

PIVOTAL CORP
Form 10-Q
May 15, 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 March 31, 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)

NOT APPLICABLE
(I.R.S. Employer Identification No.)

**300 - 224 West Esplanade,
North Vancouver, British Columbia, V7M 3M6
CANADA**

(Address of principal executive offices)

Telephone (604) 988-9982

(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 MAY 7, 2002: 24,088,897

FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2002

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PART I - ITEM 1: CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PIVOTAL CORPORATION

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

	<u>March 31,</u> <u>2002</u>	<u>June 30,</u> <u>2001</u>
	(unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 16,185	\$ 13,247
Short-term investments	25,757	55,468
Accounts receivable	16,094	25,645
Prepaid expenses and other	2,805	3,656
	<hr/>	
Total current assets	60,841	98,016
Property and equipment, net	4,741	9,183
Goodwill, intangibles and other assets, net	12,726	61,244
	<hr/>	
Total assets	\$ 78,308	\$ 168,443
<hr/>		
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 19,332	\$ 25,324
Current portion of accrued restructuring costs	3,038	
Deferred revenue	11,991	13,810
Current portion of obligations under capital leases and long term debt	348	516
	<hr/>	
Total current liabilities	34,709	39,650
	<hr/>	
Non-current portion of accrued restructuring costs	2,873	
Non-current portion of obligations under capital leases and long-term debt	448	592
	<hr/>	
Total liabilities	38,030	40,242
<hr/>		
Shareholders' equity:		
Preferred shares, undesignated, no par value; authorized shares - 20,000 at March 31, 2002 and June 30, 2001; no shares issued and outstanding	--	--
Common shares, no par value; authorized shares - 200,000 at March 31, 2002 and June 30, 2001; issued and outstanding shares - 24,086 and 23,933 at March 31, 2002 and June 30, 2001, respectively	178,064	176,728
Deferred share-based compensation	(39)	(81)
Accumulated other comprehensive loss	(549)	(203)
Accumulated deficit	(137,198)	(48,243)
	<hr/>	
Total shareholders' equity	40,278	128,201
	<hr/>	

Total liabilities and shareholders' equity

\$ 78,308 \$ 168,443

See accompanying notes

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

	Three months ended March 31,		Nine months ended March 31,	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
REVENUES:				
Licenses	\$ 7,510	\$ 16,368	\$ 20,433	\$ 46,482
Services and maintenance	10,206	10,271	30,111	27,428
Total revenues	17,716	26,639	50,544	73,910
COST OF REVENUES:				
Licenses	385	1,009	1,434	2,854
Services and maintenance	5,025	5,591	16,888	14,922
Total cost of revenues	5,410	6,600	18,322	17,776
Gross profit	12,306	20,039	32,222	56,134
OPERATING EXPENSES:				
Sales and marketing	8,734	12,689	32,614	37,101
Research and development	3,636	5,096	13,243	13,522
General and administrative	2,060	2,787	10,046	6,663
Restructuring charges and asset impairments			51,429	
Amortization of goodwill	1,593	6,068	14,563	16,468
Total operating expenses	16,023	26,640	121,895	73,754
Loss from operations	(3,717)	(6,601)	(89,673)	(17,620)
Interest and other income	345	994	1,044	1,981
Loss before income taxes	(3,372)	(5,607)	(88,629)	(15,639)
Income taxes (recovery)	(8)	56	326	159

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	Three months ended March 31,		Nine months ended March 31,	
Net loss	\$ (3,364)	\$ (5,663)	\$ (88,955)	\$ (15,798)
Loss per share: Basic and diluted	\$ (0.14)	\$ (0.24)	\$ (3.70)	\$ (0.66)
Weighted average number of shares used to calculate loss per share:				
Basic and diluted	24,075	23,856	24,022	23,818

See accompanying notes

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PIVOTAL CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED MARCH 31, 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	Accumulated (Deficit)	Total Shareholders' Equity
	Shares	Amount				
Balance at June 30, 2001	23,933	\$176,728	\$(81)	\$(203)	\$(48,243)	\$128,201
Net loss for three months ended September 30, 2001					(22,587)	(22,587)
Change in net unrealized loss on available-for-sale investment				(459)		(459)
Comprehensive loss						(23,046)
Issuance of common shares on exercise of stock options	13	34				34
Issuance of common shares related to Employee Stock Purchase Plan	50	590				590

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	Common Shares and Additional Paid-In Capital		Deferred Share-Based	Accumulated Other Comprehensive	Accumulated	Total Shareholders'
Amortization of deferred share-based compensation			14			14
Balance at September 30, 2001	23,996	\$177,352	\$(67)	\$(662)	\$(70,830)	\$105,793
Net loss for three months ended December 31, 2001					(63,004)	(63,004)
Change in net unrealized loss on available-for-sale investment				566		<u>566</u>
Comprehensive loss						<u>(62,438)</u>
Issuance of common shares on exercise of stock options	10	9				9
Amortization of deferred share-based compensation			14			14
Balance at December 31, 2001	24,006	\$177,361	\$(53)	\$(96)	\$(133,834)	\$43,378
Net loss for three months ended March 31, 2002					(3,364)	(3,364)
Change in net unrealized loss on available-for-sale investment				(453)		<u>(453)</u>
Comprehensive loss						<u>(3,817)</u>
Tax benefit from employee stock option plans		378				378
Issuance of common shares on exercise of stock options	17	18				18
Issuance of common shares related to Employee Stock Purchase Plan	63	307				307
Amortization of deferred share-based compensation			14			14
Balance at March 31, 2002	24,086	\$178,064	\$(39)	\$(549)	\$(137,198)	\$40,278

See accompanying notes

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

	Nine months ended March 31,	
	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	\$ (88,955)	\$ (15,798)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Amortization of goodwill	14,563	16,468
Depreciation	3,505	3,248
Tax benefit from employee stock option plan	378	
Non-cash restructuring costs	7,535	
Impairment of goodwill and other purchased intangible assets	32,987	
Non-cash share-based compensation expense	42	84
Change in operating assets and liabilities:		
Accounts receivable	9,551	(6,094)
Prepaid expenses and other	(1,513)	(2,048)
Accounts payable and accrued liabilities	(5,992)	516
Accrued restructuring costs	5,911	
Deferred revenue	(1,819)	2,572
Net cash used in operating activities	(23,807)	(1,052)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases, sales and maturities of short-term investments, net	29,711	(30,277)

