FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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GRIC COMMUNICATIONS INC

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2002

OR

☐ **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: 000-27871

GRIC COMMUNICATIONS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**77-0368092**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

**1421 McCarthy Blvd.
Milpitas, California 95035
(408) 955-1920
(Address, including Zip Code, of Registrant's Principal Executive Offices and 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 shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

The number of shares of the registrant's common stock outstanding as of April 30, 2002 was 20,053,398 shares.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

GRIC COMMUNICATIONS, INC.

Condensed Consolidated Balance Sheets
(in thousands)

	Mar. 31, 2002 (unaudited)	Dec. 31, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,998	$ 4,021
Short-term investments	6,054	9,060
Accounts receivable, net of allowances of $528 and $591 at March 31, 2002 and December 31, 2001, respectively	3,495	3,144
Prepaid expenses and other current assets	1,898	1,017
Total current assets	15,445	17,242

Property and equipment, net	3,437	4,106
Other assets	744	716
Total assets	$ 19,626	$ 22,064
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,489	$ 4,006
Accrued compensation and benefits	942	1,693
Deferred revenue	350	438
Other current liabilities	416	412
Current portion of long-term debt and capital lease obligations	142	419
Total current liabilities	6,339	6,968
Long-term liabilities	107	110
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, 5,000 shares authorized at March 31, 2002 and December 31, 2001; no shares issued and outstanding	–	–
Common stock, $0.001 par value; 50,000 shares authorized at March 31, 2002 and December 31, 2001; 20,042 and 19,897 shares issued and outstanding at March 31, 2002 and December 31, 2001, respectively	20	20
Additional paid-in capital	127,136	127,070
Treasury stock	–	(99)
Deferred stock-based compensation	(203)	(247)
Accumulated deficit	(113,773)	(111,758)
Total stockholders' equity	13,180	14,986
Total liabilities and stockholders' equity	$ 19,626	$ 22,064

See accompanying notes

GRIC COMMUNICATIONS, INC.

Condensed Consolidated Statements of Operations
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended	
	Mar. 31, 2002	**Mar. 31, 2001**
Revenues:		
Settlement	$ 7,037	$ 5,208
Software and other	347	145

Total revenues	7,384	5,353
Costs and expenses:		
Cost of settlement revenues	3,352	3,846
Network and operations	1,097	1,830
Research and development	787	2,443
Sales and marketing	3,138	3,863
General and administrative	1,457	3,804
Amortization of stock-based compensation (1)	44	107
Restructuring (benefit) charge	(464)	7,821
Total costs and expenses	9,411	23,714
Operating loss	(2,027)	(18,361)
Interest income and other, net	36	332
Interest expense	(16)	(38)
Operating loss before income taxes	(2,007)	(18,067)
Provision for income taxes	(8)	(23)
Net loss	$ (2,015)	$ (18,090)
Basic and diluted net loss per share	$ (0.10)	$ (0.92)
Shares used to compute basic and diluted net loss per share	19,975	19,697

(1) Included in amortization of stock-based compensation is $1 and $2 for network and operations, $4 and $43 for research and development, $1 and $17 for sales and marketing and $38 and $45 for general and administrative, for the three months ended March 31, 2002 and 2001.

See accompanying notes

GRIC COMMUNICATIONS, INC.

Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Three Months Ended	
	Mar. 31, 2002	Mar. 31, 2001
Cash flows from operating activities:		
Net loss	$ (2,015)	$ (18,090)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of property and equipment	714	919
Amortization of stock-based compensation	44	107
Loss on intangible asset write-off	–	183

Gain on sale of assets	(335)	–
Accounts receivable allowances	(4)	1,641
Noncash portion of restructuring (benefit) charge	(129)	5,581
Noncash warrant expenses−preferred stock	1	4
Net changes in assets and liabilities:		
Accounts receivable	(347)	(886)
Prepaid expenses and other current assets	(881)	(178)
Other assets	(29)	(77)
Accounts payable	612	(147)
Accrued compensation and benefits	(751)	(805)
Deferred revenue	(88)	1,158
Other current liabilities	4	(110)
Other long-term liabilities	(3)	(2)
Net cash used in operating activities	(3,207)	(10,702)
Cash flows from investing activities:		
Available-for-sale investments:		
Purchases	(500)	(5,000)
Maturities	3,506	6,558
Proceeds from sales of fixed assets	335	22
Capital expenditures	(45)	(1,988)
Net cash provided by (used in) investing activities	3,296	(408)
Cash flows from financing activities:		
Payments of debt	(277)	(166)
Proceeds from sales of common stock, net	66	423
Proceeds from sales of treasury stock, net	99	–
Net cash (used in) provided by financing activities	(112)	257
Net decrease in cash and cash equivalents	(23)	(10,853)
Cash and cash equivalents at beginning of quarter	4,021	29,320
Cash and cash equivalents at end of quarter	$ 3,998	$ 18,467
Supplemental disclosures of cash flow information:		
Income taxes paid	$ –	$ 2
Interest paid	$ 14	$ 39

See accompanying notes

Notes to Condensed Consolidated Financial Statements
(unaudited)

1. Basis of Presentation

The financial information at March 31, 2002 and for the three months ended March 31, 2002 is unaudited, but includes all adjustments (consisting of normal recurring accruals and restructuring reserves) that GRIC Communications, Inc. (the "Company") considers necessary for a fair presentation of the financial information set forth herein, in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for annual financial statements. The results for the three months ended March 31, 2002 are not necessarily indicative of the results that may be expected for future periods. The following information should be read in conjunction with consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

The balance sheet at December 31, 2001 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

2. Summary of Significant Accounting Policies

Net Loss Per Share

Net loss per common share and diluted net loss per share are presented in conformity with the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("SFAS No. 128") for all years presented.

In accordance with SFAS No. 128, basic and diluted net loss per share has been computed using the weighted-average number of shares of common stock outstanding during the period. Potentially dilutive securities have been excluded from the computation of basic and diluted net loss per share, as their effect is antidilutive.

Weighted-average options to purchase approximately 906,000 and 157,000 shares of common stock were outstanding for the three months ended March 31, 2002 and 2001, but were not included in the computation of diluted net loss per share because the effect would be antidilutive.

Recent Accounting Pronouncements

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which was effective January 1, 2002. SFAS No. 144 supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", and the accounting reporting provisions relating to the disposal of a segment of a business of Accounting Principles Board Opinion No. 30. The adoption of SFAS No. 144 did not impact the Company's financial statements.

3. Comprehensive Loss

The components of comprehensive loss for the three months ended March 31, 2002 and 2001 are as follows:

	Three Months Ended March 31,	
	2002	2001
	(in thousands)	

Net loss	$ (2,015)	$ (18,090)
Other comprehensive loss:		
Unrealized gain on available-for-sale investments	–	20
Comprehensive loss	$ (2,015)	$ (18,070)

4. Segment Information

The Company operates solely in one segment, providing services and software that enable its customers to offer remote access and other Internet-based mobile office communications services to their end users worldwide.

