

IPASS INC
Form 10-Q
November 06, 2009

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 September 30, 2009

£ 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 Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☐

Indicate by check mark whether the registrant submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232-405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☐ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. 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 October 30, 2009 was 62,237,594.

iPASS INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION:

<u>Item 1. Financial Statements</u>	<u>3</u>
a) <u>Condensed Consolidated Balance Sheets as of September 30, 2009 and December 31, 2008</u>	<u>3</u>
b) <u>Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2009 and 2008</u>	<u>4</u>
c) <u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2009 and 2008</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>13</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>28</u>
<u>Item 4. Controls and Procedures</u>	<u>29</u>
<u>Item 4T. Controls and Procedures</u>	<u>29</u>

PART II. OTHER INFORMATION:

<u>Item 1. Legal Proceedings</u>	<u>30</u>
<u>Item 1A. Risk Factors</u>	<u>30</u>
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	<u>30</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.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited, in thousands)

	September 30, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 37,072	\$ 33,077
Short-term investments	13,301	35,309
Accounts receivable, net of allowance for doubtful accounts of \$665 and \$927, respectively	27,898	33,756
Prepaid expenses and other current assets	7,871	7,225
Short-term deferred income tax assets	101	101
Total current assets	86,243	109,468
Property and equipment, net	5,623	7,201
Other assets	6,083	6,364
Long-term deferred tax assets	79	79
Intangible assets, net	1,181	2,216
Total assets	\$ 99,209	\$ 125,328
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 12,786	\$ 15,406
Accrued liabilities	14,684	12,176
Deferred revenue — short-term	5,221	5,736
Total current liabilities	32,691	33,318
Deferred revenue — long-term	1,913	1,958
Other long-term liabilities	967	255
Total liabilities	35,571	35,531
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Common stock	62	61
Additional paid-in capital	224,364	242,160
Accumulated other comprehensive income	12	216
Accumulated deficit	(160,800)	(152,640)
Total stockholders' equity	63,638	89,797
Total liabilities and stockholders' equity	\$ 99,209	\$ 125,328

See Accompanying Notes to the Condensed Consolidated Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenues	\$ 42,555	\$ 48,371	\$ 130,901	\$ 145,099
Operating expenses:				
Network access	17,610	20,147	54,250	61,588
Network operations	7,551	8,195	22,784	24,365
Research and development	3,597	3,845	10,836	12,288
Sales and marketing	8,037	10,724	23,223	31,403
General and administrative	10,316	6,123	22,403	18,476
Restructuring charges	920	30	4,301	60
Amortization of intangible assets	345	1,050	1,035	3,150
Total operating expenses	48,376	50,114	138,832	151,330
Operating loss	(5,821)	(1,743)	(7,931)	(6,231)
Interest income	103	445	531	1,604
Foreign exchange losses and other expenses	(372)	(741)	(593)	(945)
Loss before income taxes	(6,090)	(2,039)	(7,993)	(5,572)
Provision for (benefit from) income taxes	32	59	167	(656)
Net loss	\$ (6,122)	\$ (2,098)	\$ (8,160)	\$ (4,916)
Basic and diluted net loss per share	\$ (0.10)	\$ (0.03)	\$ (0.13)	\$ (0.08)
Number of shares used in per share calculations:	61,901,324	61,793,465	61,988,957	61,546,003

See Accompanying Notes to the Condensed Consolidated Financial Statements

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

	Nine Months Ended September 30,	
	2009	2008
Cash flows from operating activities:		
Net loss	\$ (8,160)	\$ (4,916)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Stock-based compensation	2,005	3,921
Amortization of intangible assets	1,035	3,150
Depreciation and amortization	3,524	4,129
Loss on disposal of property and equipment	10	17
Provision for doubtful accounts	1,177	258
Realized loss on investments	—	(29)
Changes in operating assets and liabilities:		
Accounts receivable	4,681	(1,223)
Prepaid expenses and other current assets	(646)	203
Other assets	281	(1,149)
Accounts payable	(2,732)	727
Accrued liabilities	2,508	(4,049)
Deferred revenues	(560)	(120)
Other liabilities	712	(593)
Net cash provided by operating activities	3,835	326
Cash flows from investing activities:		
Purchases of short-term investments	(42,981)	(197,380)
Maturities of short-term investments	64,697	181,046
Purchases of property and equipment	(1,756)	(3,824)
Restricted cash pledged for letter of credit	—	(422)
Net cash provided by (used in) investing activities	19,960	(20,580)
Cash flows from financing activities:		
Proceeds from issuance of common stock	118	505
Payment of cash dividend	(19,918)	—
Cash used in repurchase of common stock	—	(3,673)
Net cash used for financing activities	(19,800)	(3,168)
Net increase (decrease) in cash and cash equivalents	3,995	(23,422)
Cash and cash equivalents at beginning of period	33,077	70,907
Cash and cash equivalents at end of period	\$ 37,072	\$ 47,485
Supplemental disclosures of cash flow information:		
Cash paid for taxes	\$ 467	\$ 663

See Accompanying Notes to the Condensed Consolidated Financial Statements

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

Note 1. Basis of Presentation

The accompanying financial data has been prepared by iPass Inc. together with its subsidiaries (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 in the United States of America (“GAAP”) have been condensed or omitted pursuant to such rules and regulations. The December 31, 2008 Condensed Consolidated Balance Sheet was derived from audited financial statements, but does not include all disclosures required by GAAP. These Condensed Consolidated Financial Statements are to be, and should be, read in conjunction with the Consolidated Financial Statements and the Notes thereto included in the Company’s Form 10-K for the fiscal year ended December 31, 2008.

The preparation of condensed consolidated financial statements in conformity with GAAP 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. The carrying amount of the Company’s financial instruments at September 30, 2009 and December 31, 2008, which includes cash and cash equivalents, short-term investments and accounts receivable, closely approximates fair value because of the short term maturity of those instruments. The Company has reviewed events subsequent to the balance sheet date of September 30, 2009 through the time of filing on November 6, 2009 and determined that all items that require recognition or disclosure have been reflected in these consolidated financial statements.

Certain prior period amounts for the three and nine month periods ended September 30, 2008 from the condensed consolidated statements of operations have been reclassified from network operations to general and administrative operating expenses to conform with the current period presentation. In the opinion of management, the accompanying unaudited condensed consolidated financial statements of the Company 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 nine months ended September 30, 2009 are not necessarily indicative of the operating results for the full fiscal year or any future periods.

Note 2. Financial Instruments and Fair Value

The Company measures the fair value of its financial assets and liabilities and certain nonfinancial liabilities as the amount that would be received upon sale of 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 is determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the Company uses the GAAP three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows: observable inputs such as quoted prices in active markets for identical assets and liabilities (Level 1); inputs other than the quoted prices in active markets that are observable either directly or indirectly (Level 2); and unobservable inputs in which there is little or no market data, which require the Company to use present value and other valuation techniques in the determination of fair value (Level 3). 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 and nonfinancial liabilities were determined using the following inputs at September 30, 2009 (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)
Financial assets:	Total			
Money market funds (1)	\$ 25,250	\$ 25,250	\$ —	\$ —
Fixed income available-for-sale securities (2)	\$ 13,350	\$ —	\$ 13,350	\$ —
Total financial assets	\$ 38,600	\$ 25,250	\$ 13,350	\$ —
Nonfinancial liabilities:				
Lease liabilities incurred in connection with the restructuring plan (3)	\$ —	\$ —	\$ —	\$ 1,692
Total nonfinancial liabilities	\$ —	\$ —	\$ —	\$ 1,692

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

(2) Fixed income available-for-sale securities include government agency discount notes (72% of total), commercial paper (12% of total) and corporate securities (16% of total).

