoRemote is not a focus case. In September 2007, GoRemote's named officers and directors again extended the tolling agreement with plaintiffs. On or about September 27, 2007, plaintiffs moved to certify the classes alleged in the "focus cases" and to appoint class representatives and class counsel in those cases. The "focus case" issuers filed motions to dismiss the claims against them in November 2007 and an opposition to plaintiffs' motion for class certification in December 2007. The Court denied the motions to dismiss on March 16, 2008. The focus case defendants have until August 31, 2008 to answer the amended complaints. No loss has been accrued as a loss is not probable or estimable as of June 30, 2008.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This quarterly report on Form 10-Q, including this Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements regarding future events and our future results that are based on current expectations, estimates, forecasts, and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as "expects," "anticipates," "targets," "goals," "projects," "intends," "plans," "believes," "seeks," "estimates," variations of these words, and similar expressions are intended to identify these forward-looking statements. In addition, any statements which refer to projections of our future financial performance, our anticipated growth and trends in our business, and other characterizations of future events or circumstances, are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions based upon assumptions made that we believed to be reasonable at the time, and are subject to risks and uncertainties. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Readers are directed to risks and uncertainties identified below under "Factors Affecting Operating Results" and elsewhere in this quarterly report, for factors that may cause actual results to be different than those expressed in these forward-looking statements. Except as required by law, we undertake no obligation to revise or update publicly any forward-looking statements.

Company Overview

We deliver simple, secure and manageable enterprise mobility services, maximizing the productivity of workers as they move between office, home and remote locations. Our device management services close the gaps in protecting computers, network assets, user identities and data whenever users connect over the Internet. Our connectivity services utilize the iPass global virtual network, a unified network of 550 dial-up, wireless, and broadband providers in over 160 countries.

Overview of the three and six months ended June 30, 2008

Our overall revenues increased slightly for the three and six months ended June 30, 2008 as compared to the same periods in 2007. The increase was driven primarily by our customers' migration from dial-up to broadband as the preferred method of connecting to their corporate networks. Revenues from broadband, software and services fees increased \$10.0 million and \$20.0 million for the three and six months ended June 30, 2008, respectively, as compared to the same periods of the prior year. These increases were partially offset by \$8.9 million and \$17.7 million decline in dial-up revenue for the three and six months ended June 30, 2008, respectively.

We increased the number of broadband access points during the quarter, increasing our global broadband footprint. We ended the quarter with approximately 107,000 Wi-Fi and wired hotspots worldwide, approximately 105,000 of which were Wi-Fi hotspots and approximately 2,000 of which were wired hotspots. This enabled our customers to access remotely their corporate networks from more locations, at higher speeds driving the increases in broadband usage revenues in 2008 over 2007.

Going forward, we will continue to focus on delivering innovative services and solutions for our customers, increasing the number of end users of our services for both dial-up and broadband access, as well as to continue to increase fee revenues from device management and other fee based services. Through the remainder of 2008, we expect to see continued growth in our business. However, our success could be limited by several factors, including the timely release of new products, continued market acceptance of our products and the introduction of new products by existing or new competitors. For a further discussion of these and other risk factors, see the section below entitled "Factors Affecting Operating Results."

Sources of Revenues

We derive our revenues primarily from providing enterprise connectivity services through our virtual network. We sell these services directly, as well as indirectly through our channel partners. We bill the majority of our customers on a time basis for usage based on negotiated rates. We bill the remaining customers based on a fixed charge per user per month with additional charges for excess time. Substantially all enterprise customers commit to a one to three year contract term. Most of our contracts with enterprise customers contain minimum usage levels. We bill customers for minimum commitments when actual usage is less than their monthly minimum commitment amount. The difference between the minimum commitment and actual usage is recognized as fee revenue based on our estimate of cash that will ultimately be collected related to the minimum commitment. Our usage-based revenues represented 73% and 76% of our revenues for the three months ended June 30, 2008 and 2007, respectively, and 74% and 76% for the six months ended June 30, 2008 and 2007, respectively.

We have incurred expenses to expand our broadband coverage and are seeking to generate additional revenues from our broadband wired and wireless coverage. Revenues from usage of our broadband services were 54% and 38% of our total revenues for the three months ended June 30, 2008 and 2007, respectively, and 52% and 35% for the six months ended June 30, 2008 and 2007, respectively.

We provide customers with deployment services and technical support throughout the term of the contract. We typically charge fees for these services on a one-time or annual basis, depending on the service provided and the nature of the relationship. We also offer customers additional services for which we generally bill on a monthly basis. In addition, we generate license and maintenance revenue through software licensing agreements. Revenues generated from license and maintenance fees, together with revenues generated from deployment services and technical support, represented approximately 27% and 24% of our revenues for the three months ended June 30, 2008 and 2007, respectively, and 26% and 24% for the six months ended June 30, 2008 and 2007, respectively.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, income taxes, impairment of short-term investments, impairment of goodwill and intangible assets and allowance for doubtful accounts. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable, the results of which form the basis of making judgments about the carrying values of assets and liabilities.

There have been no significant changes in our critical accounting estimates during the six months ended June 30, 2008 as compared to the critical accounting policies and estimates disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2007.

RESULTS OF OPERATIONS

Revenue

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands, except percentages)			
Total Revenue	\$ 48,616	\$ 47,597	\$ 96,728	\$ 94,485
Change, period over period	\$ 1,019		\$ 2,243	
Percentage change, period over period	2.1%		2.4%	

Total revenue increased in the three and six months ended June 30, 2008, as compared to the same periods in 2007, due to an increase in enterprise flat rate fees and revenues from minimum commitment shortfalls. The increase in broadband revenues from the addition of new customers signed over the last year and the increase in existing customers' mobile broadband usage was offset by a continued decline in dial-up revenue as customers migrated from dial-up to broadband as the preferred method of connecting to their corporate networks.

A breakdown of revenue by type is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands, except percentages)			
Broadband	\$ 26,234	\$ 17,891	\$ 50,307	\$ 33,326
Percentage of total revenue	54.0%	37.6%	52.0%	35.3%
Change, period over period	\$ 8,343		\$ 16,981	
Percentage change, period over period	46.6%		51.0%	
Dial Up	\$ 9,429	\$ 18,354	\$ 20,941	\$ 38,689
Percentage of total revenue	19.4%	38.6%	21.6%	40.9%
Change, period over period	\$ (8,925)		\$ (17,748)	
Percentage change, period over period	(48.6%)		(45.9%)	

Edgar Filing: IPASS INC - Form 10-Q

Software and Services Fees	\$	12,953	\$	11,352	\$	25,480	\$	22,470
Percentage of total revenue		26.6%		23.9%		26.3%		23.8%
Change, period over period	\$	1,601			\$	3,010		
Percentage change, period over period		14.1%				13.4%		

We expect revenue from dial-up usage to continue to decrease in absolute dollars as well as a percentage of total revenue as we expect the use of dial-up as a primary means of enterprise connectivity to continue to decline, but we cannot reasonably estimate if the rate of decline will be consistent with that seen from 2007 to 2008.