The following is a summary of revenue and long-lived assets by geographical area for the periods presented:

	Three Months Ended March 31,	
	2002	2001
	(in thousands)	
Revenue by external customers:		
United States, Canada and Latin America	$ 3,451	$ 2,941
Japan	2,004	963
Asia Pacific	968	732
Europe, Middle East and Africa	961	717
	$ 7,384	$ 5,353

The following is a summary of long-lived assets by geographical area for the periods presented:

	March 31, 2002	December 31, 2001
	(in thousands)	
Long-lived assets:		
United States	$ 3,091	$ 3,736
Rest of World	346	370
	$ 3,437	$ 4,106

Revenue by external customer is based on the customer's billing locations. Long-lived assets are those assets used in each geographic location.

5. Commitments and Contingencies

The Company is subject to various legal proceedings and claims arising in the ordinary course of business, including the proceedings to which the Company is a party discussed below. While the Company's management believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not have a material adverse effect on the company's financial position, cash flows or overall trend in results of operations, litigation is subject to inherent uncertainties. Were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on the net income of the period in which the ruling occurs.

On July 24, 2001, the Company and certain of its officers were named as defendants in a purported securities class-action lawsuit filed in the United States District Court, Southern District of New York, captioned Colbert Birnet LP v. GRIC Communications, Inc. et al., No. 01 CV 6771. In August, 2001, substantially identical lawsuits were filed in the same court, again naming the Company and certain of its officers, under the captions Northern Capital Holdings Inc. v. GRIC Communications, Inc. et al., No. 01 CV 7124; Gerald S. Platts v. GRIC Communications, Inc., et al., No. 01 CV 7699; Glenn Tortoso v. GRIC Communications, Inc., et al., No. 01 CV 7869; and Sanjay Israni v. GRIC Communications, Inc., et al., No. 01 CV 8087. By a judicial order dated September 4, 2001, these cases were consolidated, and the consolidated matter is now captioned In re GRIC Communications, Inc. Initial Public Offering Securities Litigation, No. 01 Civ 6771 (SAS), and is part of over three hundred coordinated proceedings covered under the caption In re Initial Public Offering Securities Litigation, Master File No. 21 MC 92 (SAS). The Consolidated Amended Class Action Complaint for Violation of the Federal Securities Laws ("Consolidated Complaint") was filed on or about April 19, 2002, and alleges claims against the Company, certain of its officers, and CIBC World Markets Corp., Prudential Securities Incorporated, DB Alex.Brown, as successor to Deutsche Bank, and U.S. Bancorp Piper Jaffray Inc., underwriters of the Company's December 14, 1999 initial public offering ("underwriter defendants"), under Sections 11 and 15 of the Securities Act of 1933, as amended and under Section 10(b) and 20(a)of the Securities Exchange Act of 1934, as amended. The Consolidated Complaint also alleges claims against the underwriter defendants under Section 12(2) of the Securities Act of 1933. The claims made in the Consolidated Complaint are substantially similar to the claims made in the over three hundred other amended complaints filed in the coordinated matter captioned In re Initial Public Offering Securities Litigation.

Citing several press articles, the Consolidated Complaint alleges that the underwriter defendants used improper methods in allocating shares in initial public offerings, and claim the underwriter defendants entered into improper commission agreements regarding aftermarket trading in the Company's common stock purportedly issued pursuant to the registration statement for the initial public offering. The Consolidated Complaint also alleges market manipulation claims against the underwriter defendants based on the activities of their respective analysts, who were allegedly compromised by conflicts of interest. By Order of the Court, no responsive pleading is yet due.

The parties to the In re Initial Public Offering Securities Litigation cases had discussed a proposal by which all of the individual officers and directors of the issuer defendants would be dismissed, without prejudice, all Section 10(b) and Rule 10b-5 claims would be dismissed, without prejudice, and the actions against the issuer defendants would be stayed, except for certain test cases. The Company believes that it would meet the conditions set by the most recent proposal for dismissal of its officers and directors. More recently, however, the issuer defendants have participated in mediation with a retired federal judge involving a global resolution of the claims against the issuer defendants. There can be no guarantee that the parties will be able to reach agreement on either a partial dismissal or a global resolution of the claims involving the issuer defendants. The Company's management believes that the Consolidated Complaint is without merit and intend to defend against it vigorously. The Company does not believe the outcome of this consolidated lawsuit will have a material adverse effect on the Company's financial condition, results of operations or cash flows.

6. Restructuring Event

In January 2001, the Company undertook a strategic restructuring and decided to cease providing its Internet telephony settlement services, based on an analysis of the operating expenses required to

support these services and the low gross margins associated with them, and on the Company's expectation that continued Internet telephony operations would require additional cash infusions to the business. The Company completed its strategic restructuring by December 31, 2001.

The provision and associated charges against the provision for restructuring, each of which relate to the discontinuation of Internet telephony operations, through the twelve months ended December 31, 2001 and the three months ended March 31, 2002, are as follows:

	Employee Severance Costs	Termination of Lease and Facility Obligations	Retirement of Fixed Assets	Total
		(in thousands)		
Q1 2001 provision	$ 708	$ 1,532	$ 5,581	$ 7,821
Non-cash charges	–	–	(5,581)	(5,581)
Cash payments	(708)	(1,099)	–	(1,807)
Accruals at December 31, 2001	–	433	–	433
Cash payments	–	(184)	–	(184)
Accrual reversal	–	(129)	–	(129)
Accruals at March 31, 2002	$ –	$ 120	$ –	$ 120

In connection with the restructuring the Company incurred a total charge to operations of $7.8 million.

Restructuring-related involuntary employee severance costs resulted in a charge of $708,000, pertaining to the expected termination of employees worldwide. All worldwide employees who were involved in providing, selling or supporting Internet telephony services or who performed related functions were considered during the cost-cutting plan. A total of 58 employees were terminated as part of these cost-cutting measures.

The termination of lease and facility obligations resulted in a charge of $1.5 million. The Company considered the costs of terminating these commitments to be related to its decision to cease providing Internet telephony services. During the three months ended March 31, 2002, the Company recorded a $129,000 noncash restructure benefit from lease and facility obligations as a result of final settlements that were less than the amount of previously reserved obligations.

The net book value of fixed assets retired as part of our restructuring totaled $5.6 million. The assets consisted primarily of computer hardware and software utilized in our Internet telephony business. During the three months ended March 31, 2002, the Company sold Internet telephony assets that were previously written-off during the restructuring in January 2001 for a gain of approximately $335,000.