(3) Lease liabilities were recorded at fair value and are included in other liabilities in the Company's consolidated balance sheet. The lease liability was recorded in connection with the lease abandonment plan implemented in the first quarter of 2009 and was subsequently revised in the third quarter of 2009 (see Note 5 for further discussion of the restructuring plan). Management made assumptions in determining the fair value of the lease liability. Inputs to the present value technique to determine fair value included observable inputs, such as the future rent payment schedule, the discount rate and sublease income through the end of the lease term. However, the assumption about when the Company will be able to sublease its facility is considered to be a significant unobservable input. Management considered 12 months to be a reasonable period of time to sublease its facility based on current market trends.

Note 3. Intangible Assets

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

		September 30, 2009		
	Amortization Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets:				
Existing technology	4-8 yrs	\$ 5,375	\$ (5,076)	\$ 299
Patent/Core technology	4-8 yrs	2,800	(2,393)	407
Maintenance agreements and certain relationships	5 yrs	400	(328)	72
Customer relationships	4-7 yrs	4,800	(4,397)	403
		\$ 13,375	\$ (12,194)	\$ 1,181

		December 31, 2008		
	Amortization Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets:				
Existing technology	4-8 yrs	\$ 5,375	\$ (5,000)	\$ 375
Patent/Core technology	4-8 yrs	2,800	(2,290)	510
Maintenance agreements and certain relationships	5 yrs	400	(278)	122
Customer relationships	4-7 yrs	4,800	(3,591)	1,209
		\$ 13,375	\$ (11,159)	\$ 2,216

Amortization of intangible assets was approximately \$345,000 and \$1.1 million for the three months ended September 30, 2009 and 2008, respectively, and approximately \$1.0 million and \$3.2 million for the nine months ended September 30, 2009 and 2008, respectively.

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

Fiscal Year	
Remaining 2009	\$ 345
2010	428

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2011	239
2012	169
	\$ 1,181

7

Note 4. Accrued Liabilities

Accrued liabilities consisted of (in thousands):

	September 30, 2009	December 31, 2008
Accrued sales tax (1)	\$4,750	\$—
Accrued liabilities	4,072	5,940
Accrued commissions	1,923	2,700
Paid time off payable	1,556	1,538
Accrued restructuring liabilities – current	1,469	800
Taxes payable	914	1,198
	\$14,684	\$12,176

(1) See Note 6. Commitments and Contingencies for discussion on accrued sales tax.

Note 5. Accrued Restructuring

In the first quarter of 2009, the Company recorded a restructuring charge of approximately \$3.3 million related to a workforce reduction of 68 employees across all functional areas and the abandonment of certain facilities, for which the lease terms extend through April 30, 2015. As of September 30, 2009, the Company completed all terminations and had fully vacated the abandoned facilities.

Liabilities for excess facility costs are recorded net of estimated sublease income. The Company reviews and updates its estimates whenever circumstances arise that indicate a change in the underlying assumptions. In the third quarter of 2009, the Company recorded an additional restructuring charge of \$891,000 primarily due to changes in estimated sublease income related to the facility abandoned in the 2009 restructuring plan.

The liability for net excess facilities costs is recorded at fair value as of each balance sheet date. Any difference between the fair value of the liability at the measurement date and the total cash liability is accreted ratably over the remaining expected term. This accretion cost is included as a restructuring charge in the condensed consolidated statements of operations. Total accretion related to the 2009 restructuring plan that will be recognized through April 2015 is \$270,000. In addition, total accretion related to facilities abandoned in the 2006 restructuring plan that will be recognized through April 2010 is \$454,000 with a remaining balance of \$141,000 as of September 30, 2009.

The following is a summary of restructuring activities for the three and nine months ended September 30, 2009 (in thousands):

	Excess Facility Costs	Severance Costs	Total Restructuring Accrual
Balance as of June 30, 2009	\$ 2,118	\$ 40	\$ 2,158
Restructuring charges	891	(24)	867
Payments	(642)	—	(642)
Net book value accretion	53	—	53
Balance as of September 30, 2009	\$ 2,420	\$ 16	\$ 2,436

Excess Facility Costs	Severance Costs	Total Restructuring Accrual
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Balance as of December 31, 2008	\$	1,054	\$	—	\$	1,054
Restructuring charges		2,904		1,259		4,163
Payments		(1,676)		(1,243)		(2, 919)
Net book value accretion		138		—		138
Balance as of September 30, 2009	\$	2,420	\$	16	\$	2,436

As of September 30, 2009, approximately \$1.5 million of the restructuring liability is included in accrued liabilities and remaining \$967,000 is included in long-term liabilities based on the Company's expectation that the remaining lease payments for the abandoned facilities will be paid over the remaining term of the related leases, net of any expected sublease income.

Note 6. Commitments and Contingencies

The Company leases facilities under operating leases that expire at various dates through October 2016. Certain leases are cancellable prior to lease expiration dates. Future minimum lease payments under these operating leases, including payments on leases accounted for under the Company's restructuring plan, as of September 30, 2009 are as follows (in thousands):

Year ending December 31:	Operating Leases	Sublease Income	Net Operating Leases
Remaining 2009	\$ 1,687	\$ (167)	\$ 1,520
2010	4,472	(341)	4,131
2011	3,309	(199)	3,110
2012	2,552	(212)	2,340
2013	2,316	(219)	2,097
2014 and thereafter	3,775	(263)	3,512
	\$ 18,111	\$ (1,401)	\$ 16,710

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 all agreements are as follows (in thousands):

Year ending December 31:	
Remaining 2009	\$ 3,157
2010	9,494
2011	2,550
	\$ 15,201

At September 30, 2009, the Company had no material commitments for capital expenditures.

The Company is also involved in legal proceedings and claims arising in the ordinary course of business. While there can be no assurances as to the ultimate outcome of any litigation involving the Company, management does not believe any such other pending legal proceeding or claims will result in a judgment or settlement that would have a material adverse effect on the Company's financial position, results of operations or cash flows.

Sales Tax Liability

The Company's sales and use tax filings are subject to customary audits by authorities in the jurisdictions where it conducts business, which may result in assessments of additional taxes. As a result of addressing a sales and use tax audit which was initiated this fiscal year, the Company determined that additional sales taxes were probable of being assessed for multiple states. Given the nature of the Company's business model, the state conducting the sales tax audit agreed to work with the Company in developing the methodology that was used to estimate the incremental sales tax. Once resolution of the methodology had been reached, the Company applied this same model to other states where this type of sales tax may also be applicable. As a result of completing this analysis, the Company recorded estimated interest and penalties, where applicable, of approximately \$1.4 million. The Company estimated an incremental sales tax liability including interest and penalties of approximately \$4.8 million. Significant subjectivity exists as to both whether sales tax can even be assessed on the activity for which the incremental sales tax amount is derived, and given the nature of the Company's business model, how the sales tax would be measured. However, based on the developments associated with the ongoing sales and use tax audit, the Company determined that its estimates for sales tax in certain states should be revised, and accordingly recognized additional sales tax obligations,

including interest and penalties, which were recorded in general and administrative expenses.

The Company has the ability and right to bill and collect the incremental sales tax, excluding interest and penalties, from its customers; however, several factors create significant uncertainty in determining whether recognition of an asset is appropriate. The primary uncertainties include the following; (1) As disclosed above, significant judgment exists both as to the activity that gives rise to the incremental sales tax assessment and how the sales tax amount has been measured; (2) The Company has not yet determined the process that will be used or timing of its efforts to both invoice and collect incremental sales tax from its customers and; (3) The estimated incremental sales tax relates to multiple periods which would make it more difficult to successfully collect the incremental sales tax from its customers. Accordingly, the Company has determined that it will not recognize an asset relating to this matter as the Company currently does not have the ability to estimate the amount, if any, that it will be able to collect from its customers. Proceeds received from customers, if any, in connection with the additional sales tax assessment will be recognized upon receipt.

