

FIREPOND INC  
Form 10-Q  
September 15, 2003

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q**

(Mark One)

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

**For the Quarter Ended July 31, 2003**

or

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

**Commission File Number 0-29251**

**Firepond, Inc.**

*(Exact Name of Registrant as Specified in its Charter)*

**Delaware**

*(State or Other Jurisdiction of  
Incorporation or Organization)*

**41-1462409**

*(I.R.S. Employer  
Identification No.)*

**8009 S. 34th Avenue, Minneapolis, MN**

*(Address of principal executive offices)*

**55425**

*(Zip Code)*

**(952) 229-2300**

*(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

As of September 11, 2003 there were 3,671,983 shares of the Registrant's Common Stock outstanding.

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## FIREPOND, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

	July 31, 2003	October 31, 2002
	(Unaudited) (In thousands, except share and per share data)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 13,504	\$ 13,479
Short-term investments	6,143	15,690
Accounts receivable, net of allowance for doubtful accounts of \$190 and \$463	1,766	2,798
Unbilled revenue	153	268
Restricted cash		199
Prepaid expenses and other current assets	1,822	982
	<u>23,388</u>	<u>33,416</u>
Total current assets	23,388	33,416
Property and equipment, net	998	2,105
Other intangible assets, net	60	137
Restricted cash	190	190
Other assets	489	511
	<u>\$ 25,125</u>	<u>\$ 36,359</u>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 363	\$ 1,546
Accrued liabilities	3,534	5,062
Accrued restructuring	657	2,266
Deferred revenue	4,343	5,952
	<u>8,897</u>	<u>14,826</u>
Total current liabilities	8,897	14,826
Long-term accrued restructuring	116	160
Stockholders' equity:		
Preferred stock, \$0.10 par value Authorized 5,000,000 shares; Issued and outstanding none at July 31, 2003 and October 31, 2002		
Common stock, \$0.10 par value Authorized 100,000,000 Issued and outstanding 3,671,983 shares at July 31, 2003 and 3,684,983 shares at October 31, 2002	367	369
Additional paid-in capital	198,899	198,935
Accumulated deficit	(176,819)	(172,094)
Loans receivable	(4,015)	(4,287)
Deferred compensation	(5)	(10)
Accumulated other comprehensive loss	(2,315)	(1,540)
	<u>16,112</u>	<u>21,373</u>
Total stockholders' equity	16,112	21,373
	<u>\$ 25,125</u>	<u>\$ 36,359</u>

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

**Table of Contents****FIREPOND, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2003	2002	2003	2002
(Unaudited)				
(In thousands, except per share data)				
<b>Revenue:</b>				
License	\$ 111	\$ 638	\$ 1,666	\$ 4,851
Services and maintenance	2,156	3,680	7,727	12,367
	<u>2,267</u>	<u>4,318</u>	<u>9,393</u>	<u>17,218</u>
<b>Cost of revenue:</b>				
License	57	4	97	101
Services and maintenance(1)	979	2,306	3,846	8,213
	<u>1,036</u>	<u>2,310</u>	<u>3,943</u>	<u>8,314</u>
Gross profit	1,231	2,008	5,450	8,904
<b>Operating expenses:</b>				
Sales and marketing(1)	1,052	2,036	3,396	6,247
Research and development(1)	1,077	2,290	3,252	7,801
General and administrative(1)	1,110	1,992	3,421	5,648
Stock-based compensation (credit)	4	(701)	240	734
Amortization of intangible assets	26	26	78	460
Restructuring charge	391	5,894	1,041	5,894
Impairment of developed technology and know-how				3,120
	<u>3,660</u>	<u>11,537</u>	<u>11,428</u>	<u>29,904</u>
Loss from operations	(2,429)	(9,529)	(5,978)	(21,000)
Interest income	71	144	260	484
Other income (expense), net	273	308	993	240
	<u>(2,085)</u>	<u>(9,077)</u>	<u>(4,725)</u>	<u>(20,276)</u>
Loss before cumulative effect of a change in accounting principle	(2,085)	(9,077)	(4,725)	(20,276)
Cumulative effect of a change in accounting principle				(3,973)
	<u>(2,085)</u>	<u>(9,077)</u>	<u>(4,725)</u>	<u>(24,249)</u>
Net loss	\$ (2,085)	\$ (9,077)	\$ (4,725)	\$ (24,249)
<b>Net loss per share:</b>				
Basic and diluted loss per share before cumulative effect of a change in accounting principle	\$ (0.57)	\$ (2.46)	\$ (1.28)	\$ (5.54)
Cumulative effect of a change in accounting principle				(1.08)
	<u>(0.57)</u>	<u>(2.46)</u>	<u>(1.28)</u>	<u>(6.62)</u>
Basic and diluted net loss per share applicable to common stockholders	\$ (0.57)	\$ (2.46)	\$ (1.28)	\$ (6.62)

