

Edgar Filing: PIVOTAL CORP - Form 10-Q

PIVOTAL CORP
Form 10-Q
November 14, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2002

☐ 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 000-26867

PIVOTAL CORPORATION
(Exact name of registrant as specified in its charter)

BRITISH COLUMBIA, CANADA
(State or other Jurisdiction
of incorporation)

98-0366456
(I.R.S. Employer
Identification No.)

SUITE 700 - 858 BEATTY STREET
VANCOUVER, BRITISH COLUMBIA, V6B 1C1
CANADA
(Address of principal executive offices)

Telephone (604) 699-8000
(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 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 ☐

COMMON SHARES OUTSTANDING AT November 1, 2002: 25,337,660

PIVOTAL CORPORATION

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2002

TABLE OF CONTENTS

Edgar Filing: PIVOTAL CORP - Form 10-Q

Page

| | | |
|---------|---|----|
| PART I | FINANCIAL INFORMATION..... | 1 |
| ITEM 1 | Condensed Consolidated Financial Statements..... | 1 |
| | Condensed Consolidated Balance Sheets as of September 30, 2002 and June 30, 2002..... | 1 |
| | Condensed Consolidated Statements of Operations for the Three Months Ended September 30, 2002 and 2001..... | 2 |
| | Condensed Consolidated Statement of Shareholders' Equity for the Three Months ended September 30, 2002..... | 3 |
| | Condensed Consolidated Statements of Cash flows for the Three Months Ended September 30, 2002 and 2001..... | 4 |
| | Notes to the Condensed Consolidated Financial Statements..... | 5 |
| ITEM 2 | Management's Discussion and Analysis of Financial Condition and Results of Operations..... | 10 |
| ITEM 3 | Quantitative and Qualitative Disclosures About Market Risk..... | 21 |
| ITEM 4 | Controls and Procedures..... | 22 |
| PART II | OTHER INFORMATION..... | 24 |
| ITEM 1 | Legal Proceedings..... | 24 |
| ITEM 2 | Changes in Securities and Use of Proceeds..... | 24 |
| ITEM 3 | Defaults Upon Senior Securities..... | 24 |
| ITEM 4 | Submission of Matters to a Vote of Security Holders..... | 24 |
| ITEM 5 | Other Information..... | 24 |
| ITEM 6 | Exhibits and Reports on Form 8-K..... | 24 |

Signature

Certifications

PART I - ITEM 1: CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PIVOTAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(EXPRESSED IN UNITED STATES DOLLARS; ALL AMOUNTS IN THOUSANDS)

Edgar Filing: PIVOTAL CORP - Form 10-Q

| | September 30, 2002 ----- (unaudited) |
|--|---|
| ASSETS | |
| Current assets: | |
| Cash and cash equivalents | \$ 15,781 |
| Short-term investments | 14,505 |
| Restricted Cash | 1,477 |
| Accounts receivable | 8,007 |
| Prepaid expenses and other | 2,945 |
| | ----- |
| Total current assets | 42,715 |
| Property and equipment, net | 3,783 |
| Goodwill | 7,308 |
| Acquired intangibles | 236 |
| Other assets | 1,587 |
| | ----- |
| Total assets | \$ 55,629 ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | |
| Current liabilities: | |
| Accounts payable and accrued liabilities | \$ 13,707 |
| Current portion of accrued restructuring costs | 1,554 |
| Deferred revenue | 10,926 |
| Current portion of obligations under capital leases and long-term debt | 328 |
| | ----- |
| Total current liabilities | 26,515 |
| Non-current portion of accrued restructuring costs | 2,851 |
| Non-current portion of obligations under capital leases and long-term debt | 143 |
| | ----- |
| Total liabilities | 29,509 ----- |
| Shareholders' equity: | |
| Preferred shares, undesignated, no par value; authorized shares - 20,000 at September 30, 2002 and June 30, 2002; no shares issued and outstanding | - |
| Common shares, no par value; authorized shares - 200,000 at September 30, 2002 and June 30, 2002; issued and outstanding shares - 24,610 and 24,096 at September 30, 2002 and June 30, 2002, respectively | 179,252 |
| Deferred share-based compensation | (17) |
| Accumulated other comprehensive loss | (112) |
| Accumulated deficit | (153,003) |
| | ----- |
| Total shareholders' equity | 26,120 ----- |

Edgar Filing: PIVOTAL CORP - Form 10-Q

| | |
|--|-----------|
| Total liabilities and shareholders' equity | \$ 55,629 |
| | ===== |

See accompanying notes.

1

PIVOTAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (EXPRESSED IN UNITED STATES DOLLARS, ALL AMOUNTS IN THOUSANDS EXCEPT PER SHARE DATA) (UNAUDITED)

| | Three months ended September 30, 2002 | 2001 |
|---|---|------------|
| Revenues: | | |
| License | \$ 3,215 | \$ 1,092 |
| Services and maintenance | 9,092 | 1,092 |
| Total revenues | 12,307 | 2,184 |
| Cost of revenues: | | |
| License | 247 | 247 |
| Services and maintenance | 5,346 | 5,346 |
| Total cost of revenues | 5,593 | 5,593 |
| Gross profit | 6,714 | 6,714 |
| Operating expenses: | | |
| Sales and marketing | 9,056 | 9,056 |
| Research and development | 3,991 | 3,991 |
| General and administrative | 2,030 | 2,030 |
| Restructuring costs and other charges | - | - |
| Amortization of goodwill | - | - |
| Total operating expenses | 15,077 | 15,077 |
| Loss from operations | (8,363) | (8,363) |
| Interest and other income (loss) | (289) | (289) |
| Loss before income taxes | (8,652) | (8,652) |
| Income taxes | 163 | 163 |
| Net loss | \$ (8,815) | \$ (8,815) |
| Loss per share: | | |
| Basic and diluted | \$ (0.36) | \$ (0.36) |
| Weighted average number of shares used to calculate | | |

Edgar Filing: PIVOTAL CORP - Form 10-Q

loss per share:

Basic and diluted

24,316

2

See accompanying notes.

2

PIVOTAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002 (EXPRESSED IN UNITED STATES DOLLARS; ALL AMOUNTS IN THOUSANDS) (UNAUDITED)

| | Common Shares and Additional Paid-In Capital | Deferred Share-Based Compensation | Accumulated Other Comprehensive Loss | Acco (|
|---|--|---|---|-----------|
| | Shares ----- | Amount ----- | | |
| Balance June 30, 2002 | 24,096 | \$178,084 | \$ (23) | \$ (|
| Net loss | - | - | - | - |
| Unrealized loss on available-for-sale investment | - | - | (22) | |
| Comprehensive loss | | | | |
| Issuance of common shares on exercise of stock options | 4 | 3 | - | - |
| Issuance of common shares related to Employee Stock Purchase Plan | 62 | 195 | - | - |
| Issuance of common shares related to prior year acquisitions | 448 | 970 | | |
| Amortization of share-based compensation | - | - | 6 | - |
| Balance September 30, 2002 | 24,610 | \$179,252 | \$ (17) | \$ (112) |

See accompanying notes.

3

Edgar Filing: PIVOTAL CORP - Form 10-Q

PIVOTAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(EXPRESSED IN UNITED STATES DOLLARS; ALL AMOUNTS IN THOUSANDS)
(UNAUDITED)

| | Three Se 2002 |
|--|---------------------|
| Cash flows from operating activities: | |
| Net loss for the period | \$ (8,815) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | |
| Amortization of goodwill | - |
| Amortization of acquired intangibles | 88 |
| Depreciation | 520 |
| Amortization of deferred share-based compensation | 6 |
| Change in operating assets and liabilities: | |
| Accounts receivable | 3,093 |
| Prepaid expenses | (399) |
| Accounts payable and accrued liabilities | (1,737) |
| Accrued restructuring costs | (973) |
| Deferred revenue | (1,401) |
| Net cash used in operating activities | (9,618) |
| Cash flow from investing activities: | |
| Purchases, sales and maturities of short-term investments, net | 6,456 |
| Purchase of property and equipment | (102) |
| Proceeds from sale and leaseback of assets | - |
| Change in restricted cash | (1,477) |
| Change in (purchase) of long term investments and other assets | 274 |
| Net cash provided by investing activities | 5,151 |
| Cash flow from financing activities: | |
| Proceeds from issuance of common shares | 198 |
| Repayment of obligations under capital lease | (272) |
| Net cash provided by (used in) financing activities | (74) |
| Net decrease in cash and cash equivalents | (4,541) |
| Cash and cash equivalents, beginning of period | 20,322 |
| Cash and cash equivalents, end of period | \$ 15,781 |

See accompanying notes.