Cash Dividend

Pursuant to a settlement agreement (the "Agreement") dated June 2, 2009 relating to a proxy contest for the election of directors to the Board, the Company declared an extraordinary cash dividend of \$20 million to all stockholders of record as of August 31, 2009. The cash dividend was paid September 17, 2009. The dividend was declared after securing stockholder approval on August 18, 2009 to amend the Company's outstanding equity incentive plans (See Note 9. Cash Dividend and Repricing of Equity Awards). The Agreement was amended on November 3, 2009 under which the Company committed to distribute a special cash dividend of \$10 million to stockholders in the fourth quarter and launch a \$10 million stock repurchase program that extends through March 31, 2011. In the event that any of the \$10 million is not used to repurchase the Company's stock by March 31, 2011 the Company has agreed to dividend to stockholders the remaining portion by April 15, 2011.

Note 7. Comprehensive Income (Loss)

Comprehensive loss includes unrealized gains and losses on available-for-sale marketable securities, net of related tax effects. This item has been excluded from net loss and is reflected instead in stockholders' equity.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net loss	\$ (6,122)	\$ (2,098)	\$ (8,160)	\$ (4,916)
Changes in unrealized gains (losses) on available-for-sale securities, net of related tax effects	(37)	(47)	(204)	(75)
Total comprehensive loss	\$ (6,159)	\$ (2,145)	\$ (8,364)	\$ (4,991)

Note 8. Net Income (Loss) Per Share

Basic net income (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 income (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. As the Company was in a net loss position for all periods presented, basic and diluted net loss per share are equal to each other as the weighted average number of shares used to compute diluted net loss per share excludes anti-dilutive securities.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Numerator:				
Net loss	\$ (6,122)	\$ (2,098)	\$ (8,160)	\$ (4,916)
Denominator:				
Denominator for basic net loss per common share weighted average shares outstanding	61,901,324	61,793,465	61,988,957	61,546,003
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	61,901,324	61,793,465	61,988,957	61,546,003
Basic net loss per common share	\$ (0.10)	\$ (0.03)	\$ (0.13)	\$ (0.08)
Diluted net loss per common share	\$ (0.10)	\$ (0.03)	\$ (0.13)	\$ (0.08)

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 September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Options to purchase common stock	9,057,996	6,612,567	9,057,996	6,612,567

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Restricted stock awards	967,512	1,475,525	967,512	1,475,525
Total	10,025,508	8,088,092	10,025,508	8,088,092

10

Note 9. Cash Dividend and Repricing of Equity Awards

Pursuant to a settlement agreement (the “Agreement”) dated June 2, 2009 and amended on November 3, 2009, relating to a proxy contest for the election of directors to the Board of Directors, the Company agreed to seek stockholder approval for an amendment to the Company’s outstanding equity incentive plans (the “Plans”) to permit the Board of Directors to amend outstanding equity awards so that the value of the awards would not be impaired by an extraordinary dividend paid to the stockholders. Under the Agreement, if such stockholder approval is received, the Company was required to pay a cash dividend of \$20 million (the “Extraordinary Dividend”) and must return an additional \$20 million to the stockholders by April 15, 2011 (the “Second Capital Reduction”). (See Note 6 Commitments and Contingencies.)

At a Special Meeting of Stockholders held on August 18, 2009, the Company’s stockholders approved amendments to the Plans to provide general authority to the Board of Directors to make adjustments to outstanding awards under the Plans in the event of the payment of any extraordinary dividend. The Company paid a \$19.9 million cash extraordinary dividend to stockholders on September 17, 2009 and the Board of Directors subsequently amended the exercise price of 8,434,529 outstanding stock options from an original weighted average exercise price of \$3.62 to \$3.13. In addition, the Board of Directors granted 368,624 new stock option grants and 114,285 new performance stock awards. The performance stock awards had a fair market value on the date of grant of \$1.37 per share. The combination is intended to address the diminution in value to the option from the Extraordinary Dividend and to attempt to preserve the option’s intrinsic value (amount of value the option holder would receive upon immediate exercise and sale of the underlying stock) that existed prior to the Extraordinary Dividend.

In connection with the repriced options and issuance of new options and performance stock awards, the Company recognized stock compensation expense of approximately \$160,000 which is included in the total stock based compensation expense of approximately \$984,000 recognized during the quarter ended September 30, 2009. The remaining unamortized fair value of the repriced options and issuance of new options and performance stock awards of \$585,000 as of September 30, 2009 will be recognized ratably over the remaining vesting period of the underlying awards.

On November 3, 2009, the Company’s Board of Directors declared a \$10 million extraordinary cash dividend payable on December 18, 2009 to stockholders of record as of December 4, 2009 in connection with an amendment to the Agreement whereby the Company committed to distributing a special cash dividend of \$10 million to stockholders in the fourth quarter and launch a \$10 million stock repurchase program that extends through March 31, 2011. In the event that any of the \$10 million is not used to repurchase the Company’s stock, the Company has agreed to dividend to stockholders the remaining portion by April 15.

Note 10. Stock Repurchase Program

In February 2008, the Company’s Board of Directors approved a stock repurchase program which authorized the Company to repurchase up to \$30.0 million of outstanding common stock from time to time on the open market or through negotiated transactions. Through December 31, 2008, the Company repurchased and retired a total of approximately 1.3 million shares of common stock for an aggregate purchase price of \$3.7 million. There was no stock repurchase activity through the nine months ended September 30, 2009. On November 3, 2009 the Company’s Board of Directors terminated this stock repurchase program.

In addition, on November 3, 2009, the Company’s Board of Directors approved a stock repurchase program which authorizes the Company to repurchase up to \$10 million of outstanding common stock from time to time on the open market or through negotiated transactions. In the event that this \$10 million stock repurchase program is not completed by March 31, 2011, the Company is obligated to dividend to stockholders any remaining balance by April 15, 2011.

Note 11. Segment and Geographical Information

Segment

The Company has determined that it operates in a single reportable segment 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 operating decision maker is considered to be the Company's chief executive officer (CEO). 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 consolidated statements of operations.

Geographical Information

Revenues generated in the United States accounted for approximately 60% of total revenues for both of the three months ended September 30, 2009 and 2008, and 61% and 62% of total revenues for the nine months ended September 30, 2009 and 2008, respectively. International revenue is determined by the location of the customer's headquarters. International revenue accounted for approximately 40% of total revenues for both of the three months ended September 30, 2009 and 2008, and 39% and 38% for the nine months ended September 30, 2009 and 2008, respectively. Revenues in the EMEA region represented 29% and 27% of total revenues for the three months ended September 30, 2009 and 2008, respectively, and 29% and 27% for the nine months ended September 30, 2009 and 2008, respectively. Revenues in the Asia Pacific region represented 7% and 9% of total revenues for the three months ended September 30, 2009 and 2008, respectively, and 6% and 8% for the nine months ended September 30, 2009 and 2008, respectively.

No individual customer or any foreign country represented 10% or more of total revenues for the three or nine months ended September 30, 2009 or 2008.

