FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2002-05-14** | Period of Report: **2002-03-31**
SEC Accession No. 0000891618-02-002392

(HTML Version on secdatabase.com)

FILER

AT ROAD INC
CIK:**1109537**| IRS No.: **943209170** | State of Incorp.:**CA** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-31511** | Film No.: **02646569**
SIC: **7373** Computer integrated systems design

Mailing Address
47200 BAYSIDE PARKWAY
FREMONT CA 94538

Business Address
47200 BAYSIDE PARKWAY
FREMONT CA 94538
94538

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

FORM 10-Q

(Mark One)

[X] 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 000-31511

AT ROAD, INC.

(Exact name of registrant as specified in its charter)

Delaware	94-3209170
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

47200 Bayside Parkway
Fremont, CA 94538
(Address of principal executive offices, including zip code)

510-668-1638
(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 [X] No [ ]

As of May 9, 2002 there were 46,372,940 shares of the registrant’ s Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

At Road, Inc.

Condensed Consolidated Balance Sheets
(In thousands, except share and par value amounts)
(unaudited)

	March 31, 2002	December 31, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 37,018	$ 40,164
Restricted short-term investments	2,222	2,216
Accounts receivable, net	5,144	4,781
Inventories	8,183	8,396
Deferred product costs and other current assets	8,931	9,081
Total current assets	61,498	64,638
Property and equipment, net	4,332	4,900
Deferred product costs, intangibles and other assets	8,542	8,936
Total assets	$ 74,372	$ 78,474
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,465	$ 2,377
Accrued liabilities	4,831	4,837
Deferred revenue	6,462	6,124
Total current liabilities	13,758	13,338
Deferred revenue and other long-term liabilities	4,755	4,725
Total liabilities	18,513	18,063
Stockholders' equity:		
Preferred stock, $0.0001 par value, 10,000,000 shares authorized, shares issued and outstanding: none at March 31, 2002 and December 31, 2001	–	–
Common stock, $0.0001 par value, 250,000,000 shares authorized, shares issued and outstanding: 46,712,260 at March 31, 2002 and 46,449,451 at December 31, 2001	168,747	169,148
Deferred stock compensation	(1,594)	(2,342)
Notes receivable from stockholders	(2,437)	(2,748)
Accumulated deficit	(108,857)	(103,647)

Total stockholders' equity	55,859	60,411
Total liabilities and stockholders' equity	$ 74,372	$ 78,474

See notes to condensed consolidated financial statements.

At Road, Inc.

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

	Three months ended March 31,	
	2002	**2001**
Revenues:		
Service	$ 7,251	$ 3,723
Product	2,449	1,391
Total revenues	9,700	5,114
Costs and expenses:		
Cost of service revenue	3,209	2,843
Cost of product revenue	3,954	2,646
Sales and marketing	2,998	5,065
Research and development	1,586	2,237
General and administrative	2,836	3,830
Intangibles amortization	414	414
Stock compensation(*)	61	1,295
Total costs and expenses	15,058	18,330
Loss from operations	(5,358)	(13,216)
Interest income, net	239	1,075
Other income (expense), net	(91)	(18)
Net loss	$ (5,210)	$ (12,159)
Basic and diluted net loss per share	$ (0.12)	$ (0.28)
Shares used in calculating basic and diluted net loss per share	45,287	42,890
(*) Stock compensation:		
Cost of service revenue	$ 2	$ 29
Cost of product revenue	31	64
Sales and marketing	17	180
Research and development	104	143
General and administrative	(93)	879
Total	$ 61	$ 1,295

See notes to condensed consolidated financial statements.

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At Road, Inc.

Condensed Consolidated Statements of Stockholders' Equity And Comprehensive Loss
For the three months ended March 31, 2002 and 2001
and the nine months ended December 31, 2001
(In thousands, except share amounts)
(unaudited)

	Common Stock		Deferred Stock Compensation	Notes Receivable From Stockholders	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Stockholders' Equity	Total Comprehensive Loss
	Shares	Amount						
BALANCES, December 31, 2000	46,071,979	$ 171,208	$ (8,123)	$ (3,309)	$ (10)	$ (65,000)	$ 94,766	$ –
Net loss						(12,159)	(12,159)	(12,159)
Change in net unrealized income (loss) from short-term investments					18		18	18
Comprehensive loss								$ (12,141)
Exercise of stock options	93,450	72		(34)			38	
Common stock issued for consulting services	2,250	4					4	
Collection of notes receivable from stockholders				50			50	
Deferred stock compensation		13	(13)					
Reversal of deferred stock compensation due to employee terminations		(582)	582					

Amortization of deferred stock compensation	–	–	1,295	–	–	–	1,295	
BALANCES, March 31, 2001	46,167,679	170,715	(6,259)	(3,293)	8	(77,159)	84,012	
Net loss						(26,488)	(26,488)	(26,488)
Change in net unrealized income (loss) from short-term investments					(8)		(8)	(8)
Comprehensive loss								$ (26,496)
Shares issued under the employee stock purchase plan	367,579	672					672	
Exercise of stock options	293,776	210		(1)			209	
Collection of notes receivable from stockholders				268			268	
Repurchase of common stock through cancellation of notes receivable	(329,583)	(278)		278				
Deferred stock compensation		72	(72)					
Reversal of deferred stock compensation due to employee terminations		(2,243)	2,243					
Amortization of deferred stock compensation	–	–	1,746	–	–	–	1,746	
BALANCES, December 31, 2001	46,499,451	169,148	(2,342)	(2,748)	–	(103,647)	60,411	
Net loss						(5,210)	(5,210)	$ (5,210)
Exercise of stock options	306,559	412					412	

Collection of notes receivable from stockholders				185			185
Repurchase of common stock through cancellation of notes receivable	(93,750)	(126)		126			
Deferred stock compensation		52	(52)				
Reversal of deferred stock compensation due to employee terminations		(739)	739				
Amortization of deferred stock compensation	–	–	61	–	–	–	61
BALANCES, March 31, 2002	46,712,260	$ 168,747	$ (1,594)	$ (2,437)	$ –	$ (108,857)	$ 55,859

See notes to condensed consolidated financial statements.

At Road, Inc.

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

	Three months ended March 31,	
	2002	**2001**
Cash flows from operating activities:		
Net loss	$ (5,210)	$ (12,159)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	1,177	1,145
Amortization of deferred stock compensation	61	1,295
Provision for inventory reserves	198	(18)
Provision for bad debts and sales returns	718	671
Common stock issued for consulting services	–	4
Change in assets and liabilities		
Accounts receivable	(1,081)	(578)
Inventories	15	(949)
Deferred product costs	238	(1,840)
Prepaid expenses and other	(99)	65
Accounts payable	88	937
Accrued and other liabilities	(31)	128
Deferred revenue	393	1,157
Net cash used in operating activities	(3,533)	(10,142)
Cash flows from investing activities:		
Purchase of property and equipment	(195)	(234)
Proceeds from maturities of short-term investments	–	4,480
Purchase of restricted short-term investments	(6)	(24)
Other assets	(9)	(69)
Net cash provided by (used in) investing activities	(210)	4,153
Cash flows from financing activities:		
Proceeds from sale of common stock	412	38
Proceeds from payments on notes receivable issued to stockholders	185	50
Net cash provided by financing activities	597	88
Net decrease in cash and cash equivalents	(3,146)	(5,901)
Cash and cash equivalents:		
Beginning of period	40,164	69,279

End of period	$	37,018	$	63,378

Non-cash investing and financing activities:

Issuance of common stock for notes receivable	$	–	$	34
Deferred stock compensation	$	52	$	13
Reversal of deferred stock compensation	$	739	$	582
Repurchase of common stock through cancellation of notes receivable	$	126	$	-–

See notes to condensed consolidated financial statements.