Edgar Filing: PIVOTAL CORP - Form 10-Q

4

PIVOTAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (EXPRESSED IN UNITED STATES DOLLARS; ALL AMOUNTS IN THOUSANDS EXCEPT PER SHARE DATA) (UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying condensed consolidated unaudited financial statements have been prepared pursuant to the rules and regulations for interim financial information of the United States Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with United States generally accepted accounting principles have been condensed, or omitted, pursuant to such rules and regulations. In Pivotal's opinion, these financial statements include all adjustments necessary (which are of a normal and recurring nature) for the fair presentation of the financial position, results of operations, cash flows and shareholders' equity for the interim periods presented. These financial statements should be read in conjunction with the audited consolidated financial statements included in Pivotal's Annual Report on Form 10-K for the year ended June 30, 2002. The results of operations for any interim period are not necessarily indicative of the results of operations for any other interim period or for a full fiscal year.

2. GOODWILL AND OTHER ACQUIRED INTANGIBLE ASSETS

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No. 141 (SFAS 141), "Business Combinations" and Statement of Financial Accounting Standard No. 142 (SFAS 142), "Goodwill and Other Intangible Assets".

SFAS 141 requires that business combinations be accounted for under the purchase method of accounting and addresses the initial recognition and measurement of assets required, including goodwill and intangibles, and liabilities assumed in a business combination. The Company adopted SFAS 141 on a prospective basis effective July 1, 2001. The adoption of SFAS 141 did not have a material effect on the Company's financial statements, but will impact the accounting treatment of future acquisitions.

SFAS 142 requires goodwill to be allocated to, and assessed as part of, a reporting unit. Further, SFAS 142 specifies that goodwill will no longer be amortized but instead will be subject to impairment tests at least annually. In conjunction with the implementation of SFAS 142, Pivotal will complete an initial goodwill impairment assessment in the three month period ending December 31, 2002 to determine if a transition impairment change should be recognized under SFAS No. 142.

The Company adopted SFAS 142 on a prospective basis at the beginning of fiscal 2003 and stopped amortizing goodwill totaling \$7.3 million, thereby eliminating annual goodwill amortization of approximately \$6.4 million in fiscal 2003. Net loss and net loss per share adjusted to exclude goodwill for the comparative period ended September 30, 2002 are as follows:

Three Months Ended

Edgar Filing: PIVOTAL CORP - Form 10-Q

| | September 30, 2002 | September 30, 2001 |
|--|-----------------------|-----------------------|
| Net income (loss), as reported | \$ (8,815) | \$ (22,587) |
| Adjustments: | | |
| Amortization of goodwill | - | 6,683 |
| Net loss | \$ (8,815) | \$ (15,904) |
| Basic and diluted net loss per share, as reported | \$ (0.36) | \$ (0.94) |
| Basic and diluted net loss per share, adjusted | \$ (0.36) | \$ (0.66) |

3. ACCOUNTS RECEIVABLE

Accounts receivable are net of an allowance for doubtful accounts of \$2,135 and \$1,704 at September 30, 2002 and June 30, 2002, respectively.

4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The components of accounts payable and accrued liabilities are as follows:

| | September 30, 2002 | June 30, 2002 |
|---------------------------|-----------------------|------------------|
| Accounts payable | \$ 7,754 | \$ 9,084 |
| Accrued compensation | 2,812 | 3,287 |
| Accrued acquisition costs | 982 | 2,044 |
| Other accrued liabilities | 2,159 | 1,999 |
| | \$13,707 | \$16,414 |

5. LOSS PER SHARE

The following table sets forth the computation of basic and diluted loss per share:

| | Three months ended September 30, | |
|--|-------------------------------------|-------------|
| | 2002 | 2001 |
| Net loss (A) | \$ (8,815) | \$ (22,587) |
| Weighted average number of common shares outstanding (B) | 24,316 | 23,988 |
| Loss per share: | | |
| Basic and diluted (A/B) | \$ (0.36) | \$ (0.94) |

Edgar Filing: PIVOTAL CORP - Form 10-Q

PIVOTAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (EXPRESSED IN UNITED STATES DOLLARS; ALL AMOUNTS IN THOUSANDS EXCEPT PER SHARE DATA) (UNAUDITED)

6. SEGMENTED INFORMATION

Pivotal performs the development, marketing, and supporting of Internet and corporate network-based software applications used for managing customer and selling partner relationships. Pivotal licenses and markets products internationally and is in a single industry segment, specifically the license, implementation and support of its software. Pivotal's chief operating decision maker reviews financial information presented on a consolidated basis, accompanied by disaggregated information about revenues by geographic region for the purpose of making operating decisions and assessing financial performance.

During the three months ended September 30, 2002 and 2001, no single customer accounted for 10% or more of total revenue.

7. RESTRUCTURING CHARGES AND ASSET IMPAIRMENTS

During the year ended June 30, 2002, in light of the significant downturn in the North American and global economies, and the related impact on corporate capital spending, management approved restructuring plans to align Pivotal's cost structure with management's revised revenue expectations. In connection with these plans, Pivotal recorded charges of \$53,576 related to both restructuring activities and intangible asset writedowns. These charges included restructuring costs of \$20,589 associated with workforce reduction, consolidation of excess facilities, contract settlements and tangible asset impairments. In addition, Pivotal recorded a charge of \$32,987 related to the impairment of previously recorded goodwill and other purchased intangible assets. Pivotal may incur additional restructuring charges in subsequent periods.

There were no restructuring or asset impairment charges recorded for the quarter ended September 30, 2002. Adjustments to the restructuring reserves will be made in future periods, if necessary, based upon actual events and circumstances at the time.

The following summarizes the activity in the June 30, 2002 restructuring liability during the three month period ended September 30, 2002:

| | Severance and Benefits | Excess Facilities/Asset Impairments | Contract Settlement Costs/Other | Total |
|--|------------------------------|---|---------------------------------------|----------|
| Reserve balances, June 30, 2002 | \$ 295 | \$4,331 | \$ 752 | \$ 5,378 |
| Restructuring charges, quarter ended September 30, 2002 | - | - | - | - |
| Cash payments | (216) | (404) | (353) | (973) |
| Reserve balances, September 30, 2002 | \$ 79 | \$3,927 | \$ 399 | \$4,405 |
| Current Portion | \$ 79 | \$1,076 | \$ 399 | \$1,554 |
| Non-current Portion | - | \$2,851 | - | \$2,851 |

Edgar Filing: PIVOTAL CORP - Form 10-Q

6

PIVOTAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (EXPRESSED IN UNITED STATES DOLLARS; ALL AMOUNTS IN THOUSANDS EXCEPT PER SHARE DATA) (UNAUDITED)

8. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS No. 146"). SFAS No. 146 addresses significant issues regarding the recognition, measurement, and reporting of costs associated with exit and disposal activities, including restructuring activities. SFAS No. 146 also addresses recognition of certain costs related to terminating a contract that is not a capital lease, costs to consolidate facilities or relocate employees, and termination benefits provided to employees that are involuntarily terminated under the terms of a one-time benefit arrangement that is not an ongoing benefit arrangement or an individual deferred-compensation contract. As SFAS No. 146 is effective only for exit or disposal activities initiated after December 31, 2002, Pivotal does not expect the adoption of this statement to have a material impact on the Company's financial statements.

9. EMPLOYEE STOCK OPTION PLAN

Under APB Opinion No. 25, because the exercise price of Pivotal's employee stock options generally equals the fair value of the underlying stock on the date of grant, no compensation expense is recognized. Deferred compensation expense of \$473 was recorded during 1999 for those situations where the exercise price of an option was lower than the deemed fair market value for financial reporting purposes of the underlying common stock. The deferred compensation is being amortized over the vesting period of the underlying options. Amortization of the deferred share-based compensation balance of \$17 at September 30, 2002 will be completed during the year ending June 30, 2003.

An alternative method of accounting for stock options is SFAS No. 123, Accounting for Stock-Based Compensation. Under SFAS No. 123, employee stock options are valued at the grant date using the Black-Scholes valuation model and the resultant compensation cost is recognized ratably over the vesting period. Had compensation cost for Pivotal's share option plan been determined based on the Black-Scholes value at the grant dates for awards as prescribed by SFAS No. 123, the pro forma net loss and basic and diluted loss per share would have been as follows:

7

| | Three months ended September 30, | |
|----------|-------------------------------------|------|
| | 2002 | 2001 |
| Net loss | ---- | ---- |

Edgar Filing: PIVOTAL CORP - Form 10-Q

| | | |
|-----------------------------------|------------|-------------|
| As reported | \$ (8,815) | \$ (22,587) |
| SFAS No. 123 pro forma | (15,031) | (29,215) |
| Basic and diluted loss per share: | | |
| As reported | \$ (0.36) | \$ (0.94) |
| SFAS No. 123 pro forma | \$ (0.62) | \$ (1.22) |

Compensation expense recognized in providing pro forma disclosures may not be representative of the effects on pro forma earnings for future years since SFAS No. 123 applies only to options granted after 1996.

