

EMBARCADERO TECHNOLOGIES INC

Form 10-Q

May 10, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2004.

**.. 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 000-30293

EMBARCADERO TECHNOLOGIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or other jurisdiction)

of incorporation or organization)

68-0310015
(I.R.S. Employer

Identification No.)

425 MARKET STREET, SUITE 425

SAN FRANCISCO, CA 94105

(415) 834-3131

(Address of principal executive offices)

Indicate by check mark whether the registrant (1) 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 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 Exchange Act Rule 12b-2 of the Act). ☒ Yes ☐ No

The number of shares outstanding of the Registrant's Common Stock as of April 30, 2004 was 27,482,494.

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Table of Contents**PART I- FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****EMBARCADERO TECHNOLOGIES, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(in thousands, except par value)****(unaudited)**

	March 31,	December 31,
	2004	2003
	<u></u>	<u></u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 38,915	\$ 45,066
Short-term investments	23,197	12,901
Trade accounts receivable, net	9,039	8,237
Prepaid expenses and other current assets	1,942	1,670
Deferred income taxes	465	465
	<u></u>	<u></u>
Total current assets	73,558	68,339
Property and equipment, net	3,070	3,259
Goodwill	10,337	10,337
Other intangible assets, net	490	692
Deferred income taxes	3,711	3,711
Other assets	3,176	3,692
	<u></u>	<u></u>
Total assets	\$ 94,342	\$ 90,030
	<u></u>	<u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 262	\$ 1,011
Accrued liabilities	5,200	5,098
Deferred revenue	13,862	13,219
	<u></u>	<u></u>
Total current liabilities	19,324	19,328
Long-term deferred revenue	182	251
Long-term restructuring accrual	107	203
	<u></u>	<u></u>
Total liabilities	19,613	19,782
	<u></u>	<u></u>
Stockholders' Equity:		
Common stock at \$0.001 par value	28	28

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Treasury stock	(6,287)	(6,287)
Additional paid-in capital	82,069	80,145
Accumulated other comprehensive income	384	374
Deferred stock-based compensation	(1,198)	(1,519)
Accumulated deficit	(267)	(2,493)
	<hr/>	<hr/>
Total stockholders' equity	74,729	70,248
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$ 94,342	\$ 90,030
	<hr/>	<hr/>

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

Table of Contents**EMBARCADERO TECHNOLOGIES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(in thousands, except per share data)****(unaudited)**

	Three Months Ended	
	March 31,	
	2004	2003
Revenues:		
License	\$ 7,379	\$ 6,347
Maintenance	7,046	5,861
Total revenues	14,425	12,208
Cost of revenues:		
License	209	100
Amortization of acquired technology	555	555
Maintenance	622	588
Total cost of revenues	1,386	1,243
Gross profit	13,039	10,965
Operating expenses:		
Research and development	3,774	3,790
Sales and marketing	5,111	4,895
General and administrative	1,213	1,302
Total operating expenses	10,098	9,987
Income from operations	2,941	978
Other income, net	151	126
Income before provision for income taxes	3,092	1,104
Provision for income taxes	(866)	(208)
Net income	\$ 2,226	\$ 896
Net income per share:		
Basic	\$ 0.08	\$ 0.03
Diluted	\$ 0.08	\$ 0.03

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Shares used in per share calculation:		
Basic	27,122	26,652
	<u> </u>	<u> </u>
Diluted	29,103	28,255
	<u> </u>	<u> </u>
Non-cash stock-based compensation included in the above expenses:		
Research and development	\$	\$ 3
Sales and marketing	149	105
General and administrative	146	150
	<u> </u>	<u> </u>
	\$ 295	\$ 258
	<u> </u>	<u> </u>

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

Table of Contents**EMBARCADERO TECHNOLOGIES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