Edgar Filing: IPASS INC - Form 10-Q

International revenues accounted for approximately 38% and 37% of total revenues for the three months ended June 30, 2008 and 2007, respectively, and 38% and 37% of total revenues for the six months ended June 30, 2008 and 2007, respectively. Substantially all of our international revenues are generated in the EMEA (Europe, Middle East and Africa) and Asia Pacific regions. Revenues in the EMEA region represented 28% and 26% of total revenues for the three months ended June 30, 2008 and 2007, respectively, and 27% of our revenues for both the six months ended June 30, 2008 and 2007. Revenues in the Asia Pacific region represented 8% and 7% of total revenues for the three months ended June 30, 2008 and 2007, respectively, and 7% of total revenues for both the six months ended June 30, 2008 and 2007. The only individual foreign country to account for 10% or more of total revenues for the periods presented was the United Kingdom, which represented approximately 10% and 11% of total revenues for the three months ended June 30, 2008 and 2007, respectively, and 10% and 12% of total revenues for the six months ended June 30, 2008 and 2007, respectively. Substantially all of our revenues to date have been denominated in U.S. dollars. In the future, some portion of revenues may be denominated in foreign currencies. No individual customer accounted for 10% or more of total revenues for the three or six months ended June 30, 2008 and 2007.

Operating Expenses

Network Access

Network access expenses consist of charges for access, principally by the minute or otherwise time-based, that we pay to our network service providers.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands, except percentages)			
Network access expenses	\$ 20,941	\$ 17,273	\$ 41,441	\$ 33,543
As a percentage of revenue	43.1%	36.3%	42.8%	35.5%
Change, period over period	\$ 3,668		\$ 7,898	
Percentage change, period over period	21.2%		23.5%	

The growth in network access expenses in the three and six months ended June 30, 2008 as compared to the same periods in 2007 was due, primarily, to increased usage of our virtual network with respect to our broadband services.

While network access costs for broadband access are higher than those for dial up, we expect that as broadband usage continues to increase we may be in a better position to negotiate lower rates for access to broadband networks. We expect network access expenses to continue to increase in absolute dollars to the extent that revenue increases and remain relatively constant as a percentage of revenues in the third quarter of 2008.

Network Operations

Network operations expenses consist of compensation and benefits for our network engineering, customer support, network access quality and information technology personnel, as well as outside consultants, transaction center fees, depreciation of our network equipment, costs of mobile data cards and certain allocated overhead costs.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands, except percentages)			
Network operations expenses	\$ 8,725	\$ 8,783	\$ 17,399	\$ 16,981
As a percentage of revenue	17.9%	18.5%	18.0%	18.0%
Change, period over period	\$ (58)		\$ 418	

Edgar Filing: IPASS INC - Form 10-Q

Percentage change, period over period	(0.7%)	2.5%
---------------------------------------	--------	------

Network operations expenses decreased slightly for the three months ended June 30, 2008 as compared to the three months ended June 30, 2007. There were no fluctuations, offsetting or otherwise, significant enough to note. As we expand our operations, we expect that our network operations expenses will remain relative constant in absolute dollars and as a percentage of revenues in the third quarter of 2008.

Network operations expenses grew slightly in the six months ended June 30, 2008 as compared to the six months ended June 30, 2007. The increase was attributable to various expenses which, individually, are insignificant items.

Research and Development

Research and development expenses consist of compensation and benefits for our research and development personnel, consulting, and certain allocated overhead costs.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
(In thousands, except percentages)				
Research and development expenses	\$ 3,988	\$ 5,438	\$ 8,443	\$ 10,895
As a percentage of revenue	8.2%	11.4%	8.7%	11.5%
Change, period over period	\$ (1,450)		\$ (2,452)	
Percentage change, period over period	(26.7%)		(22.5%)	

The decrease in research and development expenses, in both absolute dollars and percent of revenue, for the three months ended June 30, 2008 as compared to the three months ended June 30, 2007 is primarily due to the restructuring plan completed in 2007. The headcount reductions included as part of the restructuring resulted in a \$373,000 reduction in contractor expense and a \$935,000 reduction in compensation and benefits expenses. The remaining portion of the decrease was due to individually insignificant items. We expect that our research and development expenses will remain relatively constant in absolute dollars and as a percentage of revenues in the third quarter of 2008.

The decrease in research and development expenses, in both absolute dollars and percent of revenue, for the six months ended June 30, 2008 as compared to the six months ended June 30, 2007 resulted primarily from a \$1.9 million lower compensation and benefits expenses and \$371,000 lower stock-based compensation expense due to the headcount reductions in the restructuring plan completed in 2007.

Sales and Marketing

Sales and marketing expenses consist of compensation, benefits, advertising, promotion expenses, and certain allocated overhead costs.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
(In thousands, except percentages)				
Sales and marketing expenses	\$ 10,371	\$ 13,868	\$ 20,680	\$ 27,294
As a percentage of revenue	21.3%	29.1%	21.4%	28.9%
Change, period over period	\$ (3,497)		\$ (6,614)	
Percentage change, period over period	(25.2%)		(24.2%)	

The decrease in sales and marketing expenses in absolute dollars and percent of revenue for the three months ended June 30, 2008 as compared to the three months ended June 30, 2007 was due primarily to an approximately \$3.3 million decrease in compensation, commissions, travel and benefits expenses due to decreased sales personnel resulting from the restructuring plan in 2007. The remaining portion of the decrease was due to individually insignificant items. We expect that sales and marketing expenses will remain relatively constant in absolute dollars and as a percentage of revenues in the third quarter of 2008.

The decrease in sales and marketing expenses in absolute dollars and percent of revenue for the six months ended June 30, 2008 as compared to the six months ended June 30, 2007 was due primarily to an approximately \$5.2 million in decreased compensation, commission and benefits expenses due to decreased sales personnel resulting from the

restructuring plan in 2007. Targeted reductions in specific marketing programs further reduced sales and marketing expenses by approximately \$921,000. Additionally, the decreased sales personnel resulted in a \$336,000 reduction in travel costs. The remaining portion of the decrease was due to individually insignificant items.

