

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

AMENDMENT NO. 1 TO
FORM 10-Q/A

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2002

OR

☐ 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 0-25040

APPLIX, INC.
(Exact name of registrant as specified in its charter)

MASSACHUSETTS
(State or other jurisdiction of
incorporation or organization)

04-2781676
(I.R.S. Employer
Identification Number)

289 Turnpike Road, Westborough, Massachusetts 01581
(Address of principal executive offices)

(508) 870-0300
(Registrant's telephone number)

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 ☒ No ☐

As of May 6, 2002, there were 12,186,106 shares of the Registrant's common stock, \$0.0025 par value, outstanding.

Explanatory Note

This amendment No. 1 on Form 10-Q/A to the Registrant's Quarterly Report on Form 10-Q originally filed with the Commission on May 15, 2002 is being filed for the purpose of restating the Registrant's Condensed Consolidated Financial Statements as of March 31, 2002 and for the three months then ended, and restating the related Notes to Condensed Consolidated Financial Statements. On February 28, 2003, the Company announced that it had identified an error in its revenue reported for two valid customer agreements, revenue under one of which was originally recognized in December 2001. As a result, the Company is restating its financial statements to defer \$898,000 in license revenue from the quarter ended December 31, 2001 and to recognize that revenue ratably over the one-year term of the agreement beginning in January 2002. See Note 2 of the Notes to Condensed Consolidated Financial Statements for a summary of the significant effects of the restatement. This amendment also reflects an expanded revenue recognition policy disclosure under the Company's Summary of Significant Accounting Policies in the Notes to Condensed Consolidated Financial Statements. The Company has also corrected the classification of certain amounts in the Condensed Consolidated Statement of Operations and Condensed Consolidated Statements of Cash Flows for the quarter ended March 31, 2002.

This amendment does not reflect events occurring after the filing of the original Quarterly Report on Form 10-Q on May 15, 2002, or modify or update the disclosures presented in the original Quarterly Report on Form 10-Q, except to reflect the revisions as described above.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Balance Sheet

Condensed Consolidated Statements of Operations

Condensed Consolidated Statements of Cash Flows

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Ex-99.1 Certification of Chief Executive Officer

Ex-99.2 Certification of Chief Financial Officer

APPLIX, INC.
Form 10-Q/A
For the Quarterly Period Ended March 31, 2002

Table of Contents

	<u>Page No.</u>
 <i>Part I — Financial Information</i>	
 Item 1. Condensed Consolidated Financial Statements (unaudited):	
Condensed Consolidated Balance Sheets as of March 31, 2002 and December 31, 2001	3
Condensed Consolidated Statements of Operations for the three months ended March 31, 2002 and 2001	4
Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2002 and 2001	5
Notes to Condensed Consolidated Financial Statements	6
 Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	 12
<i>Part II — Other Information</i>	 24
 Item 6. Exhibits and Reports on Form 8-K	 24
 <i>Signature</i>	 25
<i>Certifications</i>	25

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Certain information contained in this Quarterly Report on Form 10-Q/A is forward-looking in nature. All statements included in this Quarterly Report on Form 10-Q or made by management of Applix, Inc. (“Applix” or the “Company”) and its subsidiaries, other than statements of historical facts, are forward-looking statements. Examples of forward-looking statements include statements regarding Applix’s future financial results, operation results, business strategies, projected costs, products, competitive positions and plans and objectives of management for future operations. In some cases, forward-looking statements can be identified by terminology such as “may”, “will”, “should”, “would”, “expect”, “plan”, “anticipates”, “intend”, “believes”, “estimates”, “predicts”, “potential”, “continue”, or the negative of these terms or other comparable terminology. Any expectations based on these forward-looking statements are subject to risks and uncertainties and other important factors, including those discussed in the section below entitled “Risk Factors”. These and many other factors could affect Applix’s future financial and operating results, and could cause actual results to differ materially from expectations based on forward-looking statements made in this document or elsewhere by Applix or on its behalf. Applix does not undertake an obligation to update its forward-looking statements to reflect future events or circumstances.

PART I. FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Applix, Inc.
Condensed Consolidated Balance Sheet
(in thousands, except share and per share data)
(unaudited)

	March 31, 2002 (Restated)	December 31, 2001
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,320	\$ 8,228
Accounts receivable, less allowance for doubtful accounts of \$1,462 and \$1,446	7,013	7,202
Prepaid expenses and other current assets	1,834	1,672
Total current assets	17,167	17,102
Restricted cash	1,050	1,050
Property and equipment, at cost:	14,439	14,251
Less accumulated amortization and depreciation	(11,954)	(11,722)
	2,485	2,529
Capitalized software costs, net of accumulated amortization of \$1,796 and \$1,598	1,590	1,042
Goodwill, net of accumulated amortization of \$1,084	1,117	1,117
Intangible assets net of accumulated amortization of \$250 and \$186	1,250	1,314
Other assets	791	784
Total assets	\$ 25,450	\$ 24,938
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 1,720	\$ 2,137
Accrued expenses	6,409	6,898
Deferred revenue	7,949	6,711
Total current liabilities	16,078	15,746
Long term liabilities	614	709
Commitments and contingencies (Note 11)	—	—
Stockholders' equity:		
Preferred stock, \$.01 par value; 1,000,000 shares authorized; none issued	—	—
Common stock, \$.0025 par value; 30,000,000 shares authorized; 12,468,598 and 12,320,096 shares issued	31	31
Additional paid in capital	49,404	49,212
Treasury stock, 306,198 shares, at cost	(1,077)	(1,077)
Accumulated deficit	(37,930)	(38,060)
Accumulated other comprehensive loss	(550)	(503)
Notes receivable from stockholders	(1,120)	(1,120)
Total stockholders' equity	8,758	8,483
Total liabilities and stockholders' equity	\$ 25,450	\$ 24,938

See accompanying notes to condensed consolidated financial statements.

Applix, Inc.
Condensed Consolidated Statements of Operations
(in thousands, except per share data)
(unaudited)

	Three Months Ended March 31, 2002 (Restated)	March 31, 2001
Revenues:		
Software license	\$ 4,603	\$ 5,814
Professional services and maintenance	4,904	5,513
	<u>9,507</u>	<u>11,327</u>
Cost of revenues:		
Software license	346	211
Professional services and maintenance	2,616	4,248
	<u>2,962</u>	<u>4,459</u>
Gross margin	6,545	6,868
Operating expenses:		
Product development	1,081	2,108
Sales and marketing	3,416	7,015
General and administrative	1,325	1,123
Compensation expenses and amortization of acquired intangible assets (Note 7)	578	—
	<u>6,400</u>	<u>10,246</u>
Operating income (loss)	145	(3,378)
Interest and other income, net	49	112
	<u>194</u>	<u>(3,266)</u>
Income (loss) from continuing operations before income taxes	194	(3,266)
Provision for income taxes	64	44
	<u>130</u>	<u>(3,310)</u>
Income (loss) from continuing operations	130	(3,310)
Discontinued operations	—	718
	<u>130</u>	<u>(2,592)</u>
Net income (loss)	\$ 130	\$ (2,592)
Net income (loss) per share, basic and diluted		
Continuing operations	\$ 0.01	\$ (0.28)
Discontinuing operations	—	0.06
	<u>\$ 0.01</u>	<u>\$ (0.22)</u>
Total income (loss) per share	\$ 0.01	\$ (0.22)
Weighted average number of basic and diluted shares outstanding	12,115	11,689

See accompanying notes to condensed consolidated financial statements.