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	Nine months ended March 31,	
Purchase of property and equipment	(1,051)	(5,477)
Proceeds from sale and leaseback of assets	1,277	
Acquisitions (net of cash acquired)		(5,321)
Purchase of long-term investments and other assets	(3,838)	(2,419)
Net cash provided by (used in) investing activities	26,099	(43,494)
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of obligations under capital lease	(312)	
Proceeds from issuance of common shares	958	54,919
Net cash provided by financing activities	646	54,919
Net increase in cash and cash equivalents	2,938	10,373
Cash and cash equivalents, beginning of period	13,247	4,734
Cash and cash equivalents, end of period	\$ 16,185	\$ 15,107

See accompanying notes

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, 2001. 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. ACCOUNTS RECEIVABLE

Accounts receivable are net of an allowance for doubtful accounts of \$3,885 and \$2,260 at March 31, 2002 and June 30, 2001, respectively.

3. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	<u>March 31, 2002</u>	<u>June 30, 2001</u>
Accounts payable	\$9,551	\$12,721
Accrued compensation	3,455	3,867
Accrued acquisition costs	3,231	5,227
Other accrued liabilities	3,095	3,509
	<u> </u>	<u> </u>
	\$19,332	\$25,324
	<u> </u>	<u> </u>

4. LOSS PER SHARE

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

	Three months ended		Nine months ended	
	March 31,		March 31,	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Net loss (A)	\$ (3,364)	\$ (5,663)	\$ (88,955)	\$ (15,798)
Weighted average number of common shares outstanding (B)	24,075	23,856	24,022	23,818
Loss per share:				
Basic and diluted (A/B)	\$ (0.14)	\$ (0.24)	\$ (3.70)	\$ (0.66)

PIVOTAL CORPORATION

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN UNITED STATES DOLLARS; ALL AMOUNTS IN THOUSANDS
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(UNAUDITED)**

5. 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 March 31, 2002 and March 31, 2001 and the nine months ended March 31, 2002 and March 31, 2001, no single customer accounted for 10% or more of total revenue.

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PIVOTAL CORPORATION

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN UNITED STATES DOLLARS; ALL AMOUNTS IN THOUSANDS
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6. RESTRUCTURING CHARGES AND ASSET IMPAIRMENTS

During the nine months ended March 31, 2002, management approved restructuring plans to align Pivotal's cost structure with changing market conditions and to create a more efficient organization. In connection with these plans, Pivotal recorded a charge of \$1.9 million in the quarter ended September 30, 2001 and \$16.5 million in the quarter ended December 31, 2001. There was no charge recorded for the quarter ended March 31, 2002. These prior charges included costs associated with workforce reduction, consolidation of excess facilities, contract settlements and 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 in the quarter ended December 31, 2001. Pivotal does not currently expect to incur additional material restructuring charges in subsequent periods, however unforeseen changes in business circumstances could require additional restructuring initiatives. Adjustments to the restructuring reserves will be made in future periods, if necessary, based upon actual events and circumstances at the time.

Workforce reduction charges include the cost of severance and related benefits of employees affected by the restructuring activities. Excess facility costs represent lease termination payments, net of expected sublease revenue, and other costs related to the closure of certain corporate facilities, sales offices and research and development centers for activities that have been exited or restructured. Certain leasehold improvements located at the closed facilities and computer equipment and software licenses were determined to be impaired as a result of the restructuring activities and were written down to estimated recoverable value, net of estimated disposal costs. Contract settlement costs include penalties incurred, or expected to be incurred, due to Pivotal's withdrawal from certain purchase and partner contracts.

Changes in the restructuring reserve are as follows:

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	Severance and Benefits	Excess Facilities/Assets Impairments	Contract Settlement Costs/Other	Impairment of Goodwill and Other Purchased Intangible Assets	Total
Restructuring charges, quarter ended September 30, 2001	\$ 332	\$ 949	\$ 644		\$ 1,925
Cash payments	(332)	(183)			(515)
Non-cash portion			(244)		(244)
Reserve balances, September 30, 2001		766	400		1,166
Restructuring charges, quarter ended December 31, 2001	\$ 2,844	\$ 9,615	\$ 4,058	\$ 32,987	\$ 49,504
Cash payments	(1,340)	(218)	(172)		(1,730)
Non-cash portion		(4,906)	(2,385)	(32,987)	(40,278)
Reserve balances, December 31, 2001	\$ 1,504	\$ 5,257	\$ 1,901	\$	\$ 8,662
Cash payments	(1,390)	(592)	(769)		(2,751)
Reserve balances, March 31, 2002	\$ 114	\$ 4,665	\$ 1,132		\$ 5,911
Current Portion	\$ 114	\$ 1,792	\$ 1,132		\$ 3,038
Non-current Portion		\$ 2,873			\$ 2,873

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PIVOTAL CORPORATION

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN UNITED STATES DOLLARS; ALL AMOUNTS IN THOUSANDS
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(UNAUDITED)**

6. RESTRUCTURING CHARGES AND ASSET IMPAIRMENTS (continued)

The nature of the charges summarized above is as follows:

Severance and Benefits

During the quarters ended September 30, 2001 and December 31, 2001, Pivotal recorded charges of approximately \$0.3 million and \$2.8 million, respectively, related to severance benefits to terminated employees in the United States and various international locations. During the quarters ended September 30, 2001 and December 31, 2001, Pivotal terminated approximately 50 and 150 employees, respectively, in a variety of locations in the United States and internationally.

Excess Facilities/Asset Impairments

During the quarters ended September 30, 2001 and December 31, 2001, Pivotal recorded charges of approximately \$0.9 million and \$9.6 million, respectively, related to the consolidation of facilities and impairment of certain assets. Included in these charges are approximately \$4.8 million for the quarter ended December 31, 2001 related to asset impairments of certain capital assets related directly to restructuring activities. These assets were either abandoned during the quarter or the resulting estimated future reduced cash flows were insufficient to cover the carrying amounts of the related assets. The remainder of the charges related to the consolidation of facilities and represent remaining lease commitments, net of expected sublease income. The remaining lease commitments will be paid over the respective lease terms through to June 2007. The estimated costs to exit the facilities, including expected sublease revenues, are based on available commercial rates and an estimate of the time required to sublet the facilities. The charge may be increased in future periods if further consolidations are required or if sublease income is less than expected.