General and Administrative

General and administrative expenses consist of compensation and benefits of general and administrative personnel, legal and accounting expenses, bad debt expense, and certain allocated overhead costs.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands, except percentages)			
General and administrative expenses	\$ 5,805	\$ 5,059	\$ 11,124	\$ 10,818
As a percentage of revenue	11.9%	10.6%	11.5%	11.4%
Change, period over period	\$ 746		\$ 306	
Percentage change, period over period	14.7%		2.8%	

General and administrative expenses increased for the three months ended June 30, 2008 as compared to the three months ended June 30, 2007. The increase was primarily driven by an increase in bad debt expense of approximately \$574,000 and stock-based compensation expense of approximately \$286,000. The increase is offset in part by various individually insignificant items. We expect that in future periods our general and administrative expenses will remain relatively constant in absolute dollars and as a percentage of revenues in the third quarter of 2008.

General and administrative expenses increased slightly for the six months ended June 30, 2008 as compared to the six months ended June 30, 2007. The increase was driven primarily by approximately \$293,000 of bad debt expense. The remaining portion of the increase was due to individually insignificant items.

Restructuring Charges

In November 2007, we recorded a restructuring charge of approximately \$3.2 million related to (i) a workforce reduction of 72 employees spread across all functions though focused on sales and marketing, (ii) the abandonment of certain facilities and (iii) abandonment of certain capitalized assets totaling \$900,000. As of December 31, 2007, we finalized approximately 56 of the employment terminations and had fully vacated the abandoned facilities.

By February 2008, we finalized all of the employment terminations, settled all negotiations and paid out the remaining severance. As a result of finalizing all such terminations as well as some additional charges related to abandoned facilities, we adjusted the accrual for the difference between initial estimates of severance and facility liability and the final payments ultimately made. This adjustment of approximately \$17,000 was credited to the restructuring expense in the first quarter of 2008.

SFAS No. 146 requires that liabilities recorded related to abandoned facilities be recorded at fair value. The difference between the fair value of the liability at the time it was recorded and the total cash liability is accreted ratably over the expected term and is reported in the restructuring expense line on the condensed consolidated statements of operations.

Amortization of Acquired Intangibles

Amortization of acquired intangibles was approximately \$1.1 million for each of the three months ended June 30, 2008 and June 30, 2007, and \$2.1 million for each of the six months ended June 30, 2008 and June 30, 2007.

Some of our acquired intangibles will begin reaching the end of their estimated useful lives starting in the fourth quarter of 2008. The following table presents the estimated future amortization of intangible assets (in thousands):

Fiscal Year

Edgar Filing: IPASS INC - Form 10-Q

Remaining 2008	\$	1,800
2009		2,401
2010		1,241
2011		1,021
2012		876
2013 and thereafter		65
	\$	7,404

18

Non-Operating Expenses

Interest Income and Other, Net

Interest income and other, net includes interest income on cash, cash equivalents, and short-term investment balances and foreign currency gains and losses. Interest income and other was \$367,000 and \$851,000 for the three months ended June 30, 2008 and June 30, 2007, respectively. Interest income decreased due to a lower short-term investment balance due to funds used for stock repurchases and lower interest rate. Interest and other income decreased from \$1.6 million for the six months ended June 30, 2007 to \$956,000 for the six months ended June 30, 2008, respectively, due to lower short-term investment balances due to funds used for stock repurchases.

Benefit from Income Taxes

The benefit from income taxes was \$478,000 and \$715,000 for the three and six months ended June 30, 2008, respectively, compared to a benefit of \$541,000 and \$2.6 million for the three and six months ended June 30, 2007, respectively. The decrease in benefit from income taxes is primarily due to the establishment of a valuation allowance against net deferred tax assets at December 31, 2007 due to continued losses in the US jurisdictions, as compared to the same periods in 2007. The \$478,000 benefit recorded in the six months ended June 30, 2008 primarily relates to the release of both FIN 48 reserves and foreign tax reserves from prior periods, net of foreign and minimum taxes in the current period. The effective tax rate was (22) % and (19) % for the three months ended June 30, 2008 and 2007, respectively, and (19) % and (49) % for the six months ended June 30, 2008 and 2007, respectively.

Liquidity and Capital Resources

Since our initial public offering of common stock in July 2003, our principal source of funding has been cash from operations. As of June 30, 2008, our principal source of liquidity was \$69.7 million of cash, cash equivalents and short-term investments as compared to \$75.2 million at December 31, 2007.

Net cash provided by operating activities was \$1.1 million for the six months ended June 30, 2008 compared to net cash used in operating activities of \$4.1 million for the six months ended June 30, 2007. The primary drivers of the change from net cash used in operating activities in 2007 to cash provided by operating activities in 2008 were increased accounts payable resulting from slower payment of vendor invoices in 2008 and a \$3.6 million decrease in corporate taxes payable in 2007 versus a decrease of \$1.1 million in 2008.

Net cash used in investing activities was \$17.1 million for the six months ended June 30, 2008 compared to net cash provided by investing activities of \$38.7 million for the six months ended June 30, 2007. The change is primarily due to a decrease in net maturities of short-term investments of \$55.6 million. In 2007, the company shifted funds from short-term investments to cash and cash equivalents whereas in 2008 has begun shifting back to short-term securities resulting in net purchases of short-term investments.

Net cash used in financing activities for the six months ended June, 2008 was \$3.2 million, as compared to \$10.4 million of cash used in financing activities for the six months ended June 30, 2007. The decrease in net cash used in financing activities is primarily due to the repurchase of approximately 1.3 million shares for \$3.7 million in the first six months of 2008 versus the repurchase of approximately 2.2 million shares for \$12.1 million in the same period of the prior year.

Commitments

We have signed contracts with certain network service and mobile data providers under which we have minimum purchase commitments that expire on various dates through June 2011.

Edgar Filing: IPASS INC - Form 10-Q

In March 2008, we recorded a \$323,000 liability for minimum purchase commitment shortfall with a service provider. Future minimum purchase commitments under these agreements as of June 30, 2008 are as follows (in thousands):

Year ending December 31:

Remaining 2008	8,030
2009	12,183
2010	9,995
2011	2,550
	\$ 32,758

We lease our facilities under non-cancelable operating leases that expire at various dates through October 2016. Future minimum lease payments under these operating leases as of June 30, 2008 are as follows (in thousands):

Year ending December 31:

Remaining 2008	\$ 3,649
2009	6,785
2010	4,651
2011	3,559
2012	2,728
2013 and thereafter	6,593
	\$ 27,965

As a result, our combined purchase and operating lease commitments decreased by \$5.4 million from December 31, 2007. At June 30, 2008, we had no material commitments for capital expenditures.