Note 12. Recent Accounting Pronouncements

In September 2009, the FASB reached a consensus on Accounting Standards Update, or ASU 2009-13, Revenue Recognition (Topic 605) – Multiple-Deliverable Revenue Arrangements, or ASU 2009-13 and ASU 2009-14, Software (Topic 985) – Certain Revenue Arrangements That Include Software Elements, or ASU 2009-14. ASU 2009-13 modifies the requirements that must be met for an entity to recognize revenue from the sale of a delivered item that is part of a multiple-element arrangement when other items have not yet been delivered. ASU 2009-13 eliminates the requirement that all undelivered elements must have either: i) VSOE or ii) third-party evidence, or TPE, before an entity can recognize the portion of an overall arrangement consideration that is attributable to items that already have been delivered. In the absence of VSOE or TPE of the standalone selling price for one or more delivered or undelivered elements in a multiple-element arrangement, entities will be required to estimate the selling prices of those elements. Overall arrangement consideration will be allocated to each element (both delivered and undelivered items) based on their relative selling prices, regardless of whether those selling prices are evidenced by VSOE or TPE or are based on the entity's estimated selling price. The residual method of allocating arrangement consideration has been eliminated. ASU 2009-14 modifies the software revenue recognition guidance to exclude from its scope tangible products that contain both software and non-software components that function together to deliver a product's essential functionality. These new updates are effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. We are currently evaluating the impact that the adoption of these ASUs will have on our consolidated financial statements.

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 our operations, financial condition, results of operations, liquidity, 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 "Risk 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 are a leading provider of simple, secure and manageable enterprise mobility services, maximizing the productivity of workers as they move between office, home and remote locations. Our solutions simplify mobility by combining ubiquitous 3G mobile broadband, Wi-Fi hotspot, hotel Ethernet and dial-up access with comprehensive management control over connectivity, devices and costs. Our solutions serve mobile workers, tele-workers, branch offices and retail locations. They are based on the world's largest global virtual network, an internet-based management platform, and the iPassConnect™ mobility manager software for laptops and handheld devices. Our connectivity services utilize the iPass global virtual network, a unified network of over 550 dial-up, wireless, and broadband providers in over 160 countries.

Overview of the three and nine months ended September 30, 2009

Our overall revenue decreased 12% and 10% for the three and nine months ended September 30, 2009, respectively, as compared to the same periods in 2008, primarily due to the continued and anticipated erosion of dial-up revenue as users move to faster connection technologies. In addition, the continued global economic downturn, which has led to significant corporate layoffs and a sharp drop-off in business travel within our enterprise customer base also adversely impacted our business.

For the three and nine months ended September 30, 2009, dial-up revenue decreased 56% and 52% to \$3.9 million and \$14.4 million, respectively, as compared to \$8.8 million and \$29.7 million for the same periods in 2008, respectively. The decreases were partially offset, in part, by a \$790,000 and \$4.7 million increase in revenues generated from usage of our broadband service for the three and nine months ended September 30, 2009, respectively, compared to 2008. Going forward, we will focus on delivering innovative services and solutions for our customers and increasing the number of end users of our services. We will also look at ways to increase fee revenues from fee based services. During the remainder of 2009, we expect very modest growth in new customers. Our success in 2010 could be limited by several factors, including global economic conditions, the timely release of new services and 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 "Risk Factors Affecting Operating Results."

International revenues accounted for approximately 40% of total revenues for both of the three months ended September 30, 2009 and 2008 and 39% and 38% of total revenues for the nine months ended September 30, 2009 and 2008, 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 29% and 27% of total revenues for the three months ended September 30, 2009 and 2008, respectively, and 29% and 27% of our revenues for the nine months ended September 30, 2009 and 2008, respectively. Revenues in the Asia Pacific region represented 7% and 9% of total revenues for the three months ended September 30, 2009 and 2008, respectively, and 6% and 8% of total revenues for the nine months ended September 30, 2009 and 2008, respectively. No individual foreign country accounted for 10% or more of total revenues for the three and nine months ended September 30, 2009 and 2008. 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 nine months ended September 30, 2009 and 2008.

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 approximately 50% of our customers (determined on a percentage of revenue basis) based on a fixed charge per user per month. We bill the remaining customers on a time basis for usage based on negotiated rates. 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 such minimum committed amounts 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.

We have invested in the expansion of 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 64% and 54% of our total revenues for the three months ended September 30, 2009 and 2008, respectively, and 62% and 53% for the nine months ended September 30, 2009 and 2008, respectively.

We provide customers with deployment services and technical support throughout the term of the contract. For customers on usage based pricing plans 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. For customers on flat rate pricing, these charges are included as part of our monthly per user fee. 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 services and licensing fees represented approximately 27% of total revenues for the three and nine months ended September 30, 2009 and 2008.

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 assumptions 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.

Except for change in estimate for sales tax and related charges of \$4.8 million, there have been no other significant changes in our critical accounting policies and estimates during the nine months ended September 30, 2009 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, 2008.

RESULTS OF OPERATIONS

Revenue

Three Months Ended
September 30,

Nine Months Ended
September 30,

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	2009	2008	2009	2008
	(In thousands, except percentages)			
Total Revenue	\$ 42,555	\$ 48,371	\$ 130,901	\$ 145,099
Change	\$ (5,816)		\$ (14,198)	
Percentage change	(12.0%)		(9.8%)	

Total revenue decreased in the three and nine months ended September 30, 2009, as compared to the same periods in 2008, primarily due to the continued and anticipated erosion of dial-up revenue as users move to faster connection technologies. The decrease is also due to the continued global economic downturn resulting in corporate layoffs and restricted business travel in our enterprise customer base which has adversely impacted our business.

A listing of revenue by type is as follows:

	Three Months Ended September 30, 2009		September 30, 2008		Nine Months Ended September 30, 2009		September 30, 2008	
	(In thousands, except percentages)							
Broadband	\$	27,079	\$	26,289	\$	81,248	\$	76,597
Percentage of total revenue		63.6%		54.3%		62.0%		52.8%
Change	\$	790			\$	4,651		
Percentage change		3.0%				6.1%		
Dial-Up	\$	3,910	\$	8,788	\$	14,356	\$	29,728
Percentage of total revenue		9.2%		18.2%		11.0%		20.5%
Change	\$	(4,878)			\$	(15,372)		
Percentage change		(55.5%)				(51.7%)		
Services, fees and other	\$	11,566	\$	13,294	\$	35,297	\$	38,774
Percentage of total revenue		27.2%		27.5%		27.0%		26.7%
Change	\$	(1,728)			\$	(3,477)		
Percentage change		(13.0%)				(9.0%)		

We anticipate broadband revenues will experience modest growth due to the current global economic downturn and associated corporate layoffs and restrictions on business travel in our enterprise customer base.

We expect revenue from dial-up usage to continue to decrease in absolute dollars as well as the use of dial-up as a means of enterprise connectivity continues to decline.

Non-Financial Metrics

	September 30, 2009		September 30, 2008		As of Count	Change %
3G subscription count	34,000		21,000		13,000	61.9%
Broadband user (excluding 3G user) count	282,000		311,000		(29,000)	(9.3%)
Dial-up user count	91,000		188,000		(97,000)	(51.6%)

We provide these additional non-financial metrics of 3G subscription, broadband user (excluding 3G user) and dial user counts, so that stockholders can understand the type of users that are using our mobility services. In addition, these non-financial metrics can be used to help assess how successful we are in driving increased penetration into our customer base and leading both the enterprise market and our customers to 3G technology. 3G subscription counts were up from the same quarter a year ago by 62%. We believe the increase is due to ramping of the early adoption of this newer technology resulting from our early market penetration. The broadband user counts, which exclude 3G users, is primarily Wi-Fi users and as compared with the same quarter a year ago, were adversely impacted by the current global economic downturn resulting in corporate layoffs and restrictions on business travel in our enterprise customer base. Dial-up user counts decreased from the same quarter a year ago as the use of dial-up as a means of enterprise connectivity continues to decline.

