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Software firm hopes to thrive again

Orinda-based Intraware is looking to capitalize on the growing demand for online delivery of content

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An East Bay software firm thinks it can be more than just a survivor of the dot-com bust.

Intraware Inc., led by Peter Jackson, its co-founder, chairman and chief executive officer, is betting that the company's technology can help it capitalize on the boom in online delivery of digital content to all sorts of recipients.

The Orinda-based company developed the first versions of its technology more than a decade ago. Intraware uses its SubscribeNet service to deliver software via the Internet, as well as provide updates and support.

For a decade, the software was used to deliver applications for customers such as Microsoft, IBM, Sybase and others. About 50 software companies subscribe to the service.

Intraware is betting the sea change in online networks and delivery of new kinds of content to many types of consumers can significantly raise the company's fortunes. Jackson figures that Intraware's basic technology can be used to deliver many more kinds of digital content.

"We have a convergence of industries that want to be all digital," he said Tuesday. "The video industry, the music industry, Hollywood are all ready to move in that direction."

The company faces plenty of challenges as it embarks on its digital ventures. For one thing, Intraware in many ways is a shadow of what it once was.

Its fiscal 2006 sales of \$11.5 million are a fraction of the peak sales of \$121.8 million in 2001. Intraware stock on Tuesday closed at \$5.35 per share, far below its pinnacle of \$812.50 reached in 1999. And in 10 years, Intraware has yet to post an annual profit.

Yet there is a flip side to the smaller sales. The company lost \$1.7 million in 2006. In 2001, Intraware was swamped by a lake of red ink that totaled \$58.4 million. Jackson says he realized the losses during those years -- a cumulative \$121 million for 2000, 2001 and 2002 -- imperiled the company's existence.

"We had too many employees, too many real estate commitments, too many leases for equipment and fixtures," Jackson said.

Intraware shrank drastically. Staffing levels dwindled from about 400 workers to the present 50. "Those were very difficult times," Jackson said.

Intraware burst onto the scene with a 1999 initial public offering that was typical for those heady days. The company went public, and its shares shot 18 percent higher on the first day of trading. Fewer than 10 months later, the company's stock had increased five-fold from the IPO price.

Then came the dot-com bust, and the cataclysm engulfed hundreds of companies, unleashed a bear market, helped trigger a recession -- well, that tale of woe has been repeated many times. But some Internet companies, as large as Yahoo, Google, eBay and Amazon, and as tiny as Intraware, managed to survive the meltdown.

Intraware also has initiated one last bit of housekeeping from the dot-com days. The company disclosed in a government filing a few weeks ago that it has offered employees a chance to participate in a program to exchange their stock options for shares of restricted stock.

"Many of the currently outstanding stock options ... are 'under water,' which means that the per-share exercise prices of the stock options are greater than the current market price of our common stock," Wendy Nieto, Intraware's chief financial officer, wrote in a letter to employees and others holding the options. Jackson declined to comment about the program.

One expert with the Oakland-based National Center for Employee Ownership said companies turn to such programs. They seek to bolster morale and burnish the company's image for prospective workers.

"Companies do this because they do want to attract and retain people," said Corey Rosen, executive director with the center. "This kind of substitute equity compensation would be a logical way to go when options are under water."

There is little doubt that Intraware's software delivery technology has gained broad acceptance by some big players. But it still is uncertain whether Intraware can crack the inner circles in the entertainment industry, said Tim Bjarin, a Silicon Valley market researcher and head of Campbell-based Creative Strategies.

"Dealing with Hollywood takes a lot of fortitude and inside connections to pull off deals," he said. "Trying to attract partners in Hollywood can be difficult."

Still, if Intraware's technology is positioned well, the company could finally regain its lofty perch of years past -- minus the huge losses that staggered it during the dot-com days.

"There is more and more demand for digital content, content of all types," Bjarin said. "Digital happens to be the hot button. They can do it if they strike the right relationships."

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