NAVISITE INC
Form 10-Q
March 15, 2010

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended January 31, 2010

OR

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

For the transition period from __________to__________

Commission file number: 000-27597

NAVISITE, INC.

(Exact name of registrant as specified in its charter)

Delaware	**52-2137343**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
400 Minuteman Road Andover, Massachusetts	**01810**
(Address of principal executive offices)	(Zip Code)

(978) 682-8300

(Registrant s telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has 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 o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer þ (Do not check if a smaller reporting company)	Smaller Reporting Company o

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

As of March 3, 2009, there were 37,630,124 shares outstanding of the registrant s common stock, par value $.01 per share.

NAVISITE, INC.
TABLE OF CONTENTS
REPORT ON FORM 10-Q
FOR THE QUARTER ENDED JANUARY 31, 2010

Table of Contents

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

NAVISITE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except par value)

	January 31, 2010	July 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 945	$ 10,534
Accounts receivable, less allowance for doubtful accounts of $1,887 and $1,820 at January 31, 2010, and July 31, 2009, respectively	15,940	16,417
Unbilled accounts receivable	1,599	1,361
Prepaid expenses and other current assets	7,937	6,336
Total current assets	26,421	34,648
Property and equipment, net	23,073	32,048
Intangible assets	19,019	22,093
Goodwill	66,566	66,566
Other assets	4,551	6,769
Restricted cash	2,045	1,556
Total assets	$ 141,675	$ 163,680
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Notes payable, current portion	$ 199	$ 10,603
Capital-lease obligations, current portion	2,035	3,040
Accounts payable	8,617	5,375
Accrued expenses and other current liabilities	12,337	11,659
Deferred revenue, deferred other income and customer deposits	7,457	4,947
Total current liabilities	30,645	35,624
Capital-lease obligations, less current portion	477	10,973
Accrued lease-abandonment costs, less current portion	55	96
Deferred tax liability	8,474	7,492
Other long-term liabilities	7,428	7,565
Notes payable, less current portion	100,646	106,154
Total liabilities	147,725	167,904
Series A Convertible Preferred Stock, $0.01 par value; Authorized 5,000 shares; Issued and outstanding: 3,888 at January 31, 2010, and 3,664 at July 31, 2009	32,703	30,879
Commitments and contingencies (Note 11)		
Stockholders deficit:		
Common stock, $0.01 par value; Authorized 395,000 shares; Issued and outstanding: 36,443 at January 31, 2010, and 35,911 at July 31, 2009	364	359

Accumulated other comprehensive loss	(942)	(1,024)
Additional paid-in capital	485,721	485,136
Accumulated deficit	(523,896)	(519,574)
Total stockholders deficit	(38,753)	(35,103)
Total liabilities and stockholders deficit	$ 141,675	$ 163,680

See accompanying notes to condensed consolidated financial statements.

Table of Contents

NAVISITE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	January 31, 2010	January 31, 2009	January 31, 2010	January 31, 2009
Revenue, net	$37,617	$37,907	$74,331	$77,989
Revenue, related parties	74	111	168	194
Total revenue, net	37,691	38,018	74,499	78,183
Cost of revenue, excluding depreciation and amortization and restructuring charge	19,063	20,129	37,745	41,931
Depreciation and amortization	5,665	5,698	11,219	11,430
Restructuring charge		(5)		209
Cost of revenue	24,728	25,822	48,964	53,570
Gross profit	12,963	12,196	25,535	24,613
Operating expenses:				
Selling and marketing	5,455	5,034	10,445	10,695
General and administrative	5,355	5,584	10,910	11,323
Restructuring charge		(82)		180
Total operating expenses	10,810	10,536	21,355	22,198
Income from operations	2,153	1,660	4,180	2,415
Other income (expense):				
Interest income	4	21	11	25
Interest expense	(3,778)	(3,905)	(7,755)	(7,173)
Other income (expense), net	182	232	280	693
Loss from operations before income taxes	(1,439)	(1,992)	(3,284)	(4,040)
Income taxes	(499)	(499)	(1,038)	(998)
Net loss	(1,938)	(2,491)	(4,322)	(5,038)
Accretion of preferred stock dividends	(925)	(825)	(1,824)	(1,627)
Net loss attributable to common stockholders	$ (2,863)	$ (3,316)	$ (6,146)	$ (6,665)
Basic and diluted net loss per common share attributable to common stockholders	$ (0.08)	$ (0.09)	$ (0.17)	$ (0.19)
Basic and diluted weighted average number of common shares outstanding	36,269	35,457	36,136	35,401
Stock-based compensation expense:				
Cost of revenue	$ 287	$ 312	$ 581	$ 691
Selling and marketing	205	134	380	316
General and administrative	338	322	740	730

Restructuring charge		(32)		19
Total stock-based compensation expense	$ 830	$ 736	$ 1,701	$ 1,756

See accompanying notes to condensed consolidated financial statements.