Contract Settlement Costs/Other

During the quarters ended September 30, 2001 and December 31, 2001, Pivotal recorded charges of approximately \$0.6 and \$4.1 million, respectively, for contract settlement costs including penalties expected to be incurred due to Pivotal's withdrawal from certain purchase and partner contracts and for various incremental costs incurred as a direct result of the restructuring. If additional contracts are cancelled in future periods, or if extra unforeseen costs are incurred in respect of current contracts, this charge may increase.

Impairment of Goodwill and Other Purchased Intangible Assets

Pivotal periodically assesses the impairment of long-lived assets, including identifiable intangibles, in accordance with the provisions of SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. Based on quantitative and qualitative measures, Pivotal assesses the need to record impairment losses on long-lived assets used in operations when impairment indicators are present.

To determine other than temporary impairment for identifiable intangibles, the sum of the undiscounted cash flows is compared to the current carrying value. If the undiscounted cash flows are greater than or equal to the current carrying value the asset is deemed not to be impaired. If the undiscounted cash flows are less than the current

PIVOTAL CORPORATION**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN UNITED STATES DOLLARS; ALL AMOUNTS IN THOUSANDS
EXCEPT PER SHARE DATA)
(UNAUDITED)****6. RESTRUCTURING CHARGES AND ASSET IMPAIRMENTS (continued)**

carrying value then the asset is deemed impaired. A discounted cash flow analysis is then prepared and the difference between the carrying value and the discounted cash flows represents the charge taken in accordance with SFAS No. 121. To determine the impairment loss for goodwill, Pivotal determined the fair value using a business enterprise methodology which includes a terminal value assigned to the entity. This value is then compared to the carrying value, and if less, the difference represents the impairment to be recorded. The assumptions supporting the estimated future cash flows, including the estimated terminal values, reflect management's best estimates. It is possible that the estimates and assumptions used under this assessment may change in the short term, resulting in the need to further write down the goodwill and other long-lived assets. In addition, it is possible that Pivotal may have additional reductions in goodwill in future periods.

As part of Pivotal's review of financial results for the quarter ended December 31, 2001, management performed an impairment assessment of identifiable intangible assets and goodwill recorded in connection with its past acquisitions. The impairment assessment was performed due to changes in overall economic conditions that have negatively impacted Pivotal's revenues and forecasted revenue growth rate. As a result, an impairment charge of \$33.0 million was recorded in the quarter ended December 31, 2001 to reduce goodwill associated with acquisitions and other purchased intangibles to their estimated fair values. This impairment charge was primarily associated with the acquisitions of Exactium Ltd. and Digital Conversations Inc. (formerly Simba Technologies Inc.), Software Spectrum CRM, Inc. and Project One Business Technologies Inc.

7. RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 addresses the initial recognition and measurement of intangible assets acquired in a business combination and SFAS No. 142 addresses the subsequent recognition and measurement of intangible assets acquired outside of a business combination whether acquired individually or with a group of other assets. These standards require all future business combinations to be accounted for using the purchase method of accounting. Goodwill will no longer be amortized but instead will be subject to impairment tests at least annually.

Pivotal is required to adopt SFAS No. 141 and 142 on a prospective basis as of July 1, 2002; however, certain provisions of these new Standards may also apply to any acquisitions concluded subsequent to June 30, 2001. The adoption of SFAS No. 141 is not expected to have a material effect on Pivotal's financial position, results of operations and cash flows in 2002 and subsequent years. After June 30, 2002, Pivotal will no longer amortize goodwill pursuant to SFAS No. 142. Goodwill amortization for the nine months ended March 31, 2002 was \$14.6 million. Unamortized goodwill as of March 31, 2002 was \$9.2 million. Pivotal will complete an initial goodwill impairment assessment in fiscal 2003 to determine if a transition impairment charge should be recognized under SFAS No. 142.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of." Although retaining many of the fundamental recognition and measurement provisions of SFAS 121, the new rules significantly change the criteria that would have to be met to classify an asset as held-for-sale. The statement also supersedes certain provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," and will require expected future operating losses from discontinued operations to be displayed in discontinued operations in the period(s) in which the losses are incurred rather than as of the measurement date, as presently required. As required by SFAS No. 144, Pivotal will adopt this new statement on July 1, 2002. We are currently evaluating this statement but do not expect that it will have a material impact on our financial position, results of operations, or cash flows.

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On January 1, 2002, Pivotal adopted Topic No. D-103. Topic D-103 requires that certain out-of-pocket expenses re-billed to customers be recorded as revenue versus an offset to the related expense. Prior to the adoption of Topic D-103, Pivotal recorded re-billed out-of-pocket expenses as an offset to the related expense. Comparative financial statements for prior periods have been conformed to the current year presentation. This change had no effect on operating income or net income for any period presented.

8. RELATED PARTY TRANSACTIONS

Pivotal entered into a consulting agreement with Christopher Lochhead effective October 1, 2001, as a provider of marketing consulting services. Mr. Lochhead was appointed to Pivotal's board of directors on November 27, 2001. Pivotal has agreed to pay Mr. Lochhead a retainer of \$12,000 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 and nine month periods ended March 31, 2002, Pivotal paid Mr. Lochhead \$36,000 and \$138,000, respectively, pursuant to the agreement.

9. COMPARATIVE FIGURES

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

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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, 2001.

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 99.2 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," "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 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.

7. RECENT ACCOUNTING PRONOUNCEMENTS

OVERVIEW

Pivotal Corporation enables entrepreneurial enterprises worldwide to acquire, serve and manage their customers by providing customer relationship management and electronic business solutions. We define entrepreneurial enterprises as companies that generate revenues exceeding \$100 million annually; have an entrepreneurial approach to doing business; demand results; and make buying decisions based on proof, not brand alone. Customer relationship management and electronic business solutions automate and manage marketing, selling and servicing processes over the Internet. We refer to our solutions as the Pivotal Customer Relationship Management and eBusiness solution suite. The Customer Relationship Management and eBusiness solution suite is designed to complement and integrate with a business supply chain, therefore enabling businesses to improve efficiency and increase revenues.