In addition to the $7.8 million restructuring charge discussed above, the Company recorded a $1.6 million charge in general and administrative expense for the three months ended March 31, 2001 related to the write-off of Internet telephony receivables as a result of its restructuring. Settlement revenues derived from the Company's Internet telephony settlement services through January 2001, when these services were ceased, were recognized at the time of cash collection. Settlement revenues in the quarter ended March 31, 2001 include $771,000 of Internet telephony services that were collected.

7. Stock Repurchase Program

In September 2001, the Board of Directors approved a program to expend up to $2,000,000 to repurchase shares of the Company's common stock in open market transactions. As of December 31, 2001, the Company had purchased 110,000 shares for $99,000. No additional shares were repurchased by the Company during the three months ended March 31, 2002.

8. Subsequent Events

On April 19, 2002, the Company sold 9,036,140 shares of its Series A Preferred Stock, for $15.0 million, to investors affiliated with H&Q Asia Pacific and Vertex Management. At the closing of the transaction, the Company also issued to these investors warrants to purchase 903,614 shares of Series A Preferred Stock at a purchase price of $1.66 per share, and warrants to purchase 1,355,420 shares of Series A Preferred Stock at a purchase price of $2.49 per share, which warrants are exercisable at any time within five years after the closing.

In connection with the closing, the parties entered into an amended and restated Series A Preferred Stock purchase agreement and a number of ancillary agreements, and the Company amended its certificate of incorporation to authorize and set forth the terms of the Series A Preferred Stock.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the selected consolidated financial information and the consolidated financial statements and notes appearing elsewhere in this Form 10-Q. The following discussion contains forward-looking statements, such as statements of expected revenues and expenses, that involve risks and uncertainties. We assume no obligation to update any such forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those detailed from time to time in our filings with the Securities and Exchange Commission and those discussed in this Form 10-Q, particularly in this Management's Discussion and Analysis of Financial Condition and Results of Operations and under "Factors That May Affect Future Results." Unless expressly stated or the content otherwise requires, the terms "we", "our", "us", "the Company" and "GRIC" refer to GRIC Communications, Inc. and its subsidiaries as a whole.

Overview

We provide services and software that enable our customers to offer remote access and other Internet-based mobile office communications services to their end users worldwide. Our customers include telecommunications companies, Internet service providers, corporate enterprises and newly emerging communications service providers.

From our incorporation in 1994 until 1997 we were both an Internet service provider in Northern California and an independent software developer for the Internet service provider community. In 1997, we sold our local Internet service provider business. Since that time most of our revenue has come from providing settlement and clearinghouse services for our customers, who are members of the GRIC TierOne Network. As a result of our ability to provide these services, customers of any Internet service provider that is a member of the GRIC TierOne Network, may access the Internet while outside his local service area without incurring long-distance telephone charges by accessing another member's network. From late 1998 until January 2001, we primarily provided Internet telephony services that were characterized by high revenues that generated low margins. In January 2001 we ceased providing those services to focus on providing Internet-based mobile office communications services based on our clearinghouse and settlement capabilities to service providers and corporate enterprises globally.

We generate settlement revenues when we provide settlement services to customers whose end users initiate Internet communications. For these transactions, our settlement services consist of tracking usage globally, collecting the amount that a roamer's "home" service provider owes us, paying the appropriate amount to the service provider enabling local access, and providing the underlying usage data to our customers to enable end user billing.

Critical Accounting Policies and Estimates

The methods, estimates and judgments we use in applying our most critical accounting policies have a significant impact on the results we report in our consolidated financial statements. We evaluate our estimates and judgments on an on-going basis. We base our estimates on historical experience and on assumptions that we believe to be reasonable under the circumstances. Our experience and assumptions form the basis for our judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may vary from what we anticipate and different assumptions or estimates about the future could change our reported results. We believe the following accounting policies are the most critical to us, in that they are important to the portrayal of our

financial statements and they require our most difficult, subjective or complex judgments in the preparation of our consolidated financial statements:

Revenue Recognition and Related Allowances. We derive revenues primarily from settlement services we provide to customers through our network. We record estimated allowances against settlement revenues in the same period the revenue is recorded. These estimates are based upon historical analysis of our credit memo data and other known factors for pricing and transaction volume disputes that arise in the normal course of business. To date, allowances for disputed amounts have not been significant. If the historical data we use to calculate these estimates does not accurately reflect amounts associated with future disputes, our actual revenues could be higher or lower than what we have recognized.

We also derive revenues from licenses of software to customers seeking to offer Internet roaming and Internet telephony services to their end users, and from sales of maintenance and support services. Estimates and judgments we make regarding recognition of these revenues are not likely to have a material impact on our reported results of operations for a given period.

Allowance for Doubtful Accounts. We maintain allowances for doubtful accounts for estimated losses from our customers' inability to make payments they owe us. In order to estimate the appropriate level of this allowance, we analyze historical bad debts, customer concentrations, current customer credit-worthiness, current economic trends and changes in our customer payment patterns. If the financial condition of our customers were to deteriorate and to impair their ability to make payments to us, additional allowances might be required in future periods.

Results of Operations

Three Months Ended March 31, 2002 Compared to Three Months Ended March 31, 2001

Revenues

Total revenues increased to $7.4 million for the three months ended March 31, 2002 from $5.4 million for the three months ended March 31, 2001, representing an increase of 38%.

Settlement Revenues. Settlement revenues increased to $7.0 million in the three months ended March 31, 2002 from $5.2 million in the three months ended March 31, 2001, representing an increase of 35%. The increase was primarily due to higher Internet roaming settlement services due to expansion of our Internet roaming customer base, increased volumes of Internet roaming by our existing customers and approximately $500,000 of non-recurring minimum revenue commitments by customers during the three months ended March 31, 2002. This increase was partially offset by discontinuance of our Internet telephony settlement services. We expect the rate of settlement services revenue growth to increase quarter over quarter during 2002 as customers recover from the general economic downturn and further deploy our services. We expect total settlement revenues in 2002 to exceed total settlement revenues in 2001.

Software and Other Revenues. Software, hardware and maintenance and services revenues increased to $347,000 in the three months ended March 31, 2002 from $145,000 in the three months ended March 31, 2001, representing an increase of 139%. The increase was primarily due to higher sales of our Internet roaming software and maintenance services. We expect software and other revenues to be slightly lower in the second calendar quarter and to remain relatively flat during the rest of the year.

Costs and Expenses

Cost of Settlement Revenues. Cost of settlement revenues consists of amounts we pay to access the Internet in order to provide Internet roaming services for our customers and amounts we paid to

terminate Internet telephony services for our customers before we ceased providing those services in January 2001. Cost of settlement revenues decreased to $3.4 million in the three months ended March 31, 2002 from $3.8 million in the three months ended March 31, 2001, representing a decrease of 13%. The decrease was primarily due to lower telephony settlement costs as a result of ceasing to provide our low margin Internet telephony services. The decrease in Internet telephony settlement costs was partially offset by an increase in Internet roaming costs due to increased volumes of Internet roaming minutes. Internet roaming costs decreased as a percentage of Internet roaming revenues during the three months ended March 31, 2002 primarily due to lower rates obtained from our providers. We expect that for 2002 the cost of settlement revenues will increase in absolute dollars as roaming revenues increase but will decline as a percentage of total settlement revenues as a result of our expectation of lower rates with our Internet roaming providers.

