

PUMATECH INC
Form S-8
December 31, 2003
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As filed with the Securities and Exchange Commission on December 31, 2003

Registration No. 333-_____

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-8

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

PUMATECH, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

77-0349154
(I.R.S. Employer
Identification No.)

2550 North First Street

San Jose, CA 95131

(Address of principal executive offices)

Synchrologic 2001 Stock Incentive Plan

Synchrologic 1995 Stock Option Plan

J. Keith Kitchen

Vice President of Finance and Chief Accounting Officer

Pumatech, Inc.

2550 North First Street

San Jose, CA 95131

(Name and address of agent for service)

(408) 321-7650

(Telephone number, including area code, of agent for service)

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CALCULATION OF REGISTRATION FEE

Title of each Class of Securities to be Registered	Amount to be registered(1)	Proposed maximum offering price per share	Proposed maximum aggregate offering price	Amount of registration fee
Synchrologic 2001 Stock Incentive Plan				
Common Stock, \$0.001 par value	515,492 Shares (2)	\$ 4.20 (3)	\$ 2,165,066.40	\$ 175.15
Synchrologic 1995 Stock Option Plan				
Common Stock, \$0.001 par value	503,462 Shares (2)	\$ 4.20 (3)	\$ 2,114,540.40	\$ 171.07

- (1) This registration statement shall also cover any additional shares of common stock which become issuable under any of the plans being registered pursuant to this registration statement by reason of any stock dividend, stock split, recapitalization or any other similar transaction effected without the receipt of consideration which results in an increase in the number of the registrant's outstanding shares of common stock.
- (2) Pursuant to the Agreement and Plan of Merger dated as of September 14, 2003, among Registrant, Homerun Acquisition Corp. and Synchrologic, Inc., Registrant assumed, effective as of December 29, 2003, all of the outstanding options to purchase Common Stock of Synchrologic, Inc. under the Synchrologic 2001 Stock Incentive Plan and the Synchrologic 1995 Stock Option Plan, and such options became exercisable, in part, to purchase shares of Registrant's Common Stock, with appropriate adjustments to the number of shares and exercise price of each assumed option.
- (3) Estimated in accordance with Rule 457(h) under the Securities Act of 1933 (the Securities Act) solely for the purpose of calculating the registration fee. The computation with respect to unissued options is based upon the average high and low sale prices of the common stock as reported on the Nasdaq National Market on December 29, 2003.

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UNAUDITED PRO FORMA COMBINED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

The following unaudited pro forma combined condensed financial statements have been prepared to give effect to the merger of Pumatech and Synchronologic using the purchase method of accounting and the assumptions and adjustments described in the accompanying notes to the unaudited pro forma combined condensed financial statements. These pro forma statements were prepared as if the merger had been completed as of August 1, 2002 for statement of operations purposes and as of October 31, 2003 for balance sheet purposes.

In addition, these unaudited pro forma combined condensed financial statements have been prepared to reflect Pumatech's acquisition of substantially all of the assets of Spontaneous Technology, Inc. on September 17, 2003 using the purchase method of accounting and the assumptions and adjustments described in the accompanying notes to the unaudited pro forma combined condensed financial statements. These pro forma statements were prepared as if the Spontaneous Technology acquisition had been completed as of August 1, 2002 for statement of operations purposes. Pumatech's acquisition of Starfish Software, Inc. on March 27, 2003 is also treated as having occurred on August 1, 2002.

Pumatech's fiscal year end is July 31, whereas Synchronologic's and Spontaneous Technology's fiscal year ends are December 31. The following pro forma combined condensed statement of operations data for the year ended July 31, 2003 combines the results of operations of Pumatech for the twelve months ended July 31, 2003 and Synchronologic's and Spontaneous Technology's results of operations for the twelve months ended June 30, 2003. Synchronologic's and Spontaneous Technology's results of operations for the twelve months ended June 30, 2003 were calculated by adding the results of operations for the twelve months ended December 31, 2002 to the results of operations for the six months ended June 30, 2003, and deducting the results of operations for the six months ended June 30, 2002. In addition, the following pro forma combined condensed statement of operations data for the year ended July 31, 2003 includes the results of operations of Starfish Software for the eight months ended February 28, 2003. Since the acquisition of Starfish Software took place on March 27, 2003, four months of Starfish Software results are included in the consolidated Pumatech results for the year ended July 31, 2003. Starfish Software's results of operations for the eight months ended February 28, 2003 were calculated by deducting the results of operations for the six months ended June 30, 2002 from the results of operations for the twelve months ended December 31, 2002, and adding the results of operations for the two months ended February 28, 2003. The unaudited pro forma combined condensed statement of operations for the three months ended October 31, 2003 combines the results of operations of Pumatech for the three months ended October 31, 2003 and Synchronologic's results of operations for the three months ended September 30, 2003. Synchronologic's results of operations for the three months ended September 30, 2003 were calculated by taking the unaudited results of operations for the nine months ended September 30, 2003, and deducting the unaudited results of operations for the six months ended June 30, 2003. In addition, the following pro forma combined condensed statement of operations data for the three months ended October 31, 2003 includes the results of operations of Spontaneous Technology for the 47 day period ended September 16, 2003. Since the acquisition of Spontaneous Technology took place on September 17, 2003, approximately one and a half months of Spontaneous Technology's results are included in the consolidated Pumatech results for the three months ended October 31, 2003.

The unaudited pro forma combined condensed financial statements are presented for illustrative purposes only and are not necessarily indicative of the financial position or results of operations that would have actually been reported had the merger and the acquisition noted above occurred on August 1, 2002 for statement of operations purposes and as of October 31, 2003 for balance sheet purposes, nor are they necessarily indicative of the future financial position or results of operations.

