

LEGATO SYSTEMS INC
Form 10-Q
May 15, 2002

**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: 000-26130

LEGATO SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State incorporation)

94-3077394
(I.R.S. Employer Identification No.)

2350 West El Camino Real,
Mountain View, CA 94040
(Address of principal executive offices)

Registrant's telephone number, including area code: (650) 210-7000

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 outstanding of the registrant's Common Stock as of May 2, 2002 was 90,900,997.

LEGATO SYSTEMS, INC

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LEGATO SYSTEMS, INC.
Condensed Consolidated Balance Sheets
(in thousands)

	March 31, 2002	December 31, 2001
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 47,097	\$ 63,281
Short-term investments	88,345	82,414
Accounts receivable, net	33,924	39,581
Deferred tax assets	63,073	61,136
Other current assets	10,727	12,373
	_____	_____
Total current assets	243,166	258,785
Property and equipment, net	45,436	42,884
Other assets	3,093	2,196
Long-term deferred tax assets	47,901	19,754
Intangible assets, net	30,210	31,642
	_____	_____
	\$ 369,806	\$ 355,261
	_____	_____
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 6,861	\$ 8,316
Accrued liabilities	99,141	41,440
Deferred revenue	41,905	41,748
	_____	_____
Total current liabilities	147,907	91,054
Deferred revenue - net of current portion	2,583	3,798
	_____	_____
Total liabilities	150,490	95,302
Stockholders' equity	219,316	259,959
	_____	_____
	\$ 369,806	\$ 355,261
	_____	_____

See accompanying notes to these condensed consolidated financial statements.

LEGATO SYSTEMS, INC.
Condensed Consolidated Statements of Operations
(in thousands, except per share data)

	Three Months Ended March 31,	
	2002	2001
	(unaudited)	
Revenue:		
License	\$ 28,750	\$ 38,483
Service and support	26,881	22,564
Total revenue	55,631	61,047
Cost of revenue:		
License	1,711	726
Service and support	10,595	12,974
Cost of revenue	12,306	13,700
Gross profit	43,325	47,347
Operating expenses:		
Sales and marketing	31,719	30,451
Research and development	14,520	15,248
General and administrative	7,069	7,396
Amortization of intangibles	1,432	9,054
Litigation settlement charge	67,000	
Total operating expenses	121,740	62,149
Loss from operations	(78,415)	(14,802)
Interest and other income, net	514	1,128
Loss before benefit from income taxes	(77,901)	(13,674)
Benefit from income taxes	(31,160)	(3,073)
Net loss	\$ (46,741)	\$ (10,601)
Net loss per share:		
Basic and diluted	\$ (0.52)	\$ (0.12)
Weighted average common shares outstanding	90,312	87,851

See accompanying notes to these condensed consolidated financial statements.

LEGATO SYSTEMS, INC.
Condensed Consolidated Statements of Cash Flows
(in thousands)

	Three Months Ended March 31,	
	2002	2001
	(unaudited)	
Cash flows from operating activities:		
Net loss	\$ (46,741)	\$ (10,601)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Deferred taxes (net of effect of acquisitions)	(30,084)	(6,508)
Depreciation and amortization	5,225	13,181
Provision for (benefit from) doubtful accounts and product returns	(910)	1,149
Tax benefit from stock option exercises		1,559
Changes in assets and liabilities:		
Accounts receivable	6,567	4,217
Other assets	749	3,835
Accounts payable	(1,455)	4,453
Accrued liabilities	57,701	(3,143)
Deferred revenue	(1,058)	(1,359)
	(10,006)	6,783
Cash flows from investing activities:		
Purchases of available-for-sale securities	(209,383)	(28,475)
Maturities and sales of available-for-sale securities	202,877	72,137
Acquisition of property and equipment	(6,345)	(4,519)
	(12,851)	39,143
Cash flows from financing activities		
Proceeds from issuance of common stock	6,673	4,963
	(16,184)	50,889
Net change in cash and cash equivalents	(16,184)	50,889
Cash and cash equivalents at beginning of period	63,281	110,274
	\$ 47,097	\$ 161,163
Cash and cash equivalents at end of period	\$ 47,097	\$ 161,163

See accompanying notes to these condensed consolidated financial statements.

LEGATO SYSTEMS, INC.