Applix, Inc.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Three Month Ended March 31, 2002 (Restated)	2001
Cash flows from operating activities:		
Net loss	\$ 130	\$ (2,592)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	232	154
Amortization	262	241
Provision for doubtful accounts	16	53
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	98	(199)
Sale of accounts receivable	443	
(Increase) decrease in other assets	(176)	263
Increase (decrease) in accounts payable	(417)	684
(Decrease) in accrued liabilities	(690)	(1,473)
Increase in deferred revenue	1,238	942
Cash (used in) provided by operating activities	1,136	(1,927)
Cash flows from investing activities:		
Property and equipment expenditures	(188)	(40)
Capitalized software costs	(746)	(175)
Cash received from purchase of Dynamic Decisions Pty Limited	—	17
Net proceeds from sale of discontinued operation	—	1,300
Cash provided by (used in) investing	(934)	1,102
Cash flows from financing activities:		
Proceeds from issuance of stock under stock plans	192	526
Proceeds from short-term borrowing	201	—
Payment on short-term borrowing	(368)	
Cash provided by financing activities	25	526
Effect of exchange rate changes on cash	(135)	(64)
Net increase (decrease) in cash and cash equivalents	92	(363)
Cash and cash equivalents at beginning of period	8,228	12,546
Cash and cash equivalents at end of period	\$8,320	\$12,183
Supplemental disclosure of cash flow information		
Stock issued for acquisition of Dynamic Decisions Pty Limited	\$ —	\$ 227
Note payable issued for acquisition of Dynamic Decisions Pty Limited	\$ —	\$ 1,549

See accompanying notes to condensed consolidated financial statements.

APPLIX, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. The Company

Applix, Inc. (“Applix” or the “Company”) is a global provider of enterprise performance management solutions that include interactive planning, customer relationship management (“CRM”) and analytics and business intelligence. These combined products represent one principal business segment, which Applix reports as its continuing operations. The Company’s iCRM and iTM1 applications are designed and developed to allow businesses to capture information from across the extended enterprise and enable continual marketplace responsiveness. These applications are adaptable, scalable, and real-time and support unique, complex and disparate business processes, providing analysis, planning, measurement and response to changing customer requirements and business dynamics. On March 30, 2001, the Company sold its Vistasource business unit, previously reported as the Linux Division. This unit has been reported as a discontinued operation for all periods presented. The Company is currently developing a new integrated product known as Applix Integra. Through the Company’s extensive product development efforts, Applix Integra will combine its two existing products lines, Applix iCRM and Applix iTM1, to provide a single analytics solution for both the back-office and front-office to its customers.

2. Revision of Financial Statements to Account for Revenue Recognition

As discussed in Note 3, the Company recognizes revenues from software licensing and service fees in accordance with Statement of Position (“SOP”) 97-2 and SOP 98-9 (as defined in Note 3). On February 28, 2003, the Company announced that it had identified an error in its revenue reported for two valid customers agreements, revenue under one of which was originally recognized in December 2001. As a result, the Company is restating its financial statements to defer \$898,000 in license revenue from the quarter ended December 31, 2001 and to recognize that revenue ratably over the one-year term of the agreement beginning in January 2002.

A summary of the significant effects of the revision is as follows:

	Three months ended March 31, 2002
	(in thousands except for per share data)
Software license revenues as previously reported	\$4,379
Software license revenues as restated	4,603
Net income (loss) as previously reported	(94)
Net income (loss) as restated	130
Net income (loss) per share, basic and diluted, as previously reported	\$(0.01)
Net income (loss) per share, basic and diluted, as restated	\$ 0.01

	March 31, 2002	December 31, 2001
Deferred revenue as previously reported	\$ 7,275	\$ 5,813
Deferred revenue as restated	7,949	6,711
Accumulated deficit as previously reported	\$(37,256)	\$(37,162)
Accumulated deficit as restated	\$(37,930)	\$(38,060)

3. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) including instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles (“GAAP”) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ended December 31, 2002. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2001.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all of its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated.

Revenue Recognition

The Company generates revenues mainly from licensing the rights to use its software products and providing services. The Company sells products primarily through a direct sales force, indirect channel partners and Original Equipment Manufacturers (“OEMs”). The Company accounts for software revenue transactions in accordance with Statement of Position (SOP) (“SOP 97-2”) “Software Revenue Recognition,” as amended. Revenues from software arrangements are recognized when:

- Persuasive evidence of an arrangement exists, which is typically when a non-cancelable sales and software license agreement has been signed, or purchase order has been received;
- Delivery has occurred. If the assumption by the customer of the risks and rewards of its licensing rights occurs upon the delivery to the carrier (FOB Shipping Point), then delivery occurs upon shipment (which is typically the case). If assumption of such risks and rewards occurs upon delivery to the customer (FOB Destination), then delivery occurs upon receipt by the customer. In all instances delivery includes electronic delivery of authorization keys to the customer;
- The customer’s fee is deemed to be fixed or determinable and free of contingencies or significant uncertainties;
- Collectibility is probable; and
- Vendor specific objective evidence of fair value exists for all undelivered elements, typically maintenance and professional services.

The Company also uses the residual method under SOP 98-9 (“SOP 98-9”) “Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions”. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognized as revenue, assuming all other conditions for revenue recognition have been satisfied. Substantially all of the Company’s product revenue is recognized in this manner. If the Company cannot determine the fair value of any undelivered element included in an arrangement, the Company will defer revenue until all elements are delivered, until services are performed or until fair value of the undelivered elements can be objectively determined. In circumstances where the Company offers significant and incremental fair value discounts for future purchases of other software products or services to its customers as part of an arrangement, utilizing the residual method the Company defers the value of the discount and recognizes such discount to revenue as the related product or service is delivered.

As part of an arrangement, end-user customers typically purchase maintenance contracts as well as professional services from the Company. Maintenance services include telephone and Web based support as well as rights to unspecified upgrades and enhancements, when and if the Company makes them generally available. Substantially all of the Company’s software license revenue is earned from perpetual licenses of off-the-shelf software requiring no modification or customization. Therefore, professional services are deemed to be non-essential to the functionality of the software and typically are for implementation planning, loading of software, training, building simple interfaces and running test data.

Revenues from maintenance services are recognized ratably over the term of the maintenance contract period, which is typically one year, based on vendor specific objective evidence of fair value. Vendor specific objective evidence of fair value is based upon the amount charged when maintenance is purchased separately, which is typically the contract’s renewal rate.

Revenues from professional services are generally recognized based on vendor specific objective evidence of fair value when: (1) a non-cancelable agreement for the services has been signed or a customer’s purchase order has been received; and (2) the professional services have been delivered. Vendor specific objective evidence of fair value is based upon the price charged when these services are sold separately and is typically an hourly rate for professional services and a per class rate for training. Revenues for consulting services are generally recognized on a time and material basis as services are delivered. Based upon the Company’s experience in completing product implementations, it has determined that these services are typically delivered within 3 months or less subsequent to the contract signing.

The Company’s license arrangements with its end-user customers and indirect channel partners do not include any rights of return or price protection, nor do arrangements with indirect channel partners include any sell-through contingencies. In those instances where the Company has granted a customer rights to when-and-if available additional products, the Company recognizes the arrangement fee ratably over the term of the agreement.