Network and Operations. Network and operations expenses include salaries, benefits, depreciation on network equipment, allocated facility and management information systems costs, and costs of co-location of network equipment and leased telecommunication lines. Network and operations expenses decreased to $1.1 million in the three months ended March 31, 2002 from $1.8 million in the three months ended March 31, 2001, representing a decrease of 40%. The decrease was primarily due to our ceasing to provide Internet telephony services in January 2001 which resulted in decreased costs of co-location of network equipment and leased telecommunication lines, decreased staffing and decreased depreciation. We expect that network and operations expenses will continue to decrease during 2002.

Research and Development. Research and development expenses include salaries, benefits and recruiting costs of employees and outside consultants, quality assurance, allocated facility, management information systems and depreciation costs. Research and development expenses decreased to $0.8 million in the three months ended March 31, 2002 from $2.4 million in the three months ended March 31, 2001, representing a decrease of 68%. The decrease was primarily due to engineering personnel reductions following our January 2001 restructuring as we focused principally on continued development of our core internet roaming software. We also reduced costs by expanding the use of our development center in India, where engineering talent may be obtained at more favorable rates than in the San Francisco Bay area. By continuing to expand the use of our development center in India, we expect research and development expenses to continue to decrease during 2002.

Sales and Marketing. Sales and marketing expenses include salaries, benefits and commissions earned by sales and marketing personnel, allocated facility, management information systems and depreciation costs, costs for marketing and promotional programs, and costs associated with our domestic and international sales offices. Sales and marketing expenses decreased to $3.1 million in the three months ended March 31, 2002 from $3.9 million in the three months ended March 31, 2001, representing a decrease of 19%. The decrease was primarily due to a decrease in staffing as a result of our ceasing to provide Internet telephony services and a decrease in professional services, advertising and promotional services. We expect overall sales and marketing expenses to decrease during 2002, although sales expenses are likely to increase in connection with our launch of GRIC Mobile Office.

General and Administrative. General and administrative expenses consist of general corporate and facility costs as well as salary, benefits and related costs for executive, finance, legal, administrative, human resources, investor relations and management information systems functions, and provisions for uncollectible receivables. General and administrative expenses decreased to $1.5 million in the three months ended March 31, 2002 from $3.8 million in the three months ended March 31, 2001, representing a decrease of 62%. The decrease was primarily due to the write-off of all uncollected Internet telephony receivables in 2001 and a decrease in the use of professional services in 2002. We expect general and administrative expenses to continue to decrease during 2002.

Amortization of Stock-Based Compensation. Some stock options granted through December 31, 1999 are considered compensatory because the estimated fair value for accounting purposes was greater than the stock option exercise price as determined by the board of directors on the date of grant. As a result, we recorded expenses of $44,000 for the three months ended March 31, 2002 relating to the amortization of deferred compensation expense and had an aggregate of $203,000 of deferred compensation remaining to be amortized at March 31, 2002. Deferred compensation is amortized on a straight-line basis over the vesting period of the options. We expect amortization of approximately $176,000 in 2002, and $71,000 in 2003.

Restructuring Charge. In January 2001, we undertook a strategic restructuring and decided to cease providing our Internet telephony settlement services, based on an analysis of the operating expenses required to support these services and the low gross margins associated with them, and our expectation that continued Internet telephony operations would require additional cash infusions to the business. During the three months ended March 31, 2002, we incurred a $464,000 restructuring benefit resulting from a gain on the sale of Internet telephony assets of approximately $335,000 that were previously written off in January 2001 and an accrual reversal of lease and facility obligations of $129,000 as a result of final settlements that were less than the amount of the previously reserved obligations. As of March 31, 2002, the remaining accrual of lease and facility obligations amounted to $120,000.

Interest Income and Other, Net

Interest income and other, net, primarily represents interest income on cash balances. Interest income and other, net, decreased to $36,000 in the three months ended March 31, 2002 from $332,000 in the three months ended March 31, 2001. The decrease was primarily due to lower cash balances during the first quarter of 2002.

Interest Expense

Interest expense consists of amortization of the fair value of warrants issued in connection with our financing activities and interest expense associated with capital leases. Interest expense decreased to $16,000 for the three months ended March 31, 2002 from $38,000 for the three months ended March 31, 2001. The decrease was primarily due to the payments of outstanding lease obligations.

Income Taxes

The provision for income taxes decreased to $8,000 in the three months ended March 31, 2002 from $23,000 in the three months ended March 31, 2001. The provision for income taxes consists of foreign tax provisions.

Liquidity and Capital Resources

	March 31, 2002	March 31, 2001
	(in thousands)	
Cash and cash equivalents	$ 3,998	$ 18,467
Net cash used in operating activities	(3,207)	(10,702)
Net cash provided (used in) by investing activities	3,296	(408)
Net cash (used in) provided by financing activities	(112)	257

Cash and cash equivalents. Our principal source of liquidity is our cash, cash equivalents and short-term investments. As of March 31, 2002, in addition to our cash and cash equivalents balance of $4.0 million we had a short-term investment balance of approximately $6.1 million.

Operating activities. Net cash used in operating activities was $3.2 million for the three months ended March 31, 2002 and $10.7 million for the three months ended March 31, 2001. Net cash used in operating activities in the three months ended March 31, 2002 was primarily a result of our net operating losses, prepayment of certain expenses and higher accounts receivable balances due to increased revenues. Net cash used in operating activities in the three months ended March 31, 2001 was primarily the result of our net operating losses and our strategic restructuring charges.

Investing activities. Net cash provided by investing activities was $3.3 million for the three months ended March 31, 2002 and net cash used in investing activities was $408,000 for the three months ended March 31, 2001. Net cash provided by investing activities in the three months ended March 31, 2002 was primarily the result of proceeds from maturing short-term investments to fund net operating activities. The net cash used in investing activities in the three months ended March 31, 2001 was primarily due to purchases of short-term investments and capital expenditures for computer software relating to our network infrastructure.

Financing activities. Net cash used in financing activities was $112,000 in the three months ended March 31, 2002 and net cash provided by financing activities was $257,000 in the three months ended March 31, 2001. The net cash used in financing activities in the three months ended March 31, 2002 was primarily due to the payments of debt. The net cash provided by financing activities in the three months ended March 31, 2001 was primarily due to the proceeds from the sale of common stock through the incentive stock option and the employee stock purchase plans.

Commitments. We lease all of our facilities under operating leases that expire at various dates through 2007. As of March 31, 2002, we had $1.3 million in future operating lease commitments and $142,000 of capital lease obligations and equipment promissory notes.