Notes To Condensed Consolidated Financial Statements

(Unaudited)

Note 1 − Basis of Presentation

The accompanying condensed consolidated financial statements were prepared by At Road, Inc., without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and 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, although the Company believes the disclosures which are made are adequate to make the information presented not misleading. In the opinion of management, the financial statements include all adjustments necessary to fairly present the financial condition, results of operations, and cash flows for such periods. Results of operations for the periods presented are not necessarily indicative of results for any other interim period or for the full year. These financial statements should be read in conjunction with the Company' s consolidated and audited financial statements and notes thereto in its Form 10-K (No. 000-31511), filed on March 28, 2002 with the SEC.

Note 2 − Basic and Diluted Net Loss Per Share

Basic and diluted net loss per share is computed by dividing the loss attributable to common stockholders by the weighted average number of shares of common stock outstanding for the period (excluding shares subject to repurchase). Diluted loss per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Common share equivalents are excluded from the computation in loss periods, as their effect would be antidilutive.

The following is a reconciliation of the denominators used in calculating basic and diluted net loss per share (in thousands):

	Three months ended March 31,	
	2002	2001
Weighted average common shares outstanding	46,607	46,153
Weighted average common shares outstanding subject to repurchase	(1,320)	(3,263)
Shares used in computation, basic and diluted	45,287	42,890

The total number of options and restricted stock subject to repurchase excluded from the diluted net loss per share computation for the three months ended March 31, 2002 and 2001 were as follows (in thousands):

	Three months ended March 31,	
	2002	2001
Shares of common stock subject to repurchase	1,152	2,807

Outstanding options and stock purchase rights	6,616	6,387

Note 3 − Balance Sheet Items

Inventories consist of raw materials, work in process and finished goods, and are stated at the lower of cost (average cost) or market and consist of the following (in thousands):

	March 31, 2002	December 31, 2001
Raw materials	$ 4,938	$ 5,086
Work in process	929	1,022
Finished goods	2,316	2,288
Total	$ 8,183	$ 8,396

Deferred product costs and other current assets consists of the following (in thousands):

	March 31, 2002	December 31, 2001
Current deferred product costs	$ 8,350	$ 8,599
Prepaid expenses and other	581	482
Total	$ 8,931	$ 9,081

Deferred product costs, intangibles, and other assets consists of the following (in thousands):

	March 31, 2002	December 31, 2001
Purchased technology	$ 1,657	$ 2,071
Non-current deferred product costs	5,102	5,091
Other	1,783	1,774
Total	$ 8,542	$ 8,936

Deferred revenue and other long-term liabilities consists of the following (in thousands):

	March 31, 2002	December 31, 2001
Deferred revenue	$ 4,481	$ 4,426
Other long-term liabilities	274	299
Total	$ 4,755	$ 4,725

Note 4 − Comprehensive Income (Loss)

Statement of Financial Accounting Standards (SFAS) No. 130, *Reporting Comprehensive Income*, requires that an enterprise report, by major components and as a single total, the change in its net assets during the period from non-owner sources. At March 31, 2002 and 2001, accumulated other comprehensive income, comprised of unrealized income on short-term investments, was zero and $8,000 respectively.

Notes 5 − Intangible Assets

In connection with the adoption of SFAS No. 142, the Company performed a transitional impairment test on other intangibles and determined that no impairment was necessary.

Information regarding the Company' s intangible assets is as follows (in thousands):

	March 31, 2002			December 31, 2001		
	Carrying Amount	Accumulated Depreciation	Net	Carrying Amount	Accumulated Depreciation	Net
Purchased technology	$ 4,969	$ 3,312	$ 1,657	$ 4,969	$ 2,898	$ 2,071

For the three months ended March 31, 2002 and the year ended December 31, 2001, amortization of purchased technology was $414,000 and $1,656,000, respectively. The estimated amortization for the two years subsequent to December 31, 2001 is as follows:

Year Ended December 31,	Amortization Expense
2002	$1,656
2003	415
Total	$2,071

Note 6 – Segment Reporting

In the three months ended March 31, 2002 and 2001, the Company operated in a single reportable segment. The Company plans to evaluate additional segment disclosure requirements as it expands its operations. The Company had no significant revenues from customers outside of the United States in the three months ended March 31, 2002 and 2001 and had no significant long-lived assets deployed outside the United States at March 31, 2002.

Note 7 – Recently Issued Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 142 addresses the initial recognition and measurement of intangible assets acquired outside of a business combination and the accounting for goodwill and other intangible assets subsequent to their acquisition. SFAS No. 142 provides that intangible assets with finite useful lives be amortized and that goodwill and intangible assets with indefinite lives will not be amortized, but will be tested annually for impairment. The Company adopted SFAS No. 142 for its fiscal year beginning January 1, 2002. The adoption of SFAS No. 142 did not have an impact on the Company' s consolidated financial position, results of operations or cash flows during the three months ended March 31, 2002.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, *Accounting for Impairment of Long-Lived Assets*. 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 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement is effective for fiscal years beginning after December 15, 2001. The Company adopted SFAS No. 144 on January 1, 2002. The adoption of this statement did not have an impact on the Company' s consolidated financial position, results of operations or cash flows during the three months ended March 31, 2002.

Item 2. Management' s Discussion and Analysis of Financial Condition and Results of Operations.

Except for the historical information contained herein, the matters discussed in this Form 10-Q are forward-looking statements involving risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. Potential risks and uncertainties include, but are not limited to, general economic and political conditions, our historical and future losses, limited operating history, the infancy of the wireless data industry where there is no established market for our products and services, our ability to adapt to rapid technological change and our dependence on wireless networks, network infrastructure and positioning systems owned and controlled by others. Further information regarding these and other risks is included in our annual report on Form 10-K (No. 000-31511), dated March 28, 2002 and in our other filings with the SEC. You should read the following description of our financial condition and results of operations in conjunction with our financial statements and notes thereto included in this Form 10-Q, in our Form 10-K for the year ended December 31, 2001 and in our other filings with the SEC.

