INSIGNIA SOLUTIONS PLC
Form S-1
September 15, 2005

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As filed with the Securities and Exchange Commission on September 15, 2005
Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

INSIGNIA SOLUTIONS PLC
(Exact Name of Registrant as Specified in Its Charter)

England and Wales	**7372**	**Not Applicable**
(State or Other Jurisdiction of Incorporation or Organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

41300 Christy Street **Fremont, California 94538** **United States of America** **(510) 360-3700**	**The Mercury Centre, Wycombe Lane** **Wooburn Green** **High Wycombe, Bucks HP10 0HH; United Kingdom** **(44) 1628-539500**

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

Mark E. McMillan, Chief Executive Officer,
Insignia Solutions plc
41300 Christy Street, Fremont, California 94538, (510) 360-3700
(Name, Address Including Zip Code, and Telephone Number; Including Area Code, of Agent for Service)

Copies to:
Laird H. Simons III
David K. Michaels
Fenwick & West LLP
801 California Street, Mountain View, CA 94041; (650) 988-8500

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this Registration Statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. þ

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price per Unit(2)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee
Ordinary Shares, 20 pence nominal value per share, represented by American depository shares(1)	37,299,885	$0.415	$15,479,452	$1,822(3)

(1) A separate Registration Statement on Form F-6 is effective with respect to the American depository shares represented by American depository receipts issuable on a one-for-one basis with the ordinary shares being registered hereby upon deposit of such ordinary shares.

(2) Estimated solely for the purpose of calculating the amount of the registration fee, pursuant to Rule 457(c) under the Securities Act, based on the average of the high and low prices of the ADSs on the Nasdaq SmallCap Market on September 9, 2005.

(3) Pursuant to Rule 457(p) under the Securities Act, the registration fee of $1,822 is being offset by $409, representing the dollar amount of the registration fee previously paid by the Registrant under Registration Statement on Form S-3 (File No. 333-121299) initially filed with the Securities and Exchange Commission on December 15, 2004 with respect to 4,215,223 of the shares registered hereby. Accordingly, the adjusted registration fee for this filing is $1,413.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED SEPTEMBER 15, 2005

PROSPECTUS

INSIGNIA SOLUTIONS PLC
37,299,885 AMERICAN DEPOSITORY SHARES
EACH REPRESENTING ONE ORDINARY SHARE OF
20 PENCE NOMINAL VALUE

This prospectus relates to the resale of the following American Depositary Shares, (ADSs), representing ordinary shares of Insignia Solutions plc:

up to 13,271,355 ADSs that may from time to time be issued to Fusion Capital Fund II, LLC (Fusion Capital) under a securities subscription agreement dated February 10, 2005 and 4,000,000 ADSs issuable pursuant to warrants issued to Fusion Capital in connection with such agreement;

3,220,801 ADSs issued to Fusion Capital in a private financing in February 2005;

3,959,588 ADSs issued and issuable to the former shareholders of Mi4e Device Management AB (Mi4e) in connection with our acquisition of Mi4e in March 2005;

3,208,499 ADSs issued in a private financing in October 2004 and 1,006,724 ADSs issuable under warrants that we issued to the investors and certain placement agents at the closing of a private financing in October 2004, and an additional 192,522 ADSs issuable under warrants that we issued to these investors in July 2005 as a penalty because a registration statement relating to the shares issued in such private financing had not yet become effective; and

up to 4,762,326 ADSs that are issuable on exchange of Series A Preferred Stock issued on June 30, 2005 and July 5, 2005 by our wholly-owned subsidiary Insignia Solutions Inc., and an additional 3,678,070 ADSs issuable on exercise of warrants issued to the investors and certain placement agents in such private financing.

The investors to whom we issued the ADSs and warrants described above are referred to in this prospectus as the selling shareholders.

The shares are quoted on the Nasdaq SmallCap Market under the symbol INSG. On September 14, the last reported sale price as reported on the Nasdaq SmallCap Market was $0.40 per share. We have applied to have the shares offered pursuant to this prospectus approved for trading on the Nasdaq SmallCap Market.

Investing in the shares involves certain risks. See Risk Factors beginning on page 3 for a discussion of these risks.

Fusion Capital is an underwriter within the meaning of the Securities Act of 1933, as amended, with respect to the ADSs that may from time to time be sold to it under the securities subscription agreement dated February 10, 2005, and the selling shareholders may be deemed to be underwriters within the meaning of the Securities Act of 1933, as amended, with respect to the other shares included in this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this Prospectus is , 2005.

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PROSPECTUS SUMMARY

You should read the following summary together with the more detailed information regarding Insignia Solutions plc and consolidated financial statements appearing elsewhere in this prospectus.

This prospectus contains forward-looking statements. The outcome of the events described in these forward-looking statements is subject to risks and actual results could differ materially. The sections entitled Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Business, as well as those discussed elsewhere in this prospectus, contain a discussion of some of the factors that could contribute to those differences.

In this prospectus, Insignia, Company, we, us, and our refer to Insignia Solutions plc.

The Company

We commenced operations in 1986 and currently develop, market and support software technologies that enable mobile operators and phone manufacturers to better update, configure and manage today s more complex mobile phones using standard over-the-air (OTA) data networks. Before 2003, our principal product line was the Jeode™ platform, based on our Embedded Virtual Machine (EVM™) technology. The Jeode platform was our implementation of Sun Microsystems, Inc. s (Sun) Java® technology tailored for smart devices. During 2001, we began development of a range of products (Secure System Provisioning or SSP products) for the mobile phone and wireless operator industry. The SSP products build on our position as a Virtual Machine (VM) supplier for manufacturers of mobile devices and allow wireless operators and phone manufacturers to reduce customer care and software recall costs, as well as increase subscriber revenue by deploying new mobile services based on dynamically provisioning of new capabilities. With the sale of our Jeode product line in April 2003, our sole product line then consisted of our SSP products. We shipped our first SSP product in December 2003. In March 2005, we acquired Mi4e Device Management AB (Mi4e), a private company headquartered in Stockholm, Sweden. Mi4e was founded in 2003 and had $646,000 of revenues in 2004. Mi4e s main product, a Device Management Server (DMS) is a mobile device management infrastructure solution for mobile operators that supports the Open Mobile Alliance (OMA) client provisioning specification. DMS was first deployed at Telstra in Australia in 2000 and has since been deployed at more than ten carriers around the world. By integrating the Mi4e products with existing Insignia applications, we are able to deliver a more comprehensive solution to mobile network operators and handset manufacturers.

Insignia Solutions plc was incorporated under the laws of England and Wales on November 20, 1985 under the name Diplema Ninety Three Limited, changed its name to Insignia Solutions Limited on March 5, 1986 and commenced operations on March 17, 1986. On March 24, 1995, the Company was re-registered as a public limited company under the name Insignia Solutions plc. Our principal executive offices in the United States are located at 41300 Christy Street, Fremont, California 94538. Our telephone number at that location is (510) 360-3700. Our registered office in the United Kingdom is located at The Mercury Centre, Wycombe Lane, Wooburn Green, High Wycombe, Bucks HP10 0HH. Our telephone number at that location is (44) 1628-539500.

The Offering

On February 10, 2005, we entered into a securities subscription agreement (the 2005 Fusion Capital securities subscription agreement) with Fusion Capital Fund II, LLC, an Illinois limited liability company (Fusion or Fusion Capital) pursuant to which Fusion Capital has agreed to purchase, on each trading day after the commencement of funding, under the 2005 Fusion Capital securities subscription agreement, $20,000 of our American Depository Shares (ADSs), for an aggregate of up to $12.0 million. The $12.0 million in ADSs are to be subscribed for over a 30-month period, subject to earlier termination at our discretion. The subscription price of the ADSs will be based on a market-based formula at the time of purchase. However, Fusion shall not have the right nor the obligation to subscribe for any ADSs under the agreement on any trading day where the subscription price per share for any subscriptions of the ADSs would be less than $0.40 (subject to adjustment for stock splits, dividends and the like). We have authorized the sale

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and issuance of up to $12.0 million of our shares to Fusion Capital under the 2005 Fusion Capital securities subscription agreement, of which we are registering 17,271,355 shares (including 4,000,000 shares for issuance on exercise of warrants issued to Fusion as a commitment fee) under this prospectus. The commencement of funding under the 2005 Fusion Capital securities subscription agreement is subject to certain conditions, including the declaration of effectiveness by the Securities and Exchange Commission of the registration statement covering the ADSs of which this prospectus forms a part.

In addition to the 13,271,355 that may be sold under the 2005 Fusion Capital subscription agreement with Fusion Capital and this prospectus and 4,000,000 ADSs that may be sold to Fusion Capital upon exercise of related warrants, selling stockholders may sell up to a further 20,028,530 ADSs under this prospectus. These ADSs consist of the following:

- 3,959,588 ADSs issued and issuable to the former shareholders of Mi4e in connection with our acquisition of Mi4e in March 2005, including up to 989,896 ADSs that are issuable on March 31, 2006;

- 3,208,499 ADSs issued in a private financing on October 18, 2004, an additional 1,006,724 ADSs issuable under warrants that we issued to the investors and certain placement agents at the closing of such private financing, and an additional 192,522 ADSs issuable under warrants that we issued to the investors in July 2005 as a penalty because a registration statement relating to the shares issued in such private financing had not yet become effective;

- 3,220,801 ADSs that we sold to Fusion Capital on February 9, 2005; and

- Up to 4,762,326 ADSs that are issuable on exchange of Series A Preferred Stock issued to Fusion Capital and other investors by our subsidiary, Insignia Solutions Inc., on June 30, 2005 and July 5, 2005, and an additional 3,678,070 ADSs issuable on exercise of warrants issued to the investors and certain placement agents in such financing.

The selling shareholders may sell the ADSs from time to time on the Nasdaq SmallCap Market, or otherwise, at prices and at terms then prevailing or at prices related to the then current market price or in private sales at negotiated prices directly or through a broker or brokers, who may act as agent or principal or by a combination of such methods of sale. For additional information on the method of sale, you should refer to the section entitled Plan of Distribution.

RISK FACTORS

You should carefully consider the risks and uncertainties described below and the other information in this prospectus before deciding whether to invest in shares of our common stock. If any of the following risks actually occur, our business, financial condition or operating results could be materially adversely affected. This could cause the trading price of our common stock to decline, and you may lose part or all of your investment.

This prospectus also contains certain forward-looking statements that involve risks and uncertainties. These statements refer to our future plans, objectives, expectations and intentions. These statements may be identified by the use of words such as expects, anticipates, intends, plans and similar expressions. Our actual results could differ materially from those discussed in these statements. Factors that could contribute to these differences include those discussed below and elsewhere in this prospectus.

We may need additional financing to sustain our operations, and we may not be able to continue to operate as a going concern.

In the six months ended June 30, 2005 we incurred a net loss of $3.5 million and had net cash used in operations of $2.4 million. We had cash, cash equivalents, and restricted cash of $0.9 million at June 30, 2005. In addition, we had recurring net losses of $7.1 million, $4.3 million, and $8.4 million for the years ended December 31, 2004, 2003, and 2002, respectively, and we also had net cash used in operations of $7.6 million, $4.2 million, and $8.4 million for the years ended December 31, 2004, 2003, and 2002, respectively. These conditions raise substantial doubt about our ability to continue as a going concern.

Based upon our current forecasts and estimates, including sufficient funding from the 2005 Fusion Capital securities subscription agreement and the achievement of our target revenues, cost-cutting and accounts receivable collection goals, our current forecasted cash and cash equivalents should be sufficient to meet our operating and capital requirements through June 30, 2006. If cash currently available from all sources is insufficient to satisfy our liquidity requirements, we may seek additional sources of financing including selling additional equity or debt securities. If additional funds are raised through the issuance of equity or convertible debt securities, the percentage ownership of our shareholders would be reduced, and our shareholders could experience substantial dilution. In addition, any equity or debt securities could have rights, preferences and privileges senior to holders of our shares, and the terms of such securities could impose restrictions on our operations. The sale of additional equity or debt securities could result in additional dilution to our shareholders. We may not be able to obtain additional financing on acceptable terms, if at all. If we are unable to obtain additional financing as and when needed and on acceptable terms our business may be jeopardized.

On February 10, 2005, Insignia entered into the 2005 Fusion Capital securities subscription agreement with Fusion Capital to sell ADSs, representing ordinary shares having an aggregate purchase price of up to $12.0 million, to Fusion Capital over a period of 30 months. The shares will be priced based on a market-based formula at the time of purchase. The commencement of funding under the 2005 Fusion Capital securities subscription agreement is subject to the declaration of effectiveness by the Securities and Exchange Commission of a registration statement covering the ADSs to be purchased by Fusion Capital under the 2005 Fusion Capital securities subscription agreement. Any delay in the commencement of funding under the 2005 Fusion Capital securities subscription agreement could jeopardize Insignia s business.