The weighted average Black-Scholes option pricing model value of options granted under the share option plan during the quarters ended September 30, 2002 and 2001 were U.S. \$1.87, and U.S. \$4.35 per share, respectively. The fair value for these options was estimated at the date of grant using the following weighted average assumptions:

| | Three months ended September 30, | |
|---|-------------------------------------|-----------|
| | 2002 | 2001 |
| | ---- | ---- |
| Assumptions | | |
| Volatility factor of expected market price of Pivotal's shares | 127% | 118.4% |
| Dividend yield | 0.0% | 0.0% |
| Weighted average expected: life of stock options (years) | 4.0 years | 4.0 years |
| Risk free interest rate | 3.0% | 4.4% |

10. RELATED PARTY TRANSACTIONS

During the year ended June 30, 2001, Pivotal loaned Cdn\$124 to its General Counsel and Assistant Secretary. This loan is non-interest bearing, unsecured and pursuant to an agreement dated May 29, 2002, Cdn\$23 of the loan has been repaid and the outstanding balance of the loan will be repaid through future incentive bonuses.

On October 1, 2001, Pivotal entered into a consulting agreement with Christopher Lochhead. Mr. Lochhead was appointed to Pivotal's Board of Directors on November 27, 2001. Pursuant to the consulting agreement, Pivotal has agreed to pay Mr. Lochhead a retainer of \$12 per month in exchange for Mr. Lochhead providing a pre-determined number of monthly consulting hours. Mr. Lochhead may charge an additional fee if the pre-determined number of monthly consulting hours is exceeded. During the three month period ended September 30, 2002, Pivotal paid Mr. Lochhead \$47 pursuant to the agreement. The consulting agreement with Christopher Lochhead was terminated effective September 30, 2002.

11. SUBSEQUENT EVENTS

On October 3, 2002, Pivotal announced the signing of a definitive agreement to acquire all of the issued and outstanding shares of MarketFirst Software Inc. The acquisition was completed on October 23, 2002. The purchase price consisted of 725 shares of common stock of Pivotal Corporation and cash of \$55.

Edgar Filing: PIVOTAL CORP - Form 10-Q

On October 3, 2002, Pivotal announced the implementation of restructuring plans, which primarily consist of reductions in workforce and discretionary expenditures and the consolidation of excess facilities. The restructuring plans include a reduction in the number of employees by 16% from 500 employees to approximately 420 employees, which includes approximately 30 employees from the MarketFirst merger. We expect to recognize a charge to operations of between \$5.8 million and \$9.2 million in the quarter ending December 31, 2002. Total cash outlays under the restructuring are expected to be approximately \$5 million to \$8 million, and relate primarily to costs associated with vacating facilities and the reduction of our workforce. Approximately \$2 million to \$3 million in costs associated with reduction of our workforce will be paid in the three month period ending December 31, 2002, and the remaining costs associated with vacating facilities will generally be paid over the remaining lease terms, which range from one to ten years. The total restructuring charge and related cash outlay are based on management's estimates, which may change as the restructuring plan is finalized. Additional charges may be incurred in future periods depending on business conditions.

12. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

PART I - ITEM 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Investors should read the following in conjunction with the unaudited condensed consolidated financial statements and notes thereto included in Part I - Item 1 of this Quarterly Report, and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended June 30, 2002.

FORWARD-LOOKING STATEMENTS

Statements in this filing about our future results, levels of activity, performance, goals or achievements or other future events constitute forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in our forward-looking statements. These factors include, among others, those described in connection with the forward-looking statements, and the factors described under the heading "Risk Factors" in Exhibit 99.1 to this report, which is hereby incorporated by reference in this report.

In some cases, you can identify forward-looking statements by our use of words such as "may," "will," "should," "could," "expect," "plan," "intend," "anticipate," "believe," "estimate," "predict," "potential" or "continue" or the negative or other variations of these words, or other comparable words or phrases.

Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee future results, levels of

Edgar Filing: PIVOTAL CORP - Form 10-Q

activity, performance, achievements or other future events. Moreover, neither we nor anyone else assumes responsibility for the accuracy and completeness of our forward-looking statements. We are under no duty to update any of our forward-looking statements after the date of this report. You should not place undue reliance on our forward-looking statements.

OVERVIEW

Pivotal Corporation offers Customer Relationship Management (CRM) software and related services that enable mid-sized enterprises worldwide to acquire, serve and manage their customers. Pivotal's target customers are companies and business units in the revenue range of \$100 million to \$3 billion. Customer Relationship Management products and services automate and manage marketing, selling and servicing processes. We refer to our software as the Pivotal CRM Suite. The Pivotal CRM Suite is designed to complement and integrate with a business' supply chain, therefore enabling businesses to improve efficiency and increase revenue.

Our products are used in 44 countries and are available in English, French, German, Spanish, Portuguese, Japanese, Chinese and Hebrew. More than 1,500 companies around the world use Pivotal, including: CIBC, Centex Homes, HarperCollins Publishers, Hitachi Telecom Inc., Premera Blue Cross, Royal Bank of Canada, Southern Company and Vivendi. We market and sell our products through a direct sales force as well as through third-party solution providers.

Our common shares are listed on the Nasdaq National Market under the symbol "PVTL" and on the Toronto Stock Exchange under the symbol "PVT". Our head office is located at Suite 700 - 858 Beatty Street, Vancouver, British Columbia, Canada V6B 1C1, and our telephone number is (604) 699-8000. Our home page on the Internet can be found at www.pivotal.com. Information contained on our website does not constitute part of this report.

Pivotal Corporation was incorporated in British Columbia, Canada in 1990 under the name Pen Magic Software Corporation, and then changed its name to Pen Magic Software Inc. in 1991, to Pivotal Software Inc. in 1995 and to Pivotal Corporation in 1999. The terms "Pivotal," "our company" and "we" in this filing refer to Pivotal Corporation, a British Columbia company, and all of Pivotal Corporation's wholly owned subsidiaries including Pivotal Corporation, incorporated in the State of Washington; Pivotal Corporation Limited, incorporated in the United Kingdom; Pivotal Corporation France S.A., incorporated in France; Exactium Ltd., incorporated in Israel; Exactium, Inc., incorporated in the State of Delaware; Pivotal Technologies Corporation Limited, incorporated in the Republic of Ireland; Pivotal Corporation (N.I.) Limited, incorporated in Northern Ireland; Pivotal GmbH, incorporated in Germany; Pivotal Corporation Australia Pty. Ltd., incorporated in Australia; Project One Business

Technologies Inc., amalgamated in British Columbia, Canada; Nihon Pivotal K.K., incorporated in Japan; and 1254590 Ontario Limited (formerly Inform, Inc.), incorporated in Ontario, Canada.

Pivotal CRM Suite, Pivotal Sales, Pivotal Sales - Miller Heiman Edition, Pivotal Wireless for Sales, Pivotal Sales Analytics, Pivotal Marketing, Pivotal eMarketing, Pivotal Marketing Analytics, Pivotal Service, Pivotal Contact Center, Pivotal eService, Pivotal Wireless for Service, Pivotal Service Analytics, Pivotal eSales, Pivotal Configurator, Pivotal Advisor, Pivotal Quoter, Pivotal Catalog, Pivotal ePartner, Pivotal Partner Management, Pivotal Partner Analytics, Pivotal Integration Engine, Pivotal Lifecycle Engine, Pivotal

Edgar Filing: PIVOTAL CORP - Form 10-Q

Syncstream, Pivotal Intellisync, Pivotal Interactive Selling Engine, Pivotal Analytics Engine, Pivotal Intelligent Internet Architecture and Pivotal Wireless are trademarks and/or registered trademarks of Pivotal Corporation. All other company names, product names, marks, logos, and symbols referenced are the trademarks and/or registered trademarks of their respective owners.

On January 24, 2002, we announced the availability of our advanced integration product - Pivotal Integration Engine, a technology that has been designed to cost-effectively integrate and synchronize our Customer Relationship Management software with back-office and legacy systems.

On October 3, 2002, we announced corporate restructuring initiatives, which included a company-wide workforce reduction representing approximately 27% of our total workforce, consolidation of excess facilities and restructuring of certain business functions. We believe that this new headcount enables us to align with both the current demand in the market for customer relationship management and electronic business products as well as the anticipated growth within that same market. We expect to recognize a charge to operations of between \$5.8 million and \$9.2 million in the quarter ending December 31, 2002. Total cash outlays under the restructuring are expected to be approximately \$5 million to \$8 million, and relate primarily to costs associated with vacating facilities and the reduction of our workforce. Approximately \$2 million to \$3 million in costs associated with reduction of our workforce will be paid in the three month period ending December 31, 2002, and the remaining costs associated with vacating facilities will generally be paid over the remaining lease terms, which range from one to ten years. The total restructuring charge and related cash outlay are based on management's estimates, which may change as the restructuring plan is finalized. Additional charges may be incurred in future periods depending on business conditions and management's ability to achieve targeted expense levels.

SOURCES OF REVENUE AND REVENUE RECOGNITION POLICY

We derive our revenues from the sale of licenses and services and maintenance. License and maintenance revenues are normally generated from licensing our products with end-users, value added resellers and application service providers and, to a lesser extent, through distribution of third-party products. Service revenues are generated from consulting services and education services sold to end-users.