Our solutions are used in 44 countries and are available in English, French, German, Spanish, Portuguese, Swedish, Japanese, Chinese and Hebrew. More than 1,400 companies globally use Pivotal including: Hewlett Packard, CIBC, HarperCollins Publishers, Hitachi Telecom Inc., Intrawest Corporation, Vivendi Universal, Royal Bank of Canada, Southern Company, and Ziff Davis Media Inc. We market and sell our solutions through a direct sales force as well as through third-party solution providers.

Our common shares are listed on NASDAQ under the symbol PVTL and on the Toronto Stock Exchange under the symbol PVT. Our head office is located at 300 - 224 West Esplanade, North Vancouver, British Columbia, Canada V7M 3M6, and our telephone number is (604) 988-9982. 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 the 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 Washington State, 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 Delaware State, 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, Nihon Pivotal K.K., incorporated in Japan and 1254590 Ontario Limited (formerly Inform, Inc.), incorporated in Ontario.

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Pivotal Relationship, Pivotal eRelationship, Pivotal eRelationship 2000, Pivotal eRelationship 2000 IntraHub, Pivotal eRelationship 2000 CustomerHub, Pivotal eRelationship 2000 PartnerHub, Pivotal ePower, Pivotal ePower 2000, Pivotal eSelling 2000, PivotalHost, Pivotal Anywhere, Pivotal ePower Intelligence Engine, Pivotal Sales & Marketing Intelligence, Pivotal ePower Interaction Engine, PivotalLink for Customer Interaction Center, Pivotal SyncStream, Pivotal Demand Chain Management, Pivotal Digital Intelligence, Pivotal Instant Action, Pivotal Commerce, Pivotal PartnerHub, Pivotal CustomerHub, Pivotal eSelling, Pivotal Service, Pivotal Marketing, Pivotal ePower Lifecycle Engine - Oracle Edition and Miller Heiman for eRelationship Sales 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 product designed to cost-effectively integrate and synchronize our CRM software with back-office and legacy systems.

SIGNIFICANT ACCOUNTING POLICIES

We believe that there are several accounting policies that are important to understanding our historical and future performance, as these policies affect the reported amounts of revenue and the more significant areas involving management's judgments and estimates. These significant accounting policies relate to revenue recognition and the provision for doubtful accounts. These policies, and our procedures related to these policies, are described in detail below.

Source of Revenue and Revenue Recognition Policy

We derive our revenues from the sale of licenses, services and maintenance to end-users, value added resellers and application service providers and, to a lesser extent, through distribution of third-party products.

We recognize license revenues on delivery of our solutions to the customer if:

there is persuasive evidence of an arrangement;

the fee is fixed or determinable;

there is vendor-specific objective evidence supporting allocating the total fee among all elements of a multiple-element arrangement; and

the collection of the license fee is probable.

Multiple-element arrangements could consist of software licenses, upgrades, enhancements, maintenance and consulting services. Revenues for multiple-element arrangements are allocated among the components based upon the relative fair values of each element.

Under some license arrangements, with either a fixed or indefinite term, our customers agree to pay for the license with payment terms extending beyond ninety days. We recognize revenues from these arrangements as the payments become due, provided all other conditions for revenue recognition are met.

We enter into reseller and sub-licensing arrangements that provide a fee payable to us based on a percentage of list price. We recognize revenue only on the net fees payable to us.

We typically sell first year maintenance with the related software license. Revenue related to maintenance is recognized 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.

Provision for Doubtful Accounts

We initially record our provision for doubtful accounts based on historical experience of write-offs and then adjust this provision at the end of each reporting period based on a detailed assessment of our accounts receivable and allowance for doubtful accounts. In estimating the provision for doubtful accounts, management considers the age of the accounts receivable, our historical write-offs, the credit worthiness of the customer, the economic conditions of the customer's industry, and general economic conditions, among other factors. Should any of these factors change, the estimates made by management will also change, which could impact the level of our future provision for doubtful accounts. Specifically, if the financial condition of our customers were to deteriorate, affecting their ability to make payments, additional provision for doubtful accounts may be required. During the three month and nine month periods ended March 31, 2002, we recorded provisions for doubtful debts of \$0.7 million and \$3.4 million, respectively.

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 March 31, 2002 and 2001 and the nine months ended March 31, 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 March 31,		Nine months ended March 31,	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
CONSOLIDATED STATEMENT OF OPERATIONS				
Revenues				
Licenses	42%	61%	40%	63%
Services and maintenance	58%	39%	60%	37%
Total revenues	100%	100%	100%	100%
Cost of Revenues:				
Licenses	2%	4%	3%	4%
Services and maintenance	29%	21%	33%	20%
Total cost of revenues	31%	25%	36%	24%
Gross Profit	69%	75%	64%	76%
Operating Expenses:				
Sales and marketing	49%	48%	65%	50%
Research and development	21%	19%	26%	18%
General and administrative	12%	10%	20%	9%
Restructuring costs and other charges			101%	
Amortization of goodwill	9%	23%	29%	23%
Total operating expenses	90%	100%	241%	100%
Loss from operations	(21%)	(25%)	(177%)	(24%)
Interest and other income	2%	4%	2%	3%
Loss before income taxes	(19%)	(21%)	(175%)	(21%)

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	Three months ended March 31,		Nine months ended March 31,	
Income tax expense			(1%)	(1%)
Net loss	(19%)	(21%)	(176%)	(22%)

REVENUES

Total revenues decreased 33% to \$17.7 million from \$26.6 million for the quarters ended March 31, 2002 and 2001, respectively. Total revenues for the nine month period ended March 31, 2002 were \$50.5 million compared with \$73.9 million for the nine month period ended March 31, 2001, representing a decrease of 32%.

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 decreased 54% to \$7.5 million from \$16.4 million for the quarters ended March 31, 2002 and 2001, respectively. Revenues from licenses for the nine month period ended March 31, 2002 were \$20.4 million compared with \$46.5 million for the nine month period ended March 31, 2001 representing a decrease of 56%.