Summary of Liquidity. Our consolidated financial statements are prepared and presented on a going concern basis. At March 31, 2002, we had an accumulated deficit of $113.8 million and incurred a net loss of $2.0 million for the three months ended March 31, 2002. We expect to turn profitable in the second half of 2002.

On April 19, 2002, the Company sold 9,036,140 shares of its Series A Preferred Stock for $15.0 million to investors affiliated with H&Q Asia Pacific and Vertex Management. At the closing of the transaction, the Company also issued to these investors warrants to purchase 903,614 shares of Series A Preferred Stock at a purchase price of $1.66 per share, and warrants to purchase 1,355,420 shares of Series A Preferred Stock at a purchase price of $2.49 per share, which warrants are exercisable at any time within five years after the closing.

In connection with the closing, the parties entered into an amended and restated Series A Preferred Stock purchase agreement and a number of ancillary agreements, and the Company amended its certificate of incorporation to authorize and set forth the terms of the Series A Preferred Stock.

We believe that our available cash, cash equivalents and short-term investments of $10.1 million at March 31, 2002, the $15.0 million in cash received as proceeds from the recent sale of our Series A Preferred Stock, and cash expected to be generated by operations, during the next twelve months, will fund planned operations for at least the next twelve months.

We plan to invest in expanding our Internet roaming and related services, on a global basis, by continuing to build strategic partnering relationships. This will require us to maintain market acceptance, and to grow our Internet roaming and related services offerings in order for us to continue our research and development activities and fund planned operating expenses. There can be no assurance that our Internet roaming product offerings will maintain market acceptance, growth and operating margins.

If we are unable to attain our revenue and margin goals, significant reductions in spending and the delay or cancellation of planned activities or more substantial restructuring may be necessary to enable us to meet our cash requirements through at least March 2003. These actions could have a material adverse effect on our business, results of operations and prospects. Furthermore, we may need to raise additional funds in future periods through public or private financing, or other arrangements, to fund operations and potential acquisitions, if any. We may never achieve profitability. If additional financing is needed, it might not be available on reasonable terms or at all. Failure to raise capital when needed could seriously harm our business and results of operations. If additional funds were raised through the issuance of equity securities, the percentage of ownership of our stockholders would be reduced. Furthermore, these equity securities might have rights, preferences or privileges senior to our common stock.

Factors That May Affect Future Results

In addition to the information in this Quarterly Report Form 10-Q, the following should be considered in evaluating GRIC and our business.

We have not been profitable to date and we anticipate continued losses during 2002.

To date, we have not been profitable. We cannot assure you that we will ever achieve or sustain profitability. We reported operating losses before income taxes of $31.6 million for 2001, $32.4 million for 2000 and $22.6 million for 1999. As of March 31, 2002, our accumulated deficit was $113.8 million. We have also experienced negative cash flows in each year since our inception in 1994. We expect to incur operating losses during 2002 and may not turn profitable in the second half of 2002 as projected, which could cause our stock price to decline. In particular, we expect to continue to invest in research and development and sales and marketing, and we expect to face pressure to adopt new pricing arrangements, including volume discounts, that may lower our gross margins. If revenues do not meet levels we anticipate, or if our costs and expenses exceed our expectations, we will continue to sustain losses, and our business and the price of our common stock may be harmed.

Our operating history is more limited than that of many other companies, so you may find it difficult to evaluate our business in making an investment decision.

We have limited experience providing clearinghouse services−having done so since only 1997−and it is only since January 2001 that our efforts have been focused primarily on providing services that enable our customers to provide Internet roaming services to their end-users. Many members of our senior management team and other employees have worked with us for only a short period of time. Consequently, we have not demonstrated that our business can succeed.

We may require additional capital for our operations, which could have a negative effect on your investment.

If the funds we raised in the recent sale of our Series A preferred stock prove to be insufficient, it is possible that we may need to raise additional funds in the future in order to fund operations or acquisitions. If we raise additional funds through the issuance of equity or convertible debt securities, our stockholders may experience additional dilution and these new securities may have powers, preferences and rights that are senior to those of the rights of our common stock. For example, as a result of the recent sale of our Series A preferred stock, the investors control a significant portion of our outstanding capital stock, and the owners of the Series A preferred stock have claims that are senior to those of holders of the common stock in the event of a bankruptcy or liquidation, and the issuance of the Series A preferred stock has substantially diluted your ownership interest. We cannot be certain that additional financing will be available on terms favorable to us, or at all. If adequate funds are not available or are not available on acceptable terms, we may be unable to fund our business operations, promote our brand identity, take advantage of acquisition opportunities, develop or enhance services or respond to competitive pressures. Any inability to do so could have a negative effect on our business, revenues, financial condition and results of operations.

In 2001, we restructured our business, which makes us primarily dependent on the success of our Internet roaming service.

In January 2001, we restructured our business by ceasing to provide Internet telephony service and focusing on our Internet roaming service. This concentration makes us more dependent on the growth of the Internet roaming market in general, and will increase the negative impact on our business if our Internet roaming product offerings do not maintain favorable market acceptance and growth or achieve our revenue and margin targets.

We face significant competition, including competition from larger companies, which could make it more difficult for us to succeed.

Our business environment is intensely competitive, highly fragmented and rapidly changing. Competition can come from many sources. For example, we compete directly with iPass in the market for Internet roaming and related settlement services, and iPass has a network that competes with the GRIC TierOne Network. Large communications service providers such as Equant, AT&T and Worldcom/UUNET also have the ability and resources to compete with us in the Internet-based mobile office communications services market. We could also face competition from emerging, wireless based network service providers targeting the traveling business communities.

Many of our competitors have substantially greater resources, larger customer bases, longer operating histories, greater name recognition and more established relationships in the industry than we have. Any of these competitors may combine or form strategic partnerships, gaining competitive advantages as a result. Our competitors may be able to develop and market products and services that are superior to our own in terms of features, quality, pricing or other factors.

Our success depends on our ability to maintain and increase our customer base.

Customers are generally free to use competing products and services, so we could face significant customer losses, which could occur at unpredictable times. Our customers are generally not obligated to generate minimum revenues, and some generate very little revenue for us. These factors make it difficult to anticipate the level of our future revenues from existing customers. In addition, our success depends on our ability to expand our customer base. If we lose any significant customer or are unable to expand our customer base and to increase our average revenues per customer, our business will be harmed.

If we fail to attract larger customers, our revenues could fail to increase.

Historically, a significant portion of our revenues has been derived from smaller companies in the Internet marketplace, but in recent periods we have attempted to focus our sales and marketing efforts on larger corporate and enterprise-level customers. This strategy places new demands on our business, such as the longer sales cycles and higher levels of service and support that larger accounts generally require. If we fail in this strategy, or if we have underestimated the costs of this strategy, our results of operations would be likely to be harmed.