OVERVIEW

We integrate Global Positioning System technology, wireless communications and the Internet to enable companies to efficiently manage their mobile resources with location-relevant and time-sensitive information. Our service is an easy-to-use, cost-effective, Internet-based service for mobile resource management that provides location, reporting, dispatch, messaging and other management services. Our service allows customers to use our website to monitor the activities of their employees, vehicles and goods and services, and provides for two-way messaging between our customers and their mobile workers. Our service also allows customers to conduct business operations such as event confirmation, signature verification and forms processing while in the field. We believe our service provides significant value to our customers by reducing the costs and increasing the efficiency of their operations.

From July 1996 through June 1998, our operations consisted primarily of various start-up activities relating to our current business, including development of Global Positioning System technologies, recruiting personnel and raising capital. We did not recognize any revenues prior to June 1998, and our expenses consisted of research and development, sales and marketing and general and administrative expenses. In 1998, we expanded our strategy and redirected our focus to provide location-relevant and time-sensitive information services and solutions to companies managing mobile resources. In the second half of 1998, we introduced *FleetASAP,* a service that leverages existing infrastructure, including the Global Positioning System, wireless networks and the Internet to enable companies to efficiently manage their mobile resources. Our service includes a proprietary hardware device embedded with software, our platform, that integrates wireless Internet connectivity with a Global Positioning System receiver. The platform is installed in any type of vehicle and receives signals transmitted from Global Positioning System satellites to determine the location, velocity and orientation of the vehicle. These data are transmitted over wireless networks and the Internet to our Wireless Applications Processing Center. Our customers can retrieve the information using an Internet browser or wired or mobile telephone. Because the customer data and solution software reside at our Wireless Applications Processing Center, our customers do not need to make a substantial investment in acquiring and supporting capital equipment, such as proprietary hardware, software and data networking equipment, to use our service.

Since 1998, we have derived substantially all of our revenues from the sale of our service and the associated product hardware. Our service revenue is composed of monthly fees. Our customers can contract to receive our service for terms of one, two or three years and can purchase enhanced service features for additional fees. As more customers use our service, the impact on our service revenue is compounded. Our product revenue consists of sales of the Internet Location Manager, Internet Data Terminal and ruggedized personal digital assistant. We defer product revenue from our platform at installation and recognize it ratably over the minimum service contract period. Product costs not in excess of related product revenue are deferred at the time of shipment and amortized ratably over the minimum service contract period. Where the selling prices of our products are below our costs, we expense the difference at the time of shipment of the related products. Allowances for sales returns are recorded at the time product revenue is recognized.

We recognize revenue when earned in accordance with applicable accounting standards including American Institute of Certified Public Accountants (AICPA) Statement of Position No. 97-2, *Software Revenue Recognition,* as amended. Our service is only available through use of our platform. Accordingly, service revenue is recognized ratably over the minimum service contract period, which commences upon the installation of the platform. In addition, we defer product revenue from our platform at installation and recognize it ratably over the minimum service contract period. Allowances for sales returns are recorded at the time product revenue is recognized.

To date, we have not sold our service outside the U.S. and Canada; however, we intend to expand our service offerings to additional countries in the future. We do not expect that revenues from international sales will be material in 2002.

We will incur substantial stock compensation expense in current and future periods, which represents non-cash charges incurred as a result of the issuance of stock options to employees and consultants. The charge related to options granted to employees is recorded based on the difference between the deemed fair value of the common stock and the option exercise price of such options at the date of grant, which is amortized over the option-vesting period. The charge related to options granted to consultants is calculated at the end of each reporting period using the Black-Scholes model, which approximates fair value and is amortized based on the term of the consulting agreement or service period. The amount of the charge in each period can fluctuate depending on our stock price and volatility. At March 31, 2002, deferred stock compensation expense was $1.6 million, which will be amortized in future periods.

Since inception, we have invested substantially in research and development, marketing, the building of sales channels and our overall infrastructure. We anticipate that such investments will continue to grow in the near future. We have incurred losses in each quarter since inception and expect to incur net losses in the foreseeable future. At March 31, 2002, we had an accumulated deficit of $108.9 million. Our limited operating history makes it difficult to forecast future operating results. Even if we were to achieve profitability in any period, we may not sustain or increase profitability on a quarterly or annual basis.

Critical Accounting Policies

Financial Reporting Release No. 60, which was recently released by the SEC, requires all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. Included in Note 1 of the Notes to the Consolidated Financial Statements in our annual report on Form 10-K (No. 000-31511), dated March 28, 2002, is a summary of the significant accounting policies and methods we use. The following is a discussion of the more significant of these policies and methods.

Revenue Recognition

In accordance with applicable accounting standards, including American Institute of Certified Public Accountants (AICPA) Statement of Position No. 97-2, *Software Revenue Recognition,* as amended, we recognize revenue when earned. Specifically, we recognize revenue when the price is fixed and determinable, upon persuasive evidence of an agreement, our fulfillment of our obligations under any such agreement and a determination that collection is probable.

Our service is only available through the use of our platform. Accordingly, service revenue, which is composed of monthly fees, is recognized ratably over the minimum service contract period, which commences upon the installation of the platform.

Our product revenue primarily consists of sales of the Internet Location Manager, Internet Data Terminal and ruggedized personal digital assistant. We defer product revenue at installation and recognize it ratably over the minimum service contract, which is generally a two or three year period. Our service renewal rates are not considered to be priced at a bargain in comparison to the initial product selling prices (as described in Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements).* Changes to the pricing of our products and services in the future could result in the recognition of product revenue over periods that extend beyond the minimum service contract period. Allowances for sales returns are recorded at the time product revenue is recognized.

In 1999, 2000 and to a lesser degree in 2001 and the three months ended March 31, 2002, the selling prices of our products were often at or below our costs. Product costs not in excess of related product revenue are deferred at the time of shipment and amortized ratably over the minimum service contract period. Where the selling prices of our products are below our costs, we expense the difference at the time of shipment of the related products.

Allowances for Doubtful Accounts

Historically, we have had a significant number of small to medium sized companies utilizing our products and services. These customers are involved in diverse businesses. Our payment arrangements with customers generally provide 30-day payment terms. At the time that customers contract with us for our service, we assess their creditworthiness.

During economic downturns, certain of our customers may have difficulty with their cash flows. The nature of our relationship with our customers is inherently long-term and we may extend payment terms on an exception basis. We regularly review our customers' ability to satisfy their payment obligations and provide an allowance for doubtful accounts for all specific receivables that we believe are not collectible. When these conditions arise, we suspend recognition of revenue until collection becomes probable or cash is collected. Beyond these specific customer accounts, we record an allowance based on the size and age of all receivable balances against which we have not established a specific allowance. These allowances are based on our experience in collecting such accounts.

Although we believe that we can make reliable estimates for doubtful accounts, the size and diversity of our customer base, as well as overall economic conditions, may affect our ability to accurately estimate revenue and bad debt expense. Actual results may differ from those estimates.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2002 and 2001

Service Revenue

Service revenue, which is comprised of monthly fees, increased from $3.7 million to $7.3 million for the three months ended March 31, 2001 and 2002, respectively. This growth is consistent with the increases in our installed base of subscribers.

Product Revenue

Product revenue rose from $1.4 million for the three months ended March 31, 2001 to $2.4 million for the same period in 2002. This growth is consistent with the increases in our installed base of subscribers.