Revenues from licenses represented 42% and 61% of total revenues for the quarters ended March 31, 2002 and 2001, respectively. During the nine months ended March 31, 2002 and 2001, respectively, revenues for licenses represented 40% and 63% of total revenues. No single customer accounted for 10% or more of our revenues for the quarters ended March 31, 2002 and 2001 or the nine months ended March 31, 2002 and 2001. North American license revenues accounted for 49% and 66% of total license revenues in the quarters ended March 31, 2002 and 2001, respectively. During the nine months ended March 31, 2002 and 2001, respectively, North American license revenues accounted for 51% and 71% of total license revenues.

Our customers include a number of our suppliers. 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. During the quarter ended March 31, 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. During the nine months ended March 31, 2002, we recognized approximately \$1.2 million of software license revenue from vendors from whom we purchased goods or services during the same period.

Services and Maintenance

Revenues from services and maintenance decreased 1% to \$10.2 million from \$10.3 million for the quarters ended March 31, 2002 and 2001, respectively. We experienced an increase of \$0.6 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 \$0.7 million in revenues from implementation, education and consulting service engagements.

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During the nine months ended March 31, 2002 and 2001, respectively, revenues from services and maintenance increased 10% to \$30.1 million from \$27.4 million. Revenue relating to maintenance has increased due to an increased customer base and renewals of technical support and maintenance contracts upon expiration of first year maintenance arrangements. This resulted from an increase of \$2.3 million in revenues from technical support and maintenance contracts and an increase of \$0.4 million in revenues from implementation, education and consulting service engagements.

Our revenues from services and maintenance represented 58% and 39% of total revenues for the quarters ended March 31, 2002 and 2001, respectively. During the nine months ended March 31, 2002 and 2001, our revenues from services and maintenance represented 60% and 37% of total revenues, respectively. We believe that future revenues from services and maintenance will decrease as a percentage of total revenues as license revenues strengthen at a greater rate than service and maintenance revenues. We intend to expand consulting services targeted at helping customers implement Customer Relationship Management as a business methodology and integrate their Customer Relationship Management systems with existing information technology systems and other software applications; understand more about matters such as effective one-to-one marketing; and use the Internet to increase revenues and improve customer service. 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

Our cost of license revenues primarily consists of production, packaging and distribution of solutions and related documentation, as well as royalty fees due to third parties for integrated technology. Our cost of services revenues includes salaries and related expenses for our implementation, consulting, support and maintenance, and education organizations and an allocation of facilities, communications and depreciation expenses.

Total cost of revenues decreased 18% to \$5.4 million from \$6.6 million for the quarters ended March 31, 2002 and 2001, respectively. During the nine months ended March 31, 2002 and 2001, respectively, total cost of revenues increased 3% to \$18.3 million from \$17.8 million.

Licenses

Cost of revenues from licenses decreased to approximately \$0.4 million from \$1.0 million for the quarters ended March 31, 2002 and 2001, respectively. During the nine months ended March 31, 2002 and 2001, cost of revenues from licenses decreased to \$1.4 million from \$2.9 million, 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 5% and 6% for the quarters ended March 31, 2002 and 2001, respectively. During the nine months ended March 31, 2002 and 2001, cost of revenues from licenses as a percentage of revenues from

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licenses was 7% and 6%, respectively. 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 decreased 11% to \$5.0 million from \$5.6 million for the quarters ended March 31, 2002 and 2001, respectively. Cost of revenues from services and maintenance as a percentage of revenues from services and maintenance was 49% and 54% for the quarters ended March 31, 2002 and 2001, respectively. During the nine months ended March 31, 2002, cost of revenues from services and maintenance increased 13% to \$16.9 million from \$14.9 million for the nine months ended March 31, 2001 and increased to 56% of revenues from services and maintenance from 54% for the nine months ended March 31, 2001.

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

We expect that cost of revenues from services and maintenance will increase as a percentage of revenues from services and maintenance over the next two quarters as we increase our investment in this area.

OPERATING EXPENSES

Our operating expenses are classified into three general categories: sales and marketing, research and development, and general and administrative. We classify all charges to these operating expense categories based on the nature of the expenditures. We allocate the costs for overhead, depreciation and facilities to each of the functional areas based on their proportional headcount.

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 31% to \$8.7 million from \$12.7 million for the quarters ended March 31, 2002 and 2001, respectively. During the nine months ended March 31, 2002 and 2001, respectively, sales and marketing expenses decreased 12% to \$32.6 million from \$37.1 million. The decreased expenditures for both the three and nine month periods ending March 31, 2002 is the result of a reduction in employees and marketing program expenditures following the implementation of our restructuring plans as well as increased operating efficiencies and decreased commissions due to lower sales. Sales and marketing expenses increased as a percentage of total revenues to 49% from 48% for the quarters ended March 31, 2002 and 2001, respectively. During the nine months ended March 31, 2002 and 2001, respectively, sales and marketing expenses increased as a percentage of total revenues to 65% from 50%. This increase of sales and marketing expenses as a percentage of total revenues resulted from lower revenues in the first three quarters of fiscal 2002. We expect that sales and marketing expenses will remain relatively constant over the next quarter.

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Research and Development

Research and development expenses 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 our research and development efforts. Software development costs incurred prior to the establishment of technological feasibility are included in research and development costs as they are incurred. Software development costs are not generally expensed in the same period in which license revenues for the developed solutions are recognized.

Research and development expenses decreased 29% to \$3.6 million from \$5.1 million for the quarters ended March 31, 2002 and 2001, respectively. During the nine months ended March 31, 2002 and 2001, respectively, research and development expenses decreased 2% to \$13.2 million from \$13.5 million. These decreases are the results of a reduction in employees and contract labor following the implementation of our restructuring plans. Research and development expenses were 21% and 19% of total revenues for the quarters ended March 31, 2002 and 2001, respectively. During the nine months ended March 31, 2002 and 2001, respectively, research and development expenses were 26% and 18% of total revenues. We expect that research and development spending will remain relatively constant over the next quarter.

Services and Maintenance

General and Administrative

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.

General and administrative expenses decreased 25% to \$2.1 million from \$2.8 million for the quarters ended March 31, 2002 and 2001, respectively. During the nine months ended March 31, 2002 and 2001, respectively, general and administrative expenses increased 49% to \$10.0 million from \$6.7 million. General and administrative expenses were 12% and 10% of total revenues for the quarters ended March 31, 2002 and 2001, respectively. During the nine months ended March 31, 2002 and 2001, respectively, general and administrative expenses were 20% and 9% of total revenues. The increase in general and administrative expenses was due to hiring additional personnel and the implementation of internal infrastructure including financial and administrative systems. We expect general and administrative expenses will remain relatively constant over the next quarter.