We only have the right to receive $20,000 per trading day under the agreement with Fusion Capital unless our stock price equals or exceeds $1.00, in which case the daily amount may be increased under certain conditions as the price of our common stock increases. Fusion Capital shall not have the right nor be obligated to purchase any shares of our common stock on any trading days that the market price of our common stock is less than $0.40. Under the laws of England and Wales, we are not permitted to sell our ADSs at a purchase price that is less than the nominal value of our ordinary shares. Currently, the nominal value per ordinary share is £0.20. In addition, Insignia will not effect any issuance of ordinary shares (or have its transfer agent or depository issue any ADSs) on any trading day where the purchase price for any subscriptions would be less than the U.S. dollar equivalent of 102.5% of the then nominal value of the ordinary shares.

We have a total of 75,000,000 ordinary shares authorized for issuance, of which 42,503,025 shares were outstanding as of August 1, 2005, 14,463,294 shares were reserved for issuance upon the exercise of outstanding warrants and options and 4,762,326 shares were reserved in connection with the June 30 and July 5, 2005 Securities Subscription Agreements. Accordingly, we have a total of 13,271,355 shares currently available and authorized for issuance in connection with future financing and strategic transactions. We are planning to seek authorization to issue an additional 35,000,000 shares at our upcoming annual general shareholders meeting to be held on September 30, 2005. There can be no assurance that shareholders will vote to approve this increase in our authorized shares, and if they do not approve such increase, our ability to complete equity financing transactions will be significantly limited.

If we sell 13,271,355 shares to Fusion Capital under the 2005 Fusion Capital securities subscription agreement that are offered pursuant to this prospectus, the selling price of our ADSs will have to average at least $0.91 per share for us to receive the maximum proceeds of $12,000,000.

Assuming an average purchase price of $0.47 per share (the closing sale price of our ADSs on August 1, 2005) and the purchase by Fusion Capital of 13,271,355 shares under the 2005 Fusion Capital securities subscription agreement that are offered pursuant to this prospectus, proceeds to us would be $6,237,537, plus up to approximately $1,540,000 from the exercise of warrants. In addition, even if we are able to access the full $12,000,000 under the 2005 Fusion Capital securities subscription agreement with Fusion Capital, we may still need additional capital to implement our business, operating and development plans. Should the financing we require to sustain our working capital needs be unavailable or prohibitively expensive when we require it, our business could be jeopardized.

Our stock could be delisted from Nasdaq.

The Company has received a Nasdaq Staff Determination indicating that the Company was not, at December 31, 2004, in compliance with the stockholders equity requirement for continued listing set forth in MarketPlace Rule 4310(c)(2)(B) and that its securities were, therefore, subject to delisting from the Nasdaq SmallCap Market. The Company had a hearing scheduled before a Nasdaq Listing Qualifications Panel to review the Staff Determination, which was subsequently cancelled because as of March 31, 2005 the Company s shareholders equity exceeded $2,500,000. There is no assurance the that the Company will be able to continue to maintain stockholders equity of at least $2,500,000 as required for continued listing on the Nasdaq SmallCap Market.

The sale of our shares to Fusion Capital will cause dilution, and the sale of shares by Fusion Capital and others could cause the price of our shares to decline.

The number of shares to be issued to Fusion Capital pursuant to the 2005 Fusion Capital securities subscription agreement with Fusion Capital will fluctuate based on the price of our shares. Shares sold to Fusion Capital under the 2005 Fusion Capital securities subscription agreement will be freely tradable. Fusion Capital may sell none, some or all of the shares purchased from us at any time. We expect that the shares to be sold to Fusion Capital will be sold over a period of up to 30 months from the effective date of the registration statement filed in connection with the transaction.

In addition, we are registering via this prospectus for resale the shares issued and issuable in connection with our October 2004 and our 2005 private placement transactions and the Mi4e acquisition. Depending upon market liquidity at the time, a sale of such shares at any given time could cause the trading price of our shares to decline. The sale of a substantial number of shares, or anticipation of such sales, could make it more difficult for us to sell equity or equity-related securities in the future at a time and at a price that we might otherwise wish to effect sales.

We have achieved minimal sales of our products to date.

Our future performance depends upon sales of our SSP, DMS and Open Management Client (OMC) products. We began shipping the SSP product in December 2003 and the OMC product line in October 2004. We have achieved only minimal sales to date, including revenues of only $450,000 relating to sales of the SSP

product in 2004. The DMS product line was acquired as part of Mi4e in March 2005 and we thus have limited experience in selling this product. If we are unable to gain the necessary customer acceptance of our products, our business may be jeopardized.

Our SSP, DMS and OMC products represent the next-generation products that enable carriers to repair and update mobile phones over-the-air without having their customers send back their handsets to the carrier for repair or update. To the extent that carriers continue to use the current generation of over-the-air products, such as those offered by Bitfone, InnoPath, Openwave and mFormation, to make repairs and updates and do not believe that the next generation products, such as our SSP product, offer a sufficiently important improvement at a reasonable cost, then we may not achieve our targeted sales and our business could fail. Conversely our newly acquired DMS product represents the current generation of technology in the market place.

In addition, some prospective customers have been reticent to buy our products because of our current financial position. To the extent that prospective customers believe that we are under-capitalized, they may be hesitant to buy our products.

The long and complex process of licensing our products makes our revenue unpredictable.

Our revenue is dependent upon our ability to license our products to third parties. Licensing our products has to date been a long and complex process, typically being a six to nine months sales cycle. Before committing to license our products, potential customers must generally consider a wide range of issues including product benefits, infrastructure requirements, functionality, reliability and our ability to work with existing systems. The process of entering into a development license with a company typically involves lengthy negotiations. Because of the sales cycle, it is difficult for us to predict when, or if, a particular prospect might sign a license agreement. License fees may be delayed or reduced because of this process.

We rely on third parties for software development tools, which we distribute with some of our products.

We license software development tool products from other companies to distribute with some of our products. These third parties may not be able to provide competitive products with adequate features and high quality on a timely basis or to provide sales and marketing cooperation. Furthermore, our products compete with products produced by some of our licensors. When these licenses terminate or expire, continued license rights might not be available to us on reasonable terms, or at all. We might not be able to obtain similar products to substitute into our tool suites.

If handset manufacturers (and other third parties) do not achieve substantial sales of their products that incorporate our technology, we will not receive royalty payments on our licenses.

Our success depends upon the use of our technology by our licensees in their smart devices. Our licensees undertake a lengthy process of developing systems that use our technology. Until a licensee has sales of its systems incorporating our technology, they are not obligated to pay us royalties. We expect that the period of time between entering into a development license and actually recognizing commercial use royalties will be lengthy and difficult to predict.

We have a history of losses and we must generate significantly greater revenue if we are to achieve profitability.

We have experienced operating losses in each quarter since the second quarter of 1996. To achieve profitability, we will have to increase our revenue significantly. Our ability to increase revenue depends upon the success of our products, and to date we have received only minimal revenue. If we are unable to create revenue in the form of development license fees, maintenance and support fees, commercial use royalties and nonrecurring engineering services, our current revenue will be insufficient to sustain our business.

We need to increase our sales and marketing expenditures in order to achieve sales of our products; however, this increase in expenses is expected to decrease our cash position.

In the six months ended June 30, 2005, we spent 111% of our total revenues on sales and marketing. We expect to continue to incur disproportionately high sales and marketing expenses in the future. To market our products effectively, we must develop client and server channel markets. We will continue to incur the expenses for a sales and marketing infrastructure before we recognize significant revenue from sales of the product. Because customers in the smart device market tend to remain with the same vendor over time, we believe that we must devote significant resources to each potential sale. If potential customers do not design our products into their systems, the resources we have devoted to the sales prospect would be lost. If we fail to achieve and sustain significant increases in our quarterly sales, we may not be able to continue to increase our investment in these areas. With increased expenses, we must significantly increase our revenue if we are to become profitable.

If we are unable to stay abreast of technological changes, evolving industry standards and rapidly changing customer requirements, our business reputation will likely suffer and revenue may decline.

The market for mobile devices is fragmented and characterized by technological change, evolving industry standards and rapid changes in customer requirements. Our products will need to be continually improved to meet emerging market conditions, such as new interoperability standards, new methods of wireless notifications, new flash silicon technologies and new telecom infrastructure elements. Our existing products will become less competitive or obsolete if we fail to introduce new products or product enhancements that anticipate the features and functionality that customers demand. The success of our new product introductions will depend on our ability to:

- accurately anticipate industry trends and changes in technology standards;
- complete and introduce new product designs and features in a timely manner;
- continue to enhance our existing product lines; and
- respond promptly to customers requirements and preferences.

Development delays are commonplace in the software industry. We have experienced delays in the development of new products and the enhancement of existing products in the past and are likely to experience delays in the future. We may not be successful in developing and marketing, on a timely basis or at all, competitive products, product enhancements and new products that respond to technological change, changes in customer requirements and emerging industry standards.

Our targeted market is highly competitive.

Our products are targeted for the mobile operator and mobile device market. The market for these products is fragmented and highly competitive. This market is also rapidly changing, and there are many companies creating products that compete or will compete with ours. As the industry develops, we expect competition to increase in the future. This competition may come from existing competitors or other companies that we do not yet know about. Our main competitors include Bitfone, IBM, InnoPath, 4thPass, mFormation, Openwave and Red Bend.

If these competitors develop products that are less expensive or provide better capabilities or functionality than do our products, we will be unable to gain market share. Many of our current competitors and potential competitors have greater resources, including larger customer bases and greater financial resources than we do, and we might not be able to compete successfully against these companies. A variety of other potential actions by our competitors, including increased promotion and accelerated introduction of new or enhanced products, could also harm our competitive position.

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Our revenue model may not succeed.

Competition could force us to reduce the prices of our products, which would result in reduced gross margins and could harm our ability to provide adequate service to our customers and our business. Our pricing model for our software products is a combination of (1) initial license fees, (2) activated subscriber fees, (3) support and maintenance fees, (4) hosting services and (5) engineering service fees, any of which may be subject to significant pricing pressures. Also, the market may demand alternative pricing models in the future, which could decrease our revenues and gross margins.

Fluctuations in our quarterly results could cause the market price of our shares to decline.

Our quarterly operating results can vary significantly depending on a number of factors. These factors include:

- the volume and timing of orders received during the quarter;
- the mix of and changes in customers to whom our products are sold;
- the mix of product and service revenue received during the quarter;
- the mix of development license fees and commercial use royalties received;
- the timing and acceptance of new products and product enhancements by us or by our competitors;
- changes in product pricing;
- foreign currency exchange rate fluctuations; and
- ability to recognize revenue on orders received.

All of these factors are difficult to forecast. Our future operating results may fluctuate due to these and other factors, including our ability to continue to develop innovative and competitive products. Due to all of these factors, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful and should not be viewed as an indication of our future performance.

We have engineering and other operations both in the United States and foreign countries, which is expensive and can create logistical challenges.

We currently have 14 employees in the United States, 8 employees in the United Kingdom and 15 employees in Sweden. In the past, the geographic distance between our engineering personnel in the United Kingdom and our principal offices in California and primary markets in Asia, Europe and the United States has led to logistical and communication difficulties. In the future, we may experience similar difficulties, which may have an adverse impact on our business. Further, because a substantial portion of our research and development operations is located in the United Kingdom and Sweden, our operations and expenses are directly affected by economic and political conditions in the United Kingdom and Sweden.

Economic conditions in Europe and fluctuations in the value of the U.S. dollar against the Euro, Swedish Krona and British pound sterling could impair our revenue and results of operations. International operations are subject to a number of other special risks. These risks include foreign government regulation, reduced protection of intellectual property rights in some countries where we do business, longer receivable collection periods and greater difficulty in accounts receivable collection, unexpected changes in, or imposition of, regulatory requirements, tariffs, import and export restrictions and other barriers and restrictions, potentially adverse tax consequences, the burdens of complying with a variety of foreign laws and staffing and managing foreign operations, general geopolitical risks, such as political and economic instability, hostilities with neighboring countries and changes in diplomatic and trade relationships, and possible recessionary environments in economies outside the United States.

In March 2005, we acquired Mi4e, a company headquartered in Sweden. We now have 15 employees and an office in Sweden. It takes substantial management time and financial resources to integrate operations in

connection with an acquisition, and the potential logistical, personnel and customer challenges are exacerbated when, as in this case, the acquirer and target company are separated by great geographic distance.

International sales of our products, which we expect to comprise a significant portion of total revenue, expose us to the business and economic risks of international operations.

Sales from outside of the United States accounted for approximately 81% and 72% of our total revenue for the six months ended June 30, 2005 and year ended December 31, 2004, respectively. We expect to market SSP, DMS and OMC to mobile operators and handset manufacturers in Europe. Economic conditions in Europe and fluctuations in the value of the Euro, British pounds sterling and Swedish Krona against the U.S. dollar could impair our revenue and results of operations. International operations are subject to a number of other risks. These risks include:

- longer receivable collection periods and greater difficulty in accounts receivable collection;
- foreign government regulation;
- reduced protection of intellectual property rights in some countries where we do business;
- unexpected changes in, or imposition of, regulatory requirements, tariffs, import and export restrictions and other barriers and restrictions;
- potentially adverse tax consequences;
- the burdens of complying with a variety of foreign laws and staffing and managing foreign operations;
- general geopolitical risks, such as political and economic instability, terrorism, hostilities with neighboring countries and changes in diplomatic and trade relationships; and
- possible recessionary environments in economies outside the United States.