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 September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
(In thousands, except percentages)				
Network access expenses	\$ 17,610	\$ 20,147	\$ 54,250	\$ 61,588
Percentage of total revenue	41.4%	41.7%	41.4%	42.4%
Change	\$ (2,537)		\$ (7,338)	
Percentage change	(12.6%)		(11.9%)	

The decrease in network access expenses in the three and nine months ended September 30, 2009 as compared to the same periods in 2008 was primarily due to the 12% and 10% decline in our revenues in the three and nine months ended September 30, 2009, respectively. We also negotiated more favorable pricing with one of our mobile data providers which contributed to the decrease in network access costs.

We expect network access expenses to increase slightly as a percentage of revenues in the fourth quarter of 2009 due to changes in foreign currency rates and provider commitment shortfalls.

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 September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
(In thousands, except percentages)				
Network operations expenses	\$ 7,551	\$ 8,195	\$ 22,784	\$ 24,365
Percentage of total revenue	17.7%	16.9%	17.4%	16.8%
Change	\$ (644)		\$ (1,581)	
Percentage change	(7.9%)		(6.5%)	

Network operations expenses decreased for both the three and nine months ended September 30, 2009 as compared to the same periods ended September 30, 2008. The decreases were primarily due to a reduction of \$460,000 and \$1.2 million in compensation, benefits and travel related expense for the three and nine month periods ended September 30, 2009, respectively, resulting from headcount reductions that were included in the restructuring activity in the first quarter of 2009. A reduction in co-location network expense due to the implementation of certain cost saving measures further reduced network operations expense by \$218,000 and \$321,000 for the three and nine month periods ended September 30, 2009, respectively. The remaining portion of the decrease was due to individually insignificant items.

We expect that our network operations expenses will remain relatively constant in absolute dollars in the fourth quarter of 2009.

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 September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
(In thousands, except percentages)				
Research and development expenses	\$ 3,597	\$ 3,845	\$ 10,836	\$ 12,288
Percentage of total revenue	8.5%	7.9%	8.3%	8.5%
Change	\$ (248)		\$ (1,452)	
Percentage change	(6.4%)		(11.8%)	

Research and development expenses decreased slightly for the three months ended September 30, 2009 as compared to the three months ended September 30, 2008. There were no fluctuations, offsetting or otherwise, significant enough to note.

The decrease in research and development expenses for the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008 resulted primarily from a \$697,000 decrease in compensation, benefits and travel expenses due to headcount reductions and a \$194,000 decrease in rent expense due to the consolidation of our facilities in India. The remaining decrease was due primarily to lower licenses and fees of \$188,000, maintenance and support of \$111,000 and recruiting expense of \$109,000.

We expect that our research and development expenses will increase slightly in absolute dollars in the fourth quarter of 2009 due to additional investment in the development of our new software platform.

Sales and Marketing

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
(In thousands, except percentages)				
Sales and marketing expenses	\$ 8,037	\$ 10,724	\$ 23,223	\$ 31,403
Percentage of total revenue	18.9%	22.2%	17.7%	21.6%
Change	\$ (2,687)		\$ (8,180)	
Percentage change	(25.1%)		(26.0%)	

The decrease in sales and marketing expenses for the three months ended September 30, 2009 as compared to the three months ended September 30, 2008 was due primarily to a \$1.2 million decrease in compensation, travel and benefits expenses due to a decrease in sales personnel largely due to restructuring activities in the first quarter 2009 and lower commissions of approximately \$975,000 resulting from lower revenues. Targeted reductions in specific marketing programs further reduced sales and marketing expenses by approximately \$500,000. The remaining portion of the decrease was due to individually insignificant items.

The decrease in sales and marketing expenses for the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008 was due primarily to a decrease of approximately \$4.5 million in compensation,

travel and benefits expenses due to decreased sales personnel resulting from restructuring activities that occurred during 2009 and lower commission of approximately \$2.1 million due to lower revenues. Targeted reductions in specific marketing programs further reduced sales and marketing expenses by approximately \$726,000.

We expect that sales and marketing expenses will remain relatively constant in absolute dollars in the fourth quarter of 2009.

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 September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(In thousands, except percentages)			
General and administrative expenses	\$ 10,316	\$ 6,123	\$ 22,403	\$ 18,476
Percentage of total revenue	24.2%	12.7%	17.1%	12.7%
Change	\$ 4,193		\$ 3,927	
Percentage change	68.5%		21.3%	

General and administrative expenses increased for the three months ended September 30, 2009 as compared to the three months ended September 30, 2008 primarily resulting from a \$4.8 million charge related to sales tax liabilities. The increase is offset by a \$316,000 reduction in legal fees due to employee terminations and strategic corporate activities that occurred in the third quarter of 2008. The restructuring activities in the first quarter of 2009 contributed additional savings of \$353,000 in rent expense.

General and administrative expenses increased for the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008. The increase was driven primarily by a charge of \$4.8 million related to sales tax liabilities. The increase is offset by a reduction of \$1.3 million in stock compensation expense primarily driven by a decrease in the number of shares of our common stock outstanding and lower trading prices of our common stock.

We expect that our general and administrative expenses will decrease in absolute dollars in the fourth quarter of 2009 as a result of not having to take a large charge related to sales tax liabilities.

Restructuring Charges

In the first quarter of 2009, we recorded a restructuring charge of approximately \$3.3 million related to a workforce reduction of 68 employees across all functional areas and the abandonment of certain facilities, for which the lease terms extend through April 30, 2015. As of September 30, 2009, we completed all terminations and had fully vacated the abandoned facilities.

Liabilities for excess facility costs are recorded net of estimated sublease income. We review and update our estimates whenever circumstances arise that indicate a change in the underlying assumptions. In the third quarter of 2009, we recorded an additional restructuring charge of \$891,000 primarily due to changes in estimated sublease income related to the facility abandoned in the 2009 restructuring plan.

The liability for net excess facilities costs is recorded at fair value as of each balance sheet date. Any difference between the fair value of the liability at the measurement date and the total cash liability is accreted ratably over the remaining expected term. This accretion cost is included as a restructuring charge in the condensed consolidated statements of operations. Total accretion related to the 2009 restructuring plan that will be recognized through April 2015 is \$270,000. In addition, total accretion related to facilities abandoned in the 2006 restructuring plan that will be recognized through April 2010 is \$454,000 with a remaining balance of \$141,000 as of September 30, 2009.

The following is a summary of restructuring activities for the three and nine months ended September 30, 2009 (in thousands):

	Excess Facility Costs	Severance Costs	Total Restructuring Accrual
Balance as of June 30, 2009	\$ 2,118	\$ 40	\$ 2,158
Restructuring charges	891	(24)	867
Payments	(642)	—	(642)
Net book value accretion	53	—	53
Balance as of September 30, 2009	\$ 2,420	\$ 16	\$ 2,436

	Excess Facility Costs	Severance Costs	Total Restructuring Accrual
Balance as of December 31, 2008	\$ 1,054	\$ —	\$ 1,054
Restructuring charges	2,904	1,259	4,163
Payments	(1,676)	(1,243)	(2,919)
Net book value accretion	138	—	138
Balance as of September 30, 2009	\$ 2,420	\$ 16	\$ 2,436

Amortization of Intangible Assets

Amortization of intangible assets was approximately \$345,000 and \$1.1 million for the three months ended September 30, 2009 and 2008, respectively, and \$1.0 and \$3.2 million for the nine months ended September 30, 2009 and 2008, respectively. The decrease is the result of a lower cost basis due to an impairment charge recorded during the fourth quarter of 2008 of \$3.4 million.