Restructuring Costs and other Charges

There was no charge for restructuring related costs recorded for the quarter ended March 31, 2002. For the nine months ended March 31, 2002, restructuring related costs and other charges were \$51.4 million. These charges included \$18.4 million for workforce reduction, consolidation of excess facilities, contract termination costs, and the writedown of property, equipment, leasehold improvements, and other assets, and a \$33.0 million charge for the impairment of goodwill and other purchased intangible assets. Of the \$18.4 million, \$7.5 million reflected decreases in the carrying value of assets and \$10.9 million reflected estimated future payment obligations in connection with the restructuring, of which \$5.0 million had been paid as of March 31, 2002. Of the remaining \$5.9 million, \$3.0 million relating to severance and benefits, excess facilities/asset impairments and contract settlement costs/other are expected to be paid within the next twelve months. The remaining \$2.9 million of excess facilities/asset impairments is expected to be paid over the next six years. Although we do not currently anticipate material changes in the estimates used to record the restructuring accrual, the actual costs may differ from the estimates. Refer to Note 6 in the notes to the Condensed Consolidated Financial Statements for further detail.

Amortization of Goodwill

Amortization of goodwill was \$1.6 million in the quarter ended March 31, 2002, compared to \$6.1 million for the quarter ended March 31, 2001. The decrease resulted from a \$33.0 million charge recorded in the quarter ended December 31, 2001 for the impairment of goodwill and other purchased intangible assets. During the nine months ended March 31, 2002 and 2001, respectively, amortization of goodwill was \$14.6 million and \$16.5 million.

With our adoption of SFAS No. 141 and 142 on July 1, 2002, we will not continued to amortize goodwill after June 30, 2002. 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. See "Recent Accounting Pronouncements."

Interest and Other Income

Interest and other income 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 sale of property and equipment. Interest and other income was \$345,000 and \$994,000 for the quarters ended March 31, 2002 and 2001, respectively. During the nine months ended March 31, 2002 and 2001, respectively, interest and other income was \$1.0 million and \$2.0 million. For the quarters ended March 31, 2002 and 2001, respectively, interest and other income included a foreign exchange gain of \$153,000 and a foreign exchange loss of \$39,000. For the nine months ended March 31, 2002 and 2001, respectively, interest and other income included a foreign exchange loss of \$39,000 and \$257,000.

Income Taxes

The income tax recovery for the quarter ended March 31, 2002 was \$8,000. The provision for income taxes was \$56,000 for the quarter ended March 31 2001. During the nine months ended March 31, 2002 and 2001, respectively, the provision for income taxes was \$326,000 and \$159,000. These income tax amounts were all attributable to our operations in the United States and the United Kingdom.

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.

On January 1, 2002, we adopted Topic No. D-103. Topic D-103 requires that certain out-of-pocket expenses re-billed to customers be recorded as revenue versus an offset to the related expense. Prior to the adoption of Topic D-103, we recorded re-billed out-of-pocket expenses as an offset to the related expense. Comparative financial statements for prior periods have been conformed to the current year presentation. This change had no effect on operating income or net income for any period presented.

Quarterly results of operations, expressed in United States dollars:

	Three months ended							
	Mar. 31 2002	Dec. 31 2001	Sep. 30, 2001	June 30, 2001	Mar. 31, 2001	Dec. 31, 2000	Sep. 30 2000	June 30, 2000
Revenues:								
Licenses	\$7,510	\$6,870	\$6,053	\$12,028	\$16,368	\$16,346	\$13,768	\$13,136
Services and maintenance	10,206	9,828	10,077	10,216	10,271	9,705	7,452	5,207
Total revenues	17,716	16,698	16,130	22,244	26,639	26,051	21,220	18,343
Cost of revenues:								
Licenses	385	557	492	946	1,009	979	866	812
Services and maintenance	5,025	5,895	5,968	6,108	5,591	5,299	4,032	2,829
Total cost of revenues	5,410	6,452	6,460	7,054	6,600	6,278	4,898	3,641
Gross profit	12,306	10,246	9,670	15,190	20,039	19,773	16,322	14,702
Operating expenses:								
Sales and marketing	8,734	10,476	13,404	14,129	12,689	12,914	11,498	10,319
Research and development	3,636	4,660	4,947	5,228	5,096	4,509	3,917	2,803
General and administrative	2,060	2,780	5,206	6,904	2,787	2,100	1,776	1,318
Restructuring costs and other charges		49,504	1,925					
Amortization of goodwill	1,593	6,131	6,839	6,594	6,068	5,405	4,995	1,280
In-process research and development and other charges								6,979

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	Three months ended							
Total operating expenses	16,023	73,551	32,321	32,855	26,640	24,928	22,186	22,699
Loss from operations	(3,717)	(63,305)	(22,651)	(17,665)	(6,601)	(5,155)	(5,864)	(7,997)
Interest and other income	345	481	218	1,352	994	644	343	478
(Loss) income before income taxes	(3,372)	(62,824)	(22,433)	(16,313)	(5,607)	(4,511)	(5,521)	(7,519)
Income tax expense (recovery)	(8)	180	154	344	56	170	(67)	217
Net (loss) income	\$(3,364)	\$(63,004)	\$(22,587)	\$(16,657)	\$(5,663)	\$(4,681)	\$(5,454)	\$(7,736)

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Quarterly results of operations on a percentage of revenue basis:

	Three months ended							
	Mar. 31, 2002	Dec. 31 2001	Sep. 30, 2001	June 30, 2001	Mar. 31, 2001	Dec. 31, 2000	Sep. 30 2000	June 30, 2000
Revenues:								
Licenses	42%	41%	38%	54%	62%	63%	65%	72%
Services and maintenance	58%	59%	62%	46%	38%	37%	35%	28%
Total revenues	100%	100%	100%	100%	100%	100%	100%	100%
Cost of revenues:								
Licenses	2%	3%	3%	4%	4%	4%	4%	4%
Services and maintenance	29%	36%	37%	28%	21%	20%	19%	16%
Total cost of revenues	31%	39%	40%	32%	25%	24%	23%	20%
Gross profit	69%	61%	60%	68%	75%	76%	77%	80%
Operating expenses:								
Sales and marketing	49%	63%	83%	63%	48%	50%	54%	56%
Research and development	21%	28%	31%	23%	19%	17%	18%	15%
General and administrative	12%	17%	32%	31%	10%	8%	8%	7%