Our technology depends on the adoption of standards such as those set forth by the Open Mobile Alliance (OMA). If such standards are not effectively established our business could suffer. Use of open industry standards, however, may also make us more vulnerable to competition.

We promote open standards in our technology in order to support open competition and interoperability. We do not exercise control over the development of open standards. Our products are integrated with communication service providers systems and mobile phones. If we are unable to continue to successfully integrate our platform products with these third-party technologies, our business could suffer. In addition, large wireless operators sometimes create detailed service specifications and requirements, such as Vodafone Live or DoCoMo iMode, and such operators are not required to share those specifications with us. Failure or delay in the creation of open, global specifications could have a negative impact on our sales and operating results.

The widespread adoption of open industry standards, however, may make it easier for new market entrants and existing competitors to introduce products that compete with our software products.

Product defects can be expensive to fix and may cause us to lose customers.

The software we develop is complex and must meet the stringent technical requirements of our customers. We must develop our products quickly to keep pace with the rapidly changing Internet software and telecommunications markets. Software products and services as complex as ours are likely to contain undetected errors or defects. Software errors are particularly common when a product is first introduced or a new version is released. Despite thorough testing, our products might be shipped with errors. If this were to happen, customers could reject our products, or there might be costly delays in correcting the problems, and we could face damage to our reputation. Our products are increasingly used in systems that interact directly with the general public, such as in transportation and medical systems. In these public-facing systems, the failure of our product could cause substantial property damage or personal injury, which could expose us to product liability claims. Our products are used for applications in business

systems where the failure of our

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product could be linked to substantial economic loss. Our agreements with our customers typically contain provisions designed to limit our exposure to potential product liability and other claims. It is likely, however, that these provisions are not effective in all circumstances and in all jurisdictions. We may not have adequate insurance against product liability risks, and renewal of our insurance may not be available to us on commercially reasonable terms. Further, our errors and omissions insurance may not be adequate to cover claims. If we ever had to recall our product due to errors or other problems, it would cost us a great deal of time, effort and expense.

Our operations depend on our ability to protect our computer equipment and the information stored in our databases against damage by fire, natural disaster, power loss, telecommunications failure, unauthorized intrusion and other catastrophic events. The measures we have taken to reduce the risk of interruption in our operations may not be sufficient. To date, we have not experienced any major interruptions in our operations because of a catastrophic event.

If we lose key personnel or are unable to hire additional qualified personnel as necessary, we may not be able to successfully manage our business or sell our products.

Our future performance depends to a significant degree upon the continued contributions of our key management, product development, sales, marketing and operations personnel. We do not have agreements with any of our key personnel that obligates them to work for us for a specific term, and we do not maintain any key person life insurance policies. We currently intend to hire additional salespeople and believe our future success will depend in large part upon our ability to attract and retain highly skilled managerial, engineering, sales, marketing and operations personnel, many of whom are in great demand. Competition for qualified personnel can be intense in the San Francisco Bay Area, where our U.S. operations are headquartered.

Our performance depends significantly on our ability to protect our intellectual property and proprietary rights in the technologies used in our products. If we are not adequately protected, our competitors could use the technologies that we have developed to enhance their products and services, which could harm our business.

We rely on a combination of patent, copyright, trademark, trade secret laws, confidentiality provisions and other contractual provisions to protect our intellectual property and proprietary rights, but these legal means afford only limited protection. Despite the measures we take to protect our intellectual property rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use information which we regard as proprietary. In addition, the laws of some countries may not protect our intellectual property and proprietary rights as fully as do the laws of the United States. Thus, the measures we take to protect our intellectual property and proprietary rights in the United States and abroad may not be adequate. In addition, our competitors may independently develop similar technologies.

The market for wireless communications and the delivery of Internet-based services are characterized by the existence of a large number of patents and frequent litigation based on allegations of patent infringement. As the number of entrants into our market increases, the possibility of infringement claims against us grows. In addition, because patents can take many years to issue, there may be one or more patent applications now pending of which we are unaware, and which we may be accused of infringing when patent(s) issue from the application(s) in the future. To address any patent infringement claims, we may need to enter into royalty or licensing agreements on disadvantageous commercial terms. We may also have to incur significant legal expenses to ascertain the risk of infringing a patent and the likelihood of that patent being valid. A successful claim of patent infringement against us, and our failure to license the infringing or similar technology, could harm our business. In addition, any infringement claims, with or without merit, would be time consuming and expensive to litigate or settle and could divert management attention from administering our core business.

As a member of several groups involved in setting standards for the industry, we have agreed to license our intellectual property to other members of those groups on fair and reasonable terms to the extent that the intellectual property is essential to implementing the specifications promulgated by those groups. Each of the other members of the groups has agreed to similar provisions.

Our products may infringe the intellectual property rights of third parties, which may result in lawsuits and prevent us from selling our products.

As the number of patents, copyrights, trademarks and other intellectual property rights in our industry increases, products based on our technology may increasingly become the subject of infringement claims. Third parties could assert infringement claims against us in the future. For example, other companies have asked us to evaluate the need for a license of patents they hold, and we cannot assure you that patent infringement claims will not be filed against us in the future. Infringement claims, with or without merit, could be time consuming, result in costly litigation, cause product shipment delays or require us to enter into royalty or licensing agreements. Royalty or licensing agreements, if required, might not be available on terms acceptable to us. We may initiate claims or litigation against third parties for infringement of our proprietary rights or to establish the validity of our proprietary rights. Litigation to determine the validity of any claims, whether or not the litigation is resolved in our favor, could result in significant expense to us and divert the efforts of our technical and management personnel from productive tasks. If there is an adverse ruling against us in any litigation, we may be required to pay substantial damages, discontinue the use and sale of infringing products, expend significant resources to develop non-infringing technology or obtain licenses to infringing technology. Our failure to develop or license a substitute technology could prevent us from selling our products.

We are at risk of securities litigation which, regardless of the outcome, could result in substantial costs and divert management attention and resources.

Stock market volatility has had a substantial effect on the market prices of securities issued by us and other high technology companies, often for reasons unrelated to the operating performance of the specific companies. Following periods of volatility in the market price of a company s securities, securities class action litigation has often been instituted against high technology companies. We have in the past been, and may in the future be, the target of similar litigation. Regardless of the outcome, securities litigation may result in substantial costs and divert management attention and resources.

If we are unable to favorably assess the effectiveness of our internal control over financial reporting, or if our independent registered public accounting firm is unable to provide an unqualified attestation report on our assessment our stock price could be adversely affected.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 and beginning with our Annual Report on Form 10-K for the year ending December 31, 2006, our management will be required to report on, and our independent registered public accounting firm to attest to, the effectiveness of our internal control over financial reporting. The rules governing the standards that must be met for management to assess our internal controls over financial reporting are new and complex, and require significant documentation, testing and possible remediation. The process of reviewing, documenting and testing our internal control over financial reporting, will result in substantial increased expenses and the devotion of significant management and other internal resources.

We may encounter problems or delays in completing the assessment and the implementation of any changes necessary to make a favorable assessment of our internal control over financial reporting, including having the necessary financial resources to conduct the assessment and implementation. If we cannot favorably assess the effectiveness of our internal control over financial reporting, or if our independent registered public accounting firm is unable to provide an unqualified attestation report on our assessment, investor confidence and our stock price could be adversely affected.

Our investors may have difficulty enforcing judgments against us in U.S. courts because many of our assets and some of our directors and management are located in England and Sweden.

Insignia is incorporated under the laws of England and Wales. Two of our directors reside in England. All or a substantial portion of the assets of these persons, and a portion of our assets, are located outside of the United States. It may not be possible for investors to serve a complaint within the United States upon these

persons or to enforce against them or against us, in U.S. courts, judgments obtained in U.S. courts based upon the civil liability provisions of U.S. securities laws. There is doubt about the enforceability outside of the United States, in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities based solely upon U.S. securities laws. The rights of holders of our shares are governed by English law, including the Companies Act 1985, and by our memorandum and articles of association. The rights of holders of our ADSs are also affected by English law. These rights differ from the rights of security holders in typical U.S. corporations.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements include statements regarding, among other things, (a) our projected sales and profitability, (b) our growth strategies, (c) anticipated trends in our industry, (d) our future financing plans, and (e) our anticipated needs for working capital. Forward-looking statements, which involve assumptions and describe our future plans, strategies, and expectations, are generally identifiable by use of the words may, will, should, expect, anticipate, estimate, b intend, or project or the negative of these words or other variations on these words or comparable terminology. This information may involve known and unknown risks, uncertainties, and other factors that may cause our actual results, performance, or achievements to be materially different from the future results, performance, or achievements expressed or implied by any forward-looking statements. These statements may be found under Management s Discussion and Analysis of Financial Condition and Results of Operations and Business, as well as in this prospectus generally. Actual events or results may differ materially from those discussed in forward-looking statements as a result of various factors, including, without limitation, the risks outlined under Risk Factors and matters described in this prospectus generally. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this filing will in fact occur. In addition to the information expressly required to be included in this filing, we will provide such further material information, if any, as may be necessary to make the required statements, in light of the circumstances under which they are made, not misleading.

USE OF PROCEEDS

This prospectus relates to shares that may be offered and sold from time to time by selling shareholders. We will receive no proceeds from the sale of shares pursuant to this prospectus. However, we may receive up to $12.0 million in proceeds from the sale of our shares to Fusion Capital under the 2005 Fusion Capital securities subscription agreement and up to $6.9 million in proceeds from the exercise of warrants issued to the selling shareholders. Any proceeds we receive under the 2005 Fusion Capital securities subscription agreement or upon the exercise of warrants will be used for working capital and general corporate purposes.

PRICE RANGE OF ORDINARY SHARES

Our American Depositary Shares (ADSs), each representing one ordinary share of 20 pence nominal value, have been traded under the symbol INSGY from Insignia s initial public offering in November 1995 to December 24, 2000, and INSG since then. Our stock traded on the Nasdaq National Market from November 1995 to January 2003 and has traded on the Nasdaq SmallCap Market since then. The following table sets forth, for the periods indicated, the high and low sales prices for our ADSs as reported by the Nasdaq National Market or Nasdaq SmallCap Market as applicable:

	2005 Quarters Ended	
	June 30	Mar 31
Quarterly per share stock price:		
High	$ 1.29	$ 1.04
Low	$ 0.25	$ 0.43

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	2004 Quarters Ended			
	Dec 31	Sept 30	June 30	Mar 31
Quarterly per share stock price:				
High	$ 1.30	$ 0.92	$ 2.14	$ 3.47
Low	$ 0.68	$ 0.50	$ 0.75	$ 0.88

	2003 Quarters Ended			
	Dec 31	Sept 30	June 30	Mar 31
Quarterly per share stock price:				
High	$ 1.62	$ 1.79	$ 0.80	$ 0.45
Low	$ 0.80	$ 0.39	$ 0.19	$ 0.20

The closing sales price of our shares as reported on the Nasdaq SmallCap Market on September 14, 2005 was $0.40 per share. As of that date, there were approximately 222 holders of record of our ordinary shares and ADSs, excluding those ADSs that are held in nominee or street name by brokers.

DIVIDENDS

We have not declared or paid any cash dividends on our ordinary shares. We anticipate that we will retain any future earnings for use in our business and do not anticipate paying any cash dividends in the foreseeable future. Any payment of dividends would be subject, under English law, to the Companies Act 1985, and to our Memorandum and Articles of Association, and may only be paid from our retained earnings, determined on a pre-consolidated basis. As of June 30, 2005, Insignia Solutions plc (excluding all subsidiaries) had an accumulated deficit of $75.0 million on a pre-consolidated basis.

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SELECTED FINANCIAL AND OPERATING DATA

The tables that follow present portions of our consolidated financial statements and are not complete. You should read the following selected financial data in conjunction with our consolidated financial statements and the related notes thereto and with Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus. The consolidated statements of operations data for the six months ended June 30, 2005 and the years ended December 31, 2004, 2003 and 2002 and the consolidated balance sheet data as of June 30, 2005 and December 31, 2004 and 2003 are derived from our audited consolidated financial statements, which are included elsewhere in this prospectus. The consolidated statements of operations data for the years ended December 31, 2001 and 2000 and the consolidated balance sheet data as of December 31, 2002, 2001 and 2000 are derived from audited consolidated financial statements that are not included in this prospectus. The consolidated statement of operations data for the six months ended June 30, 2004 is derived from unaudited consolidated financial statements that are included in this prospectus. The historical results presented below are not necessarily indicative of the results to be expected for any future fiscal year. See Management s Discussion and Analysis of Financial Condition and Results of Operations.