We recognize license revenues on delivery of our solutions to the customer when all of the following conditions have been satisfied:

- o there is persuasive evidence of an arrangement (we consider a non-cancelable agreement signed by us and the customer to be persuasive evidence of an arrangement);
- o the fee is fixed or determinable (we consider the fee to be fixed or determinable if the fee is not subject to refund or adjustment and if we have not granted extended payment terms to the customer); and
- o the collection of the license fee is probable (we consider collection to be probable if our internal credit analysis indicates that the customer will be able to pay amounts as they become due under the arrangement).

Revenues for multiple-element arrangements, which could consist of software licenses, upgrades, enhancements, maintenance and consulting services, are allocated among the component elements based upon the relative fair value of each element. The fair value of each element is determined by the price charged by us when that element is sold separately, or, in the case of an element not yet sold separately, by the price established by authorized management, if it is

Edgar Filing: PIVOTAL CORP - Form 10-Q

probable that the price, once established, will not change before market introduction.

11

We enter into reseller and sub-licensing arrangements that provide a fee payable to us based on a percentage of list prices. We recognize revenue only on the net fee payable to us from the reseller upon sell-through to the end customer by the reseller.

We typically sell first year maintenance with the related software license. Revenue related to maintenance is recognized evenly over the term of the maintenance contract, typically one year.

We recognize revenue from consulting, implementation services and education as these services are performed. We derive revenue from these services primarily on a time-and-materials basis under a separate service arrangement with the customer. In circumstances where we enter into fixed-price service contracts, revenue is recognized on a percentage-of-completion basis, which is measured based upon actual person-hours performed. Much of the implementation services provided to our customers in connection with installations of our solutions are provided by third-party consulting and implementation service providers. These third-party service providers ordinarily contract directly with the customer.

On occasion, we have purchased goods or services for our operations from these vendors at or about the same time we have licensed our software to these organizations. These transactions are negotiated separately and recorded at terms we consider to be arms-length.

RESULTS OF OPERATIONS

The following table presents selected financial data, derived from our unaudited condensed consolidated statements of operations, as a percentage of total revenues for the periods indicated. The operating results for the three months ended September 30, 2002 and 2001, are not necessarily indicative of the results that may be expected for the full fiscal year or any future period.

| | Three months ended September 30, | |
|--------------------------------------|-------------------------------------|-------|
| | 2002 | 2001 |
| | ---- | ---- |
| CONSOLIDATED STATEMENT OF OPERATIONS | | |
| Revenues: | | |
| Licenses | 26% | 38% |
| Services and maintenance | 74% | 62% |
| | ----- | ----- |
| Total revenues | 100% | 100% |
| | ----- | ----- |
| Cost of Revenues: | | |
| Licenses | 2% | 3% |
| Services and maintenance | 43% | 37% |
| | ----- | ----- |
| Total cost of revenues | 45% | 40% |
| | ----- | ----- |
| Gross profit | 55% | 60% |
| | ----- | ----- |
| Operating Expenses: | | |

Edgar Filing: PIVOTAL CORP - Form 10-Q

| | | |
|--|-------|--------|
| Sales and marketing | 74% | 83% |
| Research and development | 32% | 31% |
| General and administrative | 16% | 32% |
| Restructuring costs and other charges | - | 12% |
| Amortization of goodwill and identifiable intangible | - | 42% |
| | ----- | ----- |
| Total operating expenses | 122% | 200% |
| | ----- | ----- |
| Loss from operations | (67)% | (140)% |
| Interest and other income (loss) | (2)% | 1% |
| | ----- | ----- |
| Loss before income taxes | (69)% | (139)% |
| Income tax expense | 1% | 1% |
| | ----- | ----- |
| Net loss | (70)% | (140)% |
| | ===== | ===== |

12

REVENUES

Total revenues decreased 24% to \$12.3 million for the three months ended September 30, 2002 compared to \$16.1 million for the quarter ended September 30, 2001. This decrease is attributable to a 47% decrease in license revenues and a 10% decrease in services and maintenance revenues.

The market for our solutions and related services is unpredictable. Our sales are susceptible to fluctuations in the economy and the corresponding effect on corporate purchasing habits creating a reluctance of companies to acquire significant software systems at this time. These market conditions may continue to deteriorate. The severity and duration of any further deterioration may compel us to consider further reductions in our workforce to realign with those new market conditions, on either a regional or global scale, or both. Any further deterioration in market conditions could adversely impact our ability to develop, deliver and/or service our existing and new products, as well as our ability to attract, maintain and service our customers.

Licenses

Revenues from licenses were \$3.2 million for the three months ended September 30, 2002, compared to \$6.1 million for the quarter ended September 30, 2001.

Our revenue from licenses decreased as a result of the continued economic slowdown through 2002 and the resulting impact on corporate capital spending. We have observed an overall reduction in corporate capital budgets and continue to experience longer and less predictable selling cycles. Our license revenue growth depends on the overall demand for customer relationship management products, and the overall demand for our software depends in large part on the general economic and business conditions. Additionally, we experienced contract losses and delays in concluding contracts with some customers due to customer concerns over the rapid decline of our stock price in the latter half of September 2002 and whether such decline indicated issues within the company.

Revenues from licenses represented 26% and 38% of total revenues for the quarters ended September 30, 2002 and 2001, respectively. No single customer accounted for 10% or more of our revenues for the quarters ended September 30, 2002 and 2001. The decline in license revenues in the first quarter of 2002 occurred largely in our North American and European operations. North American

Edgar Filing: PIVOTAL CORP - Form 10-Q

license revenues accounted for 45% and 61% of total license revenues in the quarters ended September 30, 2002 and 2001, respectively.

During the quarter ended September 30, 2002, we recognized no software license revenue from transactions with vendors where we purchased goods or services from those vendors at or about the same time as the software license transactions.

Services and Maintenance

Revenues from services and maintenance decreased 10% to \$9.1 million from \$10.1 million for the quarters ended September 30, 2002 and 2001, respectively. During the quarter ended September 30, 2002, we experienced an increase of \$0.4 million in revenues from technical support and maintenance contracts, which entitle the customer to new versions of the solutions and to technical support and maintenance services, and a decrease of \$1.4 million in revenues from implementation, education and consulting service engagements.

Our revenues from services and maintenance represented 74% and 62% of total revenues for the quarters ended September 30, 2002 and 2001, respectively. We believe that future revenues from services and maintenance will decrease as a percentage of total revenues as license revenues are anticipated to strengthen at a greater rate than service and maintenance revenues. We plan to continue to rely on third parties to provide a large part of implementation services to our customers rather than providing those services directly.

COST OF REVENUES

Total cost of revenues decreased 13% to \$5.6 million, or 45% of total revenues, from \$6.5 million, or 40% of total revenues, for the quarters ended September 30, 2002 and 2001, respectively. The decrease in total cost of revenues was due to decreased revenues, as well as reduced headcount and related allocations for services and maintenance following our restructuring in the second quarter of fiscal 2002. The increase in cost of revenues as a percentage of

total revenues is due to a change in revenue mix between services and maintenance revenues versus license revenues in the September 2002 quarter compared to the September 2001 quarter.

Licenses

Cost of revenues from licenses decreased to approximately \$0.2 million from \$0.5 million for the quarters ended September 30, 2002 and 2001, respectively. The decrease is due primarily to the decline in license revenues compared to prior quarters. Cost of revenues from licenses as a percentage of revenues from licenses was 8% for both the quarters ended September 30, 2002 and 2001.

The cost of licenses as a percentage of license revenue remains similar to prior quarters but can fluctuate quarter to quarter depending on sales mix and costs of third-party technology integrated with our solutions.

Services and Maintenance

Cost of revenues from services and maintenance consists of personnel and other expenses relating to providing maintenance and customer support, education and consulting services. Cost of revenues from services and maintenance will vary depending on the mix of services we provide between support and maintenance, education, implementation and consulting services. Gross profit margins are

Edgar Filing: PIVOTAL CORP - Form 10-Q

higher for support and maintenance services than they are for education and consulting services. Support and maintenance services involve the delivery of software upgrades, which our customers download and install themselves and customer support. Education and consulting services generally require more involvement by our employees, resulting in higher compensation, travel and similar expenses.

Cost of revenues from services and maintenance decreased 10% to \$5.3 million from \$6.0 million for the quarters ended September 30, 2002 and 2001, respectively. Cost of revenues from services and maintenance as a percentage of revenues from services and maintenance was 59% for both the quarters ended September 30, 2002 and 2001.

OPERATING EXPENSES

Sales and Marketing

Sales and marketing expenses consist primarily of salaries, commissions, bonuses and benefits earned by sales and marketing personnel, direct expenditures such as travel, communication and occupancy for direct sales offices and marketing expenditures related to advertising, trade shows, direct mail, online marketing and promotion.

Sales and marketing expenses decreased 32% to \$9.1 million from \$13.4 million for the quarters ended September 30, 2002 and 2001, respectively. The decreased expenditures for the three month period ending September 30, 2002 is the result of a reduction in employees and marketing program expenditures following the implementation of our restructuring plans in the second quarter of fiscal 2002 as well as increased operating efficiencies and decreased commissions due to lower sales. Sales and marketing expenses decreased as a percentage of total revenues to 74% from 83% for the quarters ended September 30, 2002 and 2001, respectively.