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Three months ended

Restructuring costs and other charges		296%	12%					
Amortization of goodwill	8%	36%	42%	30%	23%	21%	25%	8%
In-process research and development and other charges								38%
<hr/>								
Total operating expenses	(90%)	(440%)	200%	147%	100%	96%	105%	124%
<hr/>								
Loss from operations	(21%)	(379%)	(140%)	(79%)	(25%)	(20%)	(28%)	(44%)
Interest and other income	2%	3%	1%	6%	4%	3%	2%	3%
<hr/>								
(Loss) income before income taxes	(19%)	(376%)	(139%)	(73%)	21%	(17%)	(26%)	(41%)
Income tax expense		1%	1%	2%		1%		1%
<hr/>								
Net (loss) income	(19%)	(377%)	(140%)	(75%)	(21%)	(18%)	(26%)	(42%)

We believe the decrease in revenue that commenced in the quarter ended June 30, 2001 as compared to prior quarters was a result of the global economic slowdown and related reluctance of companies to make expenditures on software and systems.

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.

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LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2002, we had \$16.2 million in cash and cash equivalents, \$25.8 million in short-term investments and \$26.1 million in total working capital. Our cash and cash equivalents and short-term investment balance decreased to \$41.9 million at March 31, 2002 from \$68.7 million at June 30, 2001. Our working capital decreased to \$26.1 million at March 31, 2002 from \$58.4 million at June 30, 2001.

Net cash used in operating activities was \$23.8 million and \$1.1 million for the nine months ended March 31, 2002 and 2001, respectively. The increased use of cash for operating activities for the nine months ended March 31, 2002, was primarily due to decreased revenues compared to the nine months ended March 31, 2001. On a quarterly basis, net cash used in operating activities was \$9.5 million for the three months ended September 30, 2001, \$7.8 million for the three months ended December 31, 2001 and \$6.5 million for the three months ended March 31, 2002. Cash used in operating activities for the three months ended March 31, 2002 included \$2.8 million in restructuring-related payments.

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Net cash generated by investing activities was \$26.1 million for the nine months ended March 31, 2002 and net cash used in investing activities was \$43.5 million in the same period in 2001. During the nine months ended March 31, 2002, we received proceeds of \$ 29.7 million from the sale and maturity of short-term investments, and proceeds of \$1.3 million from the sale and leaseback of assets.

Net cash provided by financing activities was \$0.6 million and \$54.9 million for the nine months ended March 31, 2002 and 2001, respectively. Net cash provided by financing activities in the 2002 period resulted primarily from the issuance of common shares pursuant to the employee stock purchase plan.

As of March 31, 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 capital leases expiring between 2002 and 2004. Future minimum lease payments under these leases as of March 31, 2002, consisted of \$2.1 million due for the remainder of 2002, \$8.2 million due in fiscal 2003, \$6.2 million due in fiscal 2004, \$4.6 million due in fiscal 2005, \$3.9 million due in fiscal 2006, \$3.1 million due in fiscal 2007, and \$14.7 million due in 2008 and thereafter.

Our principal sources of liquidity at March 31, 2002 were our cash and cash equivalents and short-term investments of \$41.9 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 March 31, 2002, letters of credit totaling \$3.9 million, principally to secure facilities and equipment lease obligations, were outstanding under the facility.

We expect to spend less than \$0.5 million on new capital additions during the remainder of fiscal 2002. We believe that the total amount of cash and cash equivalents and short-term investments, along with the commercial 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. We also may encounter 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 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.

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RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No.141 addresses the initial recognition and measurement of intangible assets acquired in a business combination and SFAS No. 142 addresses the initial recognition and measurement of intangible assets acquired outside of a business combination whether acquired individually or with a group of other assets. These standards require all future business combinations to be accounted for using the purchase method of accounting. Goodwill will no longer be amortized but instead will be subject to impairment tests at least annually.

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We are required to adopt SFAS No. 141 and 142 on a prospective basis as of July 1, 2002; however, certain provisions of these new Standards may also apply to any acquisitions concluded subsequent to June 30, 2001. The adoption of SFAS No. 141 is not expected to have a material effect on our financial position, results of operations and cash flows in 2002 and subsequent years. After June 20, 2002, we will no longer amortize goodwill pursuant to SFAS No. 142. Goodwill amortization for the six months ended March 31, 2002 was \$14.6 million. Unamortized goodwill as of March 31, 2002 was \$9.2 million. We will complete an initial goodwill impairment assessment in 2003 to determine if a transition impairment charge should be recognized under SFAS No. 142.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of." Although retaining many of the fundamental recognition and measurement provisions of SFAS 121, the new rules significantly change the criteria that would have to be met to classify an asset as held-for-sale. The statement also supersedes certain provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," and will require expected future operating losses from discontinued operations to be displayed in discontinued operations in the period(s) in which the losses are incurred rather than as of the measurement date, as presently required. As required by SFAS No. 144, Pivotal will adopt this new statement on June 1, 2002. We are currently evaluating this statement but do not expect that it will have a material impact on our financial position, results of operations, or cash flows.

On January 1, 2002, we adopted Topic No. D-103. Topic D-103 requires that certain out-of-pocket expenses re-billed to customers be recorded as revenue versus an offset to the related expense. Prior to the adoption of Topic D-103, we recorded re-billed out-of-pocket expenses as an offset to the related expense. Comparative financial statements for prior periods have been conformed to the current year presentation. This change had no effect on operating income or net income for any period presented but has increased reported revenues from services and increased reported costs of revenues from services as follows:

	Three months ended		Nine months ended	
	Mar. 31, 2002	Mar. 31, 2001	Mar. 31, 2002	Mar. 31, 2001
Revenue from Services	10,206	10,271	30,111	27,428
Cost of Revenue from Services	5,025	5,591	16,888	14,922

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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.