Our new products or features may not succeed in the marketplace.

The success of our business depends on our ability to introduce new products and features successfully. Each effort to develop and introduce a new product or feature involves a considerable investment of funds, personnel and time, as well as opportunity costs. We recently introduced GRIC Mobile Office, a product suite that includes wireless access, security monitoring and other features in addition to our traditional dial-up access. We have no assurance that this new product will be accepted by the marketplace, or whether competing technologies or products will be more popular. If our new products are not successful, our business will be harmed owing to the direct and indirect costs of product development and launch, and due to the lost opportunities and the possibility that a competitor may have developed a more successful product.

We depend on our customers to market Internet-based communications services to their end users, so our revenues depend on the activities of others and on the market acceptance of their services.

Our business depends on the efforts and success of our customers in marketing Internet-based communications services to their end users. We have little ability to promote our services, or to promote demand for our customers' services generally. If our customers fail to market their Internet-based communications services effectively, our revenues will be reduced. Similarly, if the market for Internet-based communications services fails to grow, or expands more slowly than anticipated, our revenues will be lower than expected. The Internet-based services we provide are relatively new and have not achieved widespread market acceptance. Network service providers and communication solutions providers may be reluctant to promote or rely upon our services until they gain greater commercial acceptance, which may never occur.

Sales in the Internet infrastructure market are subject to fluctuation.

Although sales to the Internet infrastructure market have grown historically, this market is characterized by sporadic purchasing decisions. In addition, many companies have warned of lower-than-expected revenue and declines or delays in sales orders from companies in the Internet infrastructure market. Sales activity in this industry depends upon the stage of completion of expanding network infrastructures, the availability of funding, and the extent that service providers are affected by local regulatory and business conditions. Lower sales in the Internet infrastructure market could have a material adverse effect on our business, operating results and financial condition.

If we are unable to manage growth, the GRIC TierOne Network and our product development efforts effectively, our business will be harmed.

In the past, rapid growth strained our network operations resources, product development resources and other managerial, operating and financial resources. We expect these strains to resume if we resume our growth, and our financial performance and our ability to compete effectively will depend, in part, on our ability to manage any future growth effectively. If we are not able to manage research and development efforts, network infrastructure, performance and internal controls effectively, our costs will be higher than expected and our business will be harmed.

Our operating results fluctuate and are difficult to predict, so we may fail to satisfy the expectations of investors or market analysts and our stock price may decline.

Our quarterly operating results have fluctuated in the past, and we expect them to fluctuate in the future. Despite our January 2001 restructuring, our business may fail to grow rapidly enough to offset operating expenses. The primary factors that may cause fluctuations in our quarterly operating results, many of which are beyond our control, include:

- economic conditions generally, and slowdowns in the specific industries in which our customers operate, especially telecommunications;
- the volume of transaction-based revenues;
- the timing of deployment of services by our customers;
- competitive pricing pressure;
- changes in global travel patterns due to past and potential future terrorist activities in the U.S. and the military responses to them in Southern Asia and elsewhere;
- the mix of services used by our customers' end users;
- our ability to collect accounts receivable, particularly for customers based outside the U.S.;
- the domestic and international regulatory environment; and

unanticipated increases in operating and marketing expenses.

Business models relying on the Internet to provide communications services are still evolving. As a result, you should not rely on the results of any past periods as an indication of our future performance. It is likely that in some future periods, our operating results may be below expectations of public market analysts or investors. If this occurs, the price of our common stock is likely to decline.

Our customers require a high degree of reliability in the delivery of our services, and if we cannot meet their expectations for any reason, demand for our products and services will suffer.

Our success depends in large part on our ability to assure generally error-free clearinghouse services, uninterrupted operation of our network and software infrastructure, and a satisfactory experience for our customers' end users. To achieve these objectives, we depend on the quality, performance and scalability of our products and services, the responsiveness of our technical support and the capacity, reliability and security of our network operations. We also depend on third parties over which we have no control. For example, our ability to serve approximately 42 countries is based solely on our network access agreement with one service provider and on that service provider's ability to provide reliable Internet access points in those countries. In the past, we have experienced problems due to our inability to detect system malfunctions and due to errors in collecting or processing account usage and settlement data. Due to the high level of performance required for critical communications traffic, any failure to deliver a satisfactory experience to end users, whether or not caused by our own failures, and any failure to provide accurate settlement data in connection with acting as a clearinghouse, could reduce demand for our products and services.

As a clearinghouse, we have greater collection risks than many other companies.

Difficulties in collecting accounts receivable will harm our financial results, and this collection risk is inherently greater for us as a clearinghouse service provider because we are obligated to pay amounts owed to each customer whether or not we have collected all the amounts due to us from other customers. In addition, if end users or unauthorized third parties engage in unauthorized or otherwise

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fraudulent roaming activity, we may face difficulty collecting the resulting accounts receivable. If we are not able to manage this problem, our financial results will suffer.

If we are unable to develop and introduce new services, we may not achieve or maintain profitability.

We have generated substantially all of our revenue from the sale of remote Internet access. In order to realize our potential, we will need to continue to enhance our existing services and to develop and introduce new and complementary services. If we do not succeed in introducing, marketing and managing the installation and implementation of new services and distribution channels in a timely manner, our competitive position could be harmed. Even if we succeed in developing and establishing new services, we do not know if they will achieve market acceptance or support adequate pricing levels or generate revenues sufficient for us to become profitable. Further, we do not know whether third-party developers of Internet communications applications will be willing to develop new applications that can be delivered as part of our mobile office communications solutions, or that we will be able to develop any applications of this type ourselves.

Our long sales cycle makes it particularly difficult for us to forecast revenues, requires us to incur high sales costs, and aggravates fluctuations in quarterly financial results.

Our business is characterized by a long sales cycle between the time a potential customer is contacted and the time a new customer relationship is established. In addition, after the new customer relationship is established there may be further significant delays before new users are brought into our system and we begin to realize associated revenues. As a result, we typically incur substantial sales costs before we recognize any related revenues; this may increase the volatility of our results because we may have high costs without associated offsetting revenues. Recently, our revenues have been adversely affected by the general economic downturn. If the costs associated with the long sales cycle increase, or if we are unable to generate associated offsetting revenues, our operating results will be harmed.

Because much of our business is conducted internationally, we encounter special difficulties, which may impede our progress toward profitability and harm the price of our common stock.

Because we generate most of our revenues from business conducted internationally, we are subject to special risks. It is costly to maintain international facilities and operations, promote our brand internationally and develop localized systems and support centers. Revenues from certain regions may not offset the expense of maintaining operations in these regions. Additional risks faced by our international operations include:

- key members of the senior management of our foreign operations have only recently joined our company;
- longer payment cycles for foreign customers, including delays due to currency controls and fluctuations;
- reductions in business activity generally in certain global locations, that could negatively impact overall revenue growth;
- negative impacts of changes in foreign currency exchange rates;
- potentially high taxes in foreign countries;
- difficulties complying with a variety of foreign laws, trade standards and tariffs and of overcoming trade barriers; and
- difficulties complying with telecommunications and other Internet-related regulations in many foreign jurisdictions.