Research and Development

Research and development expenses include costs associated with new products, enhancements of existing products and quality assurance activities and consist primarily of salaries, benefits and equipment for software engineers, quality assurance personnel, program managers, product managers, technical writers and outside contractors used to augment the research and development efforts. Software development costs incurred prior to the establishment of technological feasibility are included in research and development costs as incurred. Since license revenues from our solutions are not recognized until after technological feasibility has been established, software development costs are not generally expensed in the same period in which license revenues for the developed solutions are recognized. There are no software development costs capitalized on our balance sheet.

Research and development expenses decreased 22% to \$4.0 million from \$5.1 million for the quarters ended September 30, 2002 and 2001, respectively. This decrease is a result of a reduction in employees and contract labor

following the implementation of our restructuring plans in the second quarter of fiscal 2002. Research and development expenses were 32% of total revenues for both quarters ended September 30, 2002 and 2001, respectively.

General and Administrative

Edgar Filing: PIVOTAL CORP - Form 10-Q

General and administrative expenses consist primarily of salaries, benefits and related costs for executive, finance, administrative and human resources. General and administrative expenses also include legal and other professional fees and bad debt expense.

General and administrative expenses decreased 61% to \$2.0 million from \$5.2 million for the quarters ended September 30, 2002 and 2001, respectively. General and administrative expenses were 16% and 32% of total revenues for the quarters ended September 30, 2002 and 2001, respectively. The decrease in general and administrative expenses was due to the fact that general and administrative expense for the quarter ended September 30, 2001 included a \$1.9 million charge for doubtful accounts receivable as well as due to the impact of reduced personnel and facilities costs following our restructuring in the second quarter of fiscal 2002.

Restructuring Costs and other Charges

During the year ended June 30, 2002, in light of the significant downturn in the North American and global economies, and the related impact on corporate capital spending, management approved restructuring plans to align Pivotal's cost structure with management's revised revenue expectations. In connection with these plans, Pivotal recorded charges of \$53.6 million related to both restructuring activities and intangible asset writedowns. These charges included restructuring costs of \$20.6 million associated with workforce reduction, consolidation of excess facilities, contract settlements and tangible asset impairments. In addition, Pivotal recorded a charge of \$33.0 million related to the impairment of previously recorded goodwill and other purchased intangible assets. Pivotal may incur additional restructuring charges in subsequent periods.

There were no restructuring or asset impairment charges recorded for the quarter ended September 30, 2002. Adjustments to the restructuring reserves will be made in future periods, if necessary, based upon actual events and circumstances at the time.

The following summarizes the activity in the June 30, 2002 restructuring liability during the three month period ended September 30, 2002, expressed in United States dollars; all amounts in thousands:

| | Severance and Benefits | Excess Facilities/Asset Impairments | Contract Settlement Costs/Other | Total |
|--|---------------------------|---|---------------------------------------|---------|
| Reserve balances, June 30, 2002 | \$ 295 | \$4,331 | \$752 | \$5,378 |
| Restructuring charges, quarter ended September 30, 2002 | - | - | - | - |
| Cash payments | (216) | (404) | (353) | (973) |
| Reserve balances, September 30, 2002 | \$ 79 | \$3,927 | \$399 | \$4,405 |
| Current Portion | \$ 79 | \$1,076 | \$399 | \$1,554 |
| Non-current Portion | - | \$2,851 | - | \$2,851 |
| | ===== | ===== | ===== | ===== |

As a result of this restructuring, we have achieved annualized savings of approximately \$32 million in cost of revenues and operating expenses based on

Edgar Filing: PIVOTAL CORP - Form 10-Q

the expenditure levels at the time of this restructuring.

15

Amortization of Goodwill

There was no charge for amortization of goodwill in the quarter ended September 30, 2002. Amortization of goodwill was \$1.6 million for the quarter ended September 30, 2001. Due to our adoption of SFAS No. 141 and 142 on July 1, 2002, we no longer amortize goodwill. We will complete an initial goodwill impairment assessment to determine whether we will be required to recognize a transition goodwill impairment charge under SFAS No. 142 in the three months period ending December 31, 2002. See "Recent Accounting Pronouncements".

Interest and Other Income (Loss)

Interest and other income (loss) consists of earnings on cash and cash equivalents and short-term investments net of interest expense, foreign exchange gains and losses, and gains and losses on investments. Interest and other income (loss) was (\$289,000) and \$218,000 for the quarters ended September 30, 2002 and 2001, respectively. In the quarter ended September 30, 2002, interest and other income (loss) was impacted by lower cash and short term investment balances held during the period. For the quarters ended September 30, 2002 and 2001, respectively, interest and other income included a foreign exchange loss of \$380,000 and \$263,000. The foreign exchange loss was a result of the appreciation of the United States dollar relative to the functional currencies of our European, Australian and Japanese subsidiaries. The other components of interest and other income were not material for the periods presented.

Income Taxes

The provision for income taxes was \$163,000 and \$154,000 for the three months periods ended September 30, 2002 and 2001, respectively. These income tax amounts were attributable to our operations in the United States, the United Kingdom and France.

QUARTERLY RESULTS OF OPERATIONS

The following tables present our unaudited quarterly results of operations both in absolute dollars and on a percentage of revenue basis for each of our last eight quarters. This data has been derived from unaudited consolidated financial statements that have been prepared on the same basis as the annual audited consolidated financial statements and, in our opinion, included all normal recurring adjustments necessary for the fair presentation of such information. These unaudited quarterly results should be read in conjunction with our annual audited consolidated financial statements.

Quarterly results of operations, expressed in United States dollars; all amounts in thousands:

| Three months ended | | | | | |
|--------------------|------------------|------------------|------------------|-------------------|--------------|
| Sept. 30, 2002 | June 30, 2002 | Mar. 31, 2002 | Dec. 31, 2001 | Sept. 30, 2001 | June 2001 |

Revenues:

Edgar Filing: PIVOTAL CORP - Form 10-Q

| | | | | | | |
|--|-------------------|------------------|------------------|------------------|-------------------|------------------|
| License | \$ 3,215 | \$8,849 | \$7,510 | \$6,870 | \$6,053 | \$12,000 |
| Services and maintenance | 9,092 | 10,223 | 10,206 | 9,828 | 10,077 | 10,000 |
| Total revenues | 12,307 | 19,072 | 17,716 | 16,698 | 16,130 | 22,000 |
| Cost of revenues: | | | | | | |
| License | 247 | 522 | 385 | 557 | 492 | 500 |
| Services and maintenance | 5,346 | 5,443 | 5,025 | 5,895 | 5,968 | 6,000 |
| Total cost of revenues | 5,593 | 5,965 | 5,410 | 6,452 | 6,460 | 7,000 |
| Gross profit | 6,714 | 13,107 | 12,306 | 10,246 | 9,670 | 15,000 |
| Operating expenses: | | | | | | |
| Sales and marketing | 9,056 | 8,803 | 8,734 | 10,476 | 13,404 | 14,000 |
| 16 | | | | | | |
| Three months ended | | | | | | |
| | Sept. 30, 2002 | June 30, 2002 | Mar. 31, 2002 | Dec. 31, 2001 | Sept. 30, 2001 | June 30, 2001 |
| Research and development | 3,991 | 3,720 | 3,636 | 4,660 | 5,103 | 5,000 |
| General and administrative | 2,030 | 2,774 | 2,060 | 2,780 | 5,206 | 6,000 |
| Restructuring costs and other charges | - | 2,147 | - | 49,504 | 1,925 | - |
| Amortization of goodwill and Intangible assets | - | 1,594 | 1,593 | 6,131 | 6,683 | 6,000 |
| Total operating expenses | 15,077 | 19,038 | 16,023 | 73,551 | 32,321 | 32,000 |
| Loss from operations | (8,363) | (5,931) | (3,717) | (63,305) | (22,651) | (17,000) |
| Other income (loss) | | | | | | |
| Interest and other income (loss) | (289) | 245 | 345 | 481 | 218 | 1,000 |
| Impairment of investments | - | (1,244) | - | - | - | - |
| | (289) | (999) | 345 | 481 | 218 | 1,000 |
| Loss before income taxes | (8,652) | (6,930) | (3,372) | (62,824) | (22,433) | (16,000) |
| Income tax expense (recovery) | 163 | 60 | (8) | 180 | 154 | - |
| Net loss | \$ (8,815) | \$ (6,990) | \$ (3,364) | (\$63,004) | \$ (22,587) | \$ (16,000) |

Quarterly results of operations on a percentage of revenue basis:

Edgar Filing: PIVOTAL CORP - Form 10-Q

| | Three months ended | | | | | |
|--|--------------------|------------------|------------------|------------------|-------------------|--------------|
| | Sept. 30, 2002 | June 30, 2002 | Mar. 31, 2002 | Dec. 31, 2001 | Sept. 30, 2001 | June 2001 |
| REVENUES: | | | | | | |
| License | 26% | 46% | 42% | 41% | 38% | |
| Services and maintenance | 74% | 54% | 58% | 59% | 62% | |
| Total revenues | 100% | 100% | 100% | 100% | 100% | 100% |
| COST OF REVENUES: | | | | | | |
| License | 2% | 3% | 2% | 3% | 3% | |
| Services and maintenance | 43% | 28% | 29% | 36% | 37% | |
| Total cost of revenues | 45% | 31% | 31% | 39% | 40% | |
| Gross profit | 55% | 69% | 69% | 61% | 60% | |
| OPERATING EXPENSES: | | | | | | |
| Sales and marketing | 74% | 46% | 49% | 63% | 83% | |
| Research and development | 32% | 20% | 21% | 28% | 31% | |
| General and administrative | 16% | 15% | 12% | 17% | 32% | |
| Restructuring costs and other charges | - | 11% | - | 296% | 12% | |
| Amortization of goodwill and intangible assets | - | 8% | 8% | 36% | 42% | |
| Total operating expenses | 122% | 100% | 90% | 440% | 200% | 100% |
| Loss from operations | (67)% | (31)% | (21)% | (379)% | (140)% | (7)% |
| Other income (loss) | | | | | | |
| Interest and other income (loss) | (2)% | 1% | 2% | 3% | 1% | |
| Impairment of investments | | (6%) | -- | -- | -- | |
| | (2)% | (5%) | 2% | 3% | 1% | |
| Loss before income taxes | (69)% | (36)% | (19)% | (376)% | (139)% | (7)% |

| | Three months ended | | | | | |
|--|--------------------|------------------|------------------|------------------|-------------------|--------------|
| | Sept. 30, 2002 | June 30, 2002 | Mar. 31, 2002 | Dec. 31, 2001 | Sept. 30, 2001 | June 2001 |

Edgar Filing: PIVOTAL CORP - Form 10-Q

| | | | | | | |
|----------------------------------|-------|-------|-------|--------|--------|-----|
| Income tax expense (recovery) | 1% | (1)% | - | 1% | 1% | |
| Net loss | (70)% | (37)% | (19)% | (377)% | (140)% | (7) |

We believe the decrease in revenue in the quarter ended September 30, 2002 as compared to prior quarters was a result of the global economic slowdown and related reluctance of companies to acquire significant software and systems during this time. In addition, a pattern of reduced buying by European customers during July and August has resulted in lower European license revenues in the quarters ended September 30.

Our quarterly operating results have fluctuated significantly in the past and will continue to fluctuate in the future as a result of a number of factors, many of which are outside of our control. As a result of our restructuring initiatives and our limited operating history and recent acquisitions, we cannot forecast operating expenses based on historical results. Accordingly, we base our anticipated level of expense in part on future revenue projections and planned expenditure levels. Most of our expenses are fixed in the short-term and we may not be able to quickly reduce spending if revenues are lower than we have projected. Our ability to forecast our quarterly revenues accurately is limited given the current economic climate, our limited operating history, the length of the sales cycle of our solutions and other uncertainties in our business. If revenues in a particular quarter do not meet projections, our net losses in a given quarter would be greater than expected. As a result, we believe that quarter-to-quarter comparisons of our operating results are not necessarily meaningful. Investors should not rely on the results of one quarter as an indication of future performance.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2002, we had \$15.8 million in cash and cash equivalents, \$14.5 million in short-term investments, \$1.5 million in restricted cash, and \$16.2 million in total working capital. Our combined cash and cash equivalents, short-term investments, and restricted cash balance decreased to \$31.8 million at September 30, 2002 from \$41.3 million at June 30, 2002. Our working capital decreased to \$16.2 million at September 30, 2002 from \$23.6 million at June 30, 2002. This decrease was principally due to the net loss for the period, which was partially offset by a significant decrease in accounts receivable.

Net cash used in operating activities was \$9.6 million and \$9.5 million for the three months ended September 30, 2002 and 2001, respectively.

Net cash provided by investing activities was \$5.2 million and \$5.4 million for the three months ended September 30, 2002 and 2001. During the three months ended September 30, 2002 and 2001, we received proceeds of \$6.5 million and \$7.0 million, respectively, from the sale and maturity of short-term investments. Net capital expenditures were \$0.1 and \$0.2 for the three months ended September 30, 2002 and 2001, respectively.

Net cash used in financing activities was \$0.07 million for the three months ended September 30, 2002, compared to \$0.3 million of cash provided by financing activities for the three months ended September 30, 2001.

As of September 30, 2002, our future fixed commitments for cash payments primarily related to obligations under non-cancelable operating and capital leases. We lease facilities under non-cancelable operating leases expiring between 2002 and 2012 and certain equipment under non-cancelable operating and

Edgar Filing: PIVOTAL CORP - Form 10-Q

capital leases expiring between 2002 and 2004. Future minimum lease payments and other future fixed commitments for the years ending June 30 are as follows:

18

| | | Years ending June (thousands) | | | |
|---|-----------|----------------------------------|-------|-------|-------|
| | Total | 2003 | 2004 | 2005 | 2006 |
| Capital leases and long term debt | \$ 471 | 59 | 390 | 22 | - |
| Restructuring liabilities | 4,405 | 1,349 | 928 | 918 | 694 |
| Operating leases (excluding amounts charged to restructuring) | 40,161 | 5,803 | 6,022 | 4,508 | 4,018 |
| Licencing commitments | 750 | 750 | - | - | - |
| Total cash obligations | \$ 45,787 | 7,961 | 7,840 | 5,448 | 4,712 |

Our principal sources of liquidity at September 30, 2002 were our cash and cash equivalents, short-term investments and restricted cash of \$31.8 million. We have a credit agreement with a Canadian chartered bank, which includes a revolving letter of credit facility of \$5.0 million, bearing interest at the bank's prime rate plus 1% per year, secured by a charge on all of our current and future personal property. As at September 30, 2002, letters of credit totaling \$6.5 million were outstanding to secure facilities and equipment lease obligations. We secured issued letters of credit in excess of our revolving letter of credit facility with \$1.5 million cash in trust, which has been presented as restricted cash on our balance sheet as at September 30, 2002.

On October 23, 2002, we completed the acquisition of MarketFirst Software Inc. The purchase price consisted of 0.725 million shares of Pivotal Corporation and cash of \$0.06 million. We expect that any additional expenditures and obligations related to the MarketFirst acquisition will be minimal.

Subsequent to September 30, 2002, as a result of the impact of our most recent quarterly performance on certain required balance sheet ratios, we are now required to secure our Credit Agreement with cash in trust. This has resulted in the release from escrow of a Pledge Agreement dated June 25, 2002 covering US\$5,500,000 cash. While the Pledge Agreement has been released from the escrow and is now standing as security for advances under the Credit Agreement, the secured party has not enforced its rights against the cash collateral.

We expect to incur capital expenditures of \$2.5 to \$3.5 million in the remainder of fiscal 2003, largely due to our move to new Vancouver head office facilities, as well as various upgrades to our computer systems infrastructure. We believe that the total amount of cash and cash equivalents and short-term investments, along with the credit facilities, will be sufficient to meet our anticipated cash needs for working capital and other purposes through at least the next eighteen months. Thereafter, depending on the development of our business, we may need to raise additional cash for working capital or other expenses. In the interim, however, we may encounter lower than anticipated revenues, high than anticipated expenses, or opportunities for acquisitions or other business initiatives that require significant cash commitments, or unanticipated problems or expenses that could result in a requirement for additional cash before that

Edgar Filing: PIVOTAL CORP - Form 10-Q

time. If we need to raise additional cash, financing may not be available to us on favorable terms, or at all.

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject Pivotal to a concentration of credit risk consist principally of cash and cash equivalents, short-term investments and accounts receivable. Cash and cash equivalents are held with high-quality financial institutions and short-term investments are made in investment grade securities to mitigate exposure to credit risk. Pivotal's customer base is dispersed across many different geographic areas throughout North America, Europe and the Asia Pacific and consists of companies in a variety of industries. Pivotal performs ongoing credit evaluations of its customers and does not require collateral or other security to support credit sales. Pivotal provides an allowance for bad debts based on historical experience and specifically identified risks. If the creditworthiness of certain customers deteriorates, or their business fails, we may experience additional bad debt expenses. During the three month period ended September 30, 2002, we recorded provisions for doubtful debts of \$0.1 million.

19

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS No. 146"). SFAS No. 146 addresses significant issues regarding the recognition, measurement, and reporting of costs associated with exit and disposal activities, including restructuring activities. SFAS No. 146 also addresses recognition of certain costs related to terminating a contract that is not a capital lease, costs to consolidate facilities or relocate employees, and termination benefits provided to employees that are involuntarily terminated under the terms of a one-time benefit arrangement that is not an ongoing benefit arrangement or an individual deferred-compensation contract. As SFAS No. 146 is effective only for exit or disposal activities initiated after December 31, 2002, Pivotal does not expect the adoption of this statement to have a material impact on the Company's financial statements.