Notes to Condensed Consolidated Financial Statements
(unaudited)**1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared by Legato Systems, Inc. (the Company or Legato) in accordance with the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted in accordance with such rules and regulations. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position, results of operations and cash flows of the Company and its subsidiaries. The results of operations for the interim periods presented are not necessarily indicative of the results that may be expected for any future interim period or for the year ending December 31, 2002, and the Company makes no representations related thereto. These financial statements should be read in conjunction with the annual audited consolidated financial statements and notes as of and for the year ended December 31, 2001, included in the Company's Form 10-K dated March 14, 2002.

Certain prior year consolidated financial statement balances have been reclassified to conform to the 2002 presentation.

2. Balance Sheet Components

	March 31, 2002	December 31, 2001
	<u> </u>	<u> </u>
Accounts receivable:		
Trade accounts receivable	\$ 50,460	\$ 47,449
Allowances for doubtful accounts and product returns	(6,958)	(7,868)
	<u> </u>	<u> </u>
	\$ 42,288	\$ 39,581
	<u> </u>	<u> </u>
Property and equipment:		
Computer hardware	\$ 47,819	\$ 43,801
Computer software	21,381	18,978
Office equipment, furniture and fixtures	16,544	16,193
Leasehold improvements	13,419	13,344
	<u> </u>	<u> </u>
	99,163	92,316
Accumulated depreciation and amortization	(53,727)	(49,432)
	<u> </u>	<u> </u>
	\$ 45,436	\$ 42,884
	<u> </u>	<u> </u>
Accrued liabilities:		
Accrued compensation and benefits	\$ 13,329	\$ 19,202
Income taxes payable	5,784	7,354
Litigation settlement	67,000	
Other accrued liabilities	13,028	14,884
	<u> </u>	<u> </u>
	\$ 99,141	\$ 41,440
	<u> </u>	<u> </u>

3. Revenue Recognition

Revenue is derived from primarily two sources: (i) license revenue, derived from the sale of software licenses to resellers and end users, including large-scale enterprises, and royalty revenue, derived from initial license fees and

ongoing royalties from licenses of source code to OEMs; and (ii) service and support revenue, derived from providing software updates, support and education and consulting services to end users.

License revenue is generally recognized when a signed contract or other persuasive evidence of an arrangement exists, the software has been shipped or electronically delivered, the license fee is fixed or determinable and collection of resulting receivables is probable. Estimated product returns are recorded upon recognition of revenue from customers having rights of return, including exchange rights for unsold products and product upgrades. Provisions for estimated warranty costs and anticipated retroactive price adjustments are recorded at the time products are shipped. For sales to domestic distributors, license revenue is recognized upon sale by the distributor to the end-user. License revenue from royalty payments is recognized upon receipt of royalty reports from OEMs related to their product sales. Revenue from subscription license agreements, which include software, rights to future products and maintenance, is recognized ratably over the term of the subscription period.

Service and support revenue consists primarily of revenue received for providing software updates, technical support for software products, on-site support, consulting and training. Revenue from updates and support is recognized ratably over the term of the agreements. Revenue allocated to education and consulting services, or derived from the separate sales of these services, is recognized as the related services are provided.

When contracts contain multiple obligations (e.g., products, updates, technical support and other services) wherein vendor specific objective evidence exists for all undelivered elements, we account for the delivered elements in accordance with the residual method prescribed by Statement of Position 98-9. Any revenue related to updates or technical support in these arrangements is recognized ratably over the term of the maintenance arrangement.

4. Comprehensive Loss

Comprehensive loss includes unrealized gains or losses on investments. The impact of which is excluded from net loss and is included in stockholders' equity. A summary of comprehensive loss is as follows:

	Three Months Ended March 31,	
	2002	2001
Net loss	\$ (46,741)	\$ (10,601)
Unrealized gain (loss) on investments (net of taxes)	(575)	346
	\$ (47,316)	\$ (10,255)

5. Computation of Net Income (Loss) Per Share

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average shares of common stock outstanding during the period. Diluted net income per share is computed by dividing net income by the weighted average shares of common stock and potential common shares outstanding during the period. Potential common shares outstanding consist of dilutive shares issuable upon the exercise of outstanding options to purchase common stock as computed using the treasury stock method. For periods in which Legato incurs a loss, potential common shares outstanding are excluded from the computation of diluted net loss per share as their effect is anti-dilutive.