	Six Months Ended June 30,		Year Ended December 31,				
	2005	2004	2004	2003	2002	2001	2000
		(Unaudited)					
	(In thousands, except per share data)						
Consolidated Statements of Operations Data							
Net revenues	$ 1,196	$ 426	$ 541	$ 710	$ 7,256	$ 10,273	$ 10,766
Cost of net revenues	99	28	42	340	2,584	4,275	3,291
Gross profit	1,097	398	499	370	4,672	5,998	7,475
Operating expenses:							
Sales and marketing	1,329	1,345	2,511	1,757	5,558	7,058	5,376
Research and development	1,591	1,472	2,807	3,373	5,640	6,220	5,960
General and administrative	1,484	1,261	2,579	2,676	3,356	4,155	3,733
Amortization of intangible assets	110						
Restructuring				498	296	292	
Total operating expenses	4,514	4,078	7,897	8,304	14,850	17,725	15,069
Operating loss	(3,417)	(3,680)	(7,398)	(7,934)	(10,178)	(11,727)	(7,594)
Interest and other income (expense), net	(36)	253	255	3,101	(356)	567	(5)
Loss before income taxes	(3,453)	(3,427)	(7,143)	(4,833)	(10,534)	(11,160)	(7,599)

Provision for (benefit from) income taxes	36	(213)	(81)	(510)	(2,114)	(152)	(785)
Net loss	(3,489)	(3,214)	(7,062)	(4,323)	(8,420)	(11,008)	(6,814)
Deemed dividend related to beneficial conversion feature of preferred stock	(415)						
Net loss attributable to ordinary shareholders	$ (3,904)	$ (3,214)	$ (7,062)	$ (4,323)	$ (8,420)	$ (11,008)	$ (6,814)

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	Six Months Ended June 30,		Year Ended December 31,				
	2005	2004	2004	2003	2002	2001	2000
	(Unaudited)						
	(In thousands, except per share data)						
Net loss per share:							
Basic and diluted	$ (0.10)	$ (0.11)	$ (0.23)	$ (0.20)	$ (0.42)	$ (0.57)	$ (0.47)
Weighted average ordinary shares and ordinary share equivalents:							
Basic and diluted	40,956	28,928	30,191	21,231	19,937	19,248	14,571

	June 30, 2005	December 31, 2004	2003	2002	2001	2000
	(In thousands)					
Consolidated Balance Sheet Data						
Cash, cash equivalents, short-term investments and restricted cash	$ 892	$ 952	$ 2,232	$ 976	$ 8,893	$ 17,351
Working capital (deficit)	(198)	900	2,254	1,964	10,633	11,377
Total assets	5,030	2,587	6,794	6,453	17,768	22,336
Mandatory redeemable warrants			38	1,440	1,440	1,440
Total shareholders equity	$ 2,835	$ 1,341	$ 2,589	$ 2,673	$ 9,895	$ 15,749

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Except for the historical information contained in this prospectus, the matters discussed herein are forward-looking statements. Words such as anticipates, believes, expects, future, and intends, and similar expre are used to identify forward-looking statements. These and other statements regarding matters that are not historical are forward-looking statements. These matters involve risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include without limitation those discussed below as well as those discussed elsewhere in this prospectus. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management s analysis only as of the date hereof. We assume no obligation to update these forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements.

Overview

We commenced operations in 1986, and currently develop, market and support software technologies that enable mobile operators and phone manufacturers to update the firmware of mobile devices using standard over-the-air data networks. Before 2003, our principal product line was the Jeode™ platform, based on our Embedded Virtual Machine (EVM™) technology.

During 2001, we began development of a range of products (Secure System Provisioning or SSP products) for the mobile phone and wireless operator industry. These SSP products build on our position as a Virtual Machine (VM) supplier for manufacturers of mobile devices and allow wireless operators and phone manufacturers to reduce customer care and software recall costs as well as increase subscriber revenue by deploying new mobile services based on dynamically provisional capabilities. With the sale of our Jeode product line in April 2003, our sole product line then consisted of our SSP product. We shipped our first SSP product in December 2003, and in October 2004 we launched our Open Management Client (OMC) product.

On March 16, 2005, we closed our acquisition of Mi4e Device Management AB (Mi4e), a private company headquartered in Stockholm, Sweden. The consideration paid in the transaction was 2,969,692 American depositary shares (ADSs) representing ordinary shares, and another 989,896 ADSs are issuable on March 31, 2006, subject to potential offset for breach of representations, warranties and covenants. In addition, up to a maximum of 700,000 Euros is payable in a potential earn-out based on a percentage of future revenue collected from sales of existing Mi4e products. Mi4e develops, markets and supports software technologies that enable mobile operators and phone manufacturers to update firmware of mobile devices using standards over-the-air data networks. Its main product, a Device Management Server (DMS), is a mobile device management infrastructure solution for mobile operators that support the Open Mobile Alliance (OMA) client provisioning specification. DMS was first deployed at Telstra in Australia in 2000 and has since been deployed at more than ten carriers around the world. By integrating the Mi4e capabilities with existing Insignia applications, our strategy is to deliver comprehensive solutions across multiple generations of technology and therefore resolve firmware update and compatibility issues for current and future users who require over-the-air repair.

Currently we primarily offer the SSP, DMS and OMC product lines. Our revenues from these products are derived from:

- initial licensing fees;
- royalties paid based on volume of users;
- support and maintenance fees;
- trial and installation;

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subscription fees for hosting services; and

engineering services.

Our operations outside of the United States are primarily in the United Kingdom and Sweden, where part of our research and development operations and our European sales activities are located. We sell our products directly to operators, distributors and original equipment manufacturers (OEMs). Our revenues from customers outside the United States are derived primarily from Europe and Asia and are generally affected by the same factors as our revenues from customers in the United States. The operating expenses of our operations outside the United States are mostly incurred in Europe and relate to our research and development and European sales activities. Such expenses consist primarily of ongoing fixed costs and consequently do not fluctuate in direct proportion to revenues. Our revenues and expenses outside the United States can fluctuate from period to period based on movements in currency exchange rates. Historically, movements in currency exchange rates have not had a material effect on our revenues and expenses.

We operate with the U.S. dollar as our functional currency, with a majority of revenues and operating expenses denominated in Euros, U.S. dollars, British pounds sterling and Swedish Krona. Exchange rate fluctuations against the dollar can cause U.K. and Swedish expenses, which are translated into dollars for financial statement reporting purposes, to vary from period-to-period.

Critical Accounting Policies and Estimates

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. Certain of our accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. These estimates affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. By their nature, these judgments are subject to an inherent degree of uncertainty. The most significant estimates and assumptions relate to revenue recognition, the adequacy of allowances for doubtful accounts, impairment of intangible assets and goodwill, and the valuation allowance on deferred tax assets. Actual amounts could differ from these estimates.

Revenue recognition

We recognize revenue in accordance with Statement of Position No. 97-2 (SOP 97-2), Software Revenue Recognition and Statement of Position No. 98-9, Modification of SOP No 97-2. These Statements of Position require that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services rendered; (3) the fee is fixed or determinable; and (4) collectibility is probable. Determination of criteria (3) and (4) are based on management s judgments regarding the fixed nature of the fee charged for services rendered and products delivered and the collectibility of those fees. Should changes in conditions cause management to determine these criteria are not met for certain future transactions, revenue recognized for any reporting period could be adversely affected.

At the time of the transaction, we assess whether the fee associated with our revenue transaction is fixed or determinable and whether or not collection is probable. We assess whether the fee is fixed or determinable based on the payment terms associated with the transaction. If a significant portion of a fee is due after the normal payment terms, which are 30 to 90 days from invoice date, we account for the fee as not being fixed or determinable. In these cases, we recognize revenue on the earlier of due date or the date on which cash is collected.

We assess collectibility based on a number of factors, including past transaction history with the customer and the credit-worthiness of the customer. We do not request collateral from our customers. If we determine that collection of a fee is not probable, we will defer the fee and recognize revenue at the time collection becomes probable, which is generally upon receipt of cash.

For all sales, we use either a signed license agreement or a binding purchase order (primarily for maintenance renewals) as evidence of an arrangement.

For arrangements with multiple obligations (for example, undelivered maintenance and support), we will allocate revenue to each component of the arrangement using the residual value method based on the fair value of the undelivered elements, which is specific to us. This means that we will defer revenue from the arrangement fee equivalent to the fair value of the undelivered elements. Fair value for the ongoing maintenance and support obligation is based upon separate sales of renewals to other customers or upon renewal rates quoted in the contracts. Fair value of services such as training or consulting, is based upon separate sales by us for these services to other customers.

Our arrangements do not generally include acceptance clauses. However, if an arrangement includes an acceptance provision, acceptance occurs upon the earlier of receipt of written customer acceptance or expiration of the acceptance period.

We recognize revenue for maintenance and hosting services ratably over the contract term. Our training and consulting services are billed based on hourly rates, and we will generally recognize revenue as these services are performed. However, at the time of entering into a transaction, we will assess whether or not any services included within the arrangement require us to perform significant work either to alter the underlying software or to build additional complex interfaces so that the software performs as the customer requests. If these services are included as part of an arrangement, we recognize the entire fee using the percentage of completion method. We estimate the percentage of completion based on our estimate of the total costs estimated to complete the project as a percentage of the costs incurred to date and the estimated costs to complete.

Accounts receivable and allowance for doubtful accounts

We perform ongoing credit evaluations of our customers and will adjust credit limits based upon payment history and the customer s current creditworthiness, as determined by our review of their current credit information. We continuously monitor collections and payments from our customers and maintain an allowance for doubtful accounts based upon historical experience and any specific customer collection issues that we have identified. While such credit losses have historically been within expectations and the allowance established, credit loss rates may increase. Since our accounts receivable are concentrated in a relatively few number of customers, a significant change in the liquidity or financial position of any one of these customers could have a material adverse impact on the collectibility of accounts receivables and future operating results.

The preparation of financial statements requires us to make estimates of the uncollectibility of our accounts receivables. We specifically analyze accounts receivable and analyze historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts.

Long-Lived Assets

We periodically review our property and equipment and identifiable intangible assets for possible impairment whenever facts and circumstances indicate that the carrying amount may not be fully recoverable. Assumptions and estimates used in the evaluation of impairment may affect the carrying value of long-lived assets, which could result in impairment charges in future periods. Significant assumptions and estimates include the projected cash flows based upon estimated revenue and expense growth rates and the discount rate applied to expected cash flows. In addition, our depreciation and amortization policies reflect judgments on the estimated useful lives of assets.

Deferred Taxes

We currently have significant deferred tax assets, which are subject to periodic recoverability assessments. We record a valuation allowance to reduce our deferred tax assets to the amount that we believe to be more likely than not realizable. We have recorded a valuation allowance in an amount equal to the net

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deferred tax assets to reflect uncertainty regarding future realization of these assets based on past performance and the likelihood of realization of our deferred tax assets.

Business Combinations

In accordance with the provisions of Statement of Financial Accounting Standards No. 141, Business Combinations , the purchase price of an acquired company is allocated between the intangible assets and the net tangible assets of the acquired business with the residual of the purchase price recorded as goodwill. Our future operating performance will be impacted by the future amortization of these acquired intangible assets and potential impairment charges related to goodwill if indicators of potential impairment exist. As a result of business acquisitions, the allocation of the purchase price to goodwill and intangible assets could have a significant impact on our future operating results. The allocation of the purchase price of the acquired companies to goodwill and intangible assets requires us to make significant estimates and assumptions, including estimates of future cash flows expected to be generated by the acquired assets and the appropriate discount rate for these cash flows. Should conditions be different from management s current estimates, material write-downs of intangible assets or goodwill may be required, which would adversely affect our operating results.

In accordance with the provisions of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets , we assess goodwill and intangible assets with indefinite lives for impairment at least annually, or more frequently if events and changes in circumstances suggest that the carrying amount may not be recoverable. To the extent the carrying amount exceeds its fair value, an impairment charge to operations is recorded. At June 30, 2005, the carrying value of goodwill was $416,000.

Sale of Jeode Product Line and Java Virtual Machine Assets

In 2003, we sold our Jeode product line to Esmertec A.G. (Esmertec) and transitioned our product focus to our SSP product line. This change in product focus has resulted in a redirection of available resources from our historical revenue base towards the development and marketing efforts associated with the SSP product.

On February 7, 2003, we entered into a loan agreement with Esmertec whereby Esmertec loaned Insignia $1.0 million at an interest rate of prime plus two percent. The principal amount of $1.0 million was repaid on January 15, 2004 by offsetting that amount with a receivable relating to the product line purchase. All remaining accrued interest of $55,161 was repaid on March 15, 2004 by offsetting the accrued interest against prepaid royalties. Accordingly, there were no outstanding balances or future amounts due to Esmertec under the loan agreement as of December 31, 2004.

On March 4, 2003, we entered into several agreements with Esmertec, a Swiss software company focused on Java technologies, including a definitive agreement to sell certain assets relating to our Jeode product line in exchange for $3.5 million due in installments through April 2004. The transaction closed on April 23, 2003. The assets sold primarily included the fixed assets, customer agreements and employees related to the Jeode product line. Under the terms of the agreements, Esmertec also became the exclusive master distributor of the Jeode technology in exchange for $3.4 million in minimum guaranteed royalties through October 2004.

Under these agreements, Insignia could have earned up to an additional $4.0 million over the subsequent three-year period from the effective date of the agreement based on a percentage of Esmertec s sales of the Jeode product during the period. Additionally, the parties entered into a cooperative agreement whereas Esmertec agreed to promote Insignia s SSP software product to Esmertec s mobile platform customers.

As part of this transaction, we transferred 42 employees to Esmertec, of which 31 were development engineers. In addition, as part of the sale, Esmertec entered into an agreement with our U.K. building landlord in order to assume the lease on one of the two buildings leased by Insignia.