In addition, in accordance with FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109 (“FIN 48”), the remaining reserve balance at June 30, 2008 is \$1.9 million compared to \$3.8 million at December 31, 2007. Included in the unrecognized tax benefits at June 30, 2008 is \$26,000 for accrued interest.

Liquidity and Capital Resource Requirements

Based on past performance and current expectations, we believe that our cash and cash equivalents, short-term investments, and cash generated from operations will satisfy our working capital needs, capital expenditures, investment requirements, commitments, and other liquidity requirements associated with our existing operations through at least the next 18 months. In addition to our historical working capital needs, we may utilize cash resources to fund acquisitions of complementary businesses, technologies or product lines. However, there are no current or planned transactions, arrangements, and other relationships with unconsolidated entities or other persons that are reasonably likely to materially affect liquidity or the availability of our requirements for capital resources.

FACTORS AFFECTING OPERATING RESULTS

Set forth below and elsewhere in this report are risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in this report.

Risks Relating to Our Business

If we are unable to meet the challenges posed by broadband access, our ability to profitably grow our business will be impaired.

Historically, we have generated the large majority of our revenues from the sale of enterprise connectivity services using narrowband technologies such as modem dial-up. In the United States as well as many other countries, the use of narrowband as a primary means of enterprise connectivity has significantly declined and is expected to continue to decline at an accelerated rate over time as broadband access technologies, such as cable modem, DSL, Wi-Fi, 3G data, Wi-Max and other wireless technologies, including 3G, become more broadly used. A substantial portion of the growth of our business has depended on, and will continue to depend, in part upon our ability to expand the broadband elements of our virtual network to address these new technologies. Such an expansion may not result in additional revenues to us. Key challenges in expanding the broadband elements of our virtual network include:

The broadband access market continues to develop at a rapid pace. Although we derive revenues from wired and wireless broadband “hotspots”, such as particular airports, hotels and convention centers, the broadband access market, particularly for wireless access, continues to develop and demand at levels we anticipate may not develop. In particular, the market for enterprise connectivity services through broadband is characterized by evolving industry standards and specifications and there is currently no uniform standard for wireless access. Furthermore, although the use of wireless frequencies generally does not require a license in the United States and abroad, if Wi-Fi frequencies become subject to licensing requirements, or are otherwise restricted, this would substantially impair the growth of wireless access. Some large telecommunications providers and other stakeholders that pay large sums of money to license other portions of the wireless spectrum may seek to have the Wi-Fi spectrum become subject to licensing restrictions. If the broadband wireless access market does not develop, we will not be able to generate substantial revenues from broadband wireless access.

The broadband service provider market is highly fragmented. There are currently many wired and wireless broadband service providers that provide coverage in only one or a small number of hotspots. We have entered into contractual relationships with numerous broadband service providers. These contracts generally have an initial term of two years or less. We must continue to develop relationships with many providers on terms commercially acceptable to us in order to provide adequate coverage for our customers’ mobile workers and to expand our broadband coverage. We may also be required to develop additional technologies in order to integrate new broadband services into our service offering. If we are unable to develop these relationships or technologies, our ability to grow our business could be impaired. In addition, if broadband service providers consolidate, our negotiating leverage with providers may decrease, resulting in increased rates for access, which could harm our operating results.

Broadband service provider actions may restrict our ability to sell our services. Some network providers restrict our ability to sell access to their networks to iPass resellers whom they consider competitive with them. This can reduce our revenue by limiting the footprint our partners can make available to their customers. In addition in some geographies the conventional practice is for a mobile data (3G) carrier to provide a device on a subsidized basis. This device cannot easily be used with any network besides that of the carrier who provides it, which makes it difficult for iPass to replace that carrier in the account and thus may negatively impact our ability to sign new enterprise customers to our Mobile Data service.

If demand for broadband access continues to increase but we do not meet the challenges outlined above, our ability to grow our business may suffer.

If we do not accurately predict usage for our Enterprise Flat Rate price plan, our costs could increase without a corresponding increase in revenue.

We have transitioned a number of our customers to our Enterprise Flat Rate price plan, and are signing new customers to this plan. In this plan, our customers pay a flat rate price to access our services. However, we continue to pay our providers based on usage. The rate we charge in our Enterprise Flat Rate price plan is based on statistical predictions of usage across a pool of users within an enterprise. If actual usage is higher than expected our profitability will be negatively impacted.

If we do not deliver valuable services for smart-phones and other Internet-connected handheld devices our ability to profitably grow our business may be impaired.

A variety of smart-phone devices are available in the marketplace enabling individuals to, among other things, check email and access the Internet. There are a number of competing operating systems in use on these smart-phones. Most of these smart-phones are distributed by mobile operators to their customers for use over their 3G mobile data networks, and the mobile operators subsidize the purchase price of the devices in exchange for a commitment to a long-term service contract.

If the capabilities of smart-phones cause our users to stop using laptops while traveling, or to use them less often, then our operating results may be harmed. Further, if we do not develop valuable services for these smart-phones in a timely fashion, these devices may access the internet and or be managed without our services, impairing our ability to grow profitably.

Our customers require a high degree of reliability in our services, and if we cannot meet their expectations, demand for our services will decline.

Any failure to provide reliable network access, uninterrupted operation of our network and software infrastructure, or a satisfactory experience for our customers and their mobile workers, whether or not caused by our own failure, could reduce demand for our services. If outages occur, or if we experience hardware or software problems, our business could be harmed.

We face strong competition in our market, which could make it difficult for us to succeed.

We compete primarily with facilities-based carriers as well as with other non-facilities-based network operators. Some of our competitors have substantially greater resources, larger customer bases, longer operating histories or greater name recognition than we have. Our device management services face additional competition from companies that provide security and policy-based services and software. In addition, we face the following challenges:

Many of our competitors can compete on price. Because many of our facilities-based competitors own and operate physical networks, there may be little incremental cost for them to provide additional hotspot or telephone connections. As a result, they may offer remote access services at little additional cost, and may be willing to discount or subsidize remote access services to capture other sources of revenue. In contrast, we have traditionally purchased network access from facilities-based network service providers to enable our remote access service. As a result, large carriers may sell their remote access services at a lower price. In addition, new non-facilities-based carriers may enter our market and compete on price. In either case, we may lose business or be forced to lower our prices to compete, which could reduce our revenues.