Generally, the Company’s arrangements with end-user customers and indirect channel partners do not include any acceptance provisions. In those cases in which significant uncertainties exist with respect to customer acceptance or in which specific customer acceptance criteria are included in the arrangement, the Company defers the entire arrangement fee and recognizes revenue, assuming all other conditions for revenue recognition have been satisfied, when the uncertainty regarding acceptance is resolved as generally evidenced by written acceptance by the

customer. The Company's arrangements with indirect channel partners and end-user customers do include a standard warranty provision whereby the Company will use reasonable efforts to cure material nonconformity or defects of the software from the Company's published specifications. The standard warranty provision does not provide the indirect channel partners or end-user customer with the right of refund. In very limited instances, the Company has granted the right to refund for an extended period if the arrangement is terminated because the product does not meet the Company's published technical specifications, and the Company is unable reasonably to cure the nonconformity or defect. Generally, the Company determines that this warranty provision is not an acceptance provision and therefore should be accounted for as a warranty in accordance with SFAS No. 5.

At the time the Company enters into an arrangement, the Company assesses the probability of collection of the fee and the payment terms granted to the customer. For end-user customers and indirect channel partners, the Company's typical payment terms are due within 30 days of invoice date. However, in those cases where payment terms are greater than 30 days, the Company does not recognize revenue from the arrangement fee unless the payment is due within 90 days. If the payment terms for the arrangement are considered extended (greater than 90 days), the Company defers revenue under these arrangements and such revenue is recognized, assuming all other conditions for revenue recognition have been satisfied, when the payment of the arrangement fee becomes due.

In those instances in which indirect channel partners provide first level maintenance services to the end-user customer and the Company provides second level maintenance support to the indirect channel partner, the Company accounts for amounts received in these arrangements in accordance with EITF 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*. In initial and renewal years for which the Company receives a net fee from the indirect channel partner to provide second level support to the indirect channel partner, such amount is recorded as revenue over the term of the maintenance period at the net amount received since the Company does not collect the fees from the end-user customer, it does not have latitude in establishing the price paid by the end-user customer for maintenance services, and it does not have the latitude to select the supplier providing first level support. However, in those circumstances where the Company renews maintenance contracts directly with the end-user customers, receives payment for the gross amount of the maintenance fee, has the ability to select the supplier for first level support, and the Company believes that it is the primary obligor for first level support to the end customer, the Company records revenue for the gross amounts received. In such circumstances, the Company remits a portion of the payment received to the indirect channel partner to provide first level support to the end-user customer, and such amounts are capitalized and amortized over the maintenance period.

Capitalized Software Costs

Costs related to research, design and development of computer software are charged to research and development expense as incurred. The Company capitalizes eligible software costs incurred between the time that the product's technological feasibility is established and the general release of the product to customers. Such capitalized costs are then amortized on a product-by-product basis generally over one to two years.

The Company evaluates the net realizable value of capitalized software on an ongoing basis, relying on a number of factors including demand for a product, operating results, business plans, and economic projections. In addition, the Company's evaluation considers nonfinancial data such as market trends, product development cycles, and changes in management's market emphasis.

Intangible Assets and Goodwill

The Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141 "Business Combinations" ("SFAS 141") and SFAS No. 142 "Goodwill and Other Intangible Assets" ("SFAS 142") in July 2001. SFAS 141 requires that all business combinations be accounted for using the purchase method. SFAS 141 also specifies criteria for recognizing and reporting intangible assets apart from goodwill. SFAS 142 requires that goodwill not be amortized but instead tested for impairment in accordance with the provisions of SFAS 142 at least annually and more frequently upon the occurrence of certain events. SFAS 142 also requires that intangible assets with an indefinite life should not be amortized until their life is determined to be finite and all other intangible assets must be amortized over their useful life.

The Company adopted the provisions of SFAS 141 and SFAS 142 effective January 1, 2002. SFAS 141 and SFAS 142 requires the Company to perform the following as of January 1, 2002: (i) review goodwill and intangible assets for possible reclasses; (ii) reassess the lives of intangible assets; and (iii) perform a transitional goodwill impairment test. The Company has reviewed its goodwill and intangible assets for possible reclasses of which there were none and has reviewed the useful lives of its identifiable intangible assets and determined that the originals estimated lives remain appropriate. The Company will evaluate its goodwill for impairment under the provisions of SFAS 142 during the second quarter of 2002, but does expect a material impact on its results of operations or financial position.

Prior to January 1, 2002, the Company amortized goodwill associated with its acquisitions prior to July 1, 2001 over six years using the straight-line method. Identifiable intangibles (customer relationships) are currently being amortized over six years using the straight-line method.

Translation of Foreign Currencies

The functional currency for all of the locations in which the Company has a foreign operation is the applicable local currency. Assets and liabilities of all foreign subsidiaries are translated at period-end rates of exchange. Revenues and expenses are translated at average exchange rates during the period. The resulting translation adjustments are included in other comprehensive income. Transaction gains and losses that arise from exchange rate changes included in income are immaterial for all periods presented.

Use of Estimates

The preparation of 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions in these financial statements relate to, among other items, the useful lives of fixed assets, capitalized software costs and intangible assets, valuation of deferred tax assets, the allowance for doubtful accounts and accrued liabilities.

4. Net Income (Loss) Per Share

Net income (loss) is computed in accordance with SFAS No. 128, "Earnings Per Share". Basic net income (loss) per share is computed by dividing net income (loss) available to common stockholders' by the weighted average number of common shares outstanding during the period. Dilutive net income (loss) is computed using the weighted average number of common shares outstanding during the period, plus the dilutive effect, if any, of potential common shares, which consists of stock options.

For the quarters ended March 31, 2002 and 2001, the Company excluded dilutive potential common shares of 261,225 and 282,665, respectively, from its calculation of net income (loss) per share. The Company had an additional 3,442,232 and 2,972,546 of antidilutive common stock equivalents outstanding for the quarters ended March 31, 2002 and 2001, respectively, which would not be included in the fully dilutive calculation of net income (loss) per share had the Company reported net income as the stock option exercise price exceeded the average market price for the respective periods.

5. Comprehensive Income or Loss

Components of comprehensive income include net income (loss) and certain transactions that have generally been reported in the consolidated statement of stockholders' equity. Other comprehensive income or loss includes foreign currency translation adjustments.

	Three Months Ended March 31 (in thousands)	
	2002	2001
Net income (loss)	\$130	\$(2,592)
Other comprehensive loss	(47)	(63)
Total comprehensive income (loss)	\$ 83	\$(2,655)

6. Segment and Geographical Information

The Company and its subsidiaries are principally engaged in the design, development, marketing and support of the Company's customer relationship management and analytics and business intelligence applications. Substantially all its revenues result from the licensing of the Company's software products and related professional services and maintenance services. The Company reviews its financial information, which is presented on a consolidated basis. The financial information is accompanied by disaggregated information about revenues and expenses by geographic region for purposes of making operating decisions and assessing each geographic region's financial performance. The Company considers itself to be in a single industry segment, the licensing, implementation and support of its software products.

7. Acquisition

On March 31, 2001, the Company acquired all of the outstanding capital stock of Dynamic Decisions Pty Limited ("Dynamic Decisions") for total cost of approximately \$5,867,000 consisting of \$5,640,000 in maximum cash consideration to be paid and 100,000 shares of the Company's common stock. The acquisition was accounted for under the purchase method of accounting, and the purchase price was allocated based on the estimated fair value of the assets acquired and liabilities assumed. An intangible asset, acquired customer relationships of \$1,500,000 was recorded based on the fair value of the asset at the time of acquisition and is being amortized on a straight-line basis over its estimated useful life of six years. The excess of the purchase price over the fair value of the net assets acquired of \$934,000 was recorded as goodwill. Goodwill is no longer amortized under the provision of SFAS 142.