Cost of Service Revenue

Cost of service revenue consists of employee salaries and expenses related to the delivery and support of our services, costs and expenses associated with connecting our services to wireless networks and the Internet, and depreciation of our Wireless Applications Processing Center. Cost of service revenue increased from $2.8 million to $3.2 million for the three months ended March 31, 2001 and 2002, respectively. The growth in cost of service revenue resulted from increases in direct service delivery expenses, service infrastructure and personnel costs.

Cost of Product Revenue

Cost of product revenue consists of the cost of our hardware, including the Internet Location Manager, Internet Data Terminal, and ruggedized personal digital assistant; costs associated with the final assembly, test, provisioning, delivery, and installation of our products; and other costs such as provisions for inventory and repair costs. In 1999, 2000 and to a lesser degree in 2001 and the three months ended March 31, 2002, the selling prices of our products were often at or below our costs. Product costs not in excess of related product revenue are deferred at the time of shipment and amortized ratably over the minimum service contract period. Where the selling prices of our products are below costs, we expense the difference at the time of shipment of the related products. Generally, we expect the selling prices of our products to be approximately equal to or exceed the product costs in future periods. The impact of selling products below costs on future cash flow from operations is expected to be minimal as our service revenue stream expands and is renewed.

Cost of product revenue rose from $2.6 million for the three months ended March 31, 2001 to $4.0 million for the same period in 2002. The increase in cost of product revenue was attributable primarily to the expansion of our business and the resulting increase in the number of subscribers using our services.

Sales and Marketing Expenses

Sales and marketing expenses consist of employee salaries, sales commissions, and marketing and promotional expenses. Sales and marketing expenses decreased from $5.1 million for the three months ended March 31, 2001 to $3.0 million for the same period in 2002. Sales and marketing headcount decreased from 106 at March 31, 2001 to 84 at March 31, 2002. Decreases in sales commissions, employee-related expenses and marketing campaigns comprised the majority of the decrease. As our sales channels expand, we expect that sales and marketing expenses may grow.

Research and Development Expenses

Research and development expenses consist of employee salaries and costs related to development personnel and consultants, as well as expenses associated with software and hardware development. Research and development expenses decreased from $2.2 million for the three months ended March 31, 2001 to $1.6 million for the same period in 2002. Research and development headcount decreased from 86 at March 30, 2001 to 67 at March 31, 2002. Decreases in salaries and consultant expenses accounted for the majority of the decrease in expenses.

General and Administrative Expenses

General and administrative expenses consist of employee salaries, related executive and administrative accounting and professional fees, recruiting and provisions for doubtful accounts. General and administrative expenses decreased from $3.8 million for the three months ended March 31, 2001 to $2.8 million for the same period in 2002. The decrease was due to a reduction in consulting and employee related expenses. General and administrative headcount decreased from 61 to 48 at March 31, 2001 and 2002, respectively. We expect that general and administrative expenses may continue to increase as we incur such expenses in anticipation of the growth of the business and our operation as a public company.

Intangibles Amortization

Intangibles amortization relates to the intangible assets (purchased technology) that are being amortized over an estimated useful life of three years.

In June 2001, the Financial Accounting Standards Board issued SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 142 addresses the initial recognition and measurement of intangible assets acquired outside of a business combination and the accounting for goodwill and other intangible assets subsequent to their acquisition. SFAS No. 142 provides that intangible assets with finite useful lives be amortized and that goodwill and intangible assets with indefinite lives will not be amortized, but will rather be tested at least annually for impairment. We adopted SFAS No. 142 on January 1, 2002. The adoption of SFAS No. 142 did not have an impact on our financial position, results of operations or cash flows during the three months ended March 31, 2002.

Stock Compensation Expense

Deferred stock compensation expense related to stock option grants to employees and consultants was $1.6 million at March 31, 2002. Stock compensation expense is amortized on an accelerated basis over the vesting period of individual awards. Amortization of deferred stock compensation expense decreased from $1.3 million for the three months ended March 31, 2001 to approximately $61,000 for the same period ended March 31, 2002. These decreases were the result of lower amortization in later periods under the accelerated amortization method and reversals of stock compensation expense previously recognized on the unvested portion of stock options held by employees terminated during the three months ended March 31, 2002.

Interest Income, net

Net interest income is comprised of interest earned on cash, cash equivalents, and short-term investments. Net interest income decreased from $1.1 million for the three months ended March 31, 2001 to $239,000 for the same period in 2002. This decrease resulted from declines in cash, cash equivalents and investments in debt securities of the capital raised in our initial public offering and related lower yields.

Income Taxes

Since inception, we have incurred net losses for federal and state tax purposes. Except for minimum state income and franchise taxes, we have not recognized any tax provision or benefit.

Net Loss

Net loss decreased from $12.2 million for the three months ended March 31, 2001 to $5.2 million for the same period in 2002. Our operating costs decreased from $18.3 million to $15.1 million for the three months ended March 31, 2001 and 2002, respectively. The impact of this reduction in expenses was accompanied by an increase in revenues from $5.1 million to $9.7 million for the three months ended March 31, 2001 and 2002, respectively.

We believe period-to-period comparisons of our operating results are not necessarily meaningful. You should not rely on them to predict our future performance. The amount and timing of our operating expenses may fluctuate significantly in the future as a result of a variety of factors.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2002, we held $37.0 million in cash and cash equivalents and $2.2 million in restricted short-term investments. We held no available-for-sale securities at March 31, 2002.

We currently have a $2.0 million revolving line of credit facility. The line, against which letters of credit may be issued, is collateralized by a restricted certificate of deposit of $2.2 million. At March 31, 2002, we had a standby letter of credit outstanding for a total of $100,000. The line of credit expires on December 31, 2002.

Net cash used in operating activities was $3.5 million and $10.1 million for the three months ended March 31, 2002 and 2001, respectively. Cash used in operating activities during the three months ended March 31, 2002, was attributed primarily to net losses and increases in accounts receivable, offset in part by depreciation and amortization, provision for bad debts, decreases in inventory and deferred product costs and an increase in deferred revenue. Cash used in operating activities during the three months ended March 31, 2001 was attributed primarily to net losses and increases in deferred product costs, inventory and accounts receivable, offset in part by amortization of deferred stock compensation, depreciation and amortization and an increase in deferred revenues.

Net cash used in investing activities during the three months ended March 31, 2002, was $210,000 and resulted from purchases of property and equipment and other assets. Cash provided by investing activities during the three months ended March 31, 2001, was $4.2 million and was due to the sale of short-term investments, offset by the purchase of property and equipment and other assets.

Net cash provided by financing activities was $597,000 and $88,000 for the three months ended March 31, 2002 and 2001, respectively. In both periods, cash provided was attributed to the sale of common stock and proceeds from payments on notes receivable issued to stockholders.