Table of Contents

NAVISITE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Six Months Ended	
	January 31, 2010	January 31, 2009
Cash flows from operating activities:		
Net loss	$ (4,322)	$ (5,038)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	11,617	11,776
Loss on disposal of assets	85	
Mark to market value for interest-rate cap	34	61
Stock-based compensation	1,701	1,756
Provision for bad debts	230	339
Deferred income-tax expense	982	998
Changes in operating assets and liabilities:		
Accounts receivable	152	(1,748)
Unbilled accounts receivable	(243)	(19)
Prepaid expenses and other current assets, net	(1,908)	4,283
Long-term assets	2,195	94
Accounts payable	3,329	(1,675)
Accrued expenses, deferred revenue and customer deposits	4,279	156
Long-term liabilities	(1,050)	1,062
Net cash provided by operating activities	17,081	12,045
Cash flows from investing activities:		
Purchase of property and equipment	(8,086)	(6,204)
Releases of (transfers to) restricted cash	(235)	(76)
Net cash used for investing activities	(8,321)	(6,280)
Cash flows from financing activities:		
Proceeds from exercise of stock options and employee stock purchase plan	714	181
Proceeds from notes payable, net	2,573	3,477
Repayment of notes payable	(19,696)	(6,062)
Debt-issuance costs		(1,184)
Payments on capital-lease obligations	(1,927)	(2,139)
Net cash used for financing activities	(18,336)	(5,727)
Effect of exchange-rate changes on cash and cash equivalents	(13)	(341)
Net decrease in cash and cash equivalents	(9,589)	(303)
Cash and cash equivalents, beginning of period	10,534	3,261
Cash and cash equivalents, end of period	$ 945	$ 2,958

Supplemental disclosure of cash-flow information:				
Cash paid for interest	$	6,436	$	5,941
Supplemental disclosure of non-cash financing transactions:				
Equipment and leasehold improvements acquired under capital leases	$	1,462	$	2,068
Accretion of preferred stock	$	1,824	$	1,627

See accompanying notes to condensed consolidated financial statements.

Table of Contents

NAVISITE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) Description of Business

NaviSite, Inc. (**NaviSite**, the **Company**, **we**, **us** or **our**), provides IT hosting, outsourcing and professional se Leveraging our set of technologies and subject-matter expertise, we deliver cost-effective, flexible solutions that provide responsive and predictable levels of service for our customers businesses. Over 1,400 companies across a variety of industries rely on NaviSite to build, implement and manage their mission-critical systems and applications. NaviSite is a trusted advisor committed to ensuring the long-term success of our customers business applications and technology strategies. At January 31, 2010, NaviSite had 15 state-of-the-art data centers in the United States and United Kingdom and a network operations center (**NOC**) in India. Substantially all revenue is generated from customers in the United States.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts and operations of NaviSite, Inc., and our wholly-owned subsidiaries. These statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the **SEC**) regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by U.S. generally accepted accounting principles (**U.S. GAAP**) for complete financial statements. You should therefore read them in conjunction with the audited consolidated financial statements included in our annual report on Form 10-K filed on October 27, 2009. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting only of those of a normal recurring nature, necessary for a fair presentation of our financial position, results of operations, comprehensive income and cash flows at the dates and for the periods indicated. The results of operations for the three and six months ended January 31, 2010, are not necessarily indicative of the results expected for the remainder of the fiscal year ending July 31, 2010.

All significant intercompany accounts and transactions have been eliminated in consolidation.

(b) Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires us 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 financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates. Significant estimates that we made include the useful lives of fixed assets and intangible assets, the recoverability of long-lived assets, the collectability of receivables, the determination and valuation of goodwill and acquired intangible assets, the fair value of preferred stock, the determination of revenue and related revenue reserves, the determination of stock-based compensation and the determination of the deferred-tax-valuation allowance.

