

PUMATECH INC  
Form 10-Q  
December 15, 2003  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended October 31, 2003

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

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Commission File Number 0-21709

**PUMATECH, INC.**

(Exact name of Registrant as specified in its charter)

Delaware  
(State or other jurisdiction of

77-0349154  
(I.R.S. Employer

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incorporation or organization)

Identification Number)

**2550 North First Street, San Jose, California 95131**

(Address of principal executive office and zip code)

**(408) 321-7650**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934, during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of December 5, 2003: 49,516,232

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**Table of Contents****PUMATECH, INC.****PART I FINANCIAL INFORMATION****Item 1. Unaudited Condensed Consolidated Financial Statements****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except per share data)

(Unaudited)

	<b>October 31, 2003</b>	<b>July 31, 2003</b>
	<u>          </u>	<u>          </u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 4,969	\$ 7,842
Short-term investments	20,186	19,317
Accounts receivable, net of allowance for doubtful accounts of \$378 and \$340	6,179	5,469
Inventories, net	253	113
Other current assets	667	882
	<u>          </u>	<u>          </u>
Total current assets	32,254	33,623
Property and equipment, net	1,261	1,153
Goodwill	5,713	2,731
Other intangible assets, net	4,049	2,734
Restricted cash	296	296
Other assets	975	630
	<u>          </u>	<u>          </u>
Total assets	\$ 44,548	\$ 41,167
	<u>          </u>	<u>          </u>
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 2,413	\$ 2,619
Accrued liabilities	3,896	3,816
Current portion of obligations under capital lease	44	
Deferred revenue	2,078	2,015
	<u>          </u>	<u>          </u>
Total current liabilities	8,431	8,450
Obligations under capital lease	137	
Other liabilities	712	921
	<u>          </u>	<u>          </u>
Total liabilities	9,280	9,371
	<u>          </u>	<u>          </u>
Commitments and contingencies (Note 8)		

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Stockholders' equity:

Preferred stock, \$0.001 par value; 2,000 shares authorized; none issued and outstanding at October 31, 2003 and July 31, 2003		
Common stock, \$0.001 par value; 80,000 shares authorized; 49,484 and 47,753 shares issued and outstanding at October 31, 2003 and July 31, 2003	49	48
Additional paid-in capital	160,299	153,986
Receivable from stockholders	(138)	(112)
Deferred stock compensation	(1,039)	(459)
Accumulated deficit	(123,922)	(121,661)
Accumulated other comprehensive income (loss)	19	(6)
	<hr/>	<hr/>
Total stockholders' equity	35,268	31,796
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$ 44,548	\$ 41,167
	<hr/>	<hr/>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents**PUMATECH, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share data)

(Unaudited)

	<b>Three Months Ended October 31,</b>	
	<b>2003</b>	<b>2002</b>
Revenue		
License	\$ 5,270	\$ 4,063
Services	2,746	947
<b>Total revenue</b>	<b>8,016</b>	<b>5,010</b>
Cost and operating expenses:		
Cost of revenue (includes non-cash stock compensation of \$121 and \$0)	1,634	824
Research and development (includes non-cash stock compensation of \$46 and \$29)	2,193	1,781
Sales and marketing (includes non-cash stock compensation of \$291 and \$0)	3,280	2,634
General and administrative (includes non-cash stock compensation of \$798 and \$33)	2,385	1,121
Amortization of intangibles	259	149
In-process research and development	469	
Other charges	76	
<b>Total cost and operating expenses</b>	<b>10,296</b>	<b>6,509</b>
Operating loss	(2,280)	(1,499)
Other income, net	126	211
Loss before income taxes	(2,154)	(1,288)
Provision for income taxes	(107)	(88)
<b>Net loss</b>	<b>\$ (2,261)</b>	<b>\$ (1,376)</b>
Basic and diluted net loss per common share	\$ (0.05)	\$ (0.03)
Shares used in computing basic and diluted net loss per common share	48,266	45,383

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.



**Table of Contents****PUMATECH, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

(Unaudited)

	<b>Three Months Ended</b>	
	<b>October 31,</b>	
	<b>2003</b>	<b>2002</b>
	<u>          </u>	<u>          </u>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (2,261)	\$ (1,376)
Adjustments to reconcile net loss to net cash used in operating activities:		
In-process research and development	469	
Allowance for (recovery of) doubtful accounts	40	(142)
Inventory reserves	30	30
Depreciation	238	382
Amortization	259	149
Non-cash stock compensation	1,256	62
Realized gain on sale of investments		(10)
Changes in operating assets and liabilities:		
Accounts receivable	(750)	214
Inventories	(170)	(29)
Other current assets	215	(36)
Accounts payable	(206)	(160)
Accrued liabilities	(2,148)	(546)
Deferred revenue	63	38
Other assets and liabilities	(317)	(2)
	<u>          </u>	<u>          </u>
Net cash used in operating activities	(3,282)	(1,426)
	<u>          </u>	<u>          </u>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(328)	(48)
Purchase of short-term investments	(4,073)	(5,141)
Proceeds from the sales of short-term investments	2,175	6,844
Proceeds from the maturities of short-term investments	1,000	3,100
	<u>          </u>	<u>          </u>
Net cash provided by (used in) investing activities	(1,045)	4,755
	<u>          </u>	<u>          </u>
<b>Cash flows from financing activities:</b>		
Principal payments on borrowings		(2,000)
Note repayments from stockholders		330
Proceeds upon exercise of stock options	1,307	1
Proceeds from ESPP shares issued	147	92
	<u>          </u>	<u>          </u>



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Net cash provided by (used in) financing activities	1,454	(1,577)
	<u>          </u>	<u>          </u>
Net increase (decrease) in cash and cash equivalents	(2,873)	1,752
Cash and cash equivalents at beginning of period	7,842	4,331
	<u>          </u>	<u>          </u>
Cash and cash equivalents at end of period	\$ 4,969	\$ 6,083
	<u>          </u>	<u>          </u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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**PUMATECH, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 Basis of Presentation and Summary of Significant Accounting Policies**

The accompanying condensed consolidated financial statements of Pumatech, Inc. (the Company) as of October 31, 2003 and for the three months ended October 31, 2003 and 2002 are unaudited and reflect all normal recurring adjustments which are, in the opinion of management, necessary for their fair presentation. These condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2003. The condensed consolidated balance sheet as of July 31, 2003 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The results of operations for the interim period ended October 31, 2003 are not necessarily indicative of results to be expected for the full year.

*Liquidity and Capital Resources*

The Company has incurred losses and negative cash flows since inception. The Company incurred a net loss of approximately \$2,261,000 for the three months ended October 31, 2003 and negative cash flows from operations of approximately \$3,282,000 for the three months ended October 31, 2003. The Company's cash balances may decline further, although the Company believes that the effects of its strategic actions implemented to improve revenue as well as control costs along with existing cash resources will be adequate to fund its operations for at least the next 12 months. Failure to generate sufficient revenues or control spending could adversely affect the Company's ability to achieve its business objectives.

*Use of Estimates and Assumptions*

The preparation of the condensed consolidated financial statements in conformity with generally accepted accounting principles requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. On an on-going basis, the Company evaluates its estimates, including those related to provision for doubtful accounts, channel inventory and product returns, valuation of intangibles, investments and other long-lived assets, restructuring accruals, license and service revenue recognition and contingencies, among others. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for taking judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

*Revenue Recognition*

Revenue is derived from