Non-Operating Expenses

Interest Income

Interest income includes primarily interest income on cash, cash equivalents, and short-term investment balances. Interest income was \$103,000 and \$445,000 for the three months ended September 30, 2009 and September 30, 2008, respectively. Interest income declined primarily due to decrease in the rate of return on our investments and lower cash balances. Interest income decreased from \$1.6 million for the nine months ended September 30, 2008 to \$531,000 for the nine months ended September 30, 2009, respectively, due to decrease in the rate of return on our investments and lower cash balances.

Foreign Exchange Losses and Other Expenses

Foreign exchange losses and other expenses include primarily losses on foreign currency transactions. Conversion of foreign currencies resulted in losses of \$377,000 and \$720,000 for the three months ended September 30, 2009 and 2008, respectively, and \$601,000 and \$905,000 for the nine months ended September 30, 2009 and 2008, respectively. The foreign exchange losses are impacted by fluctuations in foreign currency exchange rates primarily between the US dollar, Euro and British Pound.

Provision for (Benefit from) Income Taxes

The provision for income taxes was \$32,000 and \$167,000 for the three and nine months ended September 30, 2009 as compared to a provision for income taxes of \$59,000 and benefit from income taxes of \$656,000 for the three and nine months ended September 30, 2008, respectively. The provision for income taxes recorded in the three and nine months ended September 30, 2009 primarily relates to foreign taxes on expected profits in the foreign jurisdictions. The provision and benefit recorded in the three and nine months ended September 30, 2008 primarily related to the release of foreign tax reserves from prior periods and the release of reserves related to the State of California income tax audit, which was settled during the second quarter of 2008, net of foreign taxes on operations and state minimum taxes. The effective tax rate was 0% and 2.1% for the three and nine months ended September 30, 2009, respectively, and 2.9% and (11.8%) for the three and nine months ended September 30, 2008, respectively.

Liquidity and Capital Resources

Sources of Cash

We have historically relied on cash flow from operations for our liquidity needs. As of September 30, 2009, we had cash and cash equivalents of \$37.1 million and short-term investments of \$13.3 million totaling approximately \$50.4 million, as compared to approximately \$68.4 million as of December 31, 2008 which was comprised of cash and cash equivalents of \$33.1 million and short-term investments of \$35.3 million. We use a professional investment management firm to manage a large portion of our invested cash. The portfolio is invested primarily in government agency notes, commercial paper, corporate securities and money market accounts.

We expect that cash provided by operating activities may fluctuate in future periods as a result of a number of factors, including fluctuations in our operating results and accounts receivable collections. In addition, we expect our existing cash, cash equivalents and investment balances to decline by approximately \$10 million in the fourth quarter of 2009 as a result of the payment of an extraordinary cash dividend to our stockholders and by an additional \$10 million through April 15, 2011 as a result of our planned return of capital to our stockholders. Notwithstanding the foregoing and a further weakening of the global economy or changes in our planned cash outlay, we believe that, based on our current business plan and revenue prospects, our existing cash balances and our anticipated cash flows from operations will be sufficient to meet our working capital requirements for the next twelve months.

Uses of Cash

Our principal use of cash in operations is payroll related expenses as well as general operating expenses including marketing, travel and office rent, and network access costs. In addition, in the first three quarters of 2009, we completed all terminations and paid approximately \$1.2 million of severance payments as a result of our restructuring activities. See Note 5. Accrued Restructuring, of our Notes to Condensed Consolidated Financial Statements for further information regarding this restructuring.

During the fourth quarter of 2009, we expect to pay a \$10 million dollar extraordinary cash dividend to our stockholders. We also intend to return an additional \$10 million in capital to our stockholders through a stock repurchase program that extends through March 31, 2011. In the event that the full \$10 million stock repurchase program is not used to repurchase the company's stock by March 31, 2011, we are obligated to dividend to stockholders the remaining balance by April 15, 2011.

Cash Flows

Operating Activities

Net cash provided by operating activities in the nine months ended September 30, 2009 was \$3.8 million. The trend in our cash flows from operations is generally reflective of our reduction of operating expenses by means of reductions in our workforce, tighter control over discretionary spending during the first three quarters of 2009, improvements in efficiency, and the continued success of our collection efforts which together have more than offset the effect of declining revenues.

Investing Activities

Net cash provided by investing activities for the nine months ended September 30, 2009 was \$20.0 million. Net cash provided by investing activities related to net maturities of short-term investments of \$21.7 million offset by \$1.8 million of cash used for the purchases of property and equipment. In preparation for the cash dividend paid in September 2009, we kept the proceeds from the maturities of our short-term investments in cash and money market

accounts.

Financing Activities

Net cash used in financing activities for the nine months ended September 30, 2009 was \$19.8 million. In September we paid a \$19.9 million cash dividend to our stockholders, offset by stock option exercises totaling \$118,000. During the nine months ended September 30, 2009 we did not repurchase any stock under our stock repurchase program. As of September 30, 2009, we had \$26.3 million remaining capacity under the repurchase program which was terminated by the Board of Directors on November 3, 2009.

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. We have contracted with multiple network service providers to provide alternative access points in a given geographic area. In those geographic areas where we provide access through multiple providers, we are able to direct users to the network of particular service providers. Our ability to fulfill our purchase minimum commitment is subject to current economic environment among other factors.

Future minimum purchase commitments under these agreements as of September 30, 2009 are as follows (in thousands):

Year ending December 31:

Remaining 2009	\$	3,157
2010		9,494
2011		2,550
	\$	15,201

We lease our facilities under operating leases that expire at various dates through October 2016. Certain leases are cancellable prior to lease expiration dates. Future minimum lease payments under these operating leases as of September 30, 2009 are as follows (in thousands):

Year ending December 31:	Operating Leases	Sublease Income	Net Operating Leases
Remaining 2009	\$ 1,687	\$ (167)	\$ 1,520
2010	4,472	(341)	4,131
2011	3,309	(199)	3,110
2012	2,552	(212)	2,340
2013	2,316	(219)	2,097
2014 and thereafter	3,775	(263)	3,512
	\$ 18,111	\$ (1,401)	\$ 16,710

At September 30, 2009, we had no material commitments for capital expenditures.

In the ordinary course of business, we may provide indemnifications of varying scope and terms to customers, business partners, and other parties with respect to certain matters, including, but not limited to, losses arising out of our breach of such agreements, services to be provided by us, or from intellectual property infringement claims made by third-parties. In addition, we have entered into indemnification agreements with our directors and certain of our officers and employees that will require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors, officers or employees. We maintain director and officer insurance, which may cover certain liabilities arising from our obligation to indemnify our directors and certain of our officers and employees, in certain circumstances. It is not possible to determine the maximum potential amount of exposure under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Such indemnification agreements may not be subject to maximum loss clauses.

We identified unrecognized tax benefits in accordance with ASC 740 Income Taxes. The balance of unrecognized tax benefits at September 30, 2009 is \$2.5 million and at December 31, 2008 was \$2.5 million.

Off-Balance Sheet Arrangements

At September 30, 2009 we did not have any off-balance sheet arrangements or relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities.

RISK 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.

Recent worldwide market turmoil may adversely affect our customers which directly impacts our business and results of operations.

Our operations and performance depend on our customers having adequate resources to purchase our products and services. The unprecedented turmoil in the global capital markets and the global economic downturn generally continue to adversely impact our customers and potential customers. These market and economic conditions may remain volatile and uncertain for the foreseeable future. Customers have altered and may continue to alter their purchasing and payment activities in response to deterioration in their businesses, lack of credit, economic uncertainty and concern about the stability of markets in general, and these customers may reduce, delay or terminate purchases of, and payment for, our products and services. Certain of our current and prospective customers may merge with others, or may be forced to drastically cut expenditures, which may result in less demand for our products and services. Further, we may not be able to collect our accounts receivables from customers. If we are unable to protect against these events or adequately respond to changes in demand resulting from deteriorating market and economic conditions, our financial condition and operating results may be materially and adversely affected.

