

LEGATO SYSTEMS INC  
Form 10-Q  
July 30, 2003  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2003

OR

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

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

Commission File Number: 000-26130

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**LEGATO SYSTEMS, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State of Incorporation)

**94-3077394**  
(I.R.S. Employer

Identification No.)

**2350 West El Camino Real, Mountain View, CA 94040**

(Address of principal executive offices)

**Registrant's telephone number, including area code: (650) 210-7000**

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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

The number of shares outstanding of the Registrant's Common Stock as of July 21, 2003 was 117,786,729.

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(in thousands)

	June 30, 2003	December 31, 2002
	<i>(unaudited)</i>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 62,659	\$ 54,726
Investments	9,315	15,318
Accounts receivable, net	42,752	51,501
Other current assets	9,707	7,487
	<u>124,433</u>	<u>129,032</u>
Total current assets	124,433	129,032
Property and equipment, net	39,297	43,906
Intangible assets, net	25,196	30,586
Goodwill	270,709	270,709
Other assets	4,603	5,483
	<u>\$ 464,238</u>	<u>\$ 479,716</u>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Line of credit	\$ 13,495	\$ 10,550
Accounts payable	11,224	12,294
Accrued liabilities	43,176	58,314
Deferred revenue	66,302	67,956
	<u>134,197</u>	<u>149,114</u>
Total current liabilities	134,197	149,114
Deferred revenue net of current portion	3,389	2,808
	<u>137,586</u>	<u>151,922</u>
Stockholders' equity:		
Common stock and capital in excess of par, \$0.0001 par value;		
117,525 and 116,136 issued and outstanding, respectively	631,882	627,067
Deferred stock compensation	(260)	(416)
Accumulated other comprehensive income	1,471	582

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Accumulated deficit	(306,441)	(299,439)
Total stockholders' equity	326,652	327,794
	\$ 464,238	\$ 479,716

See accompanying notes to these condensed consolidated financial statements.

**Table of Contents****LEGATO SYSTEMS, INC.****Condensed Consolidated Statements of Operations****(in thousands, except per share data)**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2003	2002	2003	2002
	<i>(unaudited)</i>			
<b>Revenue:</b>				
License	\$ 34,845	\$ 30,629	\$ 69,233	\$ 59,379
Service and support	41,783	30,928	81,406	57,809
<b>Total revenue</b>	<b>76,628</b>	<b>61,557</b>	<b>150,639</b>	<b>117,188</b>
<b>Cost of revenue:</b>				
License	1,983	2,215	3,978	3,926
Service and support	11,941	11,325	23,528	21,920
<b>Cost of revenue</b>	<b>13,924</b>	<b>13,540</b>	<b>27,506</b>	<b>25,846</b>
<b>Gross profit</b>	<b>62,704</b>	<b>48,017</b>	<b>123,133</b>	<b>91,342</b>
<b>Operating expenses:</b>				
Sales and marketing	33,286	34,219	66,600	65,938
Research and development	18,616	18,252	37,126	32,772
General and administrative	8,014	9,606	16,168	16,675
Amortization of acquired intangibles	2,695	2,166	5,390	3,598
Write-off of in-process research and development		33,200		33,200
Restructuring charges	3,543		3,543	
Litigation settlement charge				67,000
<b>Total operating expenses</b>	<b>66,154</b>	<b>97,443</b>	<b>128,827</b>	<b>219,183</b>
<b>Loss from operations</b>	<b>(3,450)</b>	<b>(49,426)</b>	<b>(5,694)</b>	<b>(127,841)</b>
Interest and other income, net	(536)	1,348	(897)	1,862
<b>Loss before provision for/(benefit from) income taxes</b>	<b>(3,986)</b>	<b>(48,078)</b>	<b>(6,591)</b>	<b>(125,979)</b>
Provision for/(benefit from) income taxes	411	(2,224)	411	(33,384)
<b>Net loss</b>	<b>\$ (4,397)</b>	<b>\$ (45,854)</b>	<b>\$ (7,002)</b>	<b>\$ (92,595)</b>
<b>Net loss per share:</b>				
Basic and diluted	\$ (0.04)	\$ (0.45)	\$ (0.06)	\$ (0.96)
<b>Weighted average common shares outstanding</b>	<b>117,011</b>	<b>102,643</b>	<b>116,595</b>	<b>96,540</b>

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See accompanying notes to condensed consolidated financial statements.

**Table of Contents****LEGATO SYSTEMS, INC.****Condensed Consolidated Statements of Cash Flows****(in thousands)**

	Six Months Ended June 30,	
	2003	2002
	<i>(unaudited)</i>	
<b>Cash flows from operating activities:</b>		
Net loss	\$ (7,002)	\$ (92,595)
Adjustments to reconcile net loss to net cash used in operating activities:		
Deferred taxes		(37,422)
Depreciation and amortization	14,572	12,193
Write-off of in-process research and development		33,200
Stock compensation expense	424	289
Provision for doubtful accounts and sales returns	404	183
Changes in assets and liabilities:		
Accounts receivable	8,345	(161)
Other assets	(1,340)	1,100
Accounts payable	(1,070)	8,893
Accrued liabilities	(15,138)	(12,295)
Deferred revenue	(1,073)	2,346
Net cash used in operating activities	(1,878)	(84,269)
<b>Cash flows from investing activities:</b>		
Purchases of available-for-sale securities	(57)	(17,239)
Maturities and sales of available-for-sale securities	6,436	72,775
Purchase of technology		(3,250)
Acquisition of OTG Software, net of cash acquired		(1,609)
Acquisition of property and equipment	(4,573)	(10,503)