Many of our competitors offer additional services that we do not, which enables them to compete favorably against us. Some of our competitors provide services that we do not, such as local exchange and long distance services, voicemail and digital subscriber line, or DSL, services. Potential customers that desire these services on a bundled basis may choose to obtain remote access and device management services from the competitor that provides these additional services.

Our potential customers may have other business relationships with our competitors and consider those relationships when deciding between our services and those of our competitors. Many of our competitors are large facilities-based carriers that purchase substantial amounts of products and services, or provide other services or goods unrelated to remote access services. As a result, if a potential customer is also a supplier to one of our large competitors, or purchases unrelated services or goods from our competitor, the potential customer may be motivated to purchase its remote access services from our competitor in order to maintain or enhance its business relationship with that competitor. In addition, telecommunications providers may also offer Wi-Fi for free as part of a home broadband or other service contract, which also may force down the prices which the market will bear for our services.

Users may adopt free Wi-Fi networks for internet and corporate access. Some venues such as cafes and hotels offer Wi-Fi internet access as a free amenity for their customers. Use at these venues may replace iPass “for charge” sessions and put downward pressure on flat rate prices iPass charges enterprises for its Wi-Fi remote access services. In addition, if home users allow others to use their Wi-Fi networks in exchange for free access to other home networks, this may force down the prices which the market will bear for our services.

If our security measures are breached and unauthorized access is obtained to a customer’s internal network, our virtual network may be perceived as not being secure and enterprises may curtail or stop using our services.

It is imperative for our customers that access to their mission critical data is secure. A key component of our ability to attract and retain customers is the security measures that we have engineered into our network for the authentication of the end user’s credentials. These measures are designed to protect against unauthorized access to our customers’ networks. Because techniques used to obtain unauthorized access or to sabotage networks change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures against unauthorized access or sabotage. If an actual or perceived breach of network security occurs, regardless of whether the breach is attributable to our services, the market perception of the effectiveness of our security measures could be harmed. To date, we have not experienced any significant security breaches to our network.

If our channel partners do not successfully market our services to their customers or corporate end users, then our revenues and business may be adversely affected.

We sell our services directly through our sales force and indirectly through our channel partners, which include network service providers, systems integrators and value added resellers. Our business model has changed to rely more on our channel partners. Our business depends on the efforts and the success of these channel partners in marketing our services to their customers. Our own ability to promote our services directly to their customers is often limited. Many of our channel partners may offer services to their customers that may be similar to, or competitive with, our services. Therefore, these channel partners may be reluctant to promote our services. If our channel partners fail to market our services effectively, our ability to grow our revenue would be reduced and our business will be impaired.

If demand for enterprise remote and mobile connectivity does not continue to expand, we may experience a shortfall in revenues or earnings or otherwise fail to meet public market expectations.

The growth of our business is dependent, in part, upon the increased use of enterprise connectivity services and our ability to capture a higher proportion of this market. If the demand for enterprise connectivity services does not continue to grow, or grows in ways that do not use our services, then we may not be able to grow our business, maintain profitability or meet public market expectations. Increased usage of enterprise connectivity services depends on numerous factors, including:

- the willingness of enterprises to make additional information technology expenditures;
- the availability of security products necessary to ensure data privacy over the public networks;
- the quality, cost and functionality of these services and competing services;
- the increased adoption of wired and wireless broadband access methods; and
- the proliferation of electronic devices such as handhelds and smartphones and related applications.

If we are unable to meet the challenges related to the market acceptance and provision of our device management services, our ability to grow the business may be harmed.

We expect that the growth of our business may depend in part upon whether our device management services will achieve and sustain expected levels of demand and market acceptance. If enterprises do not perceive the benefits of our device management services, then the market for these services may not develop at all, or it may develop more slowly than we expect, either of which could significantly and adversely affect our growth. Key challenges that we face related to our provision of these services include the risk that we may encounter unexpected technical and other difficulties in developing our device management services which could delay or prevent the development of these services or certain features of these services; the risk that the rate of adoption by enterprises of network security software or integrated secure connectivity solutions will not be as we anticipate, which if slow would reduce or eliminate the purchase of these services; and the risk that security breaches may occur, notwithstanding the use of our device management services, by hackers that develop new methods of avoiding security software. If we do not adequately address these challenges, our growth and operating results may be negatively impacted.

There are approximately 24 countries in which we provide dial-up access only through Equant. The loss of Equant as a dial-up network service provider would substantially diminish our ability to deliver global network access.

In approximately 24 countries, our sole dial-up network service provider is Equant. Network usage from access within these countries accounted for less than 1% of our revenues in the years ended December 31, 2007, 2006 and 2005. If we lose access to Equant's network and are unable to replace this access in some or all of these countries, our revenues would decline. In addition, our ability to market our services as being global would be impaired, which could cause us to lose customers. Our agreement with Equant expires in February 2009, but Equant may terminate the agreement earlier if we materially breach the contract and fail to cure the breach, or if we become insolvent. In addition, Equant has no obligation to continue to provide us with access to its network after February 2009. If Equant were to cease operations or terminate its arrangements with us, we would be required to enter into arrangements with other dial-up network service providers, which may not be available. This process could be costly and time consuming, and we may not be able to enter into these arrangements on terms acceptable to us.

The telecommunications industry has experienced a decline, which has caused further consolidation among network service providers and which may impair our ability to provide reliable, redundant service coverage and negotiate favorable network access terms.

The telecommunications industry has experienced significant technological change and increased competition that have led to significant declines in network access pricing. In addition, the revenues of network service providers have declined as a result of the general economic slowdown. As a result, network service providers have experienced operating difficulties in the last several years, resulting in poor operating results and a number of these providers declaring bankruptcy. As these conditions have continued, some of these service providers have consolidated and are working to consolidate or otherwise cease operations, which would reduce the number of network service providers from which we are able to obtain network access. As this occurs, while we expect that we will still be able to maintain operations and provide enterprise connectivity services with a small number of network service providers, we would potentially not be able to provide sufficient redundant access points in some geographic areas, which could diminish our ability to provide broad, reliable, redundant coverage. Further, our ability to negotiate favorable access rates from network service providers could be impaired, which could increase our network access expenses and harm our operating results.