The unaudited pro forma combined condensed financial statements include adjustments, which are based upon preliminary estimates, to reflect the allocation of the purchase price to the acquired assets and assumed liabilities of Synchronologic. The final allocation of the purchase price will be determined after the completion of the merger and will be based upon actual net tangible and intangible assets acquired as well as liabilities assumed. The preliminary purchase price allocation for Synchronologic is subject to revision as more detailed analysis is completed and additional information on the fair values of Synchronologic's assets and liabilities becomes available. Any change in the fair value of the net assets of Synchronologic will change the amount of the purchase price allocable to goodwill. Final purchase accounting adjustments may differ materially from the pro forma adjustments presented here.

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The unaudited pro forma combined condensed financial statements also include adjustments, which are based upon preliminary estimates, to reflect the allocation of the purchase price to the acquired assets and assumed liabilities of Spontaneous Technology. The final allocation of the purchase price will be determined as more detailed analysis is completed and additional information on the fair values of Spontaneous Technology's assets and liabilities becomes available and any contingent consideration associated with the acquisition is resolved. Any change in the fair value of the net assets of Spontaneous Technology, as well as any changes to the total purchase price paid by Pumatech, will change the amount of the purchase price allocable to goodwill. Due to the uncertainty associated with the final purchase consideration, final purchase accounting adjustments may differ materially from the pro forma adjustments presented here.

These unaudited pro forma combined condensed financial statements are based upon the respective historical consolidated financial statements of Pumatech, Synchrologic, Spontaneous Technology and Starfish Software and should be read in conjunction with the historical consolidated financial statements of Pumatech, Synchrologic, Spontaneous Technology and Starfish Software and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in Pumatech's annual reports, quarterly reports and other information on file with the SEC or contained elsewhere in this joint registration statement.

Table of Contents**UNAUDITED PRO FORMA COMBINED CONSOLIDATED CONDENSED BALANCE SHEETS**

(In thousands, except per share amounts)

	Historical	Historical	Pro Forma	
	Pumatech	Synchrologic		
	As of October 31, 2003	As of September 30, 2003	Adjustments	Combined
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 4,969	\$ 2,261	\$	\$ 7,230
Short-term investments in marketable securities	20,186			20,186
Accounts receivable, net	6,179	2,743		8,922
Inventories	253			253
Prepaid expenses and other current assets	667	316		983
	<u>32,254</u>	<u>5,320</u>		<u>37,574</u>
Restricted investments	296			296
Property and equipment, net	1,261	271		1,532
Goodwill	5,713		52,290 (a)	58,003
Intangible assets, net	4,049		15,300 (a)	19,349
Other assets	975			975
	<u>44,548</u>	<u>5,591</u>	<u>\$ 67,590</u>	<u>\$ 117,729</u>
LIABILITIES, MANDATORILY REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Borrowings	\$	\$ 1,654	\$	1,654
Accounts payable	2,413	151		2,564
Accrued expenses and other current liabilities	3,940	2,009	1,295 (b)	7,244
Deferred revenue	2,078	1,386	(146)(c)	3,318
	<u>8,431</u>	<u>5,200</u>	<u>1,149</u>	<u>14,780</u>
Long-term debt		287		287
Other long-term liabilities	849			849
Mandatorily Redeemable Convertible Preferred Stock:		31,045	(31,045)(d)	
Stockholders' equity:				
Common stock	49	4,755	(4,740)(d)	64
Additional paid-in capital	160,299	63	68,889 (d)	229,251
Treasury stock		(2,293)	2,293 (d)	
Receivable from stockholder	(138)			(138)
Retained earnings (accumulated deficit)	(123,922)	(33,466)	31,044 (d)	(126,344)
Deferred compensation, net	(1,039)			(1,039)
Accumulated other comprehensive income	19			19
	<u>35,268</u>	<u>(30,941)</u>	<u>97,486</u>	<u>101,813</u>

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Total liabilities, mandatorily redeemable preferred stock and stockholders equity	\$ 44,548	\$ 5,591	\$ 67,590	\$ 117,729
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The accompanying notes are an integral part of these unaudited pro forma combined condensed financial statements

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Table of Contents**UNAUDITED PRO FORMA COMBINED CONSOLIDATED CONDENSED****STATEMENTS OF OPERATIONS****FOR THE YEAR ENDED JULY 31, 2003****(In thousands, except per share amounts)**

	Historical		Pro Forma		Historical	Pro Forma	
	Starfish Eight				Synchrologic		
	Months		Spontec		Year-ended		
Pumatech	Ended	Year ended			Year-ended		
Year ended	February 28,	June 30,			June 30,		
July 31, 2003	2003(1)	2003(2)	Adjustments	Combined	2003(2)	Adjustments	Combined
Revenues							
License revenue	\$ 19,169	\$ 662	\$ 149	\$	\$ 19,980	\$ 5,881	\$ 25,861
License revenue - related party		1,019			1,019		1,019
Service revenue	5,691	836	387		6,914	5,951	12,865
Service revenue - related party		350			350		350
Total revenues	24,860	2,867	536		28,263	11,832	40,095
Costs and expenses:							
Cost of revenue	4,094	849	399		5,342	2,795	8,137
Cost of revenue - related party		960			960		960
Sales and marketing	11,468	1,450	495		13,413	3,943	17,356
General and administrative	5,793	2,802	3,565		12,160	2,252	14,412
Research and development	7,389	1,694	1,258		10,341	4,758	15,099
In-process research and development	406			(406)(h)			
Amortization of intangibles	709			681(f)(g)	1,390		3,400(e)
Restructuring and other charges	795	2,506			3,301		3,301
Total operating expenses	30,654	10,261	5,717	275	46,907	13,748	64,055
Loss from operations	(5,794)	(7,394)	(5,181)	(275)	(18,644)	(1,916)	(23,960)
Interest income, net	803		(618)	(42)(i)	143	(215)	(72)
Impairment of investments	(2,394)				(2,394)		(2,394)
Other income, net	(65)		274		209		209
	(1,656)		(344)	(42)	(2,042)	(215)	(2,257)
Loss before taxes	(7,450)	(7,394)	(5,525)	(317)	20,686	(2,131)	(26,217)
Provision for taxes	286				286		286
Net Loss	\$ (7,736)	\$ (7,394)	\$ (5,525)	\$ (317)	\$ (20,972)	\$ (2,131)	\$ (26,503)
Net loss per share - Basic and Diluted	\$ (0.17)			\$ (0.36)	\$ (0.44)	\$ (0.21)	\$ (0.42)