Per the terms of the purchase and sale agreement, total maximum cash consideration relating to the purchase of Dynamic Decisions was \$5,150,000 payable in installments over a maximum of 30 months beginning on July 1, 2001. As of March 31, 2002, the Company has paid \$1,267,000 of the maximum cash consideration, which has been accounted for as purchase price and one additional cash payment of \$517,000, which has been accounted for as compensation expense within operating expenses as the payment was contingent upon the continued employment of two key executives of Dynamic Decisions. The remaining cash payments will continue to be accounted for as compensation expense within operating expense as they are contingent upon future employment of the two key executives. The results of operations of Dynamic Decisions are included in the financial statements from the date of acquisition.

Unaudited pro forma revenue, net income (loss), and net income (loss) per share shown below for the quarter ended March 31, 2001 assumes the acquisition of Dynamic Decisions occurred on January 1, 2001.

	Three Months Ended March 31 2001
	(Unaudited)
(In thousands, except per share amounts)	
Revenue	\$11,885
Net income (loss)	\$ (2,251)
Total basic and diluted net income (loss) per share	\$ (0.19)

8. Restructuring Charges

In 2001, the Company adopted several plans of restructuring aimed at reducing operating costs company-wide, strengthening the Company's financial positions and to reallocating resources to pursue the Company's future operating strategies.

In the second quarter of 2001, the Company adopted a plan of restructuring aimed at reducing current operating costs company-wide. In connection with this plan, 28 non-management employees, primarily sales, marketing, and administrative personnel, and 2 executive level employees were terminated. The Company's restructuring plan also included the closure of the Company's sales office in France. As a result of the restructuring plan, the Company recorded a restructuring charge of \$512,000 for the three months ended June 30, 2001. The restructuring charge consisted of \$449,000 for severance costs and \$63,000 for the loss on disposal of the Company's French subsidiary, which was sold on June 30, 2001. In connection with the sale, the Company paid \$100,000 to the purchaser, which is included in the restructuring charge. No amounts remain accrued at March 31, 2002.

In the third quarter of 2001, the Company adopted a plan of restructuring to further reduce current operating costs company-wide through headcount reductions. In connection with this plan, the Company recorded an additional restructuring charge of \$438,000 for severance related to the termination of 26 non-management employees, primarily sales, marketing, and administrative personnel. Subsequent to the initial recording of the charge, adjustments totaling \$90,000 were recorded, reducing the charge to \$348,000. No amounts remain accrued at March 31, 2002.

In the fourth quarter of 2001, the Company adopted a plan of restructuring to further reduce current operating costs. The plan included the further reduction of headcount of one senior level executive and 16 non-management employees, primarily professional services, sales, and administrative personnel. The plan also included the closure of several domestic offices and the consolidation of space within one European office and the abandonment of leasehold improvements and support assets associated with these locations, which were removed from service shortly after the implementation of the plan. As a result of the restructuring plan, the Company recorded a charge of \$840,000 which included \$92,000 in non-cash charges relating to impaired assets. The components of the fourth quarter cash charges, as well as the Company's payments made against accruals are detailed as follows:

Cash charges	Charges incurred	Payments made	Balance at December 31, 2001	Payments made	Balance at March 31, 2002
Work force reduction	\$363,000	\$(52,000)	\$311,000	\$(232,000)	\$ 79,000
Office closures	274,000	—	274,000	(4,000)	270,000
Other contractual obligations	111,000	—	111,000	(4,000)	107,000
Total	\$748,000	\$(52,000)	\$696,000	\$(240,000)	\$456,000

9. Discontinued Operation

In December 2000, the Board of Directors committed to a plan to dispose of the operations of its VistaSource business. On March 30, 2001, the Company completed the sale of the VistaSource business unit to Real Time International, Inc. (“Real-Time”), a subsidiary of Parallax Capital Partners, LLC for \$1,300,000 and a 19% equity interest in Real-Time. The results of operations including revenue, operating expenses, other income and expense, and income taxes of the VistaSource business unit for 2001 have been reclassified in the accompanying statements of operations as a discontinued operation. The Company’s balance sheets at March 31, 2002 and December 31, 2001 reflect the net liabilities of the VistaSource business as net liabilities of discontinued operation within current liabilities. The Company recorded a gain of \$718,000 on the disposal of the discontinued operations in the first quarter of 2001 due to the actual results of operations through the date of disposal, changes in the net assets delivered at closing and changes in estimates of certain obligations.

10. Non-recourse Sale of Receivables

The Company has a non-recourse accounts receivable purchase arrangement with a certain bank, pursuant to which the Company and the bank may agree from time to time for the Company to sell qualifying accounts receivable to the bank, in an aggregate amount of up to \$2 million outstanding, at a purchase price equal to the balance of the accounts less a discount rate and a fee. On or about March 31, 2002, the Company factored certain accounts receivable to the bank pursuant to the purchase arrangement in the amount of \$644,000.

In accordance with SFAS 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities”, the Company recognized a sale for those account receivable balances for which there was no future obligation to the customer in the amount of \$443,000. The Company has concluded that these accounts have been legally isolated, and accordingly, this amount has been derecognized from the Company’s accounts receivable balance at March 31, 2002. The loss from the sale of the financial assets and retained interest for cash collection were not material to the Company’s results of operations or financial position. The remainder of \$201,000 has been recorded as a financing transaction and recognized as a liability at March 31, 2002 because the sale of these receivables do not qualify to be recorded as a sale under FAS No. 148.

11. Commitments and Contingencies

On February 8, 2002, a customer of the Company's divested business unit filed a claim in Germany against the Company's German subsidiary, Veriteam GmbH. The claim alleges a breach of contract pertaining to software sold and implemented by the divested business unit on behalf of the Company. The customer is seeking repayment for the cost of the software and related services of approximately \$800,000. The Company has answered the customer's claim, denying the claim's allegations. Due to the early nature of the claim, the Company has been unable to fully assess the likely outcome of the claim, however, the Company intends to vigorously defend its position and believes the claim lacks substantial merit.

12. Restricted Cash

On August 1, 2001, the Company established a \$1,050,000 irrevocable standby letter of credit in connection with executing an agreement to lease certain office space. The irrevocable standby letter of credit is collateralized by a restricted cash deposit of \$1,050,000. The funds can be drawn down over the term of the lease, provided the Company has not defaulted on the office lease. The irrevocable standby letter of credit and underlying security deposit (restricted cash) requirement of \$1,050,000 will be reduced starting the first day of the second lease year as follows:

	Reduction Amount
Second lease year (December 31, 2002)	\$116,667
Third lease year (December 31, 2003)	\$116,667
Fourth lease year (December 31, 2004)	\$175,001
Fifth lease year (December 31, 2005)	\$233,330
Sixth lease year (December 31, 2006)	\$283,335

At the end of the sixth year, the Company can reduce the letter of credit to \$125,000 or substitute \$125,000 in cash in lieu of the letter of credit.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview of the Company's Operations

Applix, Inc. ("Applix" or the "Company") is a global provider of enterprise performance management solutions that include interactive planning, customer relationship management (CRM) and analytics and business intelligence. These combined products represent one principal business segment, which it reports as its continuing operations. The Company's iCRM and iTM1 applications are designed and developed to capture information from across the extended enterprise and enable continual marketplace responsiveness. The applications are adaptable, scalable, and real-time and support unique, complex and disparate business processes, providing analysis, planning, measurement and response to changing customer requirements and business dynamics.