On February 13, 2004, Insignia and Esmertec executed an agreement transferring the intellectual property of Jeode and the title for Insignia s remaining prepaid royalties to Esmertec.

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On June 30, 2004, Insignia and Esmertec executed a Termination and Waiver Agreement that effectively concluded the remaining business between the two companies and dissolved any ties going forward between Insignia and the product line it sold to Esmertec in April 2003. The agreement offset Esmertec related liabilities and deferred revenue totaling $853,000 against $600,000 of remaining guaranteed royalty payments due from Esmertec in exchange for final cash payment to Insignia of $185,000 (which was made in July 2004). The resulting net gain of $302,000 was recorded as other income in the second quarter of 2004 and is net of expenses. This agreement resulted in the full and final satisfaction of the deferred consideration and waiver of all future outstanding obligations pursuant to the 2003 asset purchase agreement.

Results of operations

Six months ended June 30, 2005 and 2004

Revenues

	Six Months Ended June 30,	
	2005	**2004**
		(Unaudited)
	(In thousands)	
License revenue	$ 917	$ 421
Service revenue	279	5
Total net revenue	$ 1,196	$ 426

The SSP product line, which we launched in 2003, was expanded by our introduction of additional products in October 2004 and March 2005. These products include Open Management Client (OMC) and Device Management Server (DMS). The DMS product was acquired through the acquisition of Mi4E in March 2005. In 2005, our license revenues were derived from initial licensing fees and royalties and service fees came from support and maintenance, trials and installations, hosting services and engineering services. In 2004, revenues were derived from initial licensing fees, support and maintenance, and engineering service .

The 181% increase in total revenues from the six months ended June 30, 2004 to the same period in 2005 was primarily due to six new operators becoming customers combined with the benefits of acquiring Mi4e in March 2005. License revenue and service revenue accounted for 77% and 23%, respectively, of total revenues in the six months ended June 30, 2005 compared to 99% and 1%, respectively, in the same period of the prior year.

The 118% increase in license revenues from the first half of 2004 to the first half of 2005 was primarily due to increased revenues from our SSP products, and new in 2005, DMS and OMC products and with the adoption of our new products by a number of system operators. The SSP, DMS and OMC products made up 48%, 15% and 37%, respectively, of license revenues in the first half of 2005. In the first half of 2004, the SSP product line made up 100% of total license revenues.

The $274,000 increase in service revenue from the first half of 2004 to the first half of 2005 was primarily due to the increase in agreements for set up, hosting, and support and maintenance services for the DMS and SSP products.

Sales to customers outside the United States, derived mainly from customers in Europe, the Middle East, Asia Pacific, and Africa represented approximately 81% of total revenues in the six months ended June 30, 2005 and 65% of total revenues in the six months ended June 30, 2004.

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Expenses

	Six Months Ended June 30,	
	2005	2004
	(In thousands, except percentages)	
Cost of net revenues	$ 99	$ 28
Percentage of total revenues	8%	7%
Sales and marketing	$ 1,329	$ 1,345
Percentage of total revenues	111%	316%
Research and development	$ 1,591	$ 1,472
Percentage of total revenues	133%	346%
General and administrative	$ 1,484	$ 1,261
Percentage of total revenues	124%	296%
Amortization of intangible assets	$ 110	$
Percentage of total revenues	9%	

Cost of net revenues consist of the cost of providing service revenue, primarily representing the cost of support and engineering for customer specific projects. In the six months ended June 30, 2005, cost of net revenues also included approximately $60,000 for providing third party products to customers purchasing licenses. This accounted for most of the increase in cost of net revenues in the six months ended June 30, 2005.

Sales and marketing expenses consist primarily of personnel and related overhead costs, salespersons commissions, advertising and promotional expenses and expenses relating to trade shows. Sales and marketing expenses remained level in the six months ended June 30, 2005 compared to the same period in the prior year. In the future we anticipate a moderate increase in sales and marketing expenses as we seek to increase our revenues.

Research and development costs consist primarily of personnel costs, professional consulting and travel expenses. Research and development expenses increased by 8% in the six months ended June 30, 2005, compared to the same period of 2004. This increase was primarily due to the addition of engineers from the Mi4e acquisition in March 2005.

General and administrative expenses consist primarily of personnel and related overhead costs for finance, information systems, human resources and general management. General and administrative expenses increased by 18% in the six months ended June 30, 2005 compared to the same period of 2004. The increase in the six months ended June 30, 2005 over the same period in the prior year is due to additional administrative costs associated with Mi4e which was acquired in March 2005 and an increase of $195,000 in the reserve for doubtful accounts for three customers in the six months ended June 30, 2005.

Amortization of intangible assets in the six months ended June 30, 2005 represents the amortization of acquired customer relationships and technology from Mi4e which we purchased in March 2005.

Interest and other income (expense), net

Interest and other income (expense), net for the six months ended June 30, 2005 was expense of $36,000 represented primarily by a $68,000 write-down of Insignia s investment in its Insignia Asia joint venture, $46,000 of interest expense, and $15,000 related to foreign exchange loss, partially off-set by $90,000 of income from a trademark infringement lawsuit settlement. For the six months ended June 30, 2004, we had income of $253,000 represented primarily by a portion of the gain on the 2003 sale of the Jeode product line.

Provision for (benefit from) income taxes

	Six Months Ended June 30,

	2005	2004
		(Unaudited)
	(In thousands, except percentages)	
Provision for (benefit from) income taxes	$ 36	$ (213)
Effective income tax rate	1%	(6)%

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The tax provision in the six months ended June 30, 2005 related to our operations in Sweden. Our benefit from income taxes of $213,000 for the six months ended June 30, 2004 primarily represented a refund received from the United Kingdom for research and development claims. We have recorded a full valuation allowance against all deferred income tax assets, primarily comprised of net operating losses, on the basis that significant uncertainty exists with respect to their realization.

Three years ended December 31, 2004

Revenues

	2004	% Change 2003 to 2004	2003	% Change 2002 to 2003	2002
			($ in thousands)		
License revenues	$ 521	0%	$ 522	(91)%	$ 5,714
Service revenues	20	(89)%	188	(88)%	1,542
Total revenues	$ 541	(24)%	$ 710	(90)%	$ 7,256

The SSP product line was our primary business for 2004. The Jeode product line was our primary business for 2003 and 2002. Both the SSP product line and the Jeode product line derive revenue from four main sources: the sale of software licenses, the sale of annual maintenance and support contracts as well as services, per unit royalties and non-recurring engineering or consulting activities. Revenues from the sale of development licenses, packaged products and royalties received from OEMs are classified as license revenue, while revenues from non-recurring engineering activities, training, and annual maintenance contracts are classified as service revenue.

In 2004, the SSP platform accounted for 83% of total revenue while the Jeode product line accounted for 17% of total revenue. In 2003 and 2002, the Jeode platform accounted for 94% and 100%, respectively, of total revenues. The SSP platform became available for sale in December 2003 and the Jeode platform became available for sale in 1999. Total revenues in 2004 decreased 24% from 2003 due to the transition from the Jeode product line to the SSP product line. The Jeode product line was sold in April 2003, and the service revenue from the support and maintenance agreements associated with the Jeode product line were also transferred at the time of the sale. Since that time we have focused our efforts to develop and sell SSP products and services on a full-time basis. In 2004, 2003 and 2002, license revenue from the sale of SSP and Jeode accounted for 96%, 74% and 79% respectively, of total revenues. Service revenue from the SSP and Jeode platforms accounted for 4%, 26%, and 21% of total revenues for 2004, 2003, and 2002 respectively. No future revenues are expected from the Jeode product line.

License revenues did not change materially in 2004 compared to 2003 as the Company began its initial introduction of the new SSP product in 2004. License revenues decreased 91% in 2003 compared to 2002 due to the sale of the Jeode product line in March 2003.

Service revenue decreased by 89% in 2004 compared to 2003 due to the decrease in the number of support and maintenance agreements under the Jeode and SSP product lines. Service revenues decreased 88% in 2003 compared to 2002. The decrease was primarily due to the sale of the Jeode product line.

Cost of revenues and gross margin

	2004	% Change 2003 to 2004	2003	% Change 2002 to 2003	2002
			($ in thousands)		

Cost of license revenues	$ 28	(90)%	$ 288	(85)%	$ 1,943
Gross margin: license revenues	95%		45%		66%
Cost of service revenues	$ 14	(73)%	$ 52	(92)%	$ 641
Gross margin: service revenues	30%		72%		58%
Total cost of revenues	$ 42	(88)%	$ 340	(87)%	$ 2,584
Gross margin: total revenues	92%		52%		64%

The cost of license revenue for 2004 consisted mainly of commission paid to sales representatives on sales of our SSP product line. The cost of license revenue for 2003 and 2002 was mainly comprised of royalties to third parties on sales of our Jeode product line. In all three years the cost of service revenue was a result of costs associated with non-recurring engineering activities and end-user support under maintenance contracts.

The gross margin on sales of our SSP platform is typically affected by whether we are using internal or external representatives to sell the SSP product line and the percentage commission negotiated with the sales people or companies selling the SSP software.

We believe that the significant factors affecting the Jeode platform gross margin in 2002 and 2003 included pricing of the technology license, the unit usage and royalties to third parties, in particular Sun Microsystems. License revenue gross margins in 2004 were 95% compared to 45% in 2003. The increase in gross margin was due to lower sales of our Jeode product in 2004, and hence lower royalties paid to Sun Microsystems, as a result of our sale of the Jeode business to Esmertec in April 2003. License revenue gross margins in 2003 were 45% compared to 66% in 2002. The decrease was due to lower margins on 2003 revenue due to the sale of the Jeode product line to Esmertec.

Gross margin for services revenue is impacted by the level of and pricing terms of non-recurring engineering activities, which can vary from customer to customer, from contract to contract and based on the level of maintenance contracts sold. Service revenue gross margins in 2004 were 30% compared to 72% in 2003. The decrease in service revenue gross margin is primarily a result of introducing our new SSP product during 2004 and amortizing the cost of service employees over a lower sales level. Service revenue gross margins in 2003 were 72% compared to 58% in 2002. The increase was primarily a result of the transfer of customers, employees and related costs with the sale of the Jeode product line.

Operating expenses

	2004	% Change 2003 to 2004	2003	% Change 2002 to 2003	2002
			($ in thousands)		
Sales and marketing	$ 2,511	43%	$ 1,757	(68)%	$ 5,558
Percentage of total revenues	464%		247%		77%
Research and development	$ 2,807	(17)%	$ 3,373	(40)%	$ 5,640
Percentage of total revenues	519%		475%		78%
General and administrative	$ 2,579	(4)%	$ 2,676	(20)%	$ 3,356
Percentage of total revenues	477%		377%		46%
Restructuring	0	(100)%	$ 498	68%	$ 296
Percentage of total revenues	0%		70%		4%

Sales and marketing expenses consist primarily of personnel and related overhead costs, salesperson commissions, advertising and promotional expenses and trade shows. Sales and marketing expenses increased by 43% in 2004 from 2003. The increase in sales and marketing expenditures from $1,757,000 in 2003 to $2,511,000 in 2004 was primarily due to a non-cash charge of $353,000 for warrants that were issued to outside partners supporting the Company s SSP product launch, $271,000 of expenses related to a strategic sales partner promoting our product line in the Asian markets, $51,000 in additional travel expenses and $70,000 for recruitment fees. Sales and marketing expenses decreased by 68% in 2003 compared to 2002 primarily due to decreased personnel costs, decreased recruiting costs and decreased employee travel. Costs for sales and marketing personnel decreased by $2.6 million due to a decrease in sales and marketing employees in 2003 as a result of a reduction in force program. The decreased headcount resulted in a decrease in sales and marketing travel of $546,000 and a $186,000 decrease in facility and telephone costs, as well as a $50,000 decrease in recruiting costs. Allocated overhead costs also decreased by $374,000 due to the

resulting headcount decrease. In addition, marketing programs and public relations costs decreased by $454,000 as a result of cost cutting measures. These costs decreases were offset by a $216,000 increase in costs for the French sales office and a $75,000 increase in costs to an outside sales firm targeting the Asian markets. Both

the increase in the French office and costs for the outside sales firm were a result of increased sales efforts for the SSP product.

Research and development expenses consist primarily of personnel costs, overhead costs relating to occupancy, software support and maintenance and equipment depreciation. In accordance with Statement of Financial Accounting Standards No. 86, software development costs are expensed as incurred until technological feasibility is established, after which any additional costs are capitalized. In 2004, 2003 and 2002, no development expenditures were capitalized because there were no amounts that qualified for capitalization. Research and development expenses in 2004 decreased 17% from 2003. The decrease in research and development costs from $3,373,000 in 2003 to $2,807,000 in 2004 was primarily due to $346,000 of lower salary related expenses as a result of a reduction in employees in the United Kingdom after the sale of our Jeode product line in April of 2003 and a $200,000 decrease in support and maintenance costs as a result of our transfer of support agreements to Esmertec with the sale of our Jeode product line. Research and development expenses in 2003 decreased 40% from 2002. The decrease of $2.3 million was due to a reduction in personnel related costs resulting from the transferring of employees to Esmertec with the sale of the Jeode product line and a $236,000 decrease from the nonrenewal of our related Java support and maintenance contract. Recruiting costs and professional consulting costs decreased by $57,000 and $90,000, respectively. In addition, overhead costs for management information systems and facilities decreased by $449,000. These decreases were offset by $590,000 in engineering consulting services and technical support services, which were retained as engineering expenses and not allocated to cost of sales as a result of lower sales in 2003.