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Shares used in per share calculation - Basic and Diluted	46,622	869(k)	47,491	16,200(k)	63,691
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- (1) Starfish Software's results of operations for the eight months ended February 28, 2003 were calculated by deducting the results of operations for the six months ended June 30, 2002 from the results of operations for the twelve months ended December 31, 2002, and adding the results of operations for the two months ended February 28, 2003.
- (2) Synchrologic's and Spontaneous Technology's results of operations for the twelve months ended June 30, 2003 were calculated by adding the results of operations for the twelve months ended December 31, 2002 to the results of operations for the six months ended June 30, 2003 and deducting the six months ended June 30, 2002.

The accompanying notes are an integral part of these unaudited pro forma combined condensed financial statements.

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(In thousands, except per share amounts)

	Historical		Pro Forma		Historical		Pro Forma	
	Pumatech	Spontec			Synchronologic			
	Three months-ended October 31, 2003	47 day period ended September 16, 2003	Adjustments	Combined	Three months-ended September 30, 2003 (1)	Adjustments	Combined	
Revenues								
License revenue	\$ 5,270	\$	\$	\$ 5,270	\$ 1,928	\$	\$ 7,198	
Service revenue	2,746	31		2,777	1,385		4,162	
Total revenues	8,016	31		8,047	3,313		11,360	
Costs and expenses:								
Cost of revenue	1,634	31		1,665	513		2,178	
Sales and marketing	3,280	40		3,320	873		4,193	
General and administrative	2,385	278		2,663	859		3,522	
Research and development	2,193	99		2,292	1,123		3,415	
In-process research and development	469		(469)(j)					
Amortization of intangibles	259		49(f)	308		850(e)	1,158	
Restructuring and other charges	76			76			76	
Total operating expenses	10,296	448	(420)	10,324	3,368	850	14,542	
Loss from operations	(2,280)	(417)	420	(2,277)	(55)	(850)	(3,182)	
Interest income, net		(29)		(29)	(40)		(69)	
Other income, net	126			126			126	
	126	(29)		97	(40)		57	
Loss before taxes	(2,154)	(446)	420	(2,180)	(95)	(850)	(3,125)	
Provision for taxes	(107)			(107)			(107)	
Net Loss	\$ (2,261)	\$ (446)	\$ 420	\$ (2,287)	\$ (95)	\$ (850)	\$ (3,232)	
Net loss per share Basic and Diluted	\$ (0.05)			\$ (0.05)		\$ (0.05)	\$ (0.05)	
Shares used in per share calculation Basic and Diluted	48,266			48,266		16,200(k)	64,466	

- (1) Synchronologic's results of operations for the three months ended September 30, 2003 were calculated by taking the results of operations for the nine months ended September 30, 2003 and deducting the results for the six months ended June 30, 2003

The accompanying notes are an integral part of these unaudited pro forma combined condensed financial statements.

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NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED

FINANCIAL STATEMENTS

The unaudited pro forma combined condensed financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and certain footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations; however, management believes that the disclosures are adequate to make the information presented not misleading.

1. BASIS OF PRO FORMA PRESENTATION

On September 14, 2003, Pumatech entered into a merger agreement to purchase all of the issued and outstanding stock of Synchronologic whereby each share of Synchronologic capital stock will be converted into the right to receive the number of shares of Pumatech common stock corresponding to the exchange ratio applicable to the class and series of Synchronologic capital stock being converted. On December 29, 2003, Pumatech completed the merger with Synchronologic. The total number of shares of Pumatech common stock issued in the merger was determined by dividing \$60,000,000 by the average closing price of the shares of Pumatech common stock for the thirty consecutive trading days ending on the last complete trading day immediately preceding the closing date of the merger (which amount was subject to adjustment based on the transaction expenses incurred by Synchronologic in connection with the merger), provided that the number of shares of Pumatech common stock issued in the merger could not exceed 19,800,000 or be fewer than 16,200,000 (in each case subject to adjustment based on the transaction expenses incurred by Synchronologic in connection with the merger).

On September 17, 2003, Pumatech consummated the acquisition of substantially all of the assets of Spontaneous Technology. Under the terms of the parties' asset purchase agreement, Pumatech issued a total of 1,094,000 shares of Pumatech common stock, of which 224,417 shares are held in escrow to cover certain pre-acquisition contingencies. Additionally, depending upon Pumatech's revenues associated with sales of Pumatech's products, including certain technology of Spontaneous Technology, during the period ending September 30, 2004, Pumatech may be required to issue to Spontaneous Technology additional shares of Pumatech common stock having a value of up to \$7,000,000.

On March 27, 2003, Pumatech acquired Starfish Software for a purchase price of approximately \$1,800,000 for the Starfish Software common stock outstanding upon the effective date of the acquisition.

The unaudited pro forma combined condensed balance sheet as of October 31, 2003 was prepared by combining the historical unaudited consolidated condensed balance sheet data as of October 31, 2003 for Pumatech and the historical unaudited condensed balance sheet data as of September 30, 2003 for Synchronologic as if the merger had been consummated on that date.

The unaudited pro forma combined condensed statement of operations for the year ended July 31, 2003 combines the results of operations of Pumatech for the year ended July 31, 2003 and the results of operations of Synchronologic and Spontaneous Technology for the 12 months ended June 30, 2003, to give effect to the merger and acquisition as if the merger and acquisition had occurred on August 1, 2002. Additionally, the unaudited pro forma combined condensed statement of operations for the year ended July 31, 2003 reflects the March 27, 2003 acquisition of Starfish Software as if it had occurred on August 1, 2002. The unaudited pro forma combined condensed statement of operations for the year ended July 31, 2003 combines the results of operations of Pumatech for the year ended July 31, 2003 and Starfish Software's results of operations for the eight months

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NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED

FINANCIAL STATEMENTS (Continued)

ended February 28, 2003. Since the acquisition of Starfish Software took place on March 27, 2003, four months of Starfish Software results are included in the consolidated Pumatech results for the year ended July 31, 2003.