The Company's iCRM and iTM1 applications owe their adaptability to Applix iEnterprise and Applix iTM1 technology platforms that power them. Applix continues to enhance these platforms and the integration between them, in order to continue providing software that best supports companies' unique, competitive business processes.

In December 2000, the Board of Directors committed to a plan to dispose of the operations of its VistaSource business. On March 30, 2001, the Company completed the sale of the VistaSource business unit to Real Time International, Inc. ("Real-Time"), a subsidiary of Parallax Capital Partners, LLC for \$1,300,000 and a 19% equity interest in Real-Time. The results of operations including revenue, operating expenses, other income and expense, and income taxes of the VistaSource business unit for 2001 have been reclassified in the accompanying statements of operations as a discontinued operation. The Company's balance sheets at March 31, 2002 and 2001 reflect the net liabilities of the VistaSource business as net liabilities of discontinued operation within current liabilities.

Results of Continuing Operations For The Three Months Ended March 31, 2002 and 2001

The following table sets forth the consolidated statement of operations data for the three months ended March 31, 2002 and 2001, expressed as a percentage of total revenues:

	Three months ended	
	March 31, 2002	March 31, 2001
Software license revenue	48.4%	51.3%
Professional services and maintenance	51.6%	48.7%
Total revenue	100.0%	100.0%
Cost of software license revenue	3.6%	1.9%
Cost of professional services and maintenance	27.5%	37.5%
Gross margin	68.8%	60.6%
Operating expenses		
Product development	11.4%	18.6%
Sales and marketing	35.9%	61.9%
General and administrative	13.9%	9.9%
Compensation expenses related to acquisition	6.1%	0.0%
Total operating expenses	67.3%	90.5%
Operating income (loss)	1.5%	(29.8)%
Interest income, net	0.1%	0.1%
Provision for income taxes	0.1%	0.4%
Net income (loss) for continuing operations	1.0%	(29.2)%
Discontinued operations	—	6.3%
Net income (loss)	1.0%	(22.9)%

Revenues

Revenue from continuing operations decreased 16% to \$9,507,000 for the quarter ended March 31, 2002 from \$11,327,000 for the quarter ended March 31, 2001. Revenues decreased primarily due to a weakening economy, continued slowdown in information technology spending and seasonal weakness in Europe.

Software License

Software license revenue from continuing operations decreased 21% to \$4,603,000 for the three months ended March 31, 2002 from \$5,814,000 for the three months ended March 31, 2001 or 48% of total revenue compared to 51% of the total revenue for the three months ended March 31, 2001. Software license revenue decreased primarily due to the progressively weakening economy, and the continued slowdown in information technology spending which in turn led to the Company's customers delaying their purchasing decisions. Despite these slowdowns during the quarter ended March 31, 2002, the Company continued to increase its customer base with 65 new customers. This represents the highest number of new customers added in the past four quarters.

Domestic license revenue from continuing operations increased 17% to \$2,706,000 for the quarter ended March 31, 2002 from \$2,304,000 for the same period in 2001 due to an increase in the number of licenses of the Company's application sold to new and existing customers.

International license revenue from continuing operations decreased 46% to \$1,897,000 for the quarter ended March 31, 2002 from \$3,510,000 for the same period in 2001 primarily due to a greater than expected seasonal weakness in Europe and continued decline in information technology spending world-wide.

The Company markets its products through its direct sales force and indirect partners. The Company continues to focus on complementing the direct sales force with the indirect channel partners, which consist of Original Equipment Manufacturers ("OEMs"), Value Added Resellers ("VARs"), independent distributors and sales agents.

Professional Services and Maintenance

Professional services and maintenance revenue from continuing operations decreased for the three months ended March 31, 2002 to \$4,904,000, or 52% of total revenue, compared to \$5,513,000, or 49% of total revenue, for the three months ended March 31, 2001 representing a 11% decrease. For the three months ended March 31, 2002, maintenance revenues increased 33% to \$3,379,000 as compared to \$2,535,000 for the three months ended March 31, 2001, while consulting and training revenue decreased 49% to \$1,525,000 as compared to \$2,978,000 for the three months ended March 31, 2001. The increase in maintenance revenue is primarily due to growth in the installed base of customers receiving maintenance and a greater number of customers electing renewal of their maintenance support contracts. The Company expects the maintenance revenue as a component of total professional service and maintenance revenue to continue to increase due to continuing improvement in maintenance renewals from existing customers as they choose to extend their maintenance support contracts. The Company expects professional service revenue to decrease as a percentage of total professional services and maintenance revenue due to the Company's increasing reliance on external consultants as the Company continues to control its costs.

Domestic service revenue from continuing operations decreased 3% to \$1,910,000 for the three months ended March 31, 2002 from \$1,965,000 for the three months ended March 31, 2001.

International service revenues decreased by 16% to \$2,994,000 in the three months ended March 31, 2002 from \$3,548,000 for the three months ended March 31, 2001.

Cost of Revenues

Cost of Software License Revenue

Cost of software license revenue consists primarily of third-party software royalties, cost of product packaging and documentation materials, and amortization of capitalized software costs. The amortization of capitalized software costs begins upon general release of the software to customers. Cost of software license revenues was \$346,000 for the three months ended March 31, 2002, compared to \$211,000 for the three months ended March 31, 2001. As a percentage of software license revenue, cost of software license revenue increased to 4% in the three months ended March 31, 2002, as compared to 2% for the three months ended March 31, 2001.

Cost of Professional Services and Maintenance Revenue

The cost of professional services and maintenance revenue consists primarily of personnel, facilities and system costs incurred to provide consulting, customer support under the maintenance agreements and training. Cost of professional services and maintenance revenue from continuing operations decreased to \$2,616,000 for the three months ended March 31, 2002 from \$4,248,000 for the three months ended March 31, 2001. As a percentage of professional services and maintenance revenue, these costs were 53% in the first quarter of 2002 as compared to 77% in the first quarter of 2001. Professional services and maintenance revenue gross margin as a percentage of professional services revenue improved to 47% for the three months ended March 31, 2002 as compared to 23% for the three months ended March 31, 2001. The improvement in professional services and maintenance revenue gross margin is due to higher consulting utilization and a change in revenue mix from lower margin consulting revenues to higher margin maintenance revenues. This gross margin improvement on maintenance and services is a direct reflection of the Company's focus on margin improvement and the results of rebalancing the Company's cost structure.

Operating Expenses

Product Development

Product development expenses include costs associated with the development of new products, enhancements of existing products and quality assurance activities, and consist primarily of employee salaries, benefits, consulting costs and the cost of software development tools. The Company capitalizes product development costs during the required capitalization period once the Company has reached technological feasibility through general release of its software products. The Company considers technological feasibility to be met once it has completed a working model that has met certain performance criteria. Product development costs not meeting the requirements for capitalization are expensed as incurred.

Product development from continuing operations decreased 49% to \$1,081,000 for the three months ended March 31, 2002 from \$2,108,000 for the three months ended March 31, 2001. This represents 11% of total revenue for the three months ended March 31, 2002 compared to 19% of total revenue for the three

months ended March 31, 2001. The decrease is primarily due to decreased employee and outside consulting costs and capitalization of product development costs consisting primarily of salaries, benefits and related indirect overhead costs of \$746,000 in the three months ended March 31, 2002, as a result of the Company's extensive product development efforts pertaining to the Company's new Integra platform. The Company anticipates that it will continue to invest substantial resources in the new product development, primarily the Applix Integra platform and new versions of the existing products and additional modules for its existing products. The Company anticipates that it will capitalize development costs associated with the Integra platform until its commercial release, which is expected to be in 2002.

