

ART TECHNOLOGY GROUP INC
Form 10-Q
November 15, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 Q

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

For the Quarterly Period Ended September 30, 2002

OR

o **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 000-26679

ART TECHNOLOGY GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware

04-3141918

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(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

25 First Street, Cambridge, Massachusetts
(Address of principal executive offices)

02141
(Zip Code)

(617) 386-1000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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

As of November 7, 2002 there were 70,475,324 shares of the Registrant's common stock outstanding.

ART TECHNOLOGY GROUP, INC.

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**

ART TECHNOLOGY GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

(UNAUDITED)

	September 30, 2002	December 31, 2001
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 47,010	\$ 49,493
Marketable securities	20,847	14,057
Accounts receivable, net of reserves of approximately \$1,518 and \$3,539 at September 30, 2002 and December 31, 2001, respectively	20,412	30,532
Unbilled services	798	274
Prepaid expenses and other current assets	5,973	5,541
Total Current Assets	95,040	99,897
Restricted cash	4,604	16,757
Property and Equipment, Net	11,204	16,171
Other Assets	1,520	4,663
	\$ 112,368	\$ 137,488
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Current maturities of long-term obligations	\$ 500	\$ 2,000
Accounts payable	4,626	4,160
Accrued expenses	18,981	24,718
Deferred revenue	13,646	17,628
Accrued restructuring, short-term	9,125	13,398
Total Current Liabilities	46,878	61,904
Accrued restructuring, less current portion	28,779	32,675

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Commitments and Contingencies

Stockholders' Equity:

Preferred stock, \$.01 par value

Authorized 10,000,000

Issued and outstanding no shares

Common stock, \$.01 par value

Authorized 500,000,000

Issued and outstanding 70,460,324 shares and 68,982,030 shares at September 30, 2002 and December 31, 2001 respectively

	704	689
Additional paid-in capital	216,944	214,597
Deferred compensation	(586)	(1,558)
Accumulated deficit	(179,035)	(170,379)
Accumulated other comprehensive income	(1,316)	(440)

Total Stockholders' Equity	36,711	42,909
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	\$ 112,368	\$ 137,488
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The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

ART TECHNOLOGY GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Revenues:				
Product licenses	\$ 11,825	\$ 13,411	\$ 36,574	\$ 57,975
Services	12,677	17,042	40,403	51,267
Total Revenues	24,502	30,453	76,977	109,242
Cost of Revenues:				
Product licenses	1,118	1,075	3,257	3,222
Services	8,119	10,546	25,941	38,941
Total Cost of Revenues	9,237	11,621	29,198	42,163
Gross Profit	15,265	18,832	47,779	67,079
Operating Expenses:				
Research and development	5,419	7,218	16,552	24,397
Sales and marketing	9,713	20,506	33,269	77,341
General and administrative	3,021	5,299	7,778	20,359
Stock-based compensation	246	298	774	1,002
Restructuring			(89)	44,235
Total Operating Expenses	18,399	33,321	58,284	167,334
Loss from Operations	(3,134)	(14,489)	(10,505)	(100,255)
Interest and Other Income, Net	77	809	1,849	4,161
Net loss before benefit from income taxes	(3,057)	(13,680)	(8,656)	(96,094)
Benefit from Income Taxes		(4,651)		(32,273)
Net loss	\$ (3,057)	\$ (9,029)	\$ (8,656)	\$ (63,821)
Basic and diluted net loss per share	\$ (0.04)	\$ (0.13)	\$ (0.12)	\$ (0.93)

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Basic and diluted weighted average common shares outstanding	69,954	68,762	69,737	68,512
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The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

ART TECHNOLOGY GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(UNAUDITED)

	Nine Months Ended	
	September 30, 2002	September 30, 2001
Cash Flows from Operating Activities:		
Net loss	\$ (8,656)	\$ (63,821)
Adjustments to reconcile net loss to net cash used in operating activities		
Stock-based compensation	774	1,002
Depreciation and amortization	5,430	6,763
Loss on disposal of fixed assets, net	633	4,985
Benefit from income taxes		(32,273)
Compensation expense related to issuance of restricted shares		2,574
Changes in current assets and liabilities		
Accounts receivable, net	10,120	21,491
Unbilled services	(524)	832
Prepaid expenses and other current assets	(432)	(3,244)
Restricted cash	12,153	(16,757)
Accounts payable	466	(7,800)
Accrued expenses	(5,737)	(5,646)
Deferred revenues	(3,982)	(4,836)
Accrued restructuring	(8,169)	30,228
Net cash provided by (used in) operating activities	2,076	(66,502)
Cash Flows from Investing Activities:		
Proceeds from (purchases of) marketable securities, net	(6,790)	64,416
Purchases of property and equipment	(843)	(12,499)
Decrease in other assets	3,143	2,015
Net cash (used in) provided by investing activities	(4,490)	53,932
Cash Flows from Financing Activities:		
Tudor Settlement (Footnote 11)	1,050	
Proceeds from exercise of stock options	108	1,085
Proceeds from employee stock purchase plan	1,402	1,534
Payments on long-term obligations	(1,500)	(1,500)
Net cash provided by financing activities	1,060	1,119

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Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents	(1,129)	(103)
Net Decrease in Cash and Cash Equivalents	(2,483)	(11,554)
Cash and Cash Equivalents, Beginning of Period	49,493	53,255
Cash and Cash Equivalents, End of Period	\$ 47,010	\$ 41,701

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

ART TECHNOLOGY GROUP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATIONS AND BASIS OF PRESENTATION

Art Technology Group, Inc. (ATG or the Company) is a Delaware corporation which was incorporated on December 31, 1991. ATG offers an integrated suite of Internet customer relationship management and electronic