Synchrologic's and Spontaneous Technology's results of operations for the twelve months ended June 30, 2003 were calculated by adding the results of operations for the twelve months ended December 31, 2002 to the results of operations for the six months ended June 30, 2003, and deducting the results of operations for the six months ended June 30, 2002.

The unaudited pro forma combined condensed statement of operations for the three months ended October 31, 2003 combines the results of operations of Pumatech for the three months ended October 31, 2003 and Synchrologic's results of operations for the three months ended September 30, 2003. Synchrologic's results of operations for the three months ended September 30, 2003 were calculated by taking the unaudited results of operations for the nine months ended September 30, 2003, and deducting the unaudited results of operations for the six months ended June 30, 2003. In addition, the following pro forma combined condensed statement of operations data for the three months ended October 31, 2003 includes the results of operations of Spontaneous Technology for the 47 day period ended September 16, 2003. Since the acquisition of Spontaneous Technology took place on September 17, 2003, approximately one and a half months of Spontaneous Technology's results are included in the consolidated Pumatech results for the three months ended October 31, 2003.

Certain reclassifications have been made to conform Synchrologic's, Spontaneous Technology's and Starfish Software's historical amounts to Pumatech's financial statement presentation.

2. PURCHASE PRICE SYNCHROLOGIC, INC.

The following represents the preliminary allocation of the purchase price over the historical net book values of the acquired assets and assumed liabilities of Synchrologic as of September 30, 2003, and is for illustrative purposes only. Actual fair values is based on financial information as of the acquisition date.

On September 14, 2003, Pumatech entered into a merger agreement to purchase all of the issued and outstanding stock of Synchrologic whereby each share of Synchrologic capital stock will be converted into the right to receive the number of shares of Pumatech common stock corresponding to the exchange ratio applicable to the class and series of Synchrologic capital stock being converted. On December 29, 2003, Pumatech completed the merger with Synchrologic. The total number of shares of Pumatech common stock issued in the merger was determined by dividing \$60,000,000 by the average closing price of the shares of Pumatech common stock for the thirty consecutive trading days ending on the last complete trading day immediately preceding the closing date of the merger (which amount was subject to adjustment based on the transaction expenses incurred by Synchrologic in connection with the merger), provided that the number of shares of Pumatech common stock shares issued in the merger could not exceed 19,800,000 or be fewer than 16,200,000 which includes the assumed common stock options (in each case subject to adjustment based on the transaction expenses incurred by Synchrologic in connection with the merger). Pumatech issued approximately 15,130,000 shares of Pumatech common stock and options to purchase approximately 1,019,000 shares of Pumatech common stock in the merger. The actual number of shares of Pumatech common stock and options to be issued will be determined on the effective date of the merger. Pumatech has accounted for the merger as a business combination.

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The unaudited pro forma combined condensed financial statements reflect an estimated purchase price of approximately \$69,617,000. The fair market value of Pumatech's common stock issued in the merger was determined using the five-trading-day average price surrounding the date the acquisition was announced of \$4.26 per share, less estimated registration costs. The expected number of shares issued was then determined in accordance with the minimum number of shares to be issued in accordance with the terms of the merger agreement without assuming an adjustment for transaction costs.

The preliminary fair market value of Pumatech stock options to be issued in the merger was determined using the Black-Scholes option pricing model. The following assumptions were used to perform the calculations: fair value of Pumatech's common stock of \$4.26, expected life of 3.9 years, risk-free interest rate of 3.4%, expected volatility of 132% and no expected dividend yield.

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The estimated total purchase price of the Synchrologic merger is as follows (in thousands):

Value of Pumatech common stock to be issued	\$ 64,684
Value of Pumatech options to be issued	4,283
Estimated direct merger costs	650
	<hr/>
Total estimated purchase price	\$ 69,617
	<hr/>

Under the purchase method of accounting, the total estimated purchase price is allocated to Synchrologic's net tangible and intangible assets based upon their estimated fair value as of the date of completion of the merger. Based upon the estimated purchase price and the preliminary valuation, the preliminary purchase price allocation, which is subject to change based on Pumatech's final analysis, is as follows (in thousands):

Tangible assets acquired	\$ 5,591
Liabilities assumed	(5,341)
Accrued restructuring charge	(645)
In-process research and development	2,422
Developed technology	10,493
Patents	1,320
Customer base	3,487
Goodwill	52,290
	<hr/>
	\$ 69,617
	<hr/>

The restructuring charges of \$645,000 relate primarily to severance related to a reduction in workforce, including two executives of Synchrologic and additional employees.

The allocation of purchase price was based on a preliminary valuation of assets to be acquired and liabilities to be assumed determined with the assistance of an independent appraiser. This allocation was generally based on the fair value of these assets determined using the income approach.

A preliminary estimate of \$1,320,000 has been allocated to patents, an intangible asset with an estimated useful life of 54 months, and a preliminary estimate of \$10,493,000 has been allocated to developed technology, an intangible asset with an estimated useful life of 54 months. In addition, a preliminary estimate of \$3,487,000 has been allocated to customer base, an intangible asset with an estimated useful life of 54 months, and was valued using the relief from royalty method.

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As of the expected closing date of the merger, technological feasibility of the in-process technology had not been established and the technology had no alternative future use. Accordingly, Pumatech expects to expense the in-process research and development at the date of the merger.