Options to purchase approximately 20.1 million shares of common stock at the weighted average price of \$12.14 per share were outstanding as of March 31, 2002, but were not included in the computation of diluted net loss per share because their effect would be anti-dilutive.

6. Legal Proceedings

In April 2002, we settled the class action and derivative lawsuits filed in 2000 in the United States District Court for the Northern District of California and in San Mateo County Superior Court, respectively. The settlements in the federal and state litigation call for Legato to pay a total of \$87.7 million, which includes attorneys' fees, in May

2002. Approximately \$21 million of the settlement amount will be reimbursed by our corporate insurance. The settlement was recorded as a \$67 million charge to the results of operations for the quarter ended March 31, 2002.

Both the securities class action and the derivative action arose from events that caused Legato to restate its results for the first three quarters of 1999. The settlements do not constitute any admission of wrongdoing on the part of Legato or the individual defendants. On May 3, 2002, the Superior Court of California for San Mateo County approved the settlement in the derivative litigation. On May 6, 2002, the U.S. District Court for the Northern District of California granted preliminary approval to the class action settlement. The parties to the litigation expect final approval of the class action settlement in the summer of 2002.

7. Restructuring Charges

During 2001, we incurred \$9.4 million in charges as we restructured our development operations to reduce our cost structure and to integrate and reduce selling and marketing activities. In connection with these activities, we reduced our workforce by approximately 215 employees and closed our development facilities in Sunnyvale, California, Eden Prairie, Minnesota, Orem, Utah and New Delhi, India. As of March 31, 2002, accrued restructuring charges related primarily to future lease commitments, which will be paid through 2004, and some severance and benefits, which will be paid in 2002. The following table summarizes the restructuring activity during 2002 (in thousands):

3

SEC USE ONLY

4

CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

NUMBER OF
SHARES
BENEFICIALLY
OWNED BY
EACH
REPORTING
PERSON
WITH:

5

SOLE VOTING POWER

0

6

SHARED VOTING POWER

22,305 (See item 4)

7

SOLE DISPOSITIVE POWER

0

8

SHARED DISPOSITIVE POWER

22,305 (See item 4)

9

AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

22,305 (See item 4)

10

CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

11

PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

0.2% (See item 4)

12

TYPE OF REPORTING PERSON*

IA

** SEE INSTRUCTION BEFORE FILLING OUT **

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CUSIP No. 741929301

13G

1 NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY).

2 Whitebox Credit Arbitrage Partners, L.P.
CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a) (b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

British Virgin Islands
5 SOLE VOTING POWER

NUMBER OF
SHARES 6 0
SHARED VOTING POWER

BENEFICIALLY

OWNED BY
EACH 7 22,305 (See item 4)
SOLE DISPOSITIVE POWER

REPORTING

PERSON 8 0
SHARED DISPOSITIVE POWER

WITH:

9 22,305 (See item 4)
AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

10 22,305 (See item 4)
CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

12 0.2% (See item 4)
TYPE OF REPORTING PERSON*

PN

** SEE INSTRUCTION BEFORE FILLING OUT **

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CUSIP No. 741929301

13G

1 NAMES OF REPORTING PERSONS

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2 Whitebox Credit Arbitrage Fund, L.P.
CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a) (b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

5 SOLE VOTING POWER

NUMBER OF

SHARES 6 0 SHARED VOTING POWER

BENEFICIALLY

OWNED BY 22,305 (See item 4)
EACH 7 SOLE DISPOSITIVE POWER

REPORTING

PERSON 8 0 SHARED DISPOSITIVE POWER

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TYPE OF REPORTING PERSON*

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2 Whitebox Credit Arbitrage Fund, Ltd.
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(a) (b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

British Virgin Islands
5 SOLE VOTING POWER

NUMBER OF
SHARES 6 0
SHARED VOTING POWER

BENEFICIALLY

OWNED BY
EACH 7 22,305 (See item 4)
SOLE DISPOSITIVE POWER

REPORTING

PERSON 8 0
SHARED DISPOSITIVE POWER

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AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

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TYPE OF REPORTING PERSON*

PN

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SEC 1745 (2-02)

Page 14 of 21

CUSIP No. 741929301

13G

1 NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY).

2 Pandora Select Advisors, LLC
CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a) (b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