We are also exposed to general geopolitical risks, such as political and economic instability and changes in diplomatic and trade relationships. Any of these factors could negatively impact our business by reducing our profitability and harm the price of our common stock.

We need to hire and retain qualified personnel to sustain the growth of our business, which is particularly difficult for us because we compete with other companies in the San Francisco Bay area where we are based.

Our future success depends, in part, on the continued service of our key executive, management and technical personnel, and our ability to attract new skilled employees. From time to time we have experienced difficulty in hiring and retaining highly skilled employees, and we expect to continue to experience this sort of difficulty. Declines in the market price of our common stock could also hurt employee morale and retention. If we are not able to retain our key employees or to attract, assimilate or retain other highly qualified employees in the future, our business could be harmed because our growth might be slowed or executive leadership might be disrupted.

It is difficult to hire and retain qualified sales personnel.

Highly-trained sales personnel are key to our performance. Competition for these individuals is intense, and we may not be able to hire the type and number of sales personnel we need. Moreover, even after we hire salespersons, they require extensive training in our products and services. If we are unable to continue to retain our current employees and train new sales personnel as rapidly as necessary, we may not be able to increase market awareness and sales of our services, which may prevent us from generating revenue and achieving and maintaining profitability.

Litigation arising out of intellectual property infringement or other commercial disputes could be expensive and disrupt our business.

We cannot be certain that our products or services do not, or will not, infringe upon patents, trademarks, copyrights or other intellectual property rights held by third parties. In addition, since we rely on third parties to help us develop, market and support our product and service offerings, we cannot assure you that litigation will not arise from disputes involving those third parties. From time to time we have been, and we expect to continue to be, party to disputes with these third parties. We may incur substantial expenses in defending against these claims, regardless of their merit. Successful claims against us may result in substantial monetary liability, significantly impact our results of operations in one or more quarters or materially disrupt the conduct of our business.

Our executive officers and directors hold a significant percentage of our stock and may be able to control matters requiring stockholder approval.

As of March 31, 2002, our executive officers and directors, and their affiliated entities, owned approximately 32% of our outstanding common stock. Accordingly, these stockholders may have a substantial influence on all matters requiring approval by our stockholders, including the election of directors and the approval of significant corporate transactions. This concentration could also have the effect of delaying or preventing a change in control of our company.

Our charter documents and Delaware law contain provisions that could discourage a takeover and depress our stock price.

Provisions of our certificate of incorporation, bylaws and Delaware law make it difficult for a third party to acquire us, despite the possible benefit to our stockholders, and this may potentially lower the price of our common stock. These provisions of our certificate of incorporation and bylaws:

- authorize the board to issue preferred stock without stockholder approval;
- prohibit cumulative voting in the election of directors;
- limit the persons who may call special meetings of stockholders; and
- establish advance notice requirements for nominations for the election of the board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

In addition, we have elected to remain subject to the anti-takeover provisions of Delaware law. These factors may discourage takeover attempts.

If our common stock price falls below and remains under $1.00, or if we otherwise fail to comply with Nasdaq rules, our common stock could be delisted from The Nasdaq National Market, which could severely limit the trading market for our common stock.

If we fail to meet the criteria for continued listing on The Nasdaq National Market, our common stock may be delisted, which could make it more difficult for you to sell your shares. For example, if the market price for our common stock falls and remains below $1.00 per share for thirty trading days, we would be subject to delisting. On April 30, 2002, the closing price of our common stock was $2.11.

Future developments in Internet-based communications services, which are critical to our success, are uncertain.

For us to increase our revenues, the Internet must be validated as an effective medium for the delivery of Internet roaming and other Internet-based communications services. The infrastructure of the public Internet may not be able to support increased demands placed on it, and the performance of the Internet may be adversely affected. Our business will be harmed if the Internet does not continue to grow as a telecommunications medium, and that growth may be inhibited by factors such as:

- unreliability of the Internet infrastructure;
- emergence of competing technologies and communications paradigms;
- security concerns;
- new regulatory requirements;
- inconsistent quality of service; and
- lack of availability of cost-effective service.

Security concerns may deter the use of the Internet for Internet-based communications, which would reduce demand for our products and services.

The secure transmission of confidential information over public networks is a significant barrier to widespread adoption of electronic commerce and communications. The Internet is a public network and information is sent over this network from many sources. Advances in computer capabilities, new discoveries in the field of code breaking or other developments could result in compromised security on our network or the networks of others. Security and authentication concerns with respect to the transmission over the Internet of confidential information, such as corporate access passwords, and the ability of unauthorized computer users, so-called hackers, to penetrate online security systems may reduce the demand for our services. If any well-publicized compromises of confidential information were to occur, it could reduce demand for Internet-based communications and our products and services.

Government regulations and legal uncertainties regarding the Internet could harm our business.

At present, Internet-based communication services are not subject to fees that the U.S. Federal Communications Commission generally imposes on entities that use the local telephone network to access customers. Internet-based communication services also are generally not subject to other federal fees or taxes imposed to support programs such as universal telephone service. Changes in the rules or regulations of the U.S. Federal Communications Commission or in applicable federal communications laws to impose such fees or taxes could add significant new costs to our operations, and we are not certain how those increased costs could affect demand for our services.

Any new law or regulation pertaining to Internet-based communication services, or the application or interpretation of existing laws, could decrease the demand for our services, increase our cost of doing business or otherwise harm our business. There is, and will likely continue to be, an increasing number of laws and regulations pertaining to the Internet. These laws or regulations may relate to taxation and the quality of products and services. Furthermore, the applicability to the Internet of existing laws governing intellectual property ownership and infringement, copyright, trademark, trade secret, obscenity, libel, employment, personal privacy and other issues is uncertain and developing. In addition, we are not certain how our business may be affected by the application of existing lawsgoverning issues such as property ownership, copyrights, encryption and other intellectual property issues, taxation, and export or import matters. The vast majority of these laws were adopted prior to the advent of the Internet. As a result, they may not contemplate or address the unique issues of the Internet and related technologies. Changes in laws intended to address these issues could create uncertainty in the Internet market. These uncertainties could reduce demand for our services or increase the cost of doing business through litigation costs or increased service delivery costs.

ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Risk. We have limited exposure to financial market risks, including changes in foreign currency exchange rates and interest rates. Although we have foreign operations in Europe and Asia, to date, our exposure to foreign currency fluctuations has not been significant.