At March 31, 2002 approximately $3.5 million of our gross accounts receivable were over 90 days old. We believe we have adequately provided allowances as of March 31, 2002 for any such amounts that may ultimately become uncollectible. We defer product costs at time of shipment and expense any amounts in excess of the related product revenue at that time. Generally, we record accounts receivable from our customers and defer related product revenue upon installation. Both deferred product cost and revenue are recognized ratably over the minimum service contract period. As we grow our business, deferred product costs will generally exceed deferred revenue due to our practice of recording deferred product costs at time of shipment versus deferred revenue at time of installation.

We believe that our cash, cash equivalents and restricted short-term investments will be sufficient to meet our anticipated cash needs for operating expenses, working capital and capital expenditures for at least the next 12 months. If cash generated from operations is insufficient to satisfy our liquidity requirements, we may seek to obtain a larger credit facility or to sell additional equity or debt securities, which may not be available on commercially reasonable terms or at all, and which could dilute existing stockholders.

Risk Factors

In addition to the other information contained in this Report, the following factors should be carefully considered in evaluating our business and prospects. The risks and uncertainties described below are intended to be ones that are specific to us or our industry and that we deem material, but they are not the only ones that we face.

Due to our limited operating history it is difficult to predict future operating results or our stock price.

An evaluation of our business is difficult because we have a limited operating history. We commenced operations in July 1996 and commercially offered our first services in the second half of 1998. We may not achieve profitability or continue to grow. We face a number of risks encountered by early-stage companies in the Global Positioning System, wireless communications and Internet information industries, including:

- our need to introduce reliable and robust products and services that meet the demanding needs of customers;
- our need to expand our marketing, sales and support organizations, as well as our distribution channels;
- our ability to anticipate and respond to market competition and technological change;
- the uncertainty of market acceptance of our services;
- our need to manage expanding operations;
- our dependence on wireless carriers;
- limited coverage of wireless networks; and
- migration to new networks, which could cause our products to be out of date or incompatible with new networks.

Our business strategy may not be successful, and we may not successfully address these risks.

We have historically incurred losses and these losses may increase in the future.

We have never been profitable. As of March 31, 2002, we had an accumulated deficit of $108.9 million. In order to become profitable and sustain profitability, we will need to generate significant revenues to offset our cost of revenues, sales and marketing, research and development and general and administrative expenses. We may not achieve or sustain our revenue or profit goals and our losses may increase in the future. In order to facilitate the sale of our services, we have sold and may sell our hardware below our costs. As a result, we have experienced, and expect to continue to experience, negative gross margins on the sale of our hardware. See "Management' s Discussion and Analysis of Financial Condition and Results of Operations − Overview."

If we do not increase revenue from the sale of our services to new and existing customers, our business may not be successful.

Our success depends on our ability to increase revenue from the sale of our services to new and existing customers and on market acceptance of our services. We may not be able to achieve widespread adoption of our services. Furthermore, changes such as increases in our pricing for products and services may harm our ability to increase sales of our products and services to new and existing customers. If we are not able to expand our customer base and increase our revenue from new and existing customers, our business will be seriously harmed.

We depend on wireless networks owned and controlled by others. If our customers do not have continued access to sufficient capacity on reliable networks, we may be unable to deliver services and our revenues could decrease.

Our ability to grow and achieve profitability depends on the ability of wireless carriers to provide sufficient network capacity, reliability and security to our customers. Even where wireless carriers provide coverage to entire metropolitan areas, there are occasional lapses in coverage, for example due to tall buildings blocking the transmission of data to and from vehicles. These effects could make our services less reliable and less useful, and customer satisfaction could suffer. Our financial condition could be seriously harmed if our wireless carriers were to increase the prices of their services, or to suffer operational or technical failures. If wireless carriers do not expand coverage, we may be unable to offer our service to additional areas.

Our quarterly operating results are subject to fluctuations, and our stock price may decline if we do not meet the expectations of investors and analysts.

Our quarterly revenues and operating results are difficult to predict and may fluctuate significantly from quarter to quarter due to a number of factors, many of which are outside our control. These factors include, but are not limited to:

- delays in market acceptance or implementation by customers of our services;
- changes in length of sales cycles of or demand by our customers for existing and additional services;
- changes in or cancellations of our agreements with wireless carriers;
- introduction of new services by us or our competitors;
- changes in our pricing policies or those of our competitors or suppliers;

changes in our mix of sources of revenues;

changes in the productivity of our distribution channels;

changes in accounting standards, including standards relating to revenue recognition, business combinations and stock-based compensation;

wireless data and Internet market conditions; and

general economic and political conditions.

Our expense levels are based, in part, on our expectation of future revenues. Additionally, a substantial portion of our expenses are relatively fixed. As a result, any shortfall in revenues relative to our expectations could cause significant changes in our operating results from quarter to quarter. We believe period-to-period comparisons of our revenue levels and operating results are not meaningful. You should not rely on our quarterly revenues and operating results to predict our future performance. In some future quarter our operating results may be below the expectations of public market analysts and investors and, as a result, the price of our common stock may fall.

If one or more of the agreements we have with wireless carriers is terminated, we may be unable to offer our services to our customers within the carrier' s coverage area.

Wireless carriers offering services compatible with our service have little overlap in their primary service coverage areas. Our existing agreements with wireless carriers may be terminated upon as little as fifteen-day written notice or immediately upon the occurrence of certain conditions. If one or more of our wireless carriers decides to terminate or not to renew its contract with us, we may incur additional costs relating to obtaining alternate coverage from another wireless carrier outside of its primary coverage area, or we may be unable to replace the coverage at all, causing a complete loss of service to our customers in that coverage area.

Our success depends on our ability to maintain and expand our sales channels.

In order to increase our market awareness, customer base and revenues, we need to expand our direct and indirect sales operations. There is strong competition for qualified sales personnel in our business, and we may not be able to attract and retain sufficient new sales personnel to expand our operations. New sales personnel will require training and will take time to achieve full productivity, if at all. In addition, we believe that our success is dependent on expansion of our indirect distribution channels, including our relationships with wireless carriers, independent sales agents and distribution partners. To date, we have relationships with a limited number of these wireless carriers, independent sales agents and distribution partners. These sales channel partners require training in selling our products and services and it will take time for these partners to achieve productivity, if at all. We may not be able to establish relationships with additional distributors on a timely basis, or at all. Our distributors, many of which are not engaged with us on an exclusive basis, may not devote adequate resources to promoting and selling our services.

We have limited resources and may be unable to manage our anticipated growth in operations.

If we fail to develop and maintain our services as we experience rapid growth, demand for our services could decrease, which would result in a decrease in our revenues. Our development and expansion have placed, and will continue to place, significant strain on our managerial, operational, and financial resources. Due to the limited deployment of our services, we are unable to assess our ability to grow the business and manage a substantially larger number of customers and additional services.

If we cannot deliver the features and functionality our customers demand, we will be unable to retain or attract new customers.

Our success depends upon our ability to determine the features and functionality our customers demand and to design and implement services that meet their needs in an efficient manner. We cannot assure you that we can successfully determine customer requirements or that our future services will adequately satisfy customer demands. To date, the design of our services has been based on our internal efforts and feedback from our existing and potential customers. In addition, we may experience difficulties that could delay or prevent the successful development, introduction or marketing of new services and service enhancements. If we cannot effectively deploy, maintain and enhance our services, our expenses may increase, we may not be able to recover our costs and our competitive position may be harmed.