General and administrative expenses consist primarily of personnel and related overhead costs for finance, information systems, human resources and general management. General and administrative expenses decreased by 4%, or approximately $100,000 from 2003 to 2004 primarily as a result of higher legal costs of approximately $95,000 in 2003 associated with the sale of our Jeode product line, lower rent expense in 2004 of approximately $100,000 resulting from the sublease of part of our facility in the United Kingdom, and $31,000 of lower salary related costs in the United Kingdom from reduced headcount as a result of the sale of the Jeode product line. These decreases were offset in part by an increase in 2004 recruiting costs of $40,000 and a $74,000 increase in printing and documentation costs. General and administrative expenses decreased by 20% in 2003 from 2002. The decrease was a result of a $665,000 decrease in compensation expenses due to headcount reductions and a $478,000 decrease in facility costs primarily as a result of $292,000 of expenses incurred in 2002 in order to restore our vacated United Kingdom facility to its original condition and lower rent costs in 2003 due to a reduction in office space. Travel costs decreased by $105,000 in 2003 compared to 2002 due to decreased headcount and cost-cutting measures, and insurance costs decreased by $121,000. These decreases were partially offset by $837,000 of expenses which was a result of fewer overhead costs being allocated out to other departments in 2003.

Restructuring

In the third quarter of 2002, we completed a worldwide reduction of headcount of approximately 11% of our staff. Restructuring expenses of $296,000 consisted of severance payments made during the third and fourth quarters of 2002. On February 11, 2003, we announced a restructuring of the organization to focus on the SSP technology. The restructuring charges for 2003 were $498,000 for employee termination benefits. Restructuring expenses represented 70% of total revenues for 2003. There were no restructuring costs in 2004.

Interest income (expense), net

	2004	% Change 2003 to 2004	2003	% Change 2002 to 2003	2002
			($ in thousands)		
Interest income (expense), net	$ 6	115%	$ (40)	(153)%	$ 75
Percentage of total revenues	1%		(6)%		1%

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Net interest income (expense) changed from net interest expense of $40,000 in 2003 to net interest income of $6,000 in 2004. This change was primarily due to interest expense that was paid in 2003 on a $1,000,000 loan from Esmertec which was settled in the first quarter of 2004.

Net interest income decreased from net interest income of $75,000 in 2002 to net interest expense of $40,000 in 2003. The change from net interest income to net interest expense was primarily due to a combination of lower interest earned on cash and cash equivalent balances and interest expense on a loan received from Esmertec in February 2003. Our cash, cash equivalents and restricted cash increased from $1.0 million at December 31, 2002 to $2.2 million at December 31, 2003 as a result of continued financing to fund our business operations.

Other income (expense), net

	2004	% Change 2003 to 2004	2003	% Change 2002 to 2003	2002
			($ in thousands)		
Other income (expense), net	$ 249	92%	$ 3,141	829%	$ (431)
Percentage of total revenues	46%		442%		6%

Other income (expense), net decreased from $3,141,000 of net other income in 2003 to $249,000 of net other income in 2004. The decrease was primarily due to a gain on the sale of our Jeode product line in 2003. Other income (expense), net changed from net other expense of $431,000 in 2002 to net other income of $3,141,000 in 2003. The change was primarily due to the gain of $3.1 million recognized on the sale of the Jeode product line in 2003.

We have, at times, an investment portfolio of fixed income securities that are classified as available-for-sale-securities . These securities, like all fixed income instruments, are subject to interest rate risk and will fall in value if market interest rates increase. We attempt to limit this exposure by investing primarily in short-term securities.

Benefit from income taxes

	2004	% Change 2003 to 2004	2003	% Change 2002 to 2003	2002
			($ in thousands)		
Benefit from income taxes	$ (81)	(84)%	$ (510)	(76)%	$ (2,114)
Effective income tax rate	(1)%		(11)%		(20)%

The benefit from income taxes for 2004 primarily represented two significant items. The first item was a net benefit of $187,000 due to a reduction for potential tax liabilities related to our former Jeode product line. The booked liability was no longer necessary due to our accumulated operating loss carry forwards, tax receivables and the lack of tax assessments or expenses.

In addition, in 2004 there was an offsetting write down of tax benefit of $104,000. This write down of tax benefit was related to the reduction of expected benefit relating to the 2003 and 2004 refunds to be received from the United Kingdom for research and development claims. The tax credit for United Kingdom research and development expenditures was a tax refund for qualifying research and development expenditures and not an offset against a tax liability.

At December 31, 2004, we recorded a full valuation allowance against all deferred income tax assets, primarily comprised of net operating losses, on the basis that significant uncertainty exists with respect to their realization.

From 2000 through 2002, certain research and development expenditures incurred in the United Kingdom qualified for a tax credit. The tax credit did not offset any tax liability but rather was a refund. The estimated refund for 2004 is $134,000. The estimated refund for 2003 reported in the 2003 Form 10-K was $391,000. The actual amount received for 2003 was $188,000 and was received in January of 2005. The difference of $203,000 between estimated United Kingdom tax credit and the actual refund

received for 2003 was due to the research and development expenses for SSP incurred in the United States were disallowed as the office in the United Kingdom was not leading the research and development process. Our estimates have since been updated for future years.

Quarterly financial data

The following table has been derived from unaudited consolidated financial statements that, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of this information when read in conjunction with our annual audited consolidated financial statements and notes thereto appearing elsewhere in this Report. These operating results are not necessarily indicative of results of any future period.

The following table provides selected quarterly consolidated financial data (in thousands, except per share data):

	Quarter Ended			
	March 31	June 30	September 30	December 31
	(Unaudited)			
2005:				
Revenues	$ 462	$ 734		
Gross profit	457	640		
Net loss	(1,889)	(1,600)		
Net loss attributable to ordinary shareholders	(1,889)	(2,015)		
Basic and diluted net loss per share	$ (0.05)	$ (0.05)		
2004:				
Revenues	$ 319	$ 107	$ 107	$ 8
Gross profit (loss)	296	102	107	(6)
Net loss	(1,910)	(1,304)	(1,729)	(2,119)
Basic and diluted net loss per share	$ (0.07)	$ (0.04)	$ (0.06)	$ (0.06)
2003:				
Revenues	$ 379	$	$ 201	$ 130
Gross profit (loss)	212	(36)	131	63
Net income (loss)	(3,199)	2,273	(1,656)	(1,741)
Basic and diluted net income (loss) per share	$ (0.16)	$ 0.11	$ (0.08)	$ (0.07)

Liquidity and capital resources

	June 30, 2005	December 31, 2004	2003	2002
	(In thousands)			
Cash, cash equivalents and restricted cash	$ 892	$ 952	$ 2,232	$ 976
Working capital (deficit)	$ (198)	$ 900	$ 2,254	$ 1,964
Net cash used in operating activities in the period	$ (2,376)	$ (7,583)	$ (4,235)	$ (8,446)

Six months ended June 30, 2005

Cash used in operating activities in the six months ended June 30, 2005 totaled $2,376,000 compared to $2,673,000 for the same period in 2004. For the six months ended June 30, 2005, cash used in operating activities

resulted primarily from a net loss of $3,489,000, an increase in accounts receivable of $496,000 and a decrease of deferred revenue of $113,000, partially offset by a decrease in other receivables and prepaid expenses of $583,000 and an increase of accounts payable and accruals of $644,000.

Cash provided by investing activities for the six months ended June 30, 2005 was $137,000, which consisted of cash received with the purchase of Mi4e of $303,000, net acquisition and issuance costs paid of $154,000, less $12,000 for the purchase of fixed assets.

Cash provided by financing activities for the six months ended June 30, 2005 was $2,179,000, resulting from share issuances to investors with net proceeds of $1,858,000, proceeds from issuance of convertible notes payable of $275,000, and proceeds from exercise of stock options and employee stock purchase plan of $90,000, less $44,000 for repayment of notes payable.

Our cash, cash equivalents and restricted cash were $892,000 at June 30, 2005, a decrease of $60,000 from $952,000 at December 31, 2004. At June 30, 2005 and December 31, 2004, we had a working capital deficit of $198,000 and surplus of $900,000, respectively. The working capital deficit arose from the Company s operating losses in the six months ended June 30, 2005 exceeding cash equity investments in the Company during the period. The principal use of working capital was funding the operating loss and financing of accounts receivable. We have no material commitments for capital expenditures. Our commitments for expenditures consist of building leases in the U.K. and U.S.

Years ended December 31, 2004, 2003, and 2002

Cash used in operating activities totaled $7.6 million during 2004, compared to $4.2 million during 2003, and $8.4 million in 2002. The $7.6 million in cash used in operations in 2004 was primarily the result of our $7.1 million net loss. There was a $353,000 non-cash charge for warrant issuances as well as $82,000 equity in the net loss of our Korean affiliate and a gain on the sale of the Jeode product line of $302,000. In addition, the decrease of accounts payable resulted in a use of cash of $155,000 as did the decrease of accrued liabilities of $392,000. An additional use of cash resulted from an increase in trade accounts receivable of $125,000. The cash used in operations in 2003 resulted primarily from a net loss of $4.3 million, the gain on the sale of the Jeode product line of $3.1 million and a decrease of accounts payable of $187,000. Partially offsetting these uses of cash were an increase in deferred revenue of $1,085,000, a decrease of accounts receivable of $931,000, a decrease of other noncurrent assets of $319,000, and a decrease of tax receivable of $311,000. In fiscal 2002, cash used in operations resulted primarily from a net loss of $8.4 million, an increase of tax receivable of $702,000, an increase of prepaid royalties of $1.2 million and a reduction of deferred revenue of $3.5 million.

Cash provided by investing activities in 2004 was $998,000 which consisted primarily of $1.3 million in proceeds received from the sale of the Jeode product line. The $1.3 million in proceeds received from the sale of the Jeode product line was offset in part by $150,000 of investments in our Korean joint venture affiliate and $90,000 of purchased property and equipment. Cash provided by investing activities in 2003 was $2.0 million, which consisted primarily of $1.9 million of net proceeds from the sale of the Jeode product line and $230,000 being released from restricted cash. Cash used in investing activities in 2002 was $125,000, which consisted primarily of purchases of property and equipment.

Cash provided by financing activities in 2004 was $5.3 million, which consisted primarily of $4.3 million, net of transaction costs, in proceeds from two private placements and issuance of shares under the Fusion Capital securities subscription agreement, $610,000 in proceeds from the exercise of options and $390,000 in proceeds from the exercise of warrants. Cash provided by financing activities in 2003 was $3.7 million, which consisted primarily of proceeds from the issuance of shares under the Fusion Capital securities subscription agreement of $1.9 million, net of transaction costs, proceeds from the exercise of warrants of $841,000 and proceeds from a note payable of $1.0 million. Cash provided by financing activities in 2002 was $654,000, which consisted primarily of proceeds from exercise of warrants of $480,000 and from the issuance of common stock under employee benefit plans of $175,000.

As of June 30, 2005, we had the following contractual obligations (in thousands):

	Notes Payable	Operating Leases
Year ending December 31, 2005(July 1, 2005 through December 31, 2005)	$ 20	$ 107
2006	40	226
2007	4	198
2008		198
2009		198
Thereafter		918
	$ 64	$ 1,845

As of June 30, 2005, three customers accounted for 82% of our total accounts receivable.

We have granted extended payment terms to customers from time to time depending on various factors, including the length of the requested payment extension and the creditworthiness of the customer. We report these future payments as accounts receivable and either recognized revenue or deferred revenue. Deferred revenue decreased by $1,450,000 for 2004. The decrease was primarily the result of assigning our Jeode support and maintenance contracts to Esmertec in early 2004.

Insignia warrants its software products against defects in material and workmanship under normal use and service for a period of ninety days. There is no warranty accrual recorded because potential future payments either are not probable or we have yet to incur the expense.

On October 17, 2002, we entered into a securities subscription agreement with Fusion Capital, pursuant to which Fusion Capital agreed to purchase, on each trading day following the effectiveness of a registration statement covering the ADSs to be purchased by Fusion Capital, $10,000 of our ADSs up to an aggregate of $6.0 million over a period of 30 months. During 2003, we sold 3,380,132 ADSs to Fusion Capital resulting in proceeds of approximately $1.9 million, net of transaction costs, under the 2002 Fusion Capital securities subscription agreement. In 2004, we sold 3,100,060 shares to Fusion Capital for aggregate proceeds of $1.5 million, net of transaction costs, under the 2002 Fusion Capital securities subscription agreement. At December 31, 2004, $190,000 was due from Fusion Capital for stock purchases made and the amount was included in other receivables in our accompanying consolidated balance sheet. Payment was received in January 2005. In the first quarter of 2005, we issued and sold to Fusion Capital 3,519,808 ADSs for approximately $1.5 million under the 2002 Fusion Capital agreement, and on February 9, 2005, we and Fusion Capital entered into a mutual termination agreement pursuant to which the 2002 Fusion Capital securities subscription agreement was terminated.