(c) Revenue Recognition

Revenue, net, consists of monthly fees for application-management services, managed-hosting solutions, co-location and professional services. Reimbursable expenses charged to clients are included in revenue, net, and cost of revenue. Application management, managed-hosting solutions and co-location services are billed and recognized as revenue over the term of the contract, generally one to five years. Installation and up-front fees associated with application management, managed-hosting solutions and co-location services are billed at the time that we provide the installation service and recognized as revenue over the term of the related contract. The direct and incremental costs associated with installation and setup activities are capitalized and expensed over the greater of the term of the related contract or the expected customer life. Revenue from payments received in advance of providing services is deferred until the period in which such services are delivered.

Revenue from professional services is recognized as services are delivered, for time- and materials-type contracts, and using the percentage-of-completion method, for fixed-price contracts. For fixed-price contracts, progress towards completion is measured by comparing the total hours incurred on the project to date to the total estimated hours required upon completion of the project. When current contract estimates indicate that a loss is probable, a provision is made for the total anticipated loss in the current period. Contract losses are determined to be the amount by which the estimated service-delivery costs of the contract exceed the estimated revenue that will be generated by the contract. Unbilled accounts receivable represent revenue for services performed that have not yet been billed as of the balance-sheet date. Billings in excess of revenue recognized are recorded as deferred revenue until the applicable revenue-recognition criteria are met.

Table of Contents

Effective August 1, 2009, we adopted Accounting Standards Update (**ASU**) No. 2009-13, "*Multiple-Deliverable Revenue Arrangements*, which amends FASB Accounting Standards Codification (**ASC**) Topic 605, *Revenue Recognition*. ASU 2009-13 amends FASB ASC Topic 605 to eliminate the residual method of allocation for multiple-deliverable revenue arrangements, and requires that arrangement consideration be allocated at the inception of an arrangement to all deliverables using the relative selling price method. The ASU also establishes a selling price hierarchy for determining the selling price of a deliverable, which includes (1) vendor-specific objective evidence, if available, (2) third-party evidence, if vendor-specific objective evidence is not available, and (3) estimated selling price, if neither vendor-specific nor third-party evidence is available. Additionally, ASU 2009-13 expands the disclosure requirements related to a vendor s multiple-deliverable revenue arrangements. This guidance is effective for us on August 1, 2010; however, we have elected to adopt early, as permitted by the guidance. As such, we have prospectively applied the provisions of ASU 2009-13 to all revenue arrangements entered into or materially modified after August 1, 2009.

In accordance with ASU 2009-13, we allocate arrangement consideration to each deliverable in an arrangement based on its relative selling price. We determine selling price using vendor-specific objective evidence (**VSOE**), if it exists; otherwise, we use third-party evidence (**TPE**). If neither VSOE nor TPE of selling price exists for a unit of accounting, we use estimated selling price (**ESP**).

VSOE is generally limited to the price charged when the same or similar product is sold separately. If a product or service is seldom sold separately, it is unlikely that we can determine VSOE for the product or service. We define VSOE as a median price of recent standalone transactions that are priced within a narrow range, as defined by us.

TPE is determined based on the prices charged by our competitors for a similar deliverable when sold separately. It may be difficult for us to obtain sufficient information on competitor pricing to substantiate TPE and therefore we may not always be able to use TPE.

If we are unable to establish selling price using VSOE or TPE, and the order was received or materially modified after our ASU 2009-13 implementation date of August 1, 2009, we will use ESP in our allocation of arrangement consideration. The objective of ESP is to determine the price at which we would transact if the product or service were sold by us on a standalone basis. Our determination of ESP involves a weighting of several factors based on the specific facts and circumstances of the arrangement. Specifically, we consider the cost to produce or provide the deliverable, the anticipated margin on that deliverable, the selling price and profit margin for similar parts or services, our ongoing pricing strategy and policies, the value of any enhancements that have been built into the deliverable and the characteristics of the varying markets in which the deliverable is sold.

We plan to analyze the selling prices used in our allocation of arrangement consideration at a minimum on an annual basis. Selling prices will be analyzed on a more frequent basis if a significant change in our business necessitates a more timely analysis or if we experience significant variances in our selling prices.