We depend on a limited number of third parties to manufacture and supply critical components for our services.

If these parties do not perform their obligations, we may be unable to find other suppliers or operate our business. A subscriber requires an Internet Location Manager to use our service. To use our service with two-way messaging, a subscriber requires an Internet Location Manager and either an Internet Data Terminal or a ruggedized personal digital assistant. The Internet Location Manager, which we install in each subscribing vehicle, determines the vehicle' s location, velocity and orientation, and gathers other information about the vehicle. The Internet Data Terminal, when installed in subscriber' s vehicle, adds the incremental ability to send and receive messages to and from the vehicle. We cannot be sure that alternative sources for key components used in the Internet Location Manager and the Internet Data Terminal will be available when needed, or if available, that these components will be available on commercially reasonable terms. We rely on sole suppliers and manufacturers for a number of key components for these products and do not have long-term agreements with any of these suppliers or manufacturers. Our sole suppliers and manufacturers of key components include:

Taiwan Semiconductor Manufacturing Company, our sole manufacturer of Global Positioning System receiver chips;

Conexant Systems (formerly Philsar Electronics), our sole manufacturer of radio frequency chips;

Orient Semiconductor Electronics, our sole manufacturer of Internet Location Managers;

Micronet, our sole supplier of Internet Data Terminals; and

Symbol Technologies, our sole supplier of ruggedized personal digital assistants.

Additionally, our sole manufacturer of radio frequency chips, Conexant Systems, has notified us that it will discontinue manufacturing our radio frequency chips. We believe that at the termination of our relationship with Conexant Systems, we will have sufficient quantities of radio frequency chips to meet our needs through 2002. We are in the process of qualifying alternative sources for this component. We cannot be sure, however, that alternative sources of radio frequency chips will be available when needed, or if available, that the component will be available on commercially reasonable terms.

If our agreements with these or other suppliers and manufacturers are terminated or expire, if we are unable to obtain sufficient quantities of these components, or if the terms for supply of these products become commercially unreasonable, our search for additional or alternate suppliers and manufacturers could result in significant delays, added expense and our inability to maintain or expand our subscriber base. Any of these events could require us to take unforeseen actions or devote additional resources to provide our services and could harm our ability to compete effectively.

We depend on recruiting and retaining qualified personnel and our inability to do so would seriously harm our business.

Because of the technical nature of our services and the market in which we compete, our success depends on the continued services of our current executive officers and our ability to attract and retain qualified personnel with Global Positioning System, wireless communications and Internet software expertise. Competition for qualified personnel in these industries is intense, particularly in the San Francisco Bay Area. Competitors and others have in the past, and may in the future, attempt to recruit our employees. In addition, new employees generally require substantial training, which requires significant resources and management attention. Even if we invest significant resources to recruit, train and retain qualified personnel, we may not be successful in our efforts.

We face competition from existing and potential competitors, which could reduce our market share and revenues.

The market for our services is competitive and is expected to become even more competitive in the future. Our customers choose our services primarily on the basis of the functionality, ease of use, quality, geographic coverage of our services and corporate financial strength. If we are unable to compete successfully in these areas, competitive pressures may harm our business, resulting in a loss of market share and revenues. Our current and potential competitors include:

- other providers of vehicle-location services, such as QUALCOMM, whose OmniTRACS service uses satellite communication technology to manage fleets of trucks that travel long distances;

- other wireless Internet companies, such as Openwave, Research in Motion and Aether Systems;

- companies working on emergency-911 solutions, such as True Position;

- companies with solutions that integrate location, wireless communications and call centers, such as General Motors; and

- companies that provide wireless, location-relevant applications, such as SignalSoft.

Many of our existing and potential competitors have substantially greater financial, technical, marketing and distribution resources than we do. Additionally, many of these companies have greater name recognition and more established relationships with our target customers. Furthermore, these competitors may be able to adopt more aggressive pricing policies and offer customers more attractive terms than we can.

Our services also compete with alternative means of communication between mobile workers and their managers, including wireless telephones, two-way radios and pagers. In addition, we expect that new competitors will enter the market for location-relevant wireless information as businesses and consumers increasingly demand information when they are mobile. Furthermore, the widespread adoption of industry standards may make it easier for new market entrants or existing competitors to offer the services we offer or may offer in the future.

Our success and ability to compete depends upon our ability to secure and protect patents, trademarks and other proprietary rights.

Our success depends on our ability to protect our proprietary rights to the technologies used to implement and operate our services in the U.S. and in foreign countries. In the event that a third party breaches the confidentiality provisions or other obligations in one or more of our agreements or misappropriates or infringes on our intellectual property or the intellectual property licensed to us by third parties, our business would be seriously harmed. To protect our proprietary rights, we rely on a combination of trade secrets, confidentiality and other contractual provisions and agreements, and patent, copyright and trademark laws, which afford us only limited protection. Third parties may independently discover or invent competing technologies or reverse engineer our trade secrets, software or other technology. Furthermore, laws in some foreign countries may not protect our proprietary rights to the same extent as the laws of the U.S. Therefore, the measures we take to protect our proprietary rights may not be adequate.

A disruption of our services due to accidental or intentional security breaches may harm our reputation, cause a loss of revenues and increase our expenses.

Unauthorized access, computer viruses and other accidental or intentional actions could disrupt our information systems or communications networks. We expect to incur significant costs to protect against the threat of security breaches and to alleviate problems caused by any breaches. Currently, the transmission of our customers' proprietary information is not protected by encryption technology. If a third party were to misappropriate our customers' proprietary information, we could be subject to claims, litigation or other potential liabilities that could seriously harm our revenues and result in the loss of customers.

System or network failures could reduce our sales, increase costs or result in liability claims and seriously harm our business.

Any disruption to our services, information systems or communications networks or those of third parties could result in the inability of our customers to receive our services for an indeterminate period of time. Our services may not function properly if our systems fail, or if there is an interruption in the supply of power, or if there is an earthquake, fire, flood or other natural disaster, or an act of war or terrorism. Any disruption to our services could cause us to lose customers or revenue, or face litigation, customer service or repair work that would involve substantial costs and distract management from operating our business. We currently do not have fully redundant systems for our services at an alternate site. Our operations depend upon our ability to maintain and protect our computer systems in our principal facilities in Fremont, California, which are on or near earthquake fault zones, and Philadelphia, Pennsylvania.

We depend on Global Positioning System technology owned and controlled by others. if we do not have continued access to global positioning system technology and satellites, we will be unable to deliver our services and revenues will decrease.

Our services rely on signals from Global Positioning System satellites built and maintained by the U.S. Department of Defense. Global Positioning System satellites and their ground support systems are subject to electronic and mechanical failures and sabotage. If one or more satellites malfunction, there could be a substantial delay before they are repaired or replaced, if at all, and our services may cease and customer satisfaction would suffer.