The amount of the purchase price allocated to in-process research and technology was based on established valuation techniques used in the high-technology software industry. The fair value assigned to the acquired in-process research and development was determined using the income approach, which discounts expected future cash flows to present value. The key assumptions used in the valuation include, among others, expected completion date of the in-process projects identified as of the acquisition date, estimated costs to complete the projects, revenue contributions and expense projections assuming the resulting product has entered the market, and discount rate based on the risks associated with the development life cycle of the in-process technology acquired. The discount rate used in the present value calculations are normally obtained from a weighted-average

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NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED

FINANCIAL STATEMENTS (Continued)

cost of capital analysis, adjusted upward to account for the inherent uncertainties surrounding the successful development of the in-process research and development, the expected profitability levels of such technology, and the uncertainty of technological advances that could potentially impact the estimates. Pumatech assumes the pricing model for the resulting product of the acquired in process research and technology to be standard within its industry. Pumatech, however, did not take into consideration any consequential amount of expense reductions from integrating the acquired in-process technology with other existing in-process or completed technology. Therefore, the valuation assumptions do not include significant anticipated cost savings.

The key assumptions underlying the valuation of acquired in-process research and development from Synchrologic are as follows:

Project names: Version upgrade of Data Sync, File Sync, E-mail accelerator and Systems Management products

Percent completed as of acquisition date: 60%-70%

Estimated costs to complete technology at acquisition date: \$3,000,000

Risk-adjusted discount rate: 22%

First period expected revenue: calendar year 2004

The in-process research and development of \$2,422,000 is charged to operations on the acquisition date. The in-process research and development charge has not been included in the accompanying unaudited pro forma combined condensed statement of operations as it represents a non-recurring charge directly related to the acquisition.

A preliminary estimate of \$52,290,000 has been allocated to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. In accordance with Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, goodwill will not be amortized but will be tested for impairment at least annually. The preliminary purchase price allocation for Synchrologic is subject to revision as more detailed analysis is completed and additional information on the fair values of Synchrologic's assets and liabilities becomes available. Any change in the fair value of the net assets of Synchrologic will change the amount of the purchase price allocable to goodwill. Final purchase accounting adjustments may therefore differ materially from the pro forma adjustments presented here.

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Other than the distribution agreement entered into by Pumatech and Synchrologic concurrently with their execution of the merger agreement, there were no historical transactions between Pumatech and Synchrologic.

The pro forma adjustments do not reflect any integration adjustments such as restructuring costs to be incurred in connection with the merger or operating efficiencies and cost savings that may be achieved with respect to the combined entity as these costs are not directly attributable to the merger agreement.

3. PURCHASE PRICE SPONTANEOUS TECHNOLOGY, INC.

On September 17, 2003, Pumatech consummated the acquisition of substantially all of the assets of Spontaneous Technology, Inc. of Salt Lake City, Utah, a provider of enterprise secure Virtual Private Network (sVPN) software designed to extend existing corporate applications to most wireless devices. The Spontaneous Technology acquisition has been accounted for as a business combination.

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NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED

FINANCIAL STATEMENTS (Continued)

The unaudited pro forma combined condensed financial statements reflect an estimated purchase price of approximately \$3,299,000, consisting of (a) a total of 869,260 shares of Pumatech common stock valued at \$2,999,000 (using a fair value per share of \$3.45) and (b) estimated direct transaction costs of \$300,000. The preliminary fair market value of Pumatech's common stock issued in the acquisition was determined using the five-trading-day average price surrounding the date the acquisition was announced of \$3.45 per share, less estimated registration costs. The number of shares of Pumatech common stock issued was determined using the average price of Pumatech's common stock for ten consecutive trading days ended three business days prior to the date of acquisition. There are approximately 225,000 additional shares held in escrow that are contingently issuable upon the satisfaction of a pre-acquisition clause. Additionally, depending upon Pumatech's revenues associated with sales of Pumatech's products, including certain technology of Spontaneous Technology, during the period ending September 30, 2004, Pumatech may be required to issue additional shares of Pumatech common stock to Spontaneous Technology having a value of up to \$7,000,000. The unaudited pro forma combined condensed financial statements do not reflect any of this contingent consideration. The final purchase price will be determined at the end of the period ending September 30, 2004 based on the following terms included in the acquisition agreement:

The number of shares to be issued, or the adjusted earnout amount, is the lesser of:

- (a) incremental earnout revenue minus incremental seller royalties, and
- (b) \$7,000,000 minus incremental seller royalties.

The incremental earnout revenue is the greater of:

- (a) four times the sum of the following revenue during the six months ending September 30, 2004:
 - (1) 100% of the revenue derived from licensing or selling Spontaneous Technology's products;
 - (2) 100% of the revenue derived from licensing or selling Spontaneous Technology's product features based exclusively upon its intellectual property that are offered as optional add-on functionality for Pumatech's products and for which a stated additional fee is charged;
 - (3) 20% of the total revenue derived from licensing or selling of products that incorporate both Pumatech's and Spontaneous Technology's intellectual property but for which no separate customer pricing exists for the portion of the product based on Spontaneous Technology's intellectual property;

and,

- (b) eight times the sum of revenue (1), (2) and (3), as described above, during the three months ending September 30, 2004.

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The incremental seller royalties is the aggregate amount of royalties paid or payable by Pumatech to third parties for third-party technology included in Spontaneous Technology's products during the one-year period following the date of the acquisition.

Pumatech did not acquire certain assets nor assume certain liabilities pursuant to the acquisition agreement.

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Table of Contents**NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED****FINANCIAL STATEMENTS (Continued)**

Under the purchase method of accounting, the total estimated purchase price was allocated to Spontaneous Technology's net tangible and intangible assets based upon their estimated fair value as of the acquisition date. Based upon the estimated purchase price of the acquisition and review of the net assets acquired and net liabilities assumed, the preliminary purchase price allocation, is as follows (in thousands):

Tangible assets acquired	\$ 372
Liabilities assumed	(1,497)
In-process research and development	469
Developed technology	889
Patents	168
Customer base	499
Goodwill	2,399
	<hr/>
	\$ 3,299
	<hr/>

The allocation of purchase price was based on a preliminary valuation of assets to be acquired and liabilities to be assumed determined with the assistance of an independent appraiser. This allocation was generally based on the fair value of these assets determined using the income approach.