Each deliverable within a multiple-deliverable revenue arrangement is accounted for as a separate unit of accounting under the guidance of ASU 2009-13 if both of the following criteria are met: (1) the delivered item or items have value to the customer on a standalone basis and (2) for an arrangement that includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially in our control. We consider a deliverable to have standalone value if we sell this item separately or if the item is sold by another vendor or could be resold by the customer. Further, our revenue arrangements generally do not include a general right of return relative to delivered products.

Deliverables not meeting the criteria for being a separate unit of accounting are combined with a deliverable that does meet that criterion. The appropriate allocation of arrangement consideration and recognition of revenue is then determined for the combined unit of accounting.

During the first six months of fiscal year ending July 31, 2010, the adoption of ASU 2009-13 had no impact.

(d) Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of a business enterprise during the reporting period from transactions and other events and circumstances from non-owner sources. We record the components of comprehensive income (loss), primarily foreign-currency-translation adjustments, in our condensed consolidated balance sheets as a component of stockholders deficit, Accumulated other comprehensive loss. For the three and six months ended January 31, 2010, comprehensive loss totaled approximately $1.9 million and $4.2 million, respectively. For the three and six months ended January 31, 2009, comprehensive loss totaled approximately $3.1 million and $6.7 million, respectively.

(e) Basic and Diluted Net Loss per Common Share

Basic net loss per share is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted net loss per share is computed using the weighted average number of common and dilutive common-equivalent shares outstanding during the period. We utilize the treasury-stock method for options, warrants and non-vested shares and the if-converted method for convertible preferred stock and notes, unless such amounts are anti-dilutive.

The following table sets forth common-stock equivalents that are not included in the calculation of diluted net loss per share available to common stockholders because to do so would be anti-dilutive for the periods indicated.

	Three Months Ended January 31, 2010	Three Months Ended January 31, 2009	Six Months Ended January 31, 2010	Six Months Ended January 31, 2009
Common stock options	592,817		568,942	84,151
Common stock warrants	1,194,424	1,170,541	1,194,326	1,191,407
Non-vested stock	262,787	32,954	235,601	50,440
Series A Convertible Preferred Stock	3,952,186	3,518,807	3,952,186	3.518,807
Employee Stock Purchase Plan	8,375	56,501	5,728	300,580
Total	6,010,589	4,778,803	5,956,783	5,145,385

(f) Recent Accounting Pronouncements

In June 2009 the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification(*tm) *and the Hierarchy of Generally Accepted Accounting Principles A Replacement of FASB Statement No. 162*. SFAS 168 established the FASB Accounting Standards Codification (the **Codification**) as the single source of authoritative nongovernmental U.S. GAAP and was launched on July 1, 2009. The Codification does not change current U.S. GAAP but is intended to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. All existing accounting-standard documents are to be superseded, and all accounting literature excluded from the Codification is to be considered nonauthoritative. We adopted the Codification beginning with the interim period ended October 31, 2009. There was no impact on our financial position or results of operations.

In conjunction with the issuance of SFAS 168, the FASB also issued ASU No. 2009-1, *Topic 105 Generally Accepted Accounting Principles* (**ASU 2009-1**), which includes SFAS 168 in its entirety as a transition to the ASC. ASU 2009-1 and is effective for interim and annual periods ending after September 15, 2009 and did not have an impact on the Company s financial position or results of operations but changed the referencing system for accounting standards.

Certain of the following pronouncements were issued prior to the issuance of the ASC and adoption of the ASUs. For such pronouncements, citations to the applicable Codification by Topic, Subtopic and Section are provided where applicable in addition to the original standard type and number.

Effective August 1, 2009, we adopted ASU No. 2009-13, *Multiple-Deliverable Revenue Arrangements* (**ASU 2009-13**), which amends FASB ASC Topic 605, *Revenue Recognition.* ASU 2009-13 amends the FASB ASC to eliminate the residual method of allocation for multiple-deliverable revenue arrangements, and requires that arrangement consideration be allocated at the inception of an arrangement to all deliverables using the relative selling price method. The ASU also establishes a selling price hierarchy for determining the selling price of a deliverable, which includes (1) vendor-specific objective evidence, if available, (2) third-party evidence, if vendor-specific objective evidence is not available, and (3) estimated selling price, if neither vendor-specific nor third-party evidence is available. Additionally, ASU 2009-13 expands the disclosure requirements related to a vendor s multiple-deliverable revenue arrangements. This guidance is effective for us on August 1, 2010; however, we have elected to early adopt as permitted by the guidance. As such, we have prospectively applied the provisions of ASU 2009-13 to all revenue arrangements entered into or materially modified after August 1, 2009. During the first six months of the fiscal year ending July 31, 2010 the adoption of ASU 2009-13 had no impact.