In addition, the U.S. government could decide not to continue to operate and maintain Global Positioning System satellites over a long period of time or to charge for the use of the Global Positioning System. Furthermore, because of ever-increasing commercial applications of the Global Positioning System, other U.S. government agencies may become involved in the administration or the regulation of the use of Global Positioning System signals in the future. If factors such as the foregoing affect the Global Positioning System, for example by affecting the availability and pricing of Global Positioning System technology, our business will suffer.

Our Global Positioning System technology depends on the use of radio frequency spectrum controlled by others.

Global Positioning System technology is dependent on the use of radio frequency spectrum. An international organization known as the International Telecommunications Union controls the assignment of spectrum. If the International Telecommunications Union reallocates radio frequency spectrum, our services may become less useful or less reliable. This would, in turn, harm our business. In addition, emissions from mobile satellites and other equipment using other frequency bands may adversely affect the utility and reliability of our services.

Defects or errors in our services could result in the cancellation or delays of our services, which would damage our reputation and harm our financial condition.

We must develop our services quickly to keep pace with the rapidly changing Global Positioning System, wireless communications and Internet markets. Products and services that address these markets are likely to contain undetected errors or defects, especially when first introduced or when new versions are introduced. Our services may not be free from errors or defects, which could result in the cancellation or disruption of our services or dissatisfaction of customers. This would damage our reputation and result in lost revenues, diverted development resources, and increased service and warranty costs.

The reporting of inaccurate location-relevant information could cause the loss of customers and expose us to legal liability.

The accurate reporting of location-relevant information is critical to our customers' businesses. If we fail to accurately report location-relevant information, we could lose customers, our reputation and ability to attract new customers could be harmed, and we could be exposed to legal liability. We may not have insurance adequate to cover losses we may incur as a result of these inaccuracies.

Claims that we infringe third-party proprietary rights could result in significant expenses or restrictions on our ability to provide our services.

Third parties may claim that our current or future products or services infringe their proprietary rights or assert other claims against us. As the number of entrants into our market increases, the possibility of an intellectual property or other claim against us grows. Any intellectual property or other claim, with or without merit, would be time-consuming and expensive to litigate or settle and could divert management attention from focusing on our core business. As a result of such a dispute, we may have to pay damages, incur substantial legal fees, develop costly non-infringing technology, if possible, or enter into license agreements, which may not be available on terms acceptable to us, if at all. This would increase our expenses and could decrease the functionality of our service, which would make our services less attractive to our current or potential customers. We have agreed in some of our agreements, and may agree in the future, to indemnify other parties for any expenses or liabilities resulting from claimed infringements of the proprietary rights of third parties.

We may be subject to product liability claims that could result in significant costs to us.

We may be subject to claims for damages related to errors and malfunctions of our hardware components or their installation. A product liability claim could seriously harm our business because of the costs of defending against this type of lawsuit, diversion of employees’ time and attention, and potential damage to our reputation. Some of our agreements with our customers contain provisions designed to limit exposure to potential product liability claims. Limitation of liability provisions contained in our agreements may not be enforceable under the laws of some jurisdictions. As a result, we could be required to pay substantial amounts of damages in settlement or upon the determination of any of these types of claims.

We may establish alliances or acquire technologies or companies in the future, which could result in the dilution of our stockholders and disruption of our business.

We are continually evaluating business alliances and external investments in technologies related to our business. Acquisitions of companies, divisions of companies, businesses or products and strategic alliances entail numerous risks, any of which could materially harm our business in several ways, including:

- diversion of management’ s attention from our core business objective and other business concerns;
- failure to integrate the acquired company into our pre-existing business;
- potential loss of key employees from either our pre-existing business or the acquired business;
- dilution of our existing stockholders as a result of issuing equity securities; and
- assumption of liabilities of the acquired company.

Some or all of these problems may result from current or future alliances, acquisitions or investments. Furthermore, we may not realize any value from these alliances, acquisitions or investments.

We may need and may not be able to obtain additional capital, which could prevent us from carrying out our business strategy.

We anticipate that our available cash resources will be sufficient to fund our operating needs for at least the next 12 months, including the expansion of sales and marketing and research and development programs during that period. Thereafter, we may require additional financing in an amount that we cannot determine at this time. If our plans or assumptions change or are inaccurate, we may be required to seek capital sooner than anticipated. We may need to raise funds through public or private debt or equity financings. If we need to raise additional funds, we may not be able to do so on commercially reasonable terms, or at all, and may not be able to continue to fund our operations.

If our wireless carriers decide to abandon Cellular Digital Packet Data or Integrated Digital Enhanced Network technologies or do not continue to expand their Cellular Digital Packet Data or Integrated Digital Enhanced Network systems, we may be unable to deliver our services and our sales could decrease.

Our services function only on Cellular Digital Packet Data networks or Integrated Digital Enhanced Networks. These protocols cover only portions of the U.S. and Canada, and may not gain widespread market acceptance. If wireless carriers decide to abandon these protocols in favor of other types of wireless technology, we may not be able to provide our current services to our customers. In addition, if wireless carriers do not expand their coverage areas, we will be unable to meet the needs of customers who wish to use our services outside the current coverage area.

Fluctuations in the value of foreign currencies could result in increased product costs and operating expenses.

We have suppliers and manufacturers that are located outside the U.S. Some transactions relating to supply and development agreements may be conducted in currencies other than the U.S. dollar, and fluctuations in the value of foreign currencies relative to the U.S. dollar could cause us to incur currency exchange costs. In addition, some of our transactions denominated in U.S. dollars may be subject to currency exchange rate risk. We cannot predict the effect of exchange rate fluctuations on our future operating results. Should there be a sustained increase in average exchange rates for the local currencies in these countries, our suppliers and manufacturers may request a price increase at the end of the contract period.

Our business will be harmed if the demand for the services based on wireless communications does not grow.

The markets for wireless data services and related products and services are still emerging, and continued growth in demand for, and acceptance of, these services remains uncertain. Current barriers to market acceptance of these services include quality, functionality and ease of use. We cannot be certain that these barriers will be overcome. Since the market for our services is new and evolving, it is difficult to predict the size of this market or its growth rate. Our financial performance will depend in large part upon the continued demand for mobile resource management services through wireless technologies. We cannot assure you that a sufficient volume of customers will demand these or other services based on these technologies. If the market for wireless on-line mobile resource management and other services grows more slowly than we currently anticipate, our revenues may not grow.

If the use of the Internet by businesses does not continue to grow, our business will be harmed.

Our future success is dependent on continued growth in the use of the Internet by businesses. The use and acceptance of the Internet by businesses may not increase for a number of reasons, including the cost and availability of Internet access and concerns about privacy, security and reliability.

Capacity constraints caused by growth in the use of the Internet may impede further development of the Internet to the extent that users experience delays, transmission errors and other difficulties. If the necessary infrastructure, products, services or facilities are not developed, or if the Internet does not become a viable and widespread commercial medium, we may not be able to grow our business.

Government regulations and standards may harm our business and could increase our costs or reduce our opportunities to earn revenues.