In addition to the shares purchased by Fusion Capital under the 2002 Fusion Capital securities subscription agreement, we also issued warrants to purchase an aggregate of 2,000,000 shares to Fusion Capital, with a per share exercise price of the United States dollar equivalent of 20.5 pence. As of December 31, 2002, the estimated value of the warrants, using the Black-Scholes model was $544,000. Upon Fusion s exercise of these warrants in 2003, we issued Fusion Capital 2,000,000 ADSs for a total of $668,000, net of issuance costs.

In early January 2004, Insignia Solutions issued and sold to certain institutional and other accredited investors, in a private placement, 2,262,500 newly issued ADSs, and warrants to purchase 565,625 ADSs, for a total purchase price of approximately $1.8 million.

On October 18, 2004, we closed a private placement financing with certain institutional and other accredited investors pursuant to which we sold newly issued ADSs and warrants to purchase ADSs, for a total purchase price of approximately $1.5 million, or $1.3 million net of transaction costs.

On February 10, 2005, we entered into the 2005 Fusion Capital securities subscription agreement with Fusion Capital to sell ADSs having an aggregate purchase price of up to $12 million, to Fusion Capital over a period of

30 months (subject to daily maximum purchase amounts). The shares will be priced based on a market-based formula at the time of purchase. The commencement of funding under the 2005 Fusion Capital securities subscription agreement is subject to certain conditions, including the declaration of effectiveness by the Securities and Exchange Commission of a registration statement covering the ADSs to be purchased by Fusion Capital under the 2005 Fusion Capital securities subscription agreement. Under the rules and regulations of the

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Nasdaq SmallCap Market, the Company would be required to obtain shareholder approval to sell more than 19.99% of the issued and outstanding shares as of February 10, 2005 under this agreement. Insignia currently expects that commencement of funding under the 2005 Fusion Capital securities subscription agreement will begin during the second half of 2005, however the timing and certainty of the commencement of funding under the 2005 Fusion Capital securities subscription agreement are not within Insignia s control. Any delay in the commencement of funding under the 2005 Fusion Capital securities subscription agreement would jeopardize Insignia s business. As a commitment fee for this facility, Fusion Capital received warrants for 2,000,000 shares exercisable at the greater of £0.205 or $0.40 per share and for 2,000,000 exercisable at £0.205 each. These warrants are exercisable immediately and expire on February 28, 2010.

On March 16, 2005, we closed our acquisition of Mi4e, a private company headquartered in Stockholm, Sweden. The consideration paid in the transaction was 2,969,692 ADSs representing ordinary shares and another 989,896 ADSs will be issuable on March 31, 2006, subject to potential offset for breach of representations, warranties and covenants. In addition up to a maximum of 700,000 euros is payable in a potential earn out based on a percentage of future revenue collected from sales of existing Mi4e products. As of June 30, 2005, $22,000 of this earn out was earned.

In June 2005, the Company issued convertible notes to three shareholders in exchange for a bridge financing of $275,000. These notes were converted into the Series A preferred stock described below on June 30, 2005. In consideration of this bridge financing we accrued loan fees in the form of ADSs representing 45,833 ordinary shares and warrants to purchase an aggregate of 45,833 ADSs at an exercise price of $0.58 per share were issued; these shares were valued at a market value of $25,200 and the warrants had a fair value, calculated using the Black-Scholes model, of approximately $17,000. These warrants are exercisable on December 21, 2005 and expire on June 30, 2010.

On June 30, 2005 and July 5, 2005, we and our wholly-owned subsidiary Insignia Solutions Inc. entered into securities subscription agreements with Fusion Capital and other investors. Pursuant to these subscription agreements, we completed a closing for an aggregate of $1,000,000 on June 30, 2005 (including exchange of the $275,000 bridge notes), and we completed a second closing on July 5, 2005 for an additional $440,400. Pursuant to these subscription agreements, the subsidiary issued its Series A preferred stock, to the investors. This preferred stock is non-redeemable. The shares of preferred stock (plus all accrued and unpaid dividends thereon) held by each investor are exchangeable for ADSs (i) at any time at the election of investor, (ii) automatically upon written notice by us to the investor in the event that the sale price of the ADSs on the Nasdaq SmallCap Market is greater than $1.50 per share for a period of ten consecutive trading days, and certain other conditions are met, and (iii) automatically to the extent any shares of the preferred stock have not been exchanged prior to June 30, 2007. The preferred stock in the first two years will accrue dividends at a rate of 15% per year compounded annually, payable in the form of additional ADSs. Including accruable dividends, the shares of preferred stock issued on June 30, 2005, together with the additional shares issued on July 5, 2005, will be exchangeable for 3,306,251 and 1,456,075 ADSs, respectively, representing an initial purchase price of $0.40 per ADS. Pursuant to the above subscription agreements, we also issued to the investors on June 30, 2005 and July 5, 2005, warrants to purchase 2,500,000 and 1,101,000 ADSs, respectively, at an exercise price per share equal to the greater of $0.50 or the U.S. Dollar equivalent of 20.5 U.K. pence. These warrants are immediately exercisable and expire on June 30, 2010.

The issuance of the Series A preferred stock resulted in a beneficial conversion feature, calculated in accordance with EITF No. 00-27, Application of Issue No. 98-5, Accounting for Convertible Securities with Beneficial Conversion Features of Contingently Adjustable Conversion Ratios to Certain Convertible Instruments based upon the conversion price of the preferred stock into ADSs, and the fair value of the ADSs at the date of issue. Accordingly, the warrants issued on June 30, 2005 were valued at $585,000, using a Black-Scholes model and the Company recognized $415,000 as a charge to additional paid-in-capital to account for the deemed dividend on the preferred stock as of the issuance date, which represented the amount of the proceeds allocated to the preferred stock. The amount of the deemed dividend related to the beneficial conversion feature was recorded upon the issuance of the preferred stock, as the preferred stock can be converted to ADSs by the holder at any time.

Our cash, cash equivalents and restricted cash totaled $0.9 million at June 30, 2005, $1.0 million at December 31, 2004, and $2.2 million at December 31, 2003. We had recurring net losses of $3.5 million, $7.1 million, $4.3 million, and $8.4 million for the six months ended June 30, 2005, and the years ended December 31, 2004, 2003, and 2002, respectively, and we also had net cash used in operations of $2.4 million, $7.6 million, $4.2 million, and $8.4 million for the six months ended June 30, 2005 and the years ended December 31, 2004, 2003, and 2002, respectively. These conditions raise substantial doubt about our ability to continue as a going concern. Based upon our current forecasts and estimates, including the timely funding of the 2005 Fusion Capital securities subscription agreement and the achievement of our target revenues, cost-cutting and accounts receivable collection goals, our current forecasted cash and cash equivalents should be sufficient to meet our operating and capital requirements through June 30, 2006. If cash currently available from all sources is insufficient to satisfy our liquidity requirements, we may seek additional sources of financing, including selling additional equity or debt securities. If additional funds are raised through the issuance of equity or debt securities, these securities could have rights, preferences and privileges senior to holders of our shares, and the terms of such securities could impose restrictions on our operations. The sale of additional equity or debt securities could result in additional dilution to our shareholders. We may not be able to obtain additional financing on acceptable terms, if at all. If we are unable to obtain additional financing as and when needed and on acceptable terms our business may be jeopardized.

New accounting pronouncements

In March 2004, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 03-01, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (EITF 03-01). EITF 03-01 provides guidance on other-than-temporary impairment models for marketable debt and equity securities accounted for under Statements of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities, and SFAS No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations, and non-marketable equity securities accounted for under the cost method. The EITF developed a basic three-step model to evaluate whether an investment is other-than-temporarily impaired. The Financial Accounting Standards Board (FASB) issued EITF 03-01-1 in September 2004 which delayed the effective date of the recognition and measurement provisions of EITF 03-01; however, the disclosure requirements remain effective for annual periods ending after June 15, 2004. We do not expect the adoption of EITF 03-01 to have a material impact on our results of operations or financial condition.

In April 2004, the EITF issued Statement No. 03-06, Participating Securities and the Two-Class Method Under FASB Statement No. 128, Earnings Per Share (EITF 03-06). EITF 03-06 addresses a number of questions regarding the computation of earnings per share by companies that have issued securities other than common stock that contractually entitle the holder to participate in dividends and earnings of the company when, and if, it declares dividends on its common stock. The issue also provides further guidance in applying the two-class method of calculating earnings per share, clarifying what constitutes a participating security and how to apply the two-class method of computing earnings per share once it is determined that a security is participating, including how to allocate undistributed earnings to such a security. EITF 03-06 is effective for fiscal periods beginning after March 31, 2004. The adoption of EITF 03-06 did not have a material effect on Insignia s results of operations or financial position.

In December 2004, the FASB issued SFAS No. 123 (revised 2004) Share-Based Payment (SFAS 123R), a revision to SFAS 123. SFAS 123R addresses all forms of share-based payment (SBP) awards, including shares issued under the 1995 Incentive Stock Option Plan (Purchase Plan), stock options, restricted stock, restricted stock units and stock appreciation rights. SFAS 123R will require the Company to record compensation expense for SBP awards in our statements of operations based on the fair value of the SBP awards. Under SFAS 123R, restricted stock and restricted stock units will generally be valued by reference to the market value of freely tradable shares of the Company s ordinary shares. Stock options, stock appreciation rights and shares issued under the Purchase Plan will generally be valued at fair value determined through an option valuation model, such as a lattice model or the Black-Scholes model (the model that Insignia currently uses for its footnote disclosure). SFAS 123R is effective for annual periods beginning after June 15, 2005 and, accordingly, Insignia must adopt the new accounting provisions effective

January 1, 2006. The Company will adopt the provisions of SFAS 123R using a modified prospective application. Under a modified prospective application, SFAS 123R will apply to new awards and to awards that are outstanding on the effective date and are subsequently modified or cancelled. Compensation expense for outstanding awards for which the requisite service had not been rendered as of the effective date will be recognized over the remaining service period using the compensation cost calculated for pro forma disclosure purposes under SFAS 123. The Company is in the process of determining how the new method of valuing stock-based compensation as prescribed in SFAS 123R will be applied to valuing stock-based awards granted after the effective date and the impact the recognition of compensation expense related to such awards will have on its consolidated financial statements.

In December 2004, the FASB issued SFAS 153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29 (SFAS 153). SFAS 153 addresses the measurement of exchanges of nonmonetary assets and redefines the scope of transactions that should be measured based on the fair value of the assets exchanged. SFAS 153 is effective for nonmonetary asset exchanges beginning in our first quarter of fiscal 2006. We do not believe adoption of SFAS 153 will have a material impact on our results of operations or financial condition.

In June 2005, the FASB issued SFAS No. 154, Accounting changes and Error Corrections, a replacement of APB Opinion No. 20, Accounting Changes, and Statement No. 3, Reporting Accounting Changes in Interim Financial Statements (SFAS 154). SFAS 154 will require companies to account for and apply changes in accounting principles retrospectively to prior periods financial statements, instead of recording a cumulative effect adjustment within the period of the change, unless it is impracticable to determine the effects of the change to each period being presented. SFAS 154 is effective for accounting changes made in annual periods beginning after December 15, 2005 and, accordingly, we must adopt the new accounting provisions effective January 1, 2006. We do not expect the adoption of SFAS 154 to have a material effect on our financial position, results of operations or cash flows.

Quantitative and Qualitative Disclosures about Market Risk

At December 31, 2004, we had $109,000 in cash held in foreign currencies as translated at period end foreign currency exchange rates. Most of our foreign currencies are British pound sterling and are primarily used for paying the local operating expenses of our U.K. office. The effect of foreign exchange rate fluctuations on operations resulted in income of $21,000 and $35,000 for the years ended December 31, 2004 and 2003, respectively. For the years ended December 31, 2004 and 2003, we did not engage in any foreign currency hedging activities.

We have, at times, an investment portfolio of fixed income securities that are classified as available-for-sale-securities. These securities, like all fixed income instruments, are subject to interest rate risk and will fall in value if market interest rates increase. We attempt to limit this exposure by investing primarily in short-term securities.

Internal Controls

In connection with its audit for the six-month period ended June 30, 2005, Burr, Pilger & Mayer LLP (BPM), our independent registered public accounting firm, identified a material weakness in our internal control over financial reporting. Deficiencies noted related to our failure to complete, on a timely basis, a proper analysis of, accounting for, and management review of (i) certain complex equity transactions, (ii) our acquisition of Mi4e, and (iii) activity related to Mi4e subsequent to the closing of our acquisition. In response to the internal control matters identified above, we recruited in August 2005 a controller in Sweden to oversee the accounting for Mi4e and plan to obtain appropriate professional assistance at the time we engage in unusual and/or complex financial transactions.

The existence of the above deficiencies in the design or operation of our internal control could adversely affect our ability to record, process, summarize and report financial data consistent with the assertions of management in the consolidated financial statements. Such deficiencies primarily related to our lack of maintenance of effective controls over the financial reporting process because we did not have a sufficient complement of personnel with technical accounting and financial reporting expertise commensurate with our financial reporting requirements, as a result of employee turnover, transition, and limited resources.