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Basic and diluted weighted average common shares outstanding	3,672	3,684	3,677	3,665
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(1) The following summarizes the departmental allocation of the stock-based compensation charge:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2003	2002	2003	2002
Cost of revenue	\$	\$ (40)	\$ 83	\$ 72
Operating expenses:				
Sales and marketing		(30)		2
Research and development		(77)	3	110
General and administrative	4	(554)	154	550
Total stock-based compensation	\$ 4	\$(701)	\$240	\$734

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



Table of Contents**FIREPOND, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Nine Months Ended July 31,</b>	
	<b>2003</b>	<b>2002</b>
	<b>(Unaudited) (In thousands)</b>	
<b>Cash flows from operating activities:</b>		
Net loss	\$ (4,725)	\$ (24,249)
Adjustments to reconcile net loss to net cash used in operating activities:		
Non-cash restructuring and other special charges		1,165
Stock-based compensation expense	240	734
Depreciation and amortization	1,375	2,413
Impairment of developed technology and know-how		3,120
Cumulative effect of a change in accounting principle		3,973
Changes in assets and liabilities:		
Accounts receivable	907	7,281
Unbilled revenue	111	(22)
Prepaid expenses and other assets	(1,173)	371
Accounts payable	(1,200)	(607)
Accrued liabilities	(1,828)	(1,425)
Accrued restructuring	(1,653)	(294)
Deferred revenue	(1,796)	(6,180)
	<u>          </u>	<u>          </u>
Net cash used in operating activities	(9,742)	(13,720)
	<u>          </u>	<u>          </u>
<b>Cash flows from investing activities:</b>		
Purchases of short-term investments	(997)	(24,127)
Proceeds from the sale and maturities of short-term investments	10,581	24,550
Purchases of property and equipment	(57)	(248)
Decrease (increase) in restricted cash	199	(138)
Return of cash from the Brightware acquisition escrow		617
	<u>          </u>	<u>          </u>
Net cash provided by investing activities	9,726	654
	<u>          </u>	<u>          </u>
<b>Cash flows from financing activities:</b>		
Borrowings on note payable		880
Payments on note payable		(591)
Proceeds from stock options and warrants exercised		79
	<u>          </u>	<u>          </u>
Net cash provided by financing activities		368
	<u>          </u>	<u>          </u>
Effect of exchange rate changes on cash and cash equivalents	41	102
	<u>          </u>	<u>          </u>
Net increase (decrease) in cash and cash equivalents	25	(12,596)
Cash and cash equivalents, beginning of period	13,479	34,660
	<u>          </u>	<u>          </u>
Cash and cash equivalents, end of period	\$ 13,504	\$ 22,064



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

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**FIREPOND, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. Nature of Business and Basis of Presentation**

Firepond, Inc., together with its wholly owned subsidiaries ( Firepond or the Company ), considers itself to be a leading provider in sales configuration systems that help companies reduce the cost of selling complex products, regardless of the sales channel. Companies may achieve a measurable and meaningful return on investment in Firepond technology by converting more leads into accurate orders, whether they sell through a direct sales force, an indirect channel network, or via the web. Firepond also offers an online customer assistance solution. Marketed as Brightware eService Performer, this product line leverages advanced intelligence engines and natural language processing technology to manage a company s online customer interaction channels, with an emphasis on email response management.

The Company is subject to a number of risks similar to those of other companies of similar size in its industry, including recurring losses, rapid technological changes, competition, customer concentration, integration of acquisitions, management of international activities and dependence on key individuals.

The accompanying condensed consolidated financial statements include the accounts of Firepond, Inc. and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in the accompanying financial statements.