In addition to regulations applicable to businesses in general, we may also be subject to direct regulation by governmental agencies, including the Federal Communications Commission and Department of Defense. These regulations may impose licensing requirements or safety standards, for example with respect to human exposure to electromagnetic radiation and signal leakage. A number of legislative and regulatory proposals under consideration by federal, state, provincial, local and foreign governmental organizations may lead to laws or regulations concerning various aspects of the Internet, wireless communications and Global Positioning System technology, including on-line content, user privacy, taxation, access charges and liability for third-party activities. Additionally, it is uncertain how existing laws governing issues such as taxation on the use of wireless networks, intellectual property, libel, user privacy and property ownership, will be applied to our services. The adoption of new laws or the application of existing laws may expose us to significant liabilities and additional operational requirements, which could decrease the demand for our services and increase our cost of doing business. Wireless carriers who supply us with airtime are subject to regulation by the Federal Communications Commission, and regulations that affect them could also increase our costs or limit the provision of our services.

Our platform contains encryption technology whose export is restricted by law, which may slow our growth or result in significant costs.

The U.S. government generally limits the export of encryption technology, which our services incorporate. Foreign countries may impose similar regulatory requirements. If any export approval that we receive is revoked or modified, if our technology is unlawfully exported or if the U.S. government adopts new legislation or regulations restricting export of our services and encryption technology, we may not be able to distribute our services to potential customers outside the U.S., which may seriously harm our business. We may need to incur significant costs and divert resources to develop replacement technologies or may need to adopt inferior substitute technologies to satisfy these export restrictions. These replacement or substitute technologies may not be the preferred security technologies of our customers, in which case our business may not grow. In addition, we may suffer similar consequences if the laws of any other country limit the ability of third parties to sell encryption technologies to us.

Our stock price is volatile, which may cause you to lose money and result in costly litigation that could divert our resources.

Stock markets have recently experienced dramatic price and volume fluctuations, particularly for shares of technology companies. These fluctuations can be unrelated to the operating performance of these companies.

Broad market fluctuations may reduce the market price of our common stock and cause you to lose some or all of your investment. These fluctuations may be exaggerated if the trading volume of our common stock is low. In addition, due to the technology-intensive and emerging nature of our business, the market price of our common stock may rise and fall in response to:

- announcements of technological or competitive developments;
- acquisitions or strategic alliances by us or our competitors;
- the gain or loss of a significant customer or order;
- changes in estimates of our financial performance or changes in recommendations by securities analysts;
- security breaches; and
- disposition of shares of our common stock held by large investors.

When the market price of a company' s stock drops significantly, stockholders often institute securities class action lawsuits against that company. A lawsuit against us could cause us to incur substantial costs and could divert the time and attention of our management and other resources from our business.

Our certificate of incorporation and bylaws and state law contain provisions that could discourage a takeover.

We have adopted a certificate of incorporation and bylaws, which in addition to state law, may discourage, delay or prevent a merger or acquisition that a stockholder may consider favorable. These provisions include the following:

- establishing a classified board in which only a portion of the total board members will be elected at each annual meeting;
- authorizing the board to issue preferred stock;
- prohibiting cumulative voting in the election of directors;
- limiting the persons who may call special meetings of stockholders;
- prohibiting stockholder action by written consent; and
- establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

We have adopted a certificate of incorporation that permits our board to issue shares of preferred stock without stockholder approval, which means that our board could issue shares with special voting rights or other provisions that could deter a takeover. In addition to delaying or preventing an acquisition, the issuance of a substantial number of shares of preferred stock could adversely affect the price of our common stock and dilute existing stockholders.

A limited number of stockholders collectively continue to own a majority or our stock and may act, or prevent certain types of corporate actions, to the detriment of other stockholders.

Our directors, officers and greater than 5 percent stockholders own a majority of our outstanding common stock. Accordingly, these stockholders may, if they act together, exercise significant influence over all matters requiring stockholder approval, including the election of a majority of the directors and the determination of significant corporate actions. This concentration could also have the effect of delaying or preventing a change in control that could otherwise be beneficial to our stockholders.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Short-Term Investments

At March 31, 2002, we did not hold any available-for-sale securities.

Foreign Currency Exchange

We transact business primarily in U.S. dollars. We are subject, however, to adverse movements in foreign currency exchange rates in those countries where we conduct business. To date, the effect of fluctuations in foreign currency exchange rates on expenses has not been material. Operating expenses incurred by our subsidiary in India are denominated in Indian rupees. This subsidiary was formed in November 1999 to perform research and development activities. We hold fixed-price agreements denominated in U.S. dollars with key foreign-based suppliers: Orient Semiconductor Electronics, in Taiwan, manufactures the Internet Location Manager; Novatel, in Canada, provides the modem for the Internet Location Manager; Taiwan Semiconductor Manufacturing Company, in Taiwan, manufactures our Global Positioning System receiver chips; Conexant Systems, in Canada, manufactures our radio frequency chips; and Micronet, in Israel, supplies our Internet Data Terminal. Should there be a sustained increase in average exchange rates for the local currency in any of the foregoing countries, our suppliers may request increased pricing on any new agreements. If this were to occur for all of these currencies and with each of these suppliers, a 10 percent increase in average exchange rates could increase our product costs by approximately 8 percent.

We do not use derivative financial instruments for speculative trading purposes, nor do we currently hedge any foreign currency exposure to offset the effects of changes in foreign exchange rates. Similarly, we do not use financial instruments to hedge operating expenses of our subsidiary in India.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

We are not currently involved in any material legal proceedings.

Item 2. Changes in Securities and Use of Proceeds.

On September 28, 2000, our Registration Statement on Form S-1 (No. 333-41372) was declared effective by the Securities and Exchange Commission, pursuant to which 7,000,000 shares of our common stock were offered and sold for our account at a price of $9.00 per share, for an aggregate offering price of $63.0 million. The offering was closed on October 4, 2000. The managing underwriters of the offering were Credit Suisse First Boston Corporation, JP Morgan Chase and Company (formerly Chase H&Q) and U.S. Bancorp Piper Jaffray.

We incurred the following expenses in connection with the offering:

Underwriting discounts and commissions	$	4,400,000
Other expenses		1,600,000
Total Expenses	$	6,000,000

All of such expenses were direct or indirect payments to others.

The net offering proceeds to us after deducting the total expenses above were approximately $57.0 million. From the closing of the offering through the three months ended March 31, 2002, we used such net offering proceeds, in direct or indirect payments to others, as follows:

Investment in cash, cash equivalents and short-term, interest bearing securities	$	38,000,000
Other working capital		19,000,000
Total	$	57,000,000

Each of such amounts is a reasonable estimate of the application of the net offering proceeds. This use of proceeds does not represent a material change in the use of proceeds described in the prospectus of our Registration Statement.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits: None.

(b) The Company filed no reports on Form 8-K during the three months ended March 31, 2002.

SIGNATURES

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

AT ROAD, INC.

By: /s/ Thomas C. Hoster

Thomas C. Hoster
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: May 14, 2002