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BUSINESS

Overview

We commenced operations in 1986 and currently develop, market and support software technologies that enable mobile operators and phone manufacturers to better update, configure and manage today s more complex mobile phones using standard over-the-air data networks. Before 2003, our principal product line was the Jeode™ platform, based on our Embedded Virtual Machine technology. The Jeode platform was our implementation of Sun Microsystems, Inc. s Java® technology tailored for smart devices. During 2001, we began development of a range of products (SSP products) for the mobile phone and wireless operator industry. The SSP products build on our position as a Virtual Machine supplier for manufacturers of mobile devices and allow wireless operators and phone manufacturers to reduce customer care and software recall costs, as well as increase subscriber revenue by deploying new mobile services based on dynamically provisioning of new capabilities. With the sale of our Jeode product line in April 2003, our sole product line then consisted of our SSP products. We shipped our first SSP product in December 2003. In March 2005, we acquired Mi4e, a private company headquartered in Stockholm, Sweden. Mi4e was founded in 2003 and had $646,000 of revenues in 2004. Mi4e s main product, a device management server, is a mobile device management infrastructure solution for mobile operators that supports the Open Mobile Alliance client provisioning specification. DMS was first deployed at Telstra in Australia in 2000 and has since been deployed at more than ten carriers around the world. By integrating the Mi4e products with existing Insignia applications, we are able to deliver a more comprehensive solution to mobile network operators and handset manufacturers.

Industry Overview

The telecommunications industry is moving very quickly towards providing sophisticated data services on a wide variety of different mobile terminals. Mobile phones, terminals and other portable devices are becoming more sophisticated and accordingly the software within them is becoming more complex and hence less reliable. Operators want to introduce additional services, but are limited by the capabilities of the existing phones.

The Trend Towards More Complex Software

As more and more advanced features are packed into mobile phones, the software becomes more complex, leading to more software problems. However, consumers have come to expect the same level of reliability and performance as that to which they are accustomed from their traditional voice-only fixed phones. Thus, the addition of more software on the mobile phones creates a new critical challenge for operators and device manufacturers ensuring consistent reliability and performance.

Due to increased software functionality and hence complexity, manufacturers are experiencing a high incidence of problems with feature phones, adding a significant maintenance expense for the telecommunications industry. Mobile phone recalls can be expensive. Manufacturers are often responsible for the entire recall operation, ranging from notification and taking customer calls to re-flashing and administering the entire process. Curbing these costs through a comprehensive Over-The-Air Repair™ system will significantly reduce the manufacturers costs by minimizing the need for in-store and through-the-mail repairs and by reducing customer service personnel.

Evolution of Mobile Terminals

In the 1980 s, when the first large scale commercial mobile services were launched in the United States, the mobile handsets or terminals available for services were analog voice-only terminals. Even when the first digital terminals came into the market, they were voice-only terminals. As the global subscriber base for mobile services grew exponentially in the 1990 s, static applications such as address books and games as well as communication applications such as short message service text messaging (SMS) were packed into the terminals. With the Internet boom in the mid to late 1990 s, mobile terminals evolved into sophisticated data

terminals as well by integrating them with web browsers. As the need for data bandwidth grew, high-speed data technologies such as General Packet Radio Service (GPRS) and Code Division Multiple Access (CDMA) emerged, and the new models of mobile phones incorporated these high-speed data technologies. Toward the end of the 1990 s, the mobile terminals took another leap with the introduction of the concept of downloadable applications. In addition, evolving standards were introduced which allowed the transfer and synchronization of data in the mobile terminals with other devices such as personal computers and personal data assistants. With the wider deployment of an enhanced phone for photo imaging, game playing and more messaging technologies, as well as the increasing coverage of more robust networks, the number of features built into mobile phones has further increased.

The result of this rapid transformation of mobile terminals from voice-only terminals to sophisticated all-purpose consumer devices is that the software running on the mobile terminal has become extremely complex and hence vulnerable to problems.

In response to this need, mobile device management (MDM) solutions have emerged to enable users to remotely configure, update and monitor mobile connected devices.

More specifically, MDM solutions today enable mobile operators to configure and update settings, install new capabilities, query a device to determine its status, upgrade or update software components or the entire software load, monitor a device for errors and automatically respond to those errors with corrective measures.

These capabilities enable a wide range of powerful new functions including;

Highly targeted configuration of devices to suit a mobile subscriber s interests, including downloading audio and video, graphics, applications and games, all capabilities that mobile operators around the world are seeking to increase revenues;

Automatic monitoring and corrective response to failures, which reduce technical support costs and subscriber frustration with ever-more complex devices;

Automatic device configuration to eliminate the need for subscriber intervention to insure that the supported data services work out of the box; and

Enterprise control over their dispersed work force mobile devices to remotely deploy and update mobile applications, insure that they work, and to insure that the correct security measures are in place and that only authorized applications are being used.

When deployed correctly, mobile device management technologies can improve the subscriber s experience, reduce costs of support and increase data services revenues for the operator, decrease handset vendor support and warranty costs and enable corporations to deploy and manage new mobile applications to their workforce.

Initial interest in MDM solutions came from handset vendors that were focused on controlling escalating support costs. We believe that mobile operators are now becoming interested in the ability to use MDM solutions to drive increased data revenues. In addition, we, are now beginning to see early signs of interest from large enterprises deploying applications to a mobile workforce, who are beginning to recognize the ability to use MDM solutions to manage mobile applications deployed on smart phones.

For example, mobile operators are not maximizing data revenues or subscriber experience if a 14-year-old boy s phone is configured the same way as the phone for a 40-year-old professional in the field. However, today, that is generally what happens. If the phones were configured with meaningful home pages, bookmarks, MP3 content, games, etc., the new data services could be merchandised in a compelling way to interested subscribers. We believe that mobile operators are beginning to recognize this opportunity and are now moving to adopt solutions that enable a dynamic approach to their subscriber base.

The Open Mobile Alliance or OMA , the leading standards body for the GSM world, has codified standards over the past year to support new and higher levels of manageability of mobile devices. The OMA has progressed from simple configuration of data services, like SMS, MMS and GPRS, to the ability to create customized managed objects and to be able to both read and write these settings. More recently, they

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introduced specifications for the updating of firmware. We believe that the OMA plans to release new specifications for diagnostics and alerts, and the ability to install new bundled capabilities and content in a seamless transaction, opening the way for fast evolving innovations in mobile content similar to what has been seen in the personal computer.

As a result, we believe that there is an opportunity to lead in the development of standards based mobile device management solutions and in so doing deliver significant value to subscribers, the mobile operators, handset vendors and the enterprises who will be deploying these applications. We have delivered a powerful solution based on current OMA standards and we intend to support future standards as they evolve.

Products and Support

Summary

The SSP product line has been available since December 2003. The SSP product line revenue model is based on a combination of indirect sales to customers through OEMs as well as direct sales to customers. SSP product line revenues accounted for 83% and 3% of total Insignia revenues in 2004 and 2003, respectively, and 39% of total Insignia revenues in the six months ended June 30, 2005. In June 2005, Insignia ceased using the SSP brand name, upon the release of an integrated server solution that incorporated SSP and Mi4e s DMS. The integrated server solution is now marketed under the Insignia Device Management Suite (IDMS) brand.

Insignia s Device Management Suite

Insignia s IDMS brings intelligence to device management to enhance subscriber satisfaction with increasingly complex mobile services. The IDMS allows mobile operators to remotely provision, update, and manage devices and services throughout the device lifecycle. ICE^{tm}, IDMS includes providing intelligent targeted provisioning and automated device management to further enhance the subscriber s experience, drive new revenue generating services, and reduce customer care costs.

Insignia s IDMS removes the complexity of configuring new service parameters and enables more flexible and dynamic service offerings. The system can automatically configure bundled services when the network detects the device, and new personalized services can be added quickly and simply. We believe that these benefits can help mobile operators achieve increased service usage and loyalty from their subscribers.

Automatic configuration eliminates factory provisioning costs, and ensures that subscribers have up-to-date service configurations right out of the box. As a result, mobile operators can have greater control and improved management of devices and subscriber satisfaction.

Insignia s Open Management Client

Insignia s Open Management Client (OMC) works with any server infrastructure compatible with the latest OMA DM standard. OMA DM defines a framework for remotely managing today s complex mobile devices. It enables device manufacturers and mobile operators to remotely:

- Configure device and service parameters;
- Install and update firmware and applications; and
- Retrieve device management information.

The OMC implements the complete OMA DM specification including the FUMO (Firmware Update Management Object) enabler. The OMC supports download of firmware by both DL and in-session download methods. The OMC consists of two main modules the OMA DM client and the update agent. An optional OMA DS (Data Sync) capability is also available.

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Support

We offer both pre-sales and post-sales support to our customers. Pre-sales support is provided at no charge. After the sale of a license, each customer is offered a renewable one year annual maintenance contract which entitles the customer to receive standard support, including: web-based support, access to frequently asked questions (FAQs), on-line publications and documentation, email assistance, limited telephone support, and critical bug fixes and product updates (collective bug fixes and minor enhancements) on an if and when available basis. We also have a professional services group based in Stockholm which provides consulting, implementation and training services for our customers.

Research and Development

In the six months ended June 30, 2005 and calendar 2004 and 2003, we spent approximately $1.6 million, $2.8 million and, $3.4 million, respectively, on research and development. At June 30, 2005, we had 15 full-time employees engaged in research and development, of which 7 were located at our facility in the United Kingdom, 5 in Sweden and 3 were located at our facility in Fremont, California.

Proprietary Rights

We rely on a combination of copyright, trademark and trade secret laws and confidentiality procedures to protect our proprietary rights. We have filed in the United Kingdom and the United States patent applications for innovative technologies incorporated into our SSP product. As part of our confidentiality procedures, we generally enter into non-disclosure agreements with our employees, consultants, distributors and corporate partners, and we limit access to and distribution of our software, documentation and other proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise to obtain and use our products or technology without authorization, or to develop similar technology independently. In addition, effective protection of intellectual property rights may be unavailable or limited in certain countries. We license technology from various third parties.

We may, from time to time, receive communications from third parties asserting that our products infringe, or may infringe, on their proprietary rights. Licenses to disputed third-party technology may not be available on reasonable commercial terms, if at all. In addition, we may initiate claims or litigation against third parties for infringement of our proprietary rights or to establish the validity of our proprietary rights. Litigation to determine the validity of any claims could result in significant expense to us and divert the efforts of our technical and management personnel from productive tasks, whether or not such litigation is determined in our favor. In the event of an adverse ruling in any such litigation, we may be required to pay substantial damages, discontinue the use and sale of infringing products, and expend significant resources to develop non-infringing technology or obtain licenses to infringing technology. In the event of a successful claim against us and our failure to develop or license a substitute technology, our business, financial condition and results of operations would suffer. As the number of software products in the industry increases and the functionality of these products further overlaps, we believe that software developers may become increasingly subject to infringement claims. Any such claims against us, with or without merit, as well as claims initiated by us against third parties, can be time consuming and expensive to defend or prosecute and to resolve.

Sales and Marketing

Our products are being sold and marketed to mobile operators and device manufacturers through direct and indirect channels. Our direct sales force is based in the United States, covering Asia, and Sweden, covering Europe. Our sales force consists of direct sales representatives and sales engineers. Our indirect sales channels include distributors and original equipment manufacturers (OEMs).

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Sales to distributors and OEMs, representing more than 10% of total revenue in each period accounted for the following percentages of total revenue:

	Year Ended December 31,	
	2004	2003
Esmertec A.G	17%	*
Hewlett Packard Company		26%
Insignia Asia Corporation	14%	
Qindao Haier Telecom Company Limited	21%	
Sophast Inter Corporation Company Limited	18%	
Telemobile Corporation	28%	

* Less than 10%

In an effort to accelerate the acceptance of our products, we have developed cooperative alliances and entered into reseller agreements with leading enterprise software vendors, OEMs, and system integrators. We believe these alliances have the potential to provide additional marketing and sales channels for our products, help enable us to raise awareness of our products among OEMs and mobile operators, and facilitate market acceptance for our products. To date, however, these alliances have not proven to be a reliable source of revenue, and we continue to depend upon our direct sales force for the significant part of our revenue. We typically have very little backlog and, accordingly, generate substantially all of our revenue for a given quarter in that quarter.

Our marketing efforts are directed at creating market awareness and generating sales leads. In 2004 and 2005, our marketing efforts were focused on the operator market, with the goal of establishing Insignia as a leading provider of software to update and configure mobile devices. During this time, we have worked to educate industry analysts, OEMs, distributors and mobile operators about our technology and its competitive advantages. Marketing activities include: inside sales, Web seminars, e-marketing techniques and opportunity generation prospecting activities. In addition, our public relations programs are designed to build market awareness by establishing and maintaining relationships with key trade press, business press, and industry analysts.

Competition

Our products are targeted for the mobile operator and mobile device market. The market for these products is fragmented and highly competitive. This market is also rapidly changing, and there are many companies creating products that compete or will compete with ours. As the industry develops, we expect competition to increase in the future. This competition may come from existing competitors or other companies that we do not yet know about. Our main competitors include Bitfone, IBM, InnoPath, 4thPass, mFormation, Openwave and Red Bend.

If these competitors develop products that are