In November 2008 the SEC issued for comment a proposed roadmap regarding the potential use by U.S. issuers of financial statements prepared in accordance with International Financial Reporting Standards (**IFRS**). IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board (the **IASB**). Under the proposed roadmap, in fiscal 2015 we could be required to prepare financial statements in accordance with IFRS. The SEC will make a determination in 2011 regarding the mandatory adoption of IFRS. We are currently assessing the impact that this change would have on our consolidated financial statements, and we will continue to monitor the development of the potential implementation of IFRS.

Effective August 1, 2009, we adopted FASB Staff Position (**FSP**) No. 142-3, *Determination of the Useful Life of Intangible Assets*, which was primarily codified into Topic 350 *Intangibles Goodwill and Other* (**FASB ASC 350** in the FASB ASC. This guidance amends the factors that should be considered in developing renewal or extension assumptions used to determine the estimated useful life of a recognized intangible asset and requires enhanced related disclosures. FASB ASC 350 improves the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. This guidance must be applied prospectively to all intangible assets acquired as of and subsequent to fiscal years beginning after December 15, 2008. This guidance became effective for us on August 1, 2009. Although future transactions involving intangible assets may be affected by this guidance, it did not impact our financial position or results of operations as we did not acquire any intangible assets during the six months ended January 31, 2010.

Effective August 1, 2009, we adopted FSP No. 107-1 and APB Opinion 28-1, *Interim Disclosures about Fair Value of Financial Instruments,* which is now part of FASB ASC 825, *Financial Instruments* (**FASB ASC 825**). FASB ASC 825 requires disclosures about fair value of financial instruments for interim and annual reporting periods and is effective for interim reporting periods ending after June 15, 2009. Such adoption did not have a material impact on our disclosures, financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*, which is now part of FASB ASC 805, *Business Combinations* (**FASB ASC 805**), which requires most identifiable assets, liabilities, non-controlling interests and goodwill acquired in a business combination to be recorded at full fair value. Under FASB ASC 805 all business combinations will be accounted for under the acquisition method. Significant changes from current guidance resulting from FASB ASC 805 include, among others, the requirement that contingent assets, liabilities and consideration be recorded at estimated fair value as of the acquisition date, with any subsequent changes in fair value charged or credited to earnings. Further, acquisition-related costs are to be expensed rather than treated as part of the acquisition. FASB ASC 805 is effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We will apply the provisions of FASB ASC 805 to any acquisitions after July 31, 2009. The impact of this standard, if any, will not be known until the consummation of a business combination under the new standard.

In August 2009, the FASB issued ASU No. 2009-05, *Measuring Liabilities at Fair Value* (**ASU 2009-05**), which amends ASC Topic 820 , *Fair Value Measurements and Disclosures.* ASU 2009-05 provides clarification and guidance regarding how to value a liability when a quoted price in an active market is not available for that liability. Changes to the FASB ASC as a result of this update were effective for us on November 1, 2009. The adoption of these changes did not have a material effect on our financial position or results of operations.

(3) Reclassifications

Certain fiscal-year-2009 amounts have been reclassified to conform to the current-year presentation, including the results of America s Job Exchange, our employment-services website (**AJE**), which were originally classified as a discontinued operation during the first three quarters of fiscal 2009. During the fourth quarter of fiscal 2009, we determined that it was no longer probable that a transaction would be completed within one year and therefore have reclassified AJE operations back into continuing operations for the previously reported period. AJE s revenue for the three and six-month periods ended January 31, 2009, were $0.4 million and $0.7 million, respectively.