A preliminary estimate of \$168,000 has been allocated to patents, an intangible asset with an estimated useful life of 48 months, and a preliminary estimate of \$889,000 has been allocated to developed technology, an intangible asset with an estimated useful life of 48 months. In addition, a preliminary estimate of \$499,000 has been allocated to customer base, an intangible asset with an estimated useful life of 48 months, and was valued using the relief from royalty method.

As of the acquisition date, technological feasibility of the in-process technology had not been established and the technology had no alternative future use. Accordingly, Pumatech expensed the in-process research and development at the date of the acquisition.

The amount of the purchase price allocated to in-process research and technology was based on established valuation techniques used in the high-technology software industry. The fair value assigned to the acquired in-process research and development was determined using the income approach, which discounts expected future cash flows to present value. The key assumptions used in the valuation include, among others, expected completion date of the in-process projects identified as of the acquisition date, estimated costs to complete the projects, revenue contributions and expense projections assuming the resulting product has entered the market, and discount rate based on the risks associated with the development life cycle of the in-process technology acquired. The discount rate used in the present value calculations are normally obtained from a weighted-average cost of capital analysis, adjusted upward to account for the inherent uncertainties surrounding the successful development of the in-process research and development, the expected profitability levels of such technology, and the uncertainty of technological advances that could potentially impact the estimates. Pumatech assumes the pricing model for the resulting product of the acquired in process research and technology to be standard within its industry. Pumatech, however, did not take into consideration any consequential amount of expense reductions from integrating the acquired in-process technology with other existing in-process or completed technology. Therefore, the valuation assumptions do not include significant anticipated cost savings.

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The key assumptions underlying the valuation of acquired in-process research and development from Spontaneous Technology are as follows (in thousands):

Project names: Version upgrade of Spontaneous Technology's secure Virtual Private Network (sVPN)

Percent completed as of acquisition date: 60%

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NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED

FINANCIAL STATEMENTS (Continued)

Estimated costs to complete technology at acquisition date: \$125,000

Risk-adjusted discount rate: 22%

First period expected revenue: calendar year 2004

The in-process research and development of \$469,000 is charged to operations on the acquisition date. The in-process research and development charge has not been included in the accompanying unaudited pro forma condensed combined statement of operations as it represents a non-recurring charge directly related to the acquisition.

A preliminary estimate of \$2,399,000 has been allocated to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. In accordance with Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, goodwill will not be amortized but will be tested for impairment at least annually. The preliminary purchase price allocation for Spontaneous Technology is subject to revision as more detailed analysis is completed and additional information on the fair values of Spontaneous Technology's assets and liabilities becomes available. Any change in the fair value of the net assets of Spontaneous Technology will change the amount of the purchase price allocable to goodwill. Final purchase accounting adjustments may therefore differ materially from the pro forma adjustments presented here.

There were no historical transactions between Pumatech and Spontaneous Technology.

4. PURCHASE PRICE STARFISH SOFTWARE, INC.

On March 27, 2003, Pumatech acquired Starfish Software, Inc. for a purchase price of approximately \$1.8 million for the Starfish common stock outstanding upon the effective date of the acquisition.

The unaudited pro forma combined condensed statement of operations for the year ended July 31, 2003 is presented as if the transaction had been consummated on August 1, 2002. The unaudited pro forma combined statement of operations for the year ended July 31, 2003 combines the results of operations of Pumatech for the year ended July 31, 2003 and Starfish Software's results of operations for the eight months ended February 28, 2003. Since the acquisition took place on March 27, 2003, four months of Starfish Software results are included in the consolidated Pumatech results for the year ended July 31, 2003.

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The unaudited pro forma combined condensed financial statements reflect an estimated purchase price of approximately \$1.8 million. Under the terms of the stock purchase agreement, Pumatech initially paid a total of \$1,501,000 in cash, subject to further adjustment based on actual working capital as of the closing date. Pumatech further paid \$178,000 based on subsequent adjustments made to Starfish Software's working capital.

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Table of Contents**NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED****FINANCIAL STATEMENTS (Continued)**

The Starfish Software acquisition has been accounted for as a purchase business combination. The purchase price of \$1,831,000 (including acquisition costs of \$152,000) was assigned to the fair value of the assets acquired, including the following (in thousands):

Tangible assets acquired	\$ 1,133
Liabilities assumed	(986)
In-process research and development	406
Developed technology	675
Patents	202
Trademarks	52
Customer base	278
Existing contracts	71
	<hr/>
	\$ 1,831
	<hr/>

The allocation of purchase price was based on the valuation of assets acquired and liabilities assumed determined with the assistance of an independent appraiser. This allocation was generally based on the fair value of these assets determined using the income approach.

Of the total purchase price, \$1,278,000 was allocated to amortizable intangibles included in the above list. The amortizable intangible assets are being amortized using the straight-line method over the estimated useful life of the respective assets of nine months to four years.

As of the acquisition date, technological feasibility of the in-process technology had not been established and the technology had no alternative future use. Accordingly, Pumatech expensed the in-process research and development at the date of the acquisition.

The amount of the purchase price allocated to in-process research and technology was based on established valuation techniques used in the high-technology software industry. The fair value assigned to the acquired in-process research and development was determined using the income approach, which discounts expected future cash flows to present value. The key assumptions used in the valuation include, among others, expected completion date of the in-process projects identified as of the acquisition date, estimated costs to complete the projects, revenue contributions and expense projections assuming the resulting product have entered the market, and discount rate based on the risks associated with the development life cycle of the in-process technology acquired. The discount rate used in the present value calculations are normally obtained from a weighted-average cost of capital analysis, adjusted upward to account for the inherent uncertainties surrounding the successful development of the in-process research and development, the expected profitability levels of such technology, and the uncertainty of technological advances that could potentially impact the estimates. Pumatech assumes the pricing model for the resulting product of the acquired in-process research and technology to be standard within its industry. Pumatech, however, did not take into consideration any consequential amount of expense reductions from integrating the acquired in-process technology with other existing in-process or completed technology. Therefore, the valuation assumptions do not include significant anticipated cost savings.