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

A substantial portion of the growth of our business has depended, and will continue to depend, in part upon our ability to expand the broadband elements of our virtual network to address broadband access technologies, such as cable modem, DSL, Wi-Fi, 3G data, Wi-Max and other wireless technologies, including 3G. 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 certain airports, hotels and convention centers, the broadband access market, particularly for wireless access, continues to develop and the level of anticipated demand 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 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 the particular operator's 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.

We are developing a new software platform for the delivery of our enterprise mobility services and if this new platform does not achieve market acceptance our business could be harmed.

We are currently engaged in the development of a new software platform for the delivery of our enterprise mobility services. The platform is being designed with certain features and functionality that we hope will cause our customers to adopt this platform and the associated connection manager software as the enterprise's standard solution for mobility services. The new platform may not have adequate functionality or functionality desired by our customers that would cause our customers to adopt the platform. Further, the new platform may contain bugs or errors that would cause our customers to not adopt the new platform. Also the development of the new platform could take longer than expected. If some or all of these risks associated with our new platform were to occur, market acceptance of the platform may not occur and our business could be harmed.

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 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;
- the proliferation of electronic devices such as handhelds and smart-phones and related applications; and
- the willingness of enterprises to invest in our services during the current world-wide economic crisis.

Continued poor economic conditions may adversely affect our customers and partners willingness to agree to minimum purchase and resale commitments which may directly impact our ability to predict our revenue in any given period.

Our customers and partners have traditionally entered into contractual provisions that require them to pay the greater of a portion of fees generated from the use of our services or a minimum committed amount over a pre-determined time period. The global economic downturn has in certain cases caused our customers and partners to generate fees from the use of our services that are significantly less than their minimum committed amounts. Consequently this shortfall has caused some partners and customers upon renewal of their contracts with us, to renew with a lower

minimum commitment and some cases no minimum commitment at all. In some cases partners and customers are requesting a re-evaluation of these minimum commitments during the term of their existing contract and in order to maintain these commercial relationships, we have addressed these requests on a contract by contract basis. The reduction or elimination of minimum commitments means that a larger percentage of future revenue will be based on the actual usage of our services, making our ability to forecast revenue in a given period more difficult to predict.

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. 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 access 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 we are unable to effectively manage our India-based research and development operation, our business may be adversely impacted.

A portion 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.

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 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, unauthorized access to our virtual network or the introduction of a virus by our software onto our customers' computers or networks, 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 and financial condition 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 39% of our revenues for the first nine months of 2009, of which approximately 29% and 6% were generated in our EMEA (Europe, Middle East and Africa) and Asia Pacific regions, respectively. Revenues from customers domiciled outside of the United States were 39% of our revenues in 2008, of which approximately 28% and 8% 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 sales and service deployment cycles could require us to incur substantial sales costs that may not result in related revenues.

Our business is characterized by a 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.

We have returned \$20 million and plan to return an additional \$20 million of our cash to our investors, which will decrease our cash resources significantly and may impair our ability to make acquisitions or aggressively fund growth initiatives.

We have announced that we intend to return to our investors an aggregate of \$40 million. In September 2009, we paid a \$20 million extraordinary cash dividend to our stockholders. As we plan to return the remaining \$20 million of this cash, our cash resources will be significantly decreased. During the fourth quarter of 2009, we expect to pay a \$10 million extraordinary cash dividend to our stockholders. We also intend to return an additional \$10 million in capital to our stockholders through a stock repurchase program that extends through March 2011. In the event that the full \$10 million stock repurchase program is not used to repurchase the company's stock by March 31, 2011, we are obligated to dividend to stockholders the remaining balance by April 15, 2011. At September 30, 2009, we had \$50.4 million of cash, cash equivalents and short term investments. Although we believe that we have sufficient cash to operate our company, we will have significantly less cash with which to acquire additional technology or other businesses if the opportunities arise to do so. Further, if our cash flows were to decrease significantly, we will have less cash to support our company through any period of significant negative cash flow, which could cause us to have to decrease our expenditures on research and development and in other areas, which could negatively affect 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 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 into our services. We anticipate that we will continue to license technology from third parties in the future. Licenses from third party technologies 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, which in either case 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.

In periods of worsening economic conditions, our exposure to credit risk, collection risk and payment delinquencies on our accounts receivable significantly increases.

A substantial majority of our outstanding accounts receivables are not secured. In addition, our standard terms and conditions permit payment within a specified number of days following the receipt of our product. While we have procedures to monitor and limit exposure to credit risk on our receivables, there can be no assurance such procedures will effectively limit our collection risk and avoid losses. As economic conditions deteriorate, certain of our customers have faced and may face liquidity concerns and have delayed and may delay or may be unable to satisfy their payment obligations, which would have a material adverse effect on our financial condition and operating results.

Our cash and cash equivalents could be adversely affected if the financial institutions in which we hold our cash and cash equivalents fail.

Our cash and cash equivalents are highly liquid investments with original maturities of three months or less at the time of purchase. We maintain the cash and cash equivalents with reputable major financial institutions. Deposits with these banks exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limits or similar limits in foreign jurisdictions. While we monitor daily the cash balances in the operating accounts and adjust the balances as appropriate, these balances could be impacted if one or more of the financial institutions with which we deposit fails or is subject to other adverse conditions in the financial or credit markets. To date we have experienced no material losses or lack of access to our invested cash or cash equivalents; however, we can provide no assurance that access to our invested cash and cash equivalents will not be impacted by adverse conditions in the financial and credit markets.

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.

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, such as the recently enacted European Union legislation requiring network operators to notify customers of roaming rates prior to incurring roaming charges, 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.

Events or conditions that result in the decrease in travel could adversely affect our business.

If events or conditions occur that cause users of our services to decrease the amount that they travel, this could result in a substantial decrease in the demand for Internet-based communications, including our services. For example, the recent outbreak of the “swine flu” has caused certain governments and agencies to recommend that travel be restricted to that which is necessary, which could decrease the use of our services. In addition, if any further terrorist events were to occur such as those that occurred on September 11, 2001, even on a smaller scale, this too could result in reductions of business-related travel and the use of our services.

Our management team is new to our business and therefore does not have significant experience in running our business.

We hired our current chief executive officer in the fourth quarter of 2008, our current senior vice president, product development in the first quarter of 2009, our current chief financial officer, vice president of marketing and strategy, and general counsel in the second quarter of 2009, and our current senior vice president of worldwide sales in the third quarter of 2009. As a result, our senior management team is relatively new to our business, and must therefore familiarize themselves with our business at the same time at which they are required to perform their general job functions. If our senior management team does not perform as we expect, this would impair our ability to grow our business.

Our ability to realize value from our tax loss carry-forwards is subject to significant uncertainty.

As of December 31, 2008, we had federal and state net operating loss carry-forwards of approximately \$113.7 million and \$80.2 million, respectively, which expire at various dates through 2028. However, our ability to realize value from our tax loss carry-forwards is subject to significant uncertainty.

There can be no assurance that we will have sufficient taxable income in future years to use the net operating loss carry-forwards before they expire. The amount of our net operating loss carry-forwards also has not been audited or otherwise validated by the IRS. The IRS could challenge the amount of our net operating loss carry-forwards, which could result in an increase in our liability for income taxes.