20

PART I - ITEM 3

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to financial market risks, including fluctuations in foreign exchange rates and interest rates.

INTEREST RATE RISK

We invest our cash in a variety of short-term financial instruments, including government bonds, commercial paper and money market instruments. Our portfolio is diversified and consists primarily of investment grade securities to minimize credit risk. These investments are typically denominated in U.S. dollars. Cash balances in foreign currencies are operating balances and are only invested in demand or short-term deposits of the local operating bank.

Edgar Filing: PIVOTAL CORP - Form 10-Q

Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted because of a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations because of changes in interest rates or we may suffer losses in principal if forced to sell securities that have seen a decline in market value because of changes in interest rates.

Our investments are made in accordance with an investment policy approved by our board of directors. Under this policy, all short-term investments must be made in investment grade securities with original maturities of less than one year at the time of acquisition.

We do not attempt to reduce or eliminate our exposure to interest rate risk through the use of derivative financial instruments due to the short-term nature of the investments. Based on a sensitivity analysis performed on our balances as of September 30, 2002, the fair value of our short-term investment portfolio would not be materially impacted by a shift in the yield curve of plus or minus 50, 100 or 150 basis points.

OTHER INVESTMENTS

Included in other assets are certain investments in public and private companies. Our investment in two public companies are considered available for sale and are subject to considerable market price volatility and are additionally risky due to resale restrictions. The investments are recorded on the balance sheet at market value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income. We may lose some or all of our investment in those shares. We typically do not attempt to reduce or eliminate our market exposure on these securities. A 10% adverse change in the equity price would result in an approximate \$57,000 decrease in the fair value of our marketable equity securities as of September 30, 2002. Our investments in privately held companies are carried at cost less writedowns related to other than temporary declines. These investments are inherently risky, as they typically are comprised of investments in companies that are still in start-up or development stages. The market for their product or technologies that they have under development is typically in the early stages, and may never materialize. We could lose our entire investment in these companies or may incur an impairment charge if we determine that the value of these assets has been impaired.

FOREIGN CURRENCY RISK

We have operations in Canada and a number of countries outside of the United States and therefore we are subject to risks typical of an international business including, but not limited to, differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions and foreign exchange rate volatility. Accordingly, our future results could be materially adversely affected by changes in these or other factors.

Our sales and corresponding receivables are substantially in U.S. dollars. Through our operations in Canada and outside North America, we incur the majority of our research and development, customer support costs and administrative expenses in Canadian and other local currencies. We are exposed, in the normal course of business, to foreign currency risks on these expenditures. We have evaluated our exposure to these risks and have determined

Edgar Filing: PIVOTAL CORP - Form 10-Q

that our significant operating exposure to foreign currencies exposure at this time is to the Canadian dollar through our operations in Canada. At this time, we do not believe our operating exposure to other currencies is material, however we are exposed to foreign currency gains and losses on monetary assets and liabilities denominated in local currencies.

On occasion, we use forward contracts to minimize the risks associated with transactions originating in Canadian dollars. We have not designated these forward contracts to be hedging instruments. Therefore, all gains or losses resulting from the change in fair value of these contracts have been included in earnings in the current period.

If we were to designate these types of forward contracts or other derivatives as hedges in the future and such derivatives satisfy the criteria for hedging instruments, then depending on the nature of the hedge, changes in the fair value of the derivatives will be offset against the change in fair value of assets, liabilities, or firm commitments recognized in earnings (fair value hedges) or recognized in other comprehensive income until the related hedged item is recognized in earnings (cash flow hedges). Any change in fair value related to the ineffective portion of a derivative will be recognized in earnings through periodic mark to market adjustments.

In addition to the use of foreign exchange forward contracts noted above, from time to time we may also purchase Canadian dollars in the open market and hold these funds in order to satisfy forecasted operating needs in Canadian dollars for the next operating period, which is generally limited to six months or less.

If our actual currency requirement in the period forecasted differs materially from the notional amount of our forward contracts and/or the amount of Canadian dollars purchased in the open market during a period of currency volatility or if we do not continue to manage our exposure to foreign currency through forward contracts or other means, we could experience unanticipated foreign currency gains or losses.

Our foreign currency risk management policy subjects us to risks relating to the creditworthiness of the commercial banks with which we enter into forward contracts. If one of these banks cannot honor its obligations, we may suffer a loss. We also invest in our international operations which will likely result in increased future operating expenses denominated in United Kingdom and Irish pounds, French francs, euros, German marks, Japanese yen, Australian dollars and New Zealand dollars. Our exposure to exchange fluctuations in foreign currencies is not material to date and accordingly, our current foreign currency risk management practices do not cover foreign exchange risks related to these other currencies. In the future, our exposure to foreign currency risks from these other foreign currencies may increase and if not managed appropriately, we could experience unanticipated foreign currency gains and losses.

The purpose of our foreign currency risk management policy is to reduce the effect of exchange rate fluctuation on our results of operations. Therefore, while our foreign currency risk management policy may reduce our exposure to losses resulting from unfavorable changes in currency exchange rates, it also reduces or eliminates our ability to profit from favorable changes in currency exchange rates.

At September 30, 2002, we had no outstanding currency forward exchange contracts, and had none outstanding during the quarter. For the three months ended September 30, 2002 and 2001, respectively, foreign exchange loss was \$380,000 and \$263,000.

Edgar Filing: PIVOTAL CORP - Form 10-Q

CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended) as of a date (the "Evaluation Date") within 90 days prior to the filing date of this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective in timely alerting them to the material information relating to us (or our consolidated subsidiaries) required to be included in our periodic SEC filings and Form 8-K reports.

22

(b) Changes in internal controls.

There were no significant changes made in our internal controls or, to our knowledge, in other factors that could significantly affect these controls subsequent to the date of their evaluation.

23

PART II: OTHER INFORMATION

PART II - ITEM 1

LEGAL PROCEEDINGS

As of the date hereof, there is no material litigation pending against us. From time to time, we are a party to litigation and claims incident to the ordinary course of business. While the results of litigation and claims cannot be predicted with certainty, we believe that the final outcome of such matters will not have a material adverse effect on our business, financial condition, results

Edgar Filing: PIVOTAL CORP - Form 10-Q

of operations and cash flows.

PART II - ITEM 2

CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

PART II - ITEM 3

DEFAULTS UPON SENIOR SECURITIES

None.

PART II - ITEM 4

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II - ITEM 5

OTHER INFORMATION

None.

PART II - ITEM 6

EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

| EXHIBIT NO. ----- | DESCRIPTION ----- |
|----------------------|--|
| 2.1(1) | Share Purchase Agreement by and between Pivotal and Pierre Marcel, Marc Bahda, Bernard Wach and Other Shareholders of Transistif S.A., dated December 3, 1999 |
| 2.2(2) | Stock Purchase Agreement among Pivotal and Industrial & Financial Systems AB and Eli Barak, Alon Hod and Tony Topaz concerning all of the Shares of Exactium Ltd. dated April 11, 2000 |
| 2.3(3) | Share Purchase Agreement among Pivotal and David Pritchard, Kirk Herrington, Michael Satterfield, Calvin Mah, VW B.C. Technology Investment Fund, LP, Venrock Associates, Venrock Associates II, LP, Working Ventures Canadian Fund Inc., Bank of Montreal Capital Corporation, Sussex Capital Inc. and the Other Shareholders of Simba Technologies Inc. concerning all of the Shares of Simba Technologies Inc. dated May 29, 2000 |

24

| EXHIBIT NO. ----- | DESCRIPTION ----- |
|----------------------|--|
| 2.4(12) | Agreement and Plan of Merger among Pivotal, Pivotal Corporation, a Washington corporation, Pivotal Merger Subsidiary, Inc., MarketFirst Software, Inc. and other shareholders of MarketFirst Software, Inc. dated October 2, |