The key assumptions underlying the valuation of acquired in-process research and development from Starfish Software are as follows:

Project name: Mercury platform technology

Percent completed as of acquisition date: 70%

Estimated costs to complete technology at acquisition date: \$375,000

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NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED

FINANCIAL STATEMENTS (Continued)

Risk-adjusted discount rate: 30%

First period expected revenue: calendar year 2004

Subsequent to the acquisition of Starfish Software, there have been no significant developments related to the current status of the acquired in-process research and development project that would result in material changes to the assumptions.

The in-process research and development of \$406,000 is charged to operations on the acquisition date. The in-process research and development charge has not been included in the accompanying unaudited pro forma condensed combined statement of operations as it represents a non-recurring charge directly related to the acquisition.

There were no historical transactions between Pumatech and Starfish Software.

5. PRO FORMA ADJUSTMENTS

The accompanying unaudited pro forma combined condensed financial statements have been prepared assuming the transactions described above were completed on October 31, 2003 for balance sheet purposes and as of August 1, 2002 for statement of operations purposes.

The unaudited pro forma combined condensed balance sheet gives effect to the following pro forma adjustments:

- (a) Represents the recognition of the customer contract intangible asset of \$3,487,000, the patent intangible asset of \$1,320,000, developed technology intangible asset of \$10,493,000 and goodwill of \$52,290,000 created in the acquisition of Synchrologic.
- (b) Represents the following adjustments to accounts payable and accrued expenses (in thousands):

Accrual for Pumatech's Synchrologic transaction costs	\$ 650
Accrual for Pumatech's restructuring costs	\$ 645
	<hr/>
Net change in accounts payable and accrued expenses	\$ 1,295
	<hr/>

- (c) Represents the adjustment of Synchrologic's deferred revenue to estimated fair value.

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Table of Contents**NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED****FINANCIAL STATEMENTS (Continued)**

(d) Represents the following adjustments to stockholders' equity (in thousands):

	(1)	(2)	(3)	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Mandatorily redeemable convertible preferred stock	\$ (31,045)	\$	\$	\$ (31,045)
Common stock	(4,755)	15		(4,740)
Additional paid-in capital	(63)	68,952		68,889
Treasury stock	2,293			2,293
Accumulated comprehensive income				
Accumulated deficit	33,466		(2,422)	31,044
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total stockholders' equity	\$ (104)	\$ 68,967	\$ (2,422)	\$ 66,441
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

(1) To eliminate the historical stockholders' equity of Synchrologic.

(2) Represents the estimated value of Pumatech's common stock and common stock options to be issued in the acquisition of Synchrologic, less expected registration costs.

(3) Represents the elimination of in-process research and development on the acquisition of Synchrologic of \$2,422,000.

The unaudited pro forma combined condensed statement of operations give effect to the following pro forma adjustments:

(e) Represents (i) the amortization of the Synchrologic customer contract intangible resulting from the proposed acquisition, over an estimated useful life of 54 months, (ii) the amortization of the Synchrologic patent intangible resulting from the proposed acquisition, over an estimated useful life of 54 months, and (iii) the amortization of the Synchrologic developed technology intangible resulting from the proposed acquisition, over an estimated useful life of 54 months.

(f) Represents (i) the amortization of the Spontaneous Technology customer contract intangible resulting from the proposed acquisition, over an estimated useful life of 48 months, (ii) the amortization of the Spontaneous Technology patent intangible resulting from the proposed acquisition, over an estimated useful life of 48 months, and (iii) the amortization of the Synchrologic developed technology intangible resulting from the proposed acquisition, over an estimated useful life of 48 months.

(g) Represents the amortization of the Starfish Software customer contract, trademark, developed technology and patent intangible assets resulting from the acquisition. The weighted average life of amortizable intangible assets approximates 4 years.

(h) To reflect the elimination of in-process research and development arising on the acquisition of Starfish Software.

(i) To reflect the decrease in interest income related to the cash payment for the acquisition of Starfish Software of \$1.7 million.

(j) To reflect the elimination of in-process research and development arising on the acquisition of Spontaneous Technology.

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NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED

FINANCIAL STATEMENTS (Continued)

- (k) Represents the shares of Pumatech common stock associated with the Synchrologic merger and the acquisition of Spontaneous Technology as described above as if they were outstanding as of August 1, 2002 as follows (in thousands):

Common stock issued in connection with Synchrologic merger	16,200
Common stock issued in connection with Spontaneous Technology acquisition	869
	<hr/>
	17,069
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Independent Auditors Report

The Board of Directors and Stockholders

Synchrologic, Inc.:

We have audited the accompanying consolidated balance sheets of Synchrologic, Inc. and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations, stockholders' deficit and comprehensive loss, and cash flows for each of the years in the three-year period ended December 31, 2002. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Synchrologic, Inc. and subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

/s/ KPMG LLP

Atlanta, Georgia

February 21, 2003, except as to the first

and second paragraphs of note 11,

which are as of February 28, 2003

and April 1, 2003, respectively

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Table of Contents**SYNCHROLOGIC, INC. AND SUBSIDIARIES****Consolidated Balance Sheets****December 31, 2002 and 2001**