(4) Subsequent Events

Effective July 2009, we adopted the provisions of the FASB-issued SFAS No. 165, *Subsequent Events,* which is now part of FASB ASC 855, *Subsequent Events* (**FASB ASC 855**). FASB ASC 855 establishes general standards of accounting for, and disclosure of, events that occur after the balance-sheet date but before financial statements are issued or are available to be issued. In accordance with FASB ASC 855, we have evaluated subsequent events through the date of issuance of our consolidated financial statements. During this period, other than the netASPx asset sale and the amendment to our Credit Agreement, as discussed in footnote 14, Subsequent Events, we did not have any other material subsequent events.

(5) Restructuring Charge

During the three months ended October 31, 2008, we initiated the restructuring of our professional-services organization in an effort to realign resources. As a result of this initiative, we terminated several employees resulting in an initial restructuring charge for

Table of Contents

severance and related costs of $0.5 million. This initial restructuring charge was adjusted during fiscal year 2009 to reflect the reduction of future payments of approximately $0.1 million due under the plan. The balance of $0.3 million at October 31, 2008, was included in Accrued expenses and other current liabilities in our condensed consolidated balance sheets. As of July 31, 2009, there were no future obligations.

(6) Property and Equipment

Property and equipment at January 31, 2010, and July 31, 2009, are summarized as follows:

	January 31, 2010	July 31, 2009
	(In thousands)	
Office furniture and equipment	$ 4,241	$ 4,208
Computer equipment	82,799	75,766
Software licenses	16,240	15,798
Leasehold improvements	15,050	25,838
	118,330	121,610
Less: Accumulated depreciation and amortization	(95,257)	(89,562)
Property and equipment, net	$ 23,073	$ 32,048

The estimated useful lives of our property and equipment are as follows: office furniture and equipment, five years; computer equipment, three years; software licenses, three years or the life of the license; and leasehold improvements, the lesser of the lease term or the asset s estimated useful life.

On January 29, 2010, we signed a lease amendment to shorten the lease term on one of our data centers from 10-years to 7-years thereby changing the accounting treatment for this lease from a capital lease to an operating lease. As a result of this lease amendment, our capital lease obligations were reduced by $10.5 million and the corresponding leasehold improvement balances declined $9.4 million from the reported balances as of July 31, 2009. See additional discussion regarding this matter in footnote 13, Related-Party Transactions.

(7) Goodwill and Intangible Assets

	(In thousands)
Goodwill as of July 31, 2009	$ 66,566
Adjustments to goodwill	
Goodwill as of January 31, 2010	$ 66,566

Intangible assets, net, consisted of the following:

	January 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(In thousands)	
Customer lists	$ 39,392	$ (28,029)	$ 11,363
Customer-contract backlog	14,600	(8,739)	5,861
Developed technology	3,140	(1,776)	1,364
Vendor contracts	700	(700)	

Trademarks	670		(276)		394
Non-compete agreements	206		(169)		37
Intangible assets, net	$ 58,708	$	(39,689)	$	19,019

	July 31, 2009				
	Gross Carrying Amount		Accumulated Amortization		Net Carrying Amount
			(In thousands)		
Customer lists	$ 39,392	$	(26,498)	$	12,894
Customer-contract backlog	14,600		(7,619)		6,981
Developed technology	3,140		(1,506)		1,634
Vendor contracts	700		(637)		63
Trademarks	670		(220)		450
Non-compete agreements	206		(135)		71
Intangible assets, net	$ 58,708	$	(36,615)	$	22,093

Table of Contents

Intangible-asset amortization expense for the three and six-months ended January 31, 2010 aggregated $1.5 million and $3.1 million, respectively and for the three and six-months ended January 31, 2009 was $1.8 million and $3.7 million, respectively. Intangible assets are being amortized over estimated useful lives ranging from two to eight years.

The amount reflected in the table below for fiscal year 2010 includes year-to-date amortization. Amortization expense related to intangible assets for the next five years is projected to be as follows:

Year Ending July 31,	**(In thousands)**
2010	$ 6,068
2011	$ 5,921
2012	$ 5,776
2013	$ 2,307
2014	$ 1,869

(8) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

	January 31 2010	**July 31, 2009**
	(In thousands)	
Accrued payroll, benefits and commissions	$ 4,887	$ 4,086
Accrued accounts payable	3,044	2,408
Accrued interest	1,520	1,837
Accrued lease-abandonment costs, current portion	190	332
Accrued sales/use, property and miscellaneous taxes	587	421
Accrued legal	277	636
Other accrued expenses and current liabilities	1,832	