Sales and Marketing

Sales and marketing expenses consist primarily of salaries, commissions and bonuses and the cost of the Company's international operations earned by sales and marketing personnel, field office expenses, travel and entertainment, and promotional and advertising expenses and the cost of the Company's international operations. Sales and marketing expenses from continuing operations decreased 51% to \$3,416,000 for the three months ended March 31, 2002 from \$7,015,000 for the three months ended March 31, 2001. Selling and marketing expenses decreased as a percentage of total revenue to 36% for the three months ended March 31, 2002 from 62% for the three months ended March 31, 2001. The decrease was primarily due to the Company's decreased staffing levels associated with the Company's 2001 restructuring initiatives, reduced sales commissions and bonuses, and management's further implementation of cost control initiatives, including reductions in advertising, travel and other discretionary expenditures. The Company expects to continue to closely monitor discretionary expenditures and to continue its cost control initiatives.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries and occupancy costs for administrative, executive and finance, information technology ("IT") and human resource personnel, and bad debt expense. General and administrative expenses from continuing operations increased 18% to \$1,325,000 for the three months ended March 31, 2002 from \$1,123,000 for the three months ended March 31, 2001. The increase was primarily due to increases in the Company's operating costs which included rent and related costs of its new corporate headquarters. General and administrative expenses increased as a percentage of total revenue to 14% for the three months ended March 31, 2002 from 10% for the three months ended March 31, 2001.

In 2001, the Company adopted several plans of restructuring aimed at reducing operating costs company-wide, strengthening the Company's financial positions and reallocating resources to pursue the Company's future operating strategies.

In the second quarter of 2001, the Company adopted a plan of restructuring aimed at reducing current operating costs company-wide. In connection with this plan, 28 non-management employees, primarily sales, marketing, and administrative personnel, and 2 executive level employees, were terminated. The Company's restructuring plan also included the closure of the Company's sales office in France. As a result of the restructuring plan, the Company recorded a restructuring charge of \$512,000 for the three months ended June 30, 2001. The restructuring charge consisted of \$449,000 for severance costs and \$63,000 for the loss on disposal of the Company's French subsidiary, which was sold on June 30, 2001. In connection with the sale, the Company paid \$100,000 to the purchaser, which is included in the restructuring charge. No amounts remain accrued at March 31, 2002.

In the third quarter of 2001, the Company adopted a plan of restructuring to further current operating costs company-wide through headcount reductions. In connection with this plan, the Company recorded an additional restructuring charge of \$438,000 for severance related to the termination of 26 non-management employees, primarily sales, marketing, and administrative personnel. Subsequent to the initial recording of the charge, adjustments totaling \$90,000 were recording, reducing the charge to \$348,000. No amounts remain accrued at March 31, 2002.

In the fourth quarter of 2001, the Company adopted a plan of restructuring to further reduce current operating costs. The plan included the further reduction of headcount of one senior level executive and 16 non-management employees, primarily professional services, sales, and administrative personnel. The plan also included the closure of several domestic offices and the consolidation of space within one European office and the abandonment of leasehold improvements and support assets associated with these locations, which were removed from service shortly after the implementation of the plan. As a result of the restructuring plan, the Company recorded a charge of \$840,000, which included \$92,000 in non-cash charges relating to impaired assets. The components of the fourth quarter cash charges, as well as the Company's payments made against accruals are detailed as follows:

Cash charges	Charges incurred	Payment made	Balance at December 31, 2001	Payment made	Balance at March 31, 2002
Work force reduction	\$363,000	\$(52,000)	\$311,000	\$(232,000)	\$ 79,000
Office closures	274,000	—	274,000	(4,000)	270,000

Other contractual obligations	111,000	—	111,000	(4,000)	107,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	\$748,000	\$(52,000)	\$696,000	\$(240,000)	\$456,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Compensation Expenses Related to Acquisition

Compensation expenses related to acquisition consists primarily of contingent cash consideration relating to the Company's March 2001 acquisition of Dynamic Decisions. Per the terms of the purchase and sale agreement, total maximum cash consideration relating to the purchase of Dynamic Decisions was \$5,150,000 payable in installments over a maximum of 30 months beginning on July 1, 2001. As of March 31, 2002, the Company has paid \$1,267,000 of the maximum cash consideration, which has been accounted for as purchase price. On January 1, 2002, the Company made one contingent cash payments for \$517,000 which has been accounted for as compensation expense as the payment is contingent upon the continued employment of two key executives of Dynamic Decisions. The remaining cash payments will continue to be accounted for as compensation expense, as they are contingent upon the future employment of the two key executives.

Interest and Other Income, Net

Interest income decreased to \$49,000 for the three months ended March 31, 2002, compared to \$112,000 for the three months ended March 31, 2001. The decrease is primarily due to fewer funds invested and lower interest rates.

Provision for Income Taxes

The Company recorded a provision from income taxes of \$64,000 for the three months ended March 31, 2002, compared to \$44,000 for the three months ended March 2001. The provision for income taxes represents the Company's state and foreign income tax obligations.

Operating Income (loss) and Operating Margin

Operating loss from continuing operations was \$3,378,000 for the three months ended March 31, 2001, compared to operating income of \$145,000 for the three months ended March 31, 2002. Additionally, operating loss as a percentage of total revenue was 30% for the three months ended March 31, 2001, compared to an operating income as a percentage of total revenue of 2% the three months ended March 31, 2002. The total revenue decrease of \$1,820,000 was significantly offset by the Company's cost control initiatives including 2001 restructuring initiatives.

Liquidity and Capital Resources

The Company derives its liquidity and capital resources primarily from the Company's cash flow from operating activities and from working capital. The Company's cash and cash equivalent balance was \$9,370,000 and \$9,278,000 as of March 31, 2002 and December 31, 2001, respectively, which included restricted cash of \$1,050,000. The Company's days sales outstanding ("DSO") in accounts receivable was 70 days as of December 31, 2001, compared with 66 days as of March 31, 2002. The Company sold \$729,000 in accounts receivables as of December 31, 2001, compared to \$644,000 as of March 31, 2002 under its non-recourse accounts receivable purchase agreement with a bank. The sale had an immaterial impact on the Company's DSO by reducing approximately 3 days as of December 31, 2001 and 6 days as of March 31, 2002. The Company does not have any off-balance-sheet arrangements with unconsolidated entities or related parties, and as such, the Company's liquidity and capital resources are not subject to off-balance-sheet risks from unconsolidated entities.

Cash provided by the Company's operating activities was \$1,136,000 for the quarter ended March 31, 2002 compared to cash used in operating activities of \$1,927,000 for the same period in the prior year. The net income of \$130,000 for the first quarter of 2002 was partially offset by the increase in operating assets and liabilities of \$496,000, which was primarily due to an increase of in deferred revenue of \$1,238,000.

Cash used in investing activities totaled \$934,000 for the quarter ended March 31, 2002 compared to cash provided by investing activities of \$1,102,000 for the quarter ended March 31, 2001. The increase in cash used in investing activities primarily resulted from the increase of capitalized software cost of \$746,000 and property and equipment expenditure of \$188,000.

Cash provided by financing activities totaled \$25,000 for the quarter ended March 31, 2002, which consisted of net payments from factoring of receivables to a certain bank of \$167,000 from the accounts receivable factoring arrangement for the amounts owned to the bank at March 31, 2002 which were not accounted for as a sale and

proceeds from issuance of stock under stock plans of \$192,000. This compares to total cash provided by financing activities of \$526,000 for the same quarter ended March 31, 2001.