Edgar Filing: PIVOTAL CORP - Form 10-Q

2002

| | |
|----------|--|
| 3.2(4) | Memorandum and Articles |
| 4.1(4) | Specimen of common share certificate |
| 4.2(4) | Registration Rights (included in Exhibit 10.14) |
| 4.3(2) | Registration Rights Agreement dated June 2, 2000 (included in Exhibit 2.2) |
| 4.4(3) | Registration Rights Agreement dated June 26, 2000 (included in Exhibit 2.3) |
| 4.5(8) | Specimen of common share certificate as of August 17, 2000 |
| #10.1(4) | Employee Share Purchase Plan |
| 10.2(4) | Lease dated as of July 18, 1997 between Sodican (B.C.) Inc. and Pivotal for premises located in North Vancouver, B.C. |
| 10.3(4) | Lease dated as of May 26, 1998 between Novo Esplanade Ltd. and Pivotal for premises located in North Vancouver, B.C. |
| 10.4(4) | Lease(1) dated as of December 14, 1998 between B.C. Rail Ltd. and Pivotal for premises located in North Vancouver, B.C. |
| 10.5(4) | Lease(2) dated as of December 14, 1998, between B.C. Rail Ltd. and Pivotal with respect to premises located in North Vancouver, B.C. |
| 10.6(4) | Lease dated as of December 11, 1998 between The Plaza at Yarrow Bay Inc. (previously Yarrow Bay Office III Limited Partnership) and Pivotal with respect to premises located in Kirkland, Washington |
| 10.7(4) | Canadian Imperial Bank of Commerce Cdn\$2,000,000 Committed Installment Loan dated March 18, 1998 |
| 10.8(4) | Canadian Imperial Bank of Commerce Cdn\$3,000,000 Operating Line of Credit dated March 18, 1998 |
| 10.9(4) | Security Agreement with Canadian Imperial Bank of Commerce dated for reference April 15, 1998 |
| 10.10(4) | Contract Relative to Special Security under the Bank Act between Canadian Imperial Bank of Commerce and Pivotal dated April 30, 1998 |
| 10.11(4) | Canadian Imperial Bank of Commerce Schedule - Standard Credit Terms dated March 18, 1998 |
| 10.12(4) | Canadian Imperial Bank of Commerce Schedule - Standard Credit Terms dated March 18, 1998 |

Edgar Filing: PIVOTAL CORP - Form 10-Q

| | |
|--------------------|--|
| ----- #10.13(4) | Form of Indemnity Agreement between Pivotal and directors and officers of Pivotal |
| 10.14(4) | Investors' Rights Agreement dated January 15, 1999 |
| 10.15(5) | Lease dated April 14, 2000 among Deramore Holdings Limited(1), Pivotal Corporation (NI) Limited (2) and Pivotal for premises located in Belfast, Northern Ireland |
| #10.16(5) | Employment Agreement between Vince Mifsud and Pivotal dated November 10, 1998 |
| #10.17(6) | Exactium Ltd. 1999 Stock Option Plan |
| #10.18(7) | Simba Technologies Inc. Incentive Stock Option Plan, as amended |
| #10.19(8) | Amended and Restated Incentive Stock Option Plan |
| 10.20(8) | Restated Offer to Lease dated July 28, 2000 between CB Richard Ellis Limited and Pivotal with respect to premises located in Vancouver, B.C. |
| 10.21(8) | First Amendment to Restated Offer to Lease dated October 16, 2000 between PCI Properties Corp. and Pivotal with respect to premises located in Vancouver, B.C. |
| 10.22(8) | Second Amendment to Restated Offer to Lease dated May 18, 2001 between PCI Properties Corp. and Pivotal with respect to premises located in Vancouver, B.C. |
| 10.23(8) | Lease dated September 1, 2000 between Landgem Office I, Ltd. (previously Dallas Office Portfolio L.P.) and Software Spectrum CRM, Inc. for premises located in Dallas, Texas |
| 10.24(8) | Lease dated December 19, 2000 between 485 Properties, LLC and Pivotal for premises located in Atlanta, Georgia |
| 10.25(8) | Lease dated as of November 24, 2000 between Scholl Consumer Products Limited and Pivotal for premises located in Luton, England |
| #10.26(8) | Employment Agreement between Kent Roger (Bo) Manning and Pivotal dated August 22, 2001 |
| 10.27(8) | Amendment No.1 dated June 19, 2001 to the Canadian Imperial Bank of Commerce Cdn\$3,000,000 Operating Line of Credit dated March 18, 1998 |
| 10.28(8) | Amendment No.2 dated July 3, 2001 to the Canadian Imperial Bank of Commerce Cdn\$3,000,000 Operating Line of Credit dated March 18, 1998 |
| #10.29(9) | Consulting Agreement between Lochhead Corporation and Pivotal dated January 28, 2002 10.30(10) Loan Agreement between Canadian Imperial Bank of Commerce and Pivotal dated December 31, 2001 |
| #10.31(11) | Employment Agreement between John O'Hara and Pivotal dated June 5, 2001 |

Edgar Filing: PIVOTAL CORP - Form 10-Q

| | |
|------------|--|
| #10.32(11) | Employment Agreement between Robert Douglas and Pivotal dated October 21, 2001 |
| #10.33(11) | Employment Agreement between Joe Dworak and Pivotal dated October 19, 2001 |
| #10.34(11) | Employment Agreement between James Warden and Pivotal dated May 18, 1999 |

26

| EXHIBIT NO. ----- | DESCRIPTION ----- |
|----------------------|---|
| 10.35(11) | Lease Amendment Agreement made as of April 22, 2002 between 354875 B.C. Ltd. and Pivotal with respect to premises located in North Vancouver, B.C. |
| 10.36(11) | Modification of Lease dated January 8, 2002 between B.C. Rail Ltd. and Pivotal |
| 10.37(11) | Sub-lease dated September 19, 2001 between The H.W. Wilson Company Inc. and Pivotal with respect to premises located in Dublin, Republic of Ireland |
| 10.38(11) | Sub-lease dated August 18, 2000 between Dunsmuir & HornbyLtd. and Pivotal with respect to premises located in Vancouver, B.C. |
| 10.39(11) | Lease Extension dated October 30, 2001 between Dunsmuir & Hornby Ltd. and Pivotal with respect to premises located in Vancouver, B.C. |
| 10.40(11) | Lease made May 7, 2000 between 1102758 Ontario Limited and Pivotal with respect to premises located in Toronto, ON |
| #10.41(11) | Loan Agreement made as of January 29, 2001 between Pivotal and Andre Beaulieu |
| #10.42(11) | Amendment of Loan Agreement dated May 29, 2002 between Pivotal and Andre Beaulieu |
| 10.43(11) | Sub-lease dated August 29, 2000 between Pivotal and Primus Telecommunications (Canada) Inc. with respect to premises located in Vancouver, B.C. |
| 10.44(11) | Amendment of Lease Extension dated April 29, 2002 between Pivotal and Dunsmuir and Hornby Ltd. with respect to premises located in Vancouver, B.C. |
| 10.45 | Lease dated August 18, 2000 between Pivotal and Dunsmuir and Hornby Ltd. with respect to premises located in Vancouver, B.C. |

99.1 Risk Factors

Indicates management contract or compensatory plan or arrangement.

(1) Incorporated by reference to Pivotal's Form 8-K filed on January 25, 2000.

(2) Incorporated by reference to Pivotal's Form 8-K filed on June 19, 2000.

(3) Incorporated by reference to Pivotal's Form 8-K filed on July 11, 2000.

Edgar Filing: PIVOTAL CORP - Form 10-Q

- (4) Incorporated by reference to Pivotal's Registration Statement on Form F-1 (No. 333-82871).
- (5) Incorporated by reference to Pivotal's Annual Report on Form 10-K for the year ended June 30, 2000.
- (6) Incorporated by reference to Pivotal's Registration Statement on Form S-8 (No. 333-39922).
- (7) Incorporated by reference to Pivotal's Registration Statement on Form S-8 (No. 333-42460).
- (8) Incorporated by reference to Pivotal's Annual Report on Form 10-K for the year ended June 30, 2001
- (9) Incorporated by reference to Pivotal's Quarterly Report on Form 10-Q for the quarter ended December 31, 2001
- (10) Incorporated by reference to Pivotal's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002
- (11) Incorporated by reference to Pivotal's Annual Report on Form 10-K for the year ended June 30, 2002
- (12) Incorporated by reference to Pivotal's Form 8-K filed on October 29, 2002

(b) Reports on Form 8-K

None

27

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 14, 2002

PIVOTAL CORPORATION

/s/ Divesh Sisodraker

Divesh Sisodraker
Chief Financial Officer
(Principal Financial and Accounting
Officer and Duly Authorized Officer)

28

CERTIFICATION

Edgar Filing: PIVOTAL CORP - Form 10-Q

I, Divesh Sisodraker, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pivotal Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ Divesh Sisodraker

Divesh Sisodraker
Chief Financial Officer
(Principal Financial Officer)

Edgar Filing: PIVOTAL CORP - Form 10-Q

CERTIFICATION

I, Roger (Bo) Manning, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pivotal Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ Roger (Bo) Manning

Roger (Bo) Manning
President and Chief Executive Officer
(Principal Executive Officer)

Edgar Filing: PIVOTAL CORP - Form 10-Q

CERTIFICATION PURSUANT TO
18 U.S.C. ss.1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Pivotal Corporation (the "Company") on Form 10-Q for the quarter ended September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Divesh Sisodraker, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Divesh Sisodraker

Divesh Sisodraker
Chief Financial Officer
(Principal Financial Officer)
November 14, 2002

CERTIFICATION PURSUANT TO
18 U.S.C. ss.1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Pivotal Corporation (the "Company") on Form 10-Q for the quarter ended September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kent Roger (Bo) Manning, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Kent Roger (Bo) Manning

Kent Roger (Bo) Manning

Edgar Filing: PIVOTAL CORP - Form 10-Q

President and Chief Executive
Officer
(Chief Executive Officer)
November 14, 2002