5 SOLE VOTING POWER

NUMBER OF

SHARES 0
6 SHARED VOTING POWER

BENEFICIALLY

OWNED BY 15,627 (See item 4)
EACH 7 SOLE DISPOSITIVE POWER

REPORTING

PERSON 0
8 SHARED DISPOSITIVE POWER

WITH:

9 15,627 (See item 4)
AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

10 15,627 (See item 4)
CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

12 0.2% (See item 4)
TYPE OF REPORTING PERSON*

IA

** SEE INSTRUCTION BEFORE FILLING OUT **

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13G

1 NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY).

2 Pandora Select Partners LP
CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a) (b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

British Virgin Islands
5 SOLE VOTING POWER

NUMBER OF
SHARES 0
6 SHARED VOTING POWER

BENEFICIALLY

OWNED BY 15,627 (See item 4)
EACH 7 SOLE DISPOSITIVE POWER

REPORTING

PERSON 0
8 SHARED DISPOSITIVE POWER

WITH:

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AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

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11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

12 0.2% (See item 4)
TYPE OF REPORTING PERSON*

PN

** SEE INSTRUCTION BEFORE FILLING OUT **

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13G

1 NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY).

2 Pandora Select Fund, LP
CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a) (b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

5 SOLE VOTING POWER

NUMBER OF

SHARES 0
6 SHARED VOTING POWER

BENEFICIALLY

OWNED BY 15,627 (See item 4)
EACH 7 SOLE DISPOSITIVE POWER

REPORTING

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(a) (b)

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4 CITIZENSHIP OR PLACE OF ORGANIZATION

British Virgin Islands
5 SOLE VOTING POWER

NUMBER OF

SHARES 0
6 SHARED VOTING POWER

BENEFICIALLY

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12 0.2% (See item 4)
TYPE OF REPORTING PERSON*

PN

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Item 1. (a) Name of Issuer

Primus Telecommunications Group

(b) Address of Issuer's Principal Executive Offices

7901 Jones Branch Drive, Suite 900

McLean, VA 22102

Item 2. (a) Name of Person Filing

This statement is filed by:

- (i) Whitebox Advisors, LLC, a Delaware limited liability company (WA);
- (ii) Whitebox Multi-Strategy Advisors, LLC, a Delaware limited liability company (WMSA);
- (iii) Whitebox Multi-Strategy Partners, L.P., a British Virgin Islands limited partnership (WMSP);
- (iv) Whitebox Multi-Strategy Fund, L.P., a Delaware limited partnership (WMSFLP);
- (v) Whitebox Multi-Strategy Fund, Ltd., a British Virgin Islands international business company (WMSFLTD);
- (vi) Whitebox Concentrated Convertible Arbitrage Advisors, LLC, a Delaware limited liability company (WCCAA);
- (vii) Whitebox Concentrated Convertible Arbitrage Partners, L.P., a British Virgin Islands limited partnership (WCCAP);
- (viii) Whitebox Concentrated Convertible Arbitrage Fund, L.P., a Delaware limited partnership (WCCAFLP);
- (ix) Whitebox Concentrated Convertible Arbitrage Fund, Ltd., a British Virgin Islands international business company (WCCAFLTD);
- (x) Whitebox Credit Arbitrage Advisors, LLC, a Delaware limited liability company (WCRAA);
- (xi) Whitebox Credit Arbitrage Partners, L.P., a British Virgin Islands limited partnership (WCRAP);
- (xii) Whitebox Credit Arbitrage Fund, L.P., a Delaware limited partnership (WCRAFLP);
- (xiii) Whitebox Credit Arbitrage Fund, Ltd., a British Virgin Islands international business company (WCRAFLTD);
- (xiv) Pandora Select Advisors, LLC, a Delaware limited liability company (PSA);
- (xv) Pandora Select Partners, L.P., a British Virgin Islands limited partnership (PSP);
- (xvi) Pandora Select Fund, L.P., a Delaware limited partnership (PSFLP);
- (xvii) Pandora Select Fund, Ltd., a British Virgin Islands international business company (PSFLTD);
- (xviii) IAM Mini-Fund 14 Limited, a Cayman Islands Corporation (IAM);

(b) Address of Principal Business Office or, if none, Residence

The address of the business office of WA, WMSA, WMSFLP, WCCAA, WCCAFLP, WCRAA, WCRAFLP, PSA, and PSFLP is:

3033 Excelsior Boulevard

Suite 300

Minneapolis, MN 55416

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The address of the business office of WMSP, WMSFLTD, WCCAP, WCCAFLTD, WCRAP, WCRAFLTD, PSP, and PSFLTD is:

Trident Chambers, P.O. Box 146

Waterfront Drive, Wickhams Cay

Road Town, Tortola, British Virgin Islands

The address of the business office of IAM is:

IAM Mini-Fund 14 Limited

Boundary Hall, Cricket Square

George Town, Grand Cayman, KY1-1102 Cayman Islands

(c) Citizenship

WA, WMSA, WMSFLP, WCCAA, WCCAFLP, WCRAA, WCRAFLP, PSA, and PSFLP are organized under the laws of the State of Delaware; WMSP, WMSFLTD, WCCAP, WCCAFLTD, WCRAP, WCRAFLTD, PSP, and PSFLTD are organized under the laws of the British Virgin Islands; IAM is organized under the laws of the Cayman Islands.

(d) Title of Class of Securities

Common Stock

(e) CUSIP Number

741929301

Item 3. If this statement is filed pursuant to §§ 240.13d-1(b) or 240.13d-2(b) or (c), check whether the person filing is a:

- (a) .. Broker or dealer registered under section 15 of the Act.
- (b) .. Bank as defined in section 3(a)(6) of the Act.
- (c) .. Insurance company as defined in section 3(a)(19) of the Act.
- (d) .. Investment company registered under section 8 of the Investment Company Act of 1940.
- (e) x An investment adviser in accordance with § 240.13d-1(b)(1)(ii)(E).
- (f) .. An employee benefit plan or endowment fund in accordance with § 240.13d-1(b)(1)(ii)(F).
- (g) .. A parent holding company or control person in accordance with § 240.13d-1(b)(1)(ii)(G).
- (h) .. A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act.
- (i) .. A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940.
- (j) .. Group, in accordance with § 240.13d-1(b)(1)(ii)(J).

** SEE INSTRUCTION BEFORE FILLING OUT **

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Item 4. Ownership

(a) Amount Beneficially Owned

WA, acting as an investment adviser to its client, is deemed to be the beneficial owner of 80,790 shares of Common Stock of the company.

WMSA, is deemed to beneficially own 33,429 Shares of Common Stock of the company.

WMSP is deemed to beneficially own 33,429 shares of Common Stock as a result of its ownership of Warrants of the company

WMSFLP is deemed to beneficially own 33,429 shares of Common Stock as a result of its indirect ownership of Warrants of the company

WMSFLTD is deemed to beneficially own 33,429 shares of Common Stock as a result of its indirect ownership Of Warrants of the company

WCCAA, is deemed to beneficially own 7,134 Shares of Common Stock of the company.

WCCAP is deemed to beneficially own 7,134 shares of Common Stock as a result of its ownership of Warrants of the company

WCCAFLP is deemed to beneficially own 7,134 shares of Common Stock as a result of its indirect ownership of Warrants of the company

WCCAFLTD is deemed to beneficially own 7,134 shares of Common Stock as a result of its indirect ownership Of Warrants of the company

WCRAA is deemed to beneficially own 22,305 Shares of Common Stock of the company.

WCRAP is deemed to beneficially own 22,305 shares of Common Stock as a result of its ownership of Warrants of the company

WCRAFLP is deemed to beneficially own 22,305 shares of Common Stock as a result of its indirect ownership of Warrants of the company

WCRAFLTD is deemed to beneficially own 22,305 shares of Common Stock as a result of its indirect ownership Of Warrants of the company

PSA, is deemed to beneficially own 15,627 Shares of Common Stock of the company.

PSP is deemed to beneficially own 15,627 shares of Common Stock as a result of its ownership of Warrants of the company

PSFLP is deemed to beneficially own 15,627 shares of Common Stock as a result of its indirect ownership Of Warrants of the company

PSFLTD is deemed to beneficially own 15,627 shares of Common Stock as a result of its indirect ownership Of Warrants of the company

IAM, is deemed to beneficially own 2,295 Shares of Common Stock as a result of its ownership Of Warrants of the company

As a result of the relationship described in this statement, each of WA, WMSA, WMSFLP, WMSFLTD, WCCAA, WCCAFLP, WCCAFLTD, WCRAA, WCRAFLP, WCRAFLTD, PSA, PSFLP, and PSFLTD may be deemed to possess indirect beneficial ownership of the shares of Common Stock beneficially owned by each of WMSP, WCCAP, WCRAP, PSP, and IAM.