In addition, if we have an “ownership change” as defined in Section 382 of the Internal Revenue Code, our net operating loss carry-forwards generated prior to such an ownership change would be subject to annual limitations, which could reduce, eliminate, or defer the utilization of these losses. As of the date of this report, we do not believe that we have experienced an ownership change as defined under Section 382 resulting from transfer of shares by our existing stockholders. However, pursuant to a stock repurchase program authorized by our Board of Directors, we may buy-back up to \$10 million of our common stock between now and March 31, 2011. This buy-back may result in a change of control as defined by Section 382. Even if the buy-back did not result in a change of control as defined by Section 382, we cannot guarantee that we will not enter into other transactions or that transfers of stock between current and/or new stockholders will not occur, which may result in an ownership change that would limit our ability to use our net operating loss carry-forwards to offset future taxable income.

Due to uncertainty in the application and interpretation of applicable state sales tax laws, we may be exposed to additional sales tax liability.

The application and interpretation of various state sales tax laws to certain of our products and services is uncertain. Accordingly, we may be exposed to additional sales tax liability to the extent various state jurisdictions determine that certain of our products and services are subject to their state’s sales tax. During the third quarter of 2009, we recorded a liability of \$4.8 million, reflecting our best estimate of our potential sales tax liability and associated interest and penalties thereon. While we believe all of our estimates and assumptions are reasonable and will be sustained upon audit, the actual liabilities may be more or less than such estimates, and if so, such liability may negatively impact our financial condition.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Risk

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 U.S. dollar could make the pricing of our services less competitive in foreign markets and therefore could reduce our revenues. We are also generally billed by and pay our foreign network service providers in local currencies. Additionally, in the future, some portion of our revenues and costs may be denominated in foreign currencies. Foreign currency fluctuations are discussed in Foreign exchange losses and other expenses under Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Because iPass conducts business around the world, changes in foreign currency exchange rates can have an effect on the results of operations. In the past, periodically we have entered 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 purchased British Pounds and Euros and were generally settled monthly. The derivative financial instruments were not used for trading or speculative purposes. Gains and losses on forward contracts are included in Foreign exchange losses and other expenses in our Condensed Consolidated Statements of Operations. As of September 30, 2009 and December 31, 2008, we had no outstanding forward contracts. We believe that the impact of a hypothetical decline of 10% in foreign currency exchange rates relative to the U.S. dollar would not be material on our results of operations and financial position.

Interest Rate Risk

As of September 30, 2009, we had cash, cash equivalents, and short-term investments totaling \$50.4 million, as compared to \$68.4 million as of December 31, 2008. Our investment portfolio consists of cash, commercial paper, commercial paper guaranteed by a government program and government securities, generally due within one to two years. All of our instruments are classified as available for sale, and 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.

The following compares the principal amounts of short-term investments by expected maturity as of September 30, 2009 (in thousands):

	Expected Maturity Date for Par Value Amounts For the Year Ended December			As of September 30, 2009	
	2009	2010	2011	Total Cost Value	Total Fair Value
Commercial paper	\$ 2,650	\$ 1,100	\$ —	\$ 3,752	\$ 3,751
Federal agency discount notes	6,900	2,700	—	9,538	\$ 9,551
Total	\$ 9,550	\$ 3,800	\$ —	\$ 13,290	\$ 13,302

The following compares the principal amounts of short-term investments by expected maturity as of December 31, 2008 (in thousands):

Expected Maturity Date for	As of December 31, 2008
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	Par Value Amounts For the Year Ended December 31, 2008	Total Cost Value	Total Fair Value
Commercial paper	\$ 7,750	\$ 7,726	\$ 7,743
Commercial paper guaranteed by a government program	1,650	1,638	1,642
Federal agency discount notes	21,450	21,258	21,417
U.S. Government securities	4,500	4,479	4,507
Total	\$ 35,350	\$ 35,101	\$ 35,309

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, net of tax, 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, do not expect that our disclosure controls and procedures or our internal controls over financial reporting will prevent all errors 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 the information required to be disclosed in the reports that 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 September 30, 2009, 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 September 30, 2009 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 1. Legal Proceedings

We may be subject to various claims and legal actions arising in the ordinary course of business from time to time.

Item 1A. Risk Factors

We include in Part I, Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Risk Factors Affecting Operating Results” 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, 2008, as filed with the SEC on March 16, 2009, have not substantively changed, except for the addition of the following seven risk factors as disclosed under Part I, Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Risk Factors Affecting Operating Results”:

1. “Events or Conditions That Result in the Decrease in Travel Could Adversely Affect Our Business.” - due to the outbreak of the swine flu, which may have the effect of reducing travel and therefore the use of our services.
2. “We have returned \$20 million, and plan to return an additional \$20 million, of our cash to our investors, which will decrease our cash resources significantly and impair our ability to make acquisitions.”
3. “Our management team is new to our business and therefore does not have significant experience in running our business.”
4. “Our ability to realize value from our tax loss carry-forwards is subject to significant uncertainty.”
5. “Due to uncertainty in the application and interpretation of applicable state sales tax laws, we may be exposed to additional sales tax liability.”
6. “Continued poor economic conditions may adversely affect our customers and partners willingness to agree to minimum purchase and resale commitments which may directly impact our ability to predict our revenue in any given period.”
7. “We are developing a new software platform for the delivery of our enterprise mobility services and if this new platform does not achieve market acceptance our business could be harmed.”

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

A special meeting of stockholders was held on August 18, 2009 in Redwood Shores, California. At the meeting, the following two proposals were voted on and approved as follows:

Proposal I

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The stockholders approved amendments to the iPass Inc. 2003 Equity Incentive Plan, iPass Inc. 2003 Non-Employee Directors Plan, iPass Inc. 1999 Stock Option Plan, GRIC Communications, Inc. (formerly Aimquest Corporation) 1997 Stock Option Plan, and GRIC Communications, Inc. 1999 Equity Incentive Plan, as follows:

For	Against	Abstain	Broker Non-Votes
34,865,424	1,106,614	94,318	16,402,695

Proposal II

The stockholders approved the proposed amendments to iPass' Amended and Restated Certificate of Incorporation, as amended, to enable the Board of Directors to effect a reverse stock split, as follows:

For	Against	Abstain
46,669,539	5,732,950	66,562

Item 6. Exhibits

See the Index to Exhibits which follows the signature page of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

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: November 6, 2009

By:

/s/ Steven H. Gatoff

Steven H. Gatoff

Senior Vice President and Chief Financial
Officer (Principal Financial Officer)

INDEX TO EXHIBITS

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation (1)
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation (2)
3.3	Amended and Restated Bylaws (3)
4.1	Reference is made to Exhibits 3.1, 3.2 and 3.3
4.2	Specimen stock certificate (4)
10.1	Offer Letter with Nicholas Hulse dated July 13, 2009(2)
10.2	iPass Inc. 2003 Equity Incentive Plan (5)
10.3	iPass Inc. 2003 Non-Employee Directors Plan (5)
10.4	iPass Inc. 1999 Stock Option Plan (5)
10.5	GRIC Communications, Inc. (formerly Aimquest Corporation) 1997 Stock Option Plan (5)
10.6	GRIC Communications, Inc. 1999 Equity Incentive Plan (5)
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 (Commission No. 000- 50327), filed November 13, 2003, and incorporated herein by reference.

(2) Filed as an exhibit to iPass' Quarterly Report on Form 10-Q (Commission No. 000- 50327), filed August 7, 2009, and incorporated herein by reference.

(3) Filed as an to iPass' Quarterly Report on Form 10-Q (Commission No. 000- 50327), filed August 11, 2008, and incorporated herein by reference.

(4) 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.

(5) Filed as an appendix to iPass' Definitive Proxy Statement (Commission No. 000- 50327), filed July 14, 2009, and incorporated herein by reference.