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

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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 March 31, 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 a public company is considered available for sale and is subject to considerable market price volatility and is additionally risky due to resale restrictions. The investment is 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 \$135,000 decrease in the fair value of our marketable equity securities as of March 31, 2002. Our investments in privately held companies are carried at cost. 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.

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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 that our only significant foreign currency exposure at this time is to the Canadian dollar through our operations in Canada. At this time, we do not believe our exposure to other currencies is material.

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.

INTEREST RATE RISK

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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 March 31, 2002, we had no outstanding currency forward exchange contracts. During the quarter ended March 31, 2002, we recorded a foreign exchange gain of \$153,000 compared to a foreign exchange loss of \$39,000 for the quarter ended March 31, 2001. For the nine months ended March 31, 2002 and 2001, respectively, foreign exchange loss was \$39,000 and \$257,000. As at March 31, 2002, a ten percent change in the exchange rate would not have a material effect on our business, results of operations, and financial condition.

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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 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.

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PART II - ITEM 5

OTHER INFORMATION

On February 14, 2001, we announced the appointment of Melanie Bell to the position of Senior Vice President of North America Strategic Accounts and Central Region.

PART II - ITEM 6

EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
2.1(1)	<u>Share Purchase Agreement by and between Pivotal and Pierre Marcel, Marc Bahda, Bernard Wach and Other Shareholders of Transitif S.A., dated December 3, 1999</u>
2.2(2)	<u>Stock Purchase Agreement among Pivotal and Industrial and Financial Systems AB and Eli Barak, Alon Hod and Tony Topaz concerning all of the Shares of Exactium Ltd. dated April 11, 2000</u>
2.3(3)	<u>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</u>
3.2(4)	<u>Memorandum and Articles</u>
4.1(4)	<u>Specimen of common share certificate</u>
4.2(4)	<u>Registration Rights (included in Exhibit 10.15)</u>
4.3(2)	

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- 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

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<u>Exhibit No.</u>	<u>Description</u>
10.2(4)	<u>Lease dated as of July 18, 1997 between Sodican (B.C.) Inc. and Pivotal for premises located in North Vancouver, B.C.</u>
10.3(4)	<u>Lease dated as of May 26, 1998 between Novo Esplanade Ltd. and Pivotal for premises located in North Vancouver, B.C.</u>
10.4(4)	<u>Lease(1) dated as of December 14, 1998 between B.C. Rail Ltd. and Pivotal for premises located in North Vancouver, B.C.</u>
10.5(4)	<u>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.</u>
10.6(4)	<u>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</u>
#10.7(4)	<u>Letter agreement dated November 21, 1997 between Pivotal and Robert A. Runge granting an option to purchase 250,000 common shares</u>
10.8(4)	<u>Canadian Imperial Bank of Commerce Cdn\$2,000,000 Committed Installment Loan dated March 18, 1998</u>
10.9(4)	<u>Canadian Imperial Bank of Commerce Cdn\$3,000,000 Operating Line of Credit dated March 18, 1998</u>
10.10(4)	<u>Security Agreement with Canadian Imperial Bank of Commerce dated for reference April 15, 1998</u>
10.11(4)	<u>Contract Relative to Special Security under the Bank Act between Canadian Imperial Bank of Commerce and Pivotal dated April 30, 1998</u>
10.12(4)	<u>Canadian Imperial Bank of Commerce Schedule - Standard Credit Terms dated March 18, 1998</u>
10.13(4)	<u>Canadian Imperial Bank of Commerce Schedule - Standard Credit Terms dated March 18, 1998</u>
10.14(4)	<u>Form of Indemnity Agreement between Pivotal and directors and officers of Pivotal</u>
10.15(4)	<u>Investors' Rights Agreement dated January 15, 1999</u>
10.16(5)	<u>Assignment Agreement dated July 12, 2000 between Pivotal and Meta Creations International Limited for premises located in Dublin, Republic of Ireland; Sub-Lease dated September 22, 1999 between The H.W. Wilson Company Inc. and Meta Creations International Limited for premises located in Dublin, Republic of Ireland</u>

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- 10.17(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
- #10.19(6) Exactium Ltd. 1999 Stock Option Plan
- #10.20(7) Simba Technologies Incentive Stock Option Plan, as amended

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<u>Exhibit No.</u>	<u>Description</u>
#10.21(8)	<u>Amended and Restated Incentive Stock Option Plan</u>
10.22(8)	<u>Restated Offer to Lease dated July 28, 2000 between CB Richard Ellis Limited and Pivotal with respect to premises located in Vancouver, B.C.</u>
10.23(8)	<u>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.</u>
10.24(8)	<u>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.</u>
10.25(8)	<u>Lease dated June 3, 1996 between Yonge Wellington Property Limited and Simba Technologies Incorporated with respect to premises located in Vancouver, B.C.</u>
10.26(8)	<u>Sublease dated January 1, 1999 between Brewster Transport Company Limited and Simba Technologies Incorporated with respect to premises located in Vancouver, B.C.</u>
10.27(8)	<u>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</u>
10.28(8)	<u>Lease dated December 19, 2000 between 485 Properties, LLC and Pivotal for premises located in Atlanta, Georgia</u>
10.29 (8)	<u>Lease dated as of November 24, 2000 between Scholl Consumer Products Limited and Pivotal for premises located in Luton, England</u>
#10.30(8)	<u>Employment Agreement between Kirk Herrington and Pivotal dated June 7, 2000</u>
#10.31(8)	<u>Employment Agreement between Kent Roger (Bo) Manning and Pivotal dated August 22, 2001</u>
10.32(8)	<u>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</u>
10.33(8)	<u>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</u>
#10.34(9)	Employment Agreement between Divesh Sisodraker and Pivotal dated February 1, 2002
#10.35(9)	Consulting Agreement between Lochhead Corporation and Pivotal dated January 28, 2002
10.36	

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Loan Agreement between Canadian Imperial Bank of Commerce and Pivotal dated December 31, 2001

99.1(8) Notice of Meeting and Management Information and Proxy Circular for the Annual General Meeting to be held on Thursday, November 15, 2001

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<u>Exhibit No.</u>	<u>Description</u>
99.2	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.
(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.
(b)	Reports on Form 8-K

None.

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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: May 15, 2002

PIVOTAL CORPORATION

SIGNATURES

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

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