If we fail to address evolving standards and technological changes in the enterprise connectivity and device management services industry, our business could be harmed.

The market for enterprise connectivity, devices (laptops, handhelds, smart-phones) and device management services is characterized by evolving industry standards and specifications and rapid technological change, including new access

methods, devices, applications and operating systems. In developing and introducing our services, we have made, and will continue to make, assumptions with respect to which features, security standards, performance criteria, access methods, devices, applications and operating systems will be required or desired by enterprises and their mobile workers. If we implement technological changes or specifications that are different from those required or desired, or if we are unable to successfully integrate required or desired technological changes or specifications into our wired or wireless services, market acceptance of our services may be significantly reduced or delayed and our business could be harmed.

Our software is complex and may contain errors that could damage our reputation and decrease usage of our services.

Our software may contain errors that interrupt network access or have other unintended consequences. If network access is disrupted due to a software error, or if any other unintended negative results occur, such as the loss of billing information, a security breach or unauthorized access to our virtual network, our reputation could be harmed and our business may suffer. Although we generally attempt by contract to limit our exposure to incidental and consequential damages, if these contract provisions are not enforced or enforceable for any reason, or if liabilities arise that are not effectively limited, our operating results could be harmed.

Because much of our business is international, we encounter additional risks, which may reduce our profitability.

We generate a substantial portion of our revenues from business conducted internationally. Revenues from customers domiciled outside of the United States were 38% of our revenues for the first six months of 2008, of which approximately 27% and 7% were generated in our EMEA (Europe, Middle East and Africa) and Asia Pacific regions. Revenues from customers domiciled outside of the United States were 38% of our revenues in 2007, of which approximately 27% and 7% were generated in our EMEA (Europe, Middle East and Africa) and Asia Pacific regions, respectively. Although we currently bill for our services in U.S. dollars, our international operations subject our business to specific risks. These risks include:

- longer payment cycles for foreign customers, including delays due to currency controls and fluctuations;
- the impact of changes in foreign currency exchange rates on the attractiveness of our pricing;
- high taxes in some foreign jurisdictions;
- difficulty in complying with Internet-related regulations in foreign jurisdictions;
- difficulty in staffing and managing foreign operations; and
- difficulty in enforcing intellectual property rights and weaker laws protecting these rights.

Any of these factors could negatively impact our business.

Our long sales and service deployment cycles require us to incur substantial sales costs that may not result in related revenues.

Our business is characterized by a long sales cycle between the time a potential customer is contacted and a customer contract is signed. Once a customer contract is signed, if the contract is not a flat-rate contract there is typically an extended period before the customer's end users actually begin to use our services, which is when we begin to realize revenues. As a result, we may invest a significant amount of time and effort in attempting to secure a customer which may not result in any revenues. Even if we enter into a contract, we may have incurred substantial sales-related expenses well before we recognize any related revenues. If the expenses associated with sales increase, we are not successful in our sales efforts, or we are unable to generate associated offsetting revenues in a timely manner, our operating results will be harmed.

Completed or future acquisitions or investments could dilute the ownership of our existing stockholders, cause us to incur significant expenses or harm our operating results.

Integrating any newly acquired businesses, technologies or services may be expensive and time-consuming. For example, we completed the acquisitions of Safe3w, Inc. in September 2004, Mobile Automation, Inc. in October 2004 and GoRemote in February 2006. To finance any acquisitions, it may be necessary for us to raise additional funds through public or private financings. Additional funds may not be available on terms that are favorable to us and, in the case of equity financings, would result in dilution to our stockholders. In the case of completed or future acquisitions, we may be unable to operate any acquired businesses profitably or otherwise implement our strategy successfully. If we are unable to integrate any newly acquired entities, such as GoRemote, or technologies effectively, our operating results could suffer. Completed acquisitions by us, such as the aforementioned Safe3w, Inc., Mobile Automation, Inc. and GoRemote transactions, or future acquisitions by us could also result in large and immediate write-offs or assumption of debt and contingent liabilities, either of which could harm our operating results.

If we are unable to effectively manage future expansion, our business may be adversely impacted.

We have experienced, and in the future may continue to experience, rapid growth in operations which has placed and could continue to place, a significant strain on our network operations, development of services, internal controls and other managerial, operating, and financial resources. If we do not manage future expansion effectively, our business will be harmed. To effectively manage any future expansion, we will need to improve our operational and financial systems and managerial controls and procedures, which include the following:

- managing our research and development efforts for new and evolving technologies;
- expanding the capacity and performance of our network and software infrastructure;
- developing our administrative, accounting and management information systems and controls; and effectively maintaining coordination among our various departments, particularly as we expand
- internationally.

If we are unable to effectively manage our India-based research and development operation, our business may be adversely impacted. Much of our research and development activity occurs in India. The remoteness of our India operation to corporate headquarters, as well as difficulty of acquiring and retaining talent in India, could impact our ability to release planned new products on time, which could adversely impact our business.

We currently are, and in the future may be, subject to securities class action lawsuits due to decreases in our stock price.

We are at risk of being subject to securities class action lawsuits if our stock price declines substantially. Securities class action litigation has often been brought against a company following a decline in the market price of its securities. For example, in June 2004, we announced that we would not meet market expectations regarding our

financial performance in the second quarter, and our stock price declined. Beginning on January 14, 2005, three purported class action complaints, which were subsequently consolidated, were filed against iPass and certain of our executive officers, purportedly on behalf of a class of investors who purchased iPass stock between April 22, 2004 and June 30, 2004. If our stock price declines substantially in the future, we may be the target of similar litigation. The current, and any future, securities litigation could result in substantial costs and divert management's attention and resources, and could seriously harm our business.

Litigation arising from disputes involving third parties could disrupt the conduct of our business.

Because we rely on third parties to help us develop, market and support our service offerings, from time to time we have been, and we may continue to be, involved in disputes with these third parties. If we are unable to resolve these disputes favorably, our development, marketing or support of our services could be delayed or limited, which could materially and adversely affect our business.

If licenses to third party technologies, including our license with RSA Security, do not continue to be available to us at a reasonable cost, or at all, our business and operations may be adversely affected.

We license technologies from several software providers that are incorporated in our services. We anticipate that we will continue to license technology from third parties in the future. In particular, we license encryption technology from RSA Security. Our license agreement with RSA Security expired in February 2006 and automatically renewed for an additional three-year period. This license will continue to automatically renew for additional three-year periods upon expiration, unless terminated by us or by RSA Security. Licenses from third party technologies, including our license with RSA Security, may not continue to be available to us at a reasonable cost, or at all. The loss of these technologies or other technologies that we license could have an adverse effect on our services and increase our costs or cause interruptions or delays in our services until substitute technologies, if available, are developed or identified, licensed and successfully integrated into our services.