	Three Months Ended	
	March 31,	
	2004	2003
Cash Flows from Operating Activities:		
Net income	\$ 2,226	\$ 896
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	487	535
Recovery of doubtful accounts	(24)	(47)
Amortization of capitalized software	488	370
Amortization of other intangible assets	202	202
Amortization of deferred stock-based compensation	237	258
Issuance of options in exchange for services	58	
Changes in assets and liabilities:		
Trade accounts receivable	(660)	1,218
Prepaid expenses and other assets	(344)	59
Accounts payable and accrued liabilities	(779)	(191)
Deferred revenue	523	426
Net cash provided by operating activities	2,414	3,726
Cash Flows from Investing Activities:		
Purchase of investments	(10,296)	(7,236)
Maturities of investments		1,700
Sales of investments		13,267
Purchase of property and equipment	(296)	(434)
Technology acquired and developed	(15)	(105)
Net cash provided by (used in) investing activities	(10,607)	7,192
Cash Flows from Financing Activities:		
Payments for repurchase of common stock		(1,171)
Proceeds from exercise of stock options	1,952	1
Net cash provided by (used in) financing activities	1,952	(1,170)
Effect of exchange rate changes on cash and cash equivalents	90	(27)
Net increase (decrease) in cash and cash equivalents	(6,151)	9,721
Cash and cash equivalents at the beginning of the period	45,066	15,870

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Cash and cash equivalents at the end of the period	\$ 38,915	\$ 25,591
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

NOTE 1 THE COMPANY AND BASIS OF PRESENTATION

Embarcadero Technologies, Inc. (with its subsidiaries, collectively referred to as the Company) was incorporated in California on July 23, 1993, and reincorporated in Delaware on February 15, 2000. The Company provides software products that enable organizations to effectively manage their database infrastructure and manage the underlying data housed within that infrastructure. The Company is headquartered in San Francisco, California and has international operations in Toronto, Canada, Maidenhead, United Kingdom and Melbourne, Australia.

The Company markets its software and related maintenance services directly through telesales and field sales organizations in the United States, the United Kingdom and Australia, and indirectly through independent distributors worldwide.

The accompanying unaudited condensed consolidated financial statements reflect all adjustments, which, in the opinion of the Company, are necessary for a fair presentation of the results for the interim periods presented. All such adjustments are normal recurring adjustments. These financial statements have been prepared in accordance with generally accepted accounting principles related to interim financial statements and the applicable rules of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The balance sheet at December 31, 2003, was derived from the audited financial statements, but it does not include all disclosures required by generally accepted accounting principles.

The financial statements and related disclosures have been prepared with the presumption that users of the interim financial information have read or have access to the audited financial statements for the preceding fiscal year. Accordingly, these financial statements should be read in conjunction with the audited financial statements and the related notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2003, filed on March 12, 2004.

Operating results for the three months ended March 31, 2004, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2004 or for any future period. Further, the preparation of condensed consolidated financial statements requires management to make estimates and assumptions that affect the recorded amounts reported therein. A change in facts or circumstances surrounding the estimates could result in a change to the estimates and impact future operating results.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Stock-Based Compensation

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Pursuant to SFAS No. 123, Accounting for Stock-Based Compensation, the Company accounts for employee stock options under Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees, and follows the disclosure-only provisions of SFAS No. 123. Under APB No. 25, compensation expense is based on the difference, if any, on the date of the grant, between the estimated fair value of the Company's common stock and the exercise price of options to purchase that stock. For purposes of estimating the compensation cost of the Company's option grants in accordance with SFAS No. 123, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. If the Company had determined its compensation cost for the Company's stock-based compensation plan based on the fair value at the grant dates for the awards under a method prescribed by SFAS No. 123, the Company's net income would have been changed to the pro forma net income (loss) indicated below (in thousands, except per share amounts):

	Three Months Ended	
	March 31,	
	2004	2003
	(unaudited)	
Net income, as reported	\$ 2,226	\$ 896
Add: Employee stock-based compensation expense included in reported net income, net of tax	141	217
Less: Total employee stock-based compensation expense determined under fair value, net of tax	(669)	(774)
Pro forma net income	\$ 1,698	\$ 339
Basic net income:		
As reported	\$ 0.08	\$ 0.03