In connection with the Company's acquisition of Dynamic Decisions, the Company expects to pay out additional contingent cash consideration of \$3,366,000 in seven quarterly installments between April 1, 2002 and January 1, 2004.

The Company has secured two revolving credit facilities, providing for loans and other financial accommodations, with a bank totaling approximately \$5 million. During the first quarter of 2002, the Company had no amounts outstanding under these credit facilities. Because the Company is currently in default under certain covenants with the bank, the Company currently has no availability to borrow under either of these facilities. The facilities expire on December 5, 2002.

The Company has a non-recourse accounts receivable purchase arrangement with a certain bank, pursuant to which the Company and the bank may agree from time to time for the Company to sell qualifying accounts receivable to the bank, in an aggregate amount of up to \$2 million outstanding, at a purchase price equal to the balance of the accounts less a discount rate and a fee. On or about March 31, 2002, the Company factored certain accounts receivable to the bank pursuant to the purchase arrangement in the amount of \$644,000.

In accordance with SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", the Company recognized a sale for those account receivable balances for which there was no future obligation to the customer in the amount of \$443,000. The Company has concluded that these accounts have been legally isolated, and accordingly, this amount has been derecognized from the Company's accounts receivable balance at March 31, 2002. The loss from the sale of the financial assets and retained interest for cash collection were not material to the Company's results of operations or financial position. The remainder of \$201,000 has been recorded as a financing transaction and recognized as a liability at March 31, 2002.

As of March 31, 2002, the Company had future cash commitments for the cash payments pertaining to its obligation under its non-cancelable leases. The Company's future minimum lease payments for its operating lease payments for its office facilities and certain equipment are:

	Operating Leases
2002	\$ 2,550,000
2003	2,407,000
2004	2,139,000
2005	2,014,000
2006	1,796,000
2007 and thereafter	11,674,000
Total minimum lease payments	<u>\$22,580,000</u>

The Company has no commitments or specific plans for any significant capital expenditures in the next 12 months.

The Company has incurred losses from continuing operations for the last several years. As of March 31, 2002, the Company had an accumulated deficit of \$37.3 million. Operating losses and negative cash flows may continue because of costs and expenses relating to brand development, marketing and other promotional activities, continued development of the Company's information technology infrastructure, expansion of product offerings and development of relationships with other businesses. Management's plans include increasing revenue and generating positive cash flows from operations. The Company made progress during the quarter ended March 31, 2002 towards decreasing operating losses on a quarterly sequential basis. Additionally, the Company improved its first quarter 2002 cash flow and improved its cash position at March 31, 2002. The Company currently expects that the principal sources of funding for its operating expenses, capital expenditures and other liquidity needs will be a combination of its available cash balances, funds generated from operations and its available credit facilities. The Company believes that its currently available sources of funds will be sufficient to fund its operations for at least the next 12 months. However, there are a number of factors that may negatively impact the Company's available sources of funds. The amount of cash generated from operations will be dependent upon such factors as the successful execution of the Company's business plan, the successful introduction of Applix Integra and worldwide economic conditions. Should the Company not meet its plans to generate sufficient revenue or positive cash flows, it may need to raise additional capital or reduce spending. Failure to do so could have an adverse effect on the Company's ability to continue as a going concern.

RISK FACTORS

OUR STOCK PRICE MAY BE ADVERSELY AFFECTED BY SIGNIFICANT FLUCTUATIONS IN OUR QUARTERLY RESULTS.

We expect to experience significant fluctuations in our future results of operations due to a variety of factors, many of which are outside of our control, including:

- demand for and market acceptance of our products and services;
- the size and timing of customer orders, particularly large orders, some of which represent more than 10% of total revenue during a particular quarter;
- introduction of products and services or enhancements by us and our competitors;
- competitive factors that affect our pricing;
- the mix of products and services we sell;
- the hiring and retention of key personnel;
- our expansion into international markets;
- the timing and magnitude of our capital expenditures, including costs relating to the expansion of our operations;
- changes in generally accepted accounting policies, especially those related to the recognition of software revenue; and

- new government legislation or regulation.

We typically receive a majority of our orders in the last month of each fiscal quarter because our customers often delay purchases of products until the end of the quarter and our sales organization and our individual sales representatives strive to meet quarterly sales targets. As a result, any delay in anticipated sales is likely to result in the deferral of the associated revenue beyond the end of a particular quarter, which would have a significant effect on our operating results for that quarter. In addition, most of our operating expenses do not vary directly with net sales and are difficult to adjust in the short term. As a result, if net sales for a particular quarter were below expectations, we could not proportionately reduce operating expenses for that quarter, and, therefore, that revenue shortfall would have a disproportionate adverse effect on our operating results for that quarter. If our operating results are below the expectations of public market analysts and investors, the price of our common stock may fall significantly.

OUR FUTURE SUCCESS IS DEPENDENT IN LARGE PART ON THE SUCCESS OF APPLIX INTEGRA.

We have devoted a substantial amount of resources to the development and marketing of our new Applix Integra product. We believe that our future financial performance will be dependent in large part on the success of Applix Integra. Because Applix Integra has been announced only recently and has not yet begun commercial shipments, we cannot yet assess its market acceptance or predict with accuracy the amount of revenue it will generate.

IF WE DO NOT INTRODUCE NEW PRODUCTS AND SERVICES IN A TIMELY MANNER, OUR PRODUCTS AND SERVICES WILL BECOME OBSOLETE, AND OUR OPERATING RESULTS WILL SUFFER.

The customer analytics and business planning software markets are characterized by rapid technological change, frequent new product enhancements, uncertain product life cycles, changes in customer demands and evolving industry standards. Our products could be rendered obsolete if products based on new technologies are introduced or new industry standards emerge.

Enterprise computing environments are inherently complex. As a result, we cannot accurately estimate the life cycles of our products. New products and product enhancements can require long development and testing periods, which requires us to hire and retain increasingly scarce, technically competent personnel. Significant delays in new product releases or significant problems in installing or implementing new products could seriously damage our business. We have, on occasion, experienced delays in the scheduled introduction of new and enhanced products and may experience similar delays in the future.

Our future success depends upon our ability to enhance existing products, develop and introduce new products, satisfy customer requirements and achieve market acceptance. We may not successfully identify new product opportunities and develop and bring new products to market in a timely and cost-effective manner.

FUTURE CAPITAL NEEDS.

We believe, based upon our current business plan, that our current cash and cash equivalents, funds generated from operations and available credit lines should be sufficient to fund our operations as

planned for at least the next twelve months. However, we may need additional funds sooner than anticipated if our performance deviates significantly from our current business plan or if there are significant changes in competitive or other market factors. Such funds, whether from equity or debt financing or other sources, may not be available, or available on terms acceptable to us.

ATTEMPTS TO EXPAND BY MEANS OF BUSINESS COMBINATIONS AND ACQUISITIONS MAY NOT BE SUCCESSFUL AND MAY DISRUPT OUR OPERATIONS OR HARM OUR REVENUES.

We have in the past, and may in the future, buy businesses, products or technologies. In the event of any future purchases, we will face additional financial and operational risks, including:

- difficulty in assimilating the operations, technology and personnel of acquired companies;
- disruption in our business because of the allocation of resources to consummate these transactions and the diversion of management's attention from our core business;
- difficulty in retaining key technical and managerial personnel from acquired companies;
- dilution of our stockholders, if we issue equity to fund these transactions;
- assumption of increased expenses and liabilities;
- our relationships with existing employees, customers and business partners may be weakened or terminated as a result of these transactions; and
- additional ongoing expenses associated with write-downs of goodwill and other purchased intangible assets.