Litigation arising out of intellectual property infringement could be expensive and disrupt our business.

We cannot be certain that our products do not, or will not, infringe upon patents, trademarks, copyrights or other intellectual property rights held by third parties, or that other parties will not assert infringement claims against us. From time to time we have been, and we may continue to be, involved in disputes with these third parties. Any claim of infringement of proprietary rights of others, even if ultimately decided in our favor, could result in substantial costs and diversion of our resources. Successful claims against us may result in an injunction or substantial monetary liability, in either case which could significantly impact our results of operations or materially disrupt the conduct of our business. If we are enjoined from using a technology, we will need to obtain a license to use the technology, but licenses to third-party technology may not be available to us at a reasonable cost, or at all.

Risks Relating to Our Industry

Security concerns may delay the widespread adoption of the Internet for enterprise communications, or limit usage of Internet-based services, which would reduce demand for our products and services.

The secure transmission of confidential information over public networks is a significant barrier to further adoption of the Internet as a business medium. The Internet is a public network and information is sent over this network from many sources. Advances in computer capabilities, new discoveries in the field of code breaking or other developments could result in compromised security on our network or the networks of others. Security and authentication concerns with respect to the transmission over the Internet of confidential information, such as corporate access passwords and the ability of hackers to penetrate online security systems may reduce the demand for our services. Further, new access methods, devices, applications and operating systems have also introduced additional vulnerabilities which have been actively exploited by hackers. Internet-based worms and viruses, computer programs that are created to slow Internet traffic or disrupt computer networks or files by replicating through software or operating systems, are examples of events or computer programs that can disrupt users from using our Internet-based services and reduce demand for our services, potentially affecting our business and financial performance. In particular, certain Internet worms and viruses affected some of our customers and their mobile users, which may have negatively impacted our revenues. Furthermore, any well-publicized compromises of confidential information may reduce demand for Internet-based communications, including our services.

Financial, political or economic conditions could adversely affect our revenues.

Our revenues and profitability depend on the overall demand for enterprise connectivity services. The weakening of the global economy may lead to decreased trade and corporate spending on Internet infrastructure. In addition, in the past, terrorist attacks, including the attacks on the United States and internationally, have had a significant impact on global economic conditions and our operations. If there are further acts of terrorism, if hostilities involving the United States and other countries continue or escalate, or if other future financial, political, economic and other uncertainties or natural disasters arise, this could lead to a reduction in travel, including by business travelers who are substantial users of our services, and continue to contribute to a climate of economic and political uncertainty that could adversely affect our revenue growth and financial results.

Government regulation of, and legal uncertainties regarding, the Internet could harm our business.

Internet-based communication services generally are not subject to federal fees or taxes imposed to support programs such as universal telephone service. Changes in the rules or regulations of the U.S. Federal Communications Commission or in applicable federal communications laws relating to the imposition of these fees or taxes could result in significant new operating expenses for us, and could negatively impact our business. Any new law or regulation, U.S. or foreign, pertaining to Internet-based communications services, or changes to the application or interpretation of existing laws, could decrease the demand for our services, increase our cost of doing business or otherwise harm our business. There are an increasing number of laws and regulations pertaining to the Internet. These laws or

regulations may relate to taxation and the quality of products and services. Furthermore, the applicability to the Internet of existing laws governing intellectual property ownership and infringement, taxation, encryption, obscenity, libel, employment, personal privacy, export or import matters and other issues is uncertain and developing and we are not certain how the possible application of these laws may affect us. Some of these laws may not contemplate or address the unique issues of the Internet and related technologies. Changes in laws intended to address these issues could create uncertainty in the Internet market, which could reduce demand for our services, increase our operating expenses or increase our litigation costs.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency

Although we currently bill substantially all of our services in U.S. dollars, our financial results could be affected by factors such as changes in foreign currency rates or weak economic conditions in foreign markets. A strengthening of the dollar could make our services less competitive in foreign markets and therefore could reduce our revenues. We are billed by and pay the majority of our network service providers in U.S. dollars. In the future, some portion of our revenues and costs may be denominated in foreign currencies. To date, exchange rate fluctuations have had little impact on our operating results.

Interest Rate Sensitivity

As of June 30, 2008, we had cash, cash equivalents, and short-term investments totaling \$69.7 million, as compared to \$75.2 million as of December 31, 2007 which decreased primarily due to cash outlays to repurchase shares of our outstanding common stock. Our investment portfolio consists of money market funds and securities, asset backed securities, corporate securities, and government securities, generally due within one to two years. All of our instruments are held other than for trading purposes. We place investments with high quality issuers and limit the amount of credit exposure to any one issuer. These securities are subject to interest rate risks. Based on our portfolio content and our ability to hold investments to maturity, we believe that a hypothetical 10% increase or decrease in current interest rates would not materially affect our interest income, although there can be no assurance of this.

The following compares the principal amounts of short-term investments by expected maturity as of June 30, 2008 (in thousands):

	Expected Maturity Date for Par Value Amounts For the Year Ended December 31,			As of June 30, 2008	
	2008	2009	2010	Total Cost Value	Total Fair Value
Government agencies	\$ —	\$ 4,500	\$ —	\$ 4,533	\$ 4,524
Money market securities	8,950	4,200	—	13,045	13,040
Total	\$ 8,950	\$ 8,700	\$ —	\$ 17,578	\$ 17,564

The following compares the principal amounts of short-term investments by expected maturity as of December 31, 2007 (in thousands):

	Expected Maturity Date for Par Value Amounts for the Year Ended December 31,			As of December 31, 2007	
	2008	2009	2010	Total Cost Value	Total Fair Value
Government agencies	\$ 4,250	\$ —	\$ —	\$ 4,256	\$ 4,258
Total	\$ 4,250	\$ —	\$ —	\$ 4,256	\$ 4,258

Our general policy is to limit the risk of principal loss and ensure the safety of invested funds by limiting market and credit risk. We consider all investments to be short-term investments, which are classified in the balance sheet as current assets, because (1) the investments can be readily converted at any time into cash or into securities with a

shorter remaining time to maturity and (2) the investments are selected for yield management purposes only and we are not committed to holding the investments until maturity. We determine the appropriate classification of our investments at the time of purchase and re-evaluate such designations as of each balance sheet date. All short-term investments and cash equivalents in our portfolio are classified as “available-for-sale” and are stated at fair market value, with the unrealized gains and losses reported as a component of accumulated other comprehensive income (loss). The amortized cost of debt securities is adjusted for amortization of premiums and accretion of unrealized discounts to maturity. Such amortization and accretion is included in interest income and other, net. The cost of securities sold is based on the specific identification method.