	<u>2002</u>	<u>2001</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,204,263	\$ 5,992,876
Accounts receivable, net of allowance for doubtful accounts of \$498,188 and \$358,602 in 2002 and 2001, respectively	2,157,350	2,124,267
Prepaid expenses	108,319	114,188
Other current assets	54,486	62,772
	<u>5,524,418</u>	<u>8,294,103</u>
Property and equipment, net	449,762	1,013,617
	<u>\$ 5,974,180</u>	<u>\$ 9,307,720</u>
Liabilities, Mandatorily Redeemable Securities and Stockholders Deficit		
Current liabilities:		
Note payable to bank	\$ 817,000	\$
Current portion of term loan payable to bank	767,536	
Accounts payable	116,759	648,684
Accrued salaries and wages	552,526	296,108
Other accrued expenses	577,469	383,841
Deferred revenue	1,400,820	1,189,543
	<u>4,232,110</u>	<u>2,518,176</u>
Total current liabilities	4,232,110	2,518,176
Term loan payable to bank, excluding current portion	934,040	
	<u>5,166,150</u>	<u>2,518,176</u>
Total liabilities	5,166,150	2,518,176
Mandatorily redeemable securities, no par value; authorized 14,000,000 shares:		
Series A convertible preferred stock, redeemable; authorized 1,000,000 shares; issued and outstanding 797,872 shares; aggregate liquidation preference of \$750,000	743,508	741,073
Series B convertible preferred stock, redeemable; authorized 3,000,000 shares; issued and outstanding 2,058,333 shares; aggregate liquidation preference of \$2,470,000	2,465,700	2,464,088
Series C convertible preferred stock, redeemable; authorized 3,000,000 shares; issued and outstanding 2,793,296 shares; aggregate liquidation preference of \$6,500,000	6,488,707	6,484,473
Series D convertible preferred stock, redeemable; authorized 4,000,000 shares; issued and outstanding 3,308,271 shares; aggregate liquidation preference of \$27,133,000	21,082,887	20,738,979
	<u>30,780,802</u>	<u>30,428,613</u>
Total mandatorily redeemable securities	30,780,802	30,428,613
Stockholders deficit:		
Common stock, no par value; authorized 20,000,000 shares; 4,858,124 shares issued; 4,093,722 and 4,858,124 shares outstanding at December 31, 2002 and 2001, respectively	4,690,619	4,690,619

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Additional paid-in capital	326,898	567,444
Accumulated deficit, including accumulated other comprehensive loss of \$118,652 and \$57,753 in 2002 and 2001, respectively	(32,697,083)	(26,361,327)
Treasury stock, at cost; 764,402 shares	(2,293,206)	
Stock subscription receivable		(2,535,805)
	<hr/>	<hr/>
Total stockholders' deficit	(29,972,772)	(23,639,069)
Commitments and contingencies (notes 7 and 8)		
	<hr/>	<hr/>
Total liabilities, mandatorily redeemable securities and stockholders' deficit	\$ 5,974,180	\$ 9,307,720
	<hr/>	<hr/>

See accompanying notes to consolidated financial statements.

Table of Contents**SYNCHROLOGIC, INC. AND SUBSIDIARIES****Consolidated Statements of Operations****Years ended December 31, 2002, 2001, and 2000**

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Revenues:			
Software license fees	\$ 5,516,856	\$ 5,366,123	\$ 3,936,823
Services fees	4,493,882	1,893,529	1,423,536
Total revenues	10,010,738	7,259,652	5,360,359
Costs of revenues:			
Software license fees	49,583	51,366	49,797
Services fees	3,370,438	2,802,323	1,864,389
Total costs of revenues	3,420,021	2,853,689	1,914,186
Gross profit	6,590,717	4,405,963	3,446,173
Operating expenses:			
Research and development	5,448,085	6,427,854	4,680,920
Sales and marketing	5,070,326	7,115,106	5,016,647
General and administrative	2,213,376	1,709,015	1,474,556
Total operating expenses	12,731,787	15,251,975	11,172,123
Loss from operations	(6,141,070)	(10,846,012)	(7,725,950)
Interest expense	(179,454)	(637)	(245,131)
Interest income	45,667	458,489	466,451
Net loss	(6,274,857)	(10,388,160)	(7,504,630)
Deemed dividends on preferred stock	(352,189)	(352,189)	(122,916)
Net loss attributable to common stockholders	\$ (6,627,046)	\$ (10,740,349)	\$ (7,627,546)
Basic and diluted net loss per share attributable to common stockholders	\$ (1.52)	\$ (2.22)	\$ (1.81)
Weighted average outstanding common shares used in computing basic and diluted net loss per share attributable to common stockholders	4,372,258	4,838,227	4,208,817

See accompanying notes to consolidated financial statements.

Table of Contents**SYNCHROLOGIC, INC. AND SUBSIDIARIES****Consolidated Statements of Stockholders Deficit and Comprehensive Loss****Years ended December 31, 2002, 2001, and 2000**

	<u>Common stock</u>		<u>Additional paid-in capital</u>	<u>Accumulated deficit</u>	<u>Treasury stock</u>	<u>Stock subscription receivable</u>	<u>Stockholders</u>
	<u>Shares</u>	<u>Amount</u>					<u>deficit and</u>
							<u>comprehensive loss</u>
Balance at December 31, 1999	3,149,376	\$ 337,484	\$ 8,282	\$ (8,410,784)	\$	\$	\$ (8,065,018)
Net loss				(7,504,630)			(7,504,630)
Currency translation adjustment				1,187			1,187
Comprehensive loss							(7,503,443)
Common stock issued from sale and exercise of stock options	569,865	985,066					985,066
Common stock issued to officer for stock subscription receivable	1,117,203	3,351,609				(3,351,609)	
Payments on stock subscription receivable						1,080,085	1,080,085
Interest on stock subscription receivable			111,751			(111,751)	
Warrants issued to acquire 45,112 common shares in connection with the issuance of 11% debentures			204,141				204,141
Warrants to acquire 153,383 common shares issued to placement agent in connection with Series D preferred stock financing			565,845				565,845
Accretion of preferred stock issue costs			(122,916)				(122,916)
Balance at December 31, 2000	4,836,444	4,674,159	767,103	(15,914,227)		(2,383,275)	(12,856,240)
Net loss				(10,388,160)			(10,388,160)
Currency translation adjustment				(58,940)			(58,940)
Comprehensive loss							(10,447,100)
Common stock issued from exercise of stock options	21,680	16,460					16,460
Accretion of preferred stock issue costs			(352,189)				(352,189)
Interest on stock subscription receivable			152,530			(152,530)	
Balance at December 31, 2001	4,858,124	4,690,619	567,444	(26,361,327)		(2,535,805)	(23,639,069)
Net loss							