Interest Rate Risk. Our exposure to interest rate risk relates primarily to our investment portfolio and debt obligations. Interest rate risk occurs when we cannot hold a purchased investment to its maturity. The weighted-average maturity of our investment portfolio, when taking into account the reset feature of floating rate municipal bonds, is limited to 90 days. We intend to hold our securities until maturity and, therefore, do not expect to recognize an adverse impact on income or cash flows, although there can be no assurance of this. We have established policies and business practices regarding our investment portfolio to preserve principal while obtaining reasonable rates of return without significantly increasing risk. We place investments with high credit quality issuers according to our investment policy. We do not use derivative financial instruments in our investment portfolio. All investments are carried at fair market value for March 31, 2002. Due to the short-term nature of our investments and the immaterial amount of our debt obligation, we believe that there is no material exposure to interest fluctuation. Therefore, no accompanying table has been provided.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On July 24, 2001, we and certain of our officers were named as defendants in a purported securities class-action lawsuit filed in the United States District Court, Southern District of New York, captioned Colbert Birnet LP v. GRIC Communications, Inc. et al., No. 01 CV 6771. In August, 2001, substantially identical lawsuits were filed in the same court, again naming us and certain of our officers, under the captions Northern Capital Holdings Inc. v. GRIC Communications, Inc. et al., No. 01 CV 7124; Gerald S. Platts v. GRIC Communications, Inc., et al., No. 01 CV 7699; Glenn Tortoso v. GRIC Communications, Inc., et al., No. 01 CV 7869; and Sanjay Israni v. GRIC Communications, Inc., et al., No. 01 CV 8087. By a judicial order dated September 4, 2001, these cases were consolidated, and the consolidated matter is now captioned In re GRIC Communications, Inc. Initial Public Offering Securities Litigation, No. 01 Civ 6771 (SAS), and is part of over three hundred coordinated proceedings covered under the caption In re Initial Public Offering Securities Litigation, Master File No. 21 MC 92 (SAS). The Consolidated Amended Class Action Complaint for Violation of the Federal Securities Laws ("Consolidated Complaint") was filed on or about April 19, 2002, and alleges claims against us, certain of our officers, and CIBC World Markets Corp., Prudential Securities Incorporated, DB Alex.Brown, as successor to Deutsche Bank, and U.S. Bancorp Piper Jaffray Inc., underwriters of our December 14, 1999 initial public offering ("underwriter defendants"), under Sections 11 and 15 of the Securities Act of 1933, as amended and under Section 10(b) and 20(a)of the Securities Exchange Act of 1934, as amended. The Consolidated Complaint also alleges claims against the underwriter defendants under Section 12(2) of the Securities Act of 1933. The claims made in the Consolidated Complaint are substantially similar to the claims made in the over three hundred other amended complaints filed in the coordinated matter captioned In re Initial Public Offering Securities Litigation.

Citing several press articles, the Consolidated Complaint alleges that the underwriter defendants used improper methods in allocating shares in initial public offerings, and claim the underwriter defendants entered into improper commission agreements regarding aftermarket trading in our common stock purportedly issued pursuant to the registration statement for the initial public offering. The Consolidated

Complaint also alleges market manipulation claims against the underwriter defendants based on the activities of their respective analysts, who were allegedly compromised by conflicts of interest. By Order of the Court, no responsive pleading is yet due.

The parties to the In re Initial Public Offering Securities Litigation cases had discussed a proposal by which all of the individual officers and directors of the issuer defendants would be dismissed, without prejudice, all Section 10(b) and Rule 10b-5 claims would be dismissed, without prejudice, and the actions against the issuer defendants would be stayed, except for certain test cases. We believe that it would meet the conditions set by the most recent proposal for dismissal of our officers and directors. More recently, however, the issuer defendants have participated in a mediation with a retired federal judge involving a global resolution of the claims against the issuer defendants. There can be no guarantee that the parties will be able to reach agreement on either a partial dismissal or a global resolution of the claims involving the issuer defendants. We believe that the Consolidated Complaint is without merit and intend to defend against it vigorously. We do not believe the outcome of this consolidated lawsuit will have a material adverse effect on our financial condition, results of operations or cash flows.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

On December 14, 1999, a registration statement on Form S-1 (No. 333-87497) was declared effective by the Securities and Exchange Commission, pursuant to which 5,290,000 shares of our common stock were offered and sold for our account at a price of $14.00 per share, generating gross proceeds of approximately $74 million. Each outstanding share of preferred stock was automatically

converted into one share of common stock upon the closing of the initial public offering. The managing underwriters were CIBC World Markets, U.S. Bancorp Piper Jaffray and Prudential Volpe Technology.

In connection with the offering, we incurred $5.2 million in underwriting discounts and commissions, and $2.0 million in other related expenses. The net proceeds from the offering, after deducting the foregoing expenses, were $66.8 million. From the effective date of the registration statement through March 31, 2002, we applied $6.1 million of the proceeds towards short-term investments, $13.1 million of the proceeds towards capital expenditures and the balance of $43.6 million on funding our working capital and operations. Cash and cash equivalents as of March 31, 2002 were $4.0 million.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

The following exhibits are filed herewith:

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith

3.05	Certificate of Amendment of Second Amended and Restated Certificate of Incorporation	8-K	000-27871	3.05	4/29/02
4.03	Investors' Rights Agreement dated April 19, 2002 among Registrant and the security holders listed in the agreement.	8-K	000-27871	4.03	4/29/02
10.29	Amended and Restated Series A Preferred Stock and Warrant Purchase Agreement dated April 19, 2002.	8-K	000-27871	10.29	4/29/02
10.30	Amended and Restated Voting Agreement dated April 19, 2002.	8-K	000-27871	10.30	4/29/02
10.31	Stockholder Agreement dated April 19, 2002.	8-K	000-27871	10.31	4/29/02
10.32	Amended and Restated Lock-up Agreement dated April 19, 2002.	8-K	000-27871	10.32	4/29/02

(b) Reports on Form 8-K

Date of Report	Item(s)	Description
1/31/2002	5, 7	On January 31, 2002, we filed a Form 8-K regarding an agreement we entered into with investors pursuant to which the investors agreed to purchase shares of Series A Preferred Stock.

SIGNATURE

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, on May 14, 2002.

GRIC COMMUNICATIONS, INC.

/s/ KIM S. SILVERMAN

Kim S. Silverman
Vice President and Chief Financial Officer

QuickLinks

GRIC COMMUNICATIONS, INC. Index
PART I. FINANCIAL INFORMATION
GRIC COMMUNICATIONS, INC. Condensed Consolidated Balance Sheets (in thousands)
GRIC COMMUNICATIONS, INC. Condensed Consolidated Statements of Operations (in thousands, except per share amounts) (unaudited)
GRIC COMMUNICATIONS, INC. Condensed Consolidated Statements of Cash Flows (in thousands) (unaudited)

GRIC COMMUNICATIONS, INC. Notes to Condensed Consolidated Financial Statements (unaudited)
PART II. OTHER INFORMATION
SIGNATURE