Item 4. Controls and Procedures

Limitations of Disclosure Controls and Procedures and Internal Control Over Financial Reporting

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within iPass have been detected.

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to provide reasonable assurance that that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Our management evaluated (with the participation of our Chief Executive Officer and Chief Financial Officer) our disclosure controls and procedures, and concluded that our disclosure controls and procedures were effective as of June 30, 2008, to provide reasonable assurance that the information required to be disclosed by us in reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 4T. Controls and Procedures

Not applicable.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

We include in Part I, Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Risks Related to Our Operations” a description of risk factors related to our business in order to enable readers to assess, and be appropriately apprised of, many of the risks and uncertainties applicable to the forward-looking statements made in this Quarterly Report on Form 10-Q. We do not claim that the risks and uncertainties set forth in that section are all of the risks and uncertainties facing our business, but do believe that they reflect the more important ones.

The risk factors set forth in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the SEC on March 17, 2008, have not substantively changed.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On February 12, 2008, our Board of Directors approved a two-year stock repurchase program which authorizes iPass to repurchase up to \$30.0 million of its outstanding common stock. A total of \$3.2 million of stock was repurchased in the first quarter of 2008 and a total of \$500,000 of stock was repurchased in the second quarter of 2008, leaving approximately \$26.3 million that may be used for future repurchases. Repurchases for the second quarter of 2008 were as set forth in the table below:

Issuer Purchases of Equity Securities (1)

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased under the Program (in thousands)
(In thousands, except share and per share amounts)				
April 1, 2008 to April 30, 2008	0	\$ 0	1,083,559	\$ 26,828
May 1, 2008 to May 31, 2008	11,000	2.17	1,094,559	26,804
June 1, 2008 to June 30, 2008	218,252	2.18	1,312,811	26,328
Total	229,252	\$ 2.18	1,312,811	\$ 26,328

(1) See first paragraph of this section for the information required to be described in the footnote to this table.

Item 4. Submission of Matters to a Vote of Security Holders

Our annual meeting of stockholders was held on May 29, 2008 in Redwood Shores, California. At the meeting, the following three proposals were voted on and approved as follows:

Proposal I

The following persons were elected as directors to serve for a three-year term:

	Total Votes “For” Each Director	Total Votes “Withheld” from Each Director
A. Gary Ames	39,833,520	14,627,173
John D. Beletic	39,823,170	14,637,523
Peter C. Clapman	48,150,349	6,310,344
Stanley Gold	52,538,086	1,922,607

The following directors’ terms of office continued after the annual meeting: Kenneth D. Denman, Michael J. McConnell, Peter G. Bodine, Allan R. Spies, Olof Pripp and Arthur C. Patterson.

Proposal II

The stockholders also ratified the amendments to the bylaws, as follows:

For	Against	Abstain	Broker Non-Votes
50,189,813	4,208,312	62,568	0

Proposal III

The stockholders also ratified the selection by the Audit Committee of our Board of Directors of KPMG LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2008, as follows:

For	Against	Abstain	Broker Non-Votes
54,267,401	104,065	89,227	0

Item 6. Exhibits

Exhibit

Number	Description
	Agreement of Merger among iPass Inc., Keystone Acquisition Sub, Inc. and GoRemote Internet Communications, Inc. dated December 9, 2005. (3)
2.1	Communications, Inc. dated December 9, 2005. (3)
3.1	Amended and Restated Certificate of Incorporation (1)
3.2	Amended and Restated Bylaws
4.1	Reference is made to Exhibits 3.1 and 3.2
4.2	Specimen stock certificate (2)
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
	Certification of the Chief Executive Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to
32.1	Section 906 of the Sarbanes-Oxley Act of 2002
	Certification of the Chief Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to
32.2	Section 906 of the Sarbanes-Oxley Act of 2002

(1) Filed as an exhibit to iPass' Quarterly Report on Form 10-Q for the quarter ended September 30, 2003 (Commission No. 000- 50327), filed November 13, 2003, and incorporated herein by reference.

(2) Filed as an exhibit to iPass' Registration Statement on Form S-1/A (No. 333-102715), filed July 1, 2003 and incorporated herein by reference.

(3) Filed as an exhibit to the Current Report on Form 8-K (Commission No 000-50327), filed with the SEC on December 12, 2005, and incorporated herein by reference. All schedules and exhibits (other than Exhibit A) to the Agreement of Merger have been omitted. Copies of such schedules and exhibits will be furnished supplementally to the SEC upon request.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

iPass Inc.

Date: August 11, 2008

By:

/s/ FRANK E. VERDECANNA
Frank E. Verdecanna
Vice President and Chief Financial
Officer (duly authorized officer and
principal financial officer)

INDEX TO EXHIBITS

Exhibit Number	Description
	Agreement of Merger among iPass Inc., Keystone Acquisition Sub, Inc. and GoRemote Internet Communications, Inc. dated December 9, 2005. (3)
2.1	Communications, Inc. dated December 9, 2005. (3)
3.1	Amended and Restated Certificate of Incorporation (1)
3.2	Amended and Restated Bylaws
4.1	Reference is made to Exhibits 3.1 and 3.2
4.2	Specimen stock certificate (2)
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
	Certification of the Chief Executive Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to
32.1	Section 906 of the Sarbanes-Oxley Act of 2002
	Certification of the Chief Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to
32.2	Section 906 of the Sarbanes-Oxley Act of 2002

(1) Filed as an exhibit to iPass' Quarterly Report on Form 10-Q for the quarter ended September 30, 2003 (Commission No. 000- 50327), filed November 13, 2003, and incorporated herein by reference.

(2) Filed as an exhibit to iPass' Registration Statement on Form S-1/A (No. 333-102715), filed July 1, 2003 and incorporated herein by reference.

(3) Filed as an exhibit to the Current Report on Form 8-K (Commission No 000-50327), filed with the SEC on December 12, 2005, and incorporated herein by reference. All schedules and exhibits (other than Exhibit A) to the Agreement of Merger have been omitted. Copies of such schedules and exhibits will be furnished supplementally to the SEC upon request.