WE RELY HEAVILY ON KEY PERSONNEL.

We rely heavily on key personnel throughout the organization. The loss of any of our members of management, or any of our staff of sales and development professionals, could prevent us from successfully executing our business strategies. Any such loss of technical knowledge and industry expertise could negatively impact our success. Moreover, the loss of any critical employees or a group thereof, particularly to a competing organization, could cause us to lose market share, and the Applix brand could be diminished.

WE MAY NOT BE ABLE TO MEET THE OPERATIONAL AND FINANCIAL CHALLENGES THAT WE ENCOUNTER IN OUR INTERNATIONAL OPERATIONS.

Due to the Company's significant international operations, we face a number of additional challenges associated with the conduct of business overseas. For example:

- we may have difficulty managing and administering a globally-dispersed business;
- fluctuations in exchange rates may negatively affect our operating results;
- we may not be able to repatriate the earnings of our foreign operations;

- we have to comply with a wide variety of foreign laws;
- we may not be able to adequately protect our trademarks overseas due to the uncertainty of laws and enforcement in certain countries relating to the protection of intellectual property rights;
- reductions in business activity during the summer months in Europe and certain other parts of the world could negatively impact the operating results of our foreign operations;
- export controls could prevent us from shipping our products into and from some markets;
- multiple and possibly overlapping tax structures could significantly reduce the financial performance of our foreign operations;
- changes in import/export duties and quotas could affect the competitive pricing of our products and services and reduce our market share in some countries; and
- economic or political instability in some international markets could result in the forfeiture of some foreign assets and the loss of sums spent developing and marketing those assets.

BECAUSE THE CUSTOMER ANALYTICS AND BUSINESS PLANNING MARKETS ARE HIGHLY COMPETITIVE, WE MAY NOT BE ABLE TO SUCCEED.

If we fail to compete successfully in the highly competitive and rapidly changing customer analytics and business planning markets, we may not be able to succeed. We face competition primarily from customer relationship management software firms, Internet customer interaction software vendors and computer telephony software companies. We also face competition from traditional call center technology providers, large enterprise application software vendors, independent systems integrators, consulting firms and in-house IT departments. Because barriers to entry into the software market are relatively low, we expect to face additional competition in the future.

Many of our competitors can devote significantly more resources to the development, promotion and sale of products than we can, and many of them can respond to new technologies and changes in customer preferences more quickly than we can. Further, other companies with resources greater than ours may attempt to gain market share in the customer analytics and business planning markets by acquiring or forming strategic alliances with our competitors.

BECAUSE WE DEPEND ON THIRD-PARTY SYSTEMS INTEGRATORS TO SELL OUR PRODUCTS, OUR OPERATING RESULTS WILL LIKELY SUFFER IF WE DO NOT DEVELOP AND MAINTAIN THESE RELATIONSHIPS.

We rely in part on systems integrators to promote, sell and implement our solutions. If we fail to maintain and develop relationships with systems integrators, our operating results will likely suffer. In addition, if we are unable to rely on systems integrators to install and implement our products, we will likely have to provide these services ourselves, resulting in increased costs. As a result, our results of operation may be harmed. In addition, systems integrators may develop, market or recommend products that compete with our products. Further, if these systems integrators fail to implement our products successfully, our reputation may be harmed.

BECAUSE THE SALES CYCLE FOR OUR PRODUCTS CAN BE LENGTHY, IT IS DIFFICULT FOR US TO PREDICT WHEN OR WHETHER A SALE WILL BE MADE.

The timing of our revenue is difficult to predict in large part due to the length and variability of the sales cycle for our products. Companies often view the purchase of our products as a significant and strategic decision. As a result, companies tend to take significant time and effort evaluating our products. The amount of time and effort depends in part on the size and the complexity of the deployment. This evaluation process frequently results in a lengthy sales cycle, typically ranging from three to six months. During this time we may incur substantial sales and marketing expenses and expend significant management efforts. We do not recoup these investments if the prospective customer does not ultimately license our product.

OUR BUSINESS WILL BE HARMED IF WE ARE UNABLE TO PROTECT OUR TRADEMARKS FROM MISUSE BY THIRD PARTIES.

Our collection of trademarks is important to our business. The protective steps we take or have taken may be inadequate to deter misappropriation of our trademark rights. We have filed applications for registration of some of our trademarks in the United States. Effective trademark protection may not be available in every country in which we offer or intend to offer our products and services. Failure to protect our trademark rights adequately could damage our brand identity and impair our ability to compete effectively. Furthermore, defending or enforcing our trademark rights could result in the expenditure of significant financial and managerial resources.

OUR PRODUCTS MAY CONTAIN DEFECTS THAT MAY BE COSTLY TO CORRECT, DELAY MARKET ACCEPTANCE OF OUR PRODUCTS AND EXPOSE US TO LITIGATION.

Despite testing by Applix and our customers, errors may be found in our products after commencement of commercial shipments. If errors are discovered, we may have to make significant expenditures of capital to eliminate them and yet may not be able to successfully correct them in a timely manner or at all. Errors and failures in our products could result in a loss of, or delay in, market acceptance of our products and could damage our reputation and our ability to convince commercial users of the benefits of our products.

In addition, failures in our products could cause system failures for our customers who may assert warranty and other claims for substantial damages against us. Although our license agreements with our customers typically contain provisions designed to limit our exposure to potential product liability claims, it is possible that these provisions may not be effective or enforceable under the laws of some jurisdictions. Our insurance policies may not adequately limit our exposure to this type of claim. These claims, even if unsuccessful, could be costly and time-consuming to defend.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

<u>Exhibit Number</u>	<u>Description</u>
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10.1*	Termination Agreement, dated January 14, 2002 by and among the Company, Applix GmbH and Michael Schieb
99.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Previously filed with the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2002, filed with the Commission on May 15, 2002.

(b) Reports on Form 8-K.

The Company filed no reports on Form 8-K during the quarter for which this report was filed.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this amendment on Form 10-Q/A to the registrant's Report on Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized.

APPLIX, INC.

Date: March 31, 2003

/s/ Walt Hilger

Walt Hilger
Chief Financial Officer and Treasurer
(Duly Authorized Officer and
Principal Financial and Accounting Officer)

CERTIFICATIONS

I, David Mahoney, certify that:

1. I have reviewed this quarterly report on Form 10-Q, as amended hereby, of Applix, Inc.;
2. Based on my knowledge, the quarterly report, as amended hereby, does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the quarterly report, as amended hereby;
3. Based on my knowledge, the financial statements, and other financial information included in the quarterly report, as amended hereby, fairly present in all material respects the financial condition, results of operation and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

Dated: March 31, 2003

/s/ David C. Mahoney

David C. Mahoney
Chief Executive Officer

CERTIFICATIONS

I, Walt Hilger, certify that:

1. I have reviewed this quarterly report on Form 10-Q, as amended hereby, of Applix, Inc.;
2. Based on my knowledge, the quarterly report, as amended hereby, does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the quarterly report, as amended hereby;
3. Based on my knowledge, the financial statements, and other financial information included in the quarterly report, as amended hereby, fairly present in all material respects the financial condition, results of operation and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

Dated: March 31, 2003

/s/ Walt Hilger

Walt Hilger
Chief Financial Officer

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
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10.1*	Termination Agreement, dated January 17, 2002, by and among the Company, Applix GmbH and Michael Schieb
99.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Previously filed with the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2002, filed with the Commission on May 15, 2002.