WA, WMSA, WMSFLP, WMSFLTD, WCCAA, WCCAFLP, WCCAFLTD, WCRAA, WCRAFLP, WCRAFLTD, PSA, PSFLP, and PSFLTD each disclaim indirect beneficial ownership of the shares of Common Stock except to the extent of their pecuniary interest in such shares.*

Based on the relationships described herein, these entities may be deemed to constitute a group within the meaning Of Rule 13d-5(b)(1) under the Securities Exchange Act of 1934. The filing of this statement shall not be construed as An admission that WA, WMSA, WMSP, WMSFLP, WMSFLTD, WCCAA, WCCAP, WCCAFLP, WCCAFLTD, WCRAA, WCRAP, WCRAFLP, WCRAFLTD, PSA, PSP, PSFLP, PSFLTD, and

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IAM are a group, Or have agreed to act as a group.*

(b) Percent of Class

WA beneficially owns 0.8 % of the company's Common Stock.*

WMSA is deemed to beneficially own 0.3 % of the company's Common Stock

WMSP is deemed to beneficially own 0.3 % of the company's Common Stock

WMSFLP is deemed to beneficially own 0.3 % of the company's Common Stock

WMSFLTD is deemed to beneficially own 0.3 % of the company's Common Stock

WCCAA is deemed to beneficially own 0.1 % of the company's Common Stock

WCCAP is deemed to beneficially own 0.1 % of the company's Common Stock

WCCAFLP is deemed to beneficially own 0.1 % of the company's Common Stock

WCCAFLTD is deemed to beneficially own 0.1 % of the company's Common Stock

WCRAA is deemed to beneficially own 0.2 % of the company's Common Stock

WCRAP is deemed to beneficially own 0.2 % of the company's Common Stock

WCRAFLP is deemed to beneficially own 0.2 % of the company's Common Stock

WCRAFLTD is deemed to beneficially own 0.2 % of the company's Common Stock

PSA is deemed to beneficially own 0.2 % of the company's Common Stock

PSP is deemed to beneficially own 0.2 % of the company's Common Stock

PSFLP is deemed to beneficially own 0.2 % of the company's Common Stock

PSFLTD is deemed to beneficially own 0.2 % of the company's Common Stock

IAM beneficially owns 0.0 % of the company's Common Stock.*

The percentage of Common Stock reportedly owned by each entity herein is based on 9,743,000 shares of outstanding Common Stock of the Company, which is the total number of shares issued and outstanding On October 31st, 2010.

(c) Number of shares as to which such person has:

(i) Sole power to vote or to direct the vote

0

(ii) Shared power to vote or to direct the vote

WA has shared voting power with respect to 80,790 shares of the Issuer's Common Stock.

WMSA, WMSP, WMSFLP, and WMSFLTD have shared voting power with respect to 33,429 Shares of the Company's Common Stock.

WCCAA, WCCAP, WCCAFLP, and WCCAFLTD have shared voting power with respect to 7,134 Shares of the Company's Common Stock.

WCRAA, WCRAP, WCRAFLP, and WCRAFLTD have shared voting power with respect to 22,305 Shares of the Company's Common Stock.

PSA, PSP, PSFLP, and PSFLTD have shared voting power with respect to 15,627 Shares of the Company's Common Stock.

(iii) Sole power to dispose or to direct the disposition of

0

(iv) Shared power to dispose or to direct the disposition of

WA has shared voting power with respect to 80,790 shares of the Issuer's Common Stock.

WMSA, WMSP, WMSFLP, and WMSFLTD have shared voting power with respect to 33,429 Shares of the Company's Common Stock.

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WCCAA, WCCAP, WCCAFLP, and WCCAFLTD have shared voting power with respect to 7,134 Shares of the Company's Common Stock.

WCRAA, WCRAP, WCRAFLP, and WCRAFLTD have shared voting power with respect to 22,305 Shares of the Company's Common Stock.

PSA, PSP, PSFLP, and PSFLTD have shared voting power with respect to 15,627 Shares of the Company's Common Stock.

Instruction. For computations regarding securities which represent a right to acquire an underlying security *see* §240.13d3(d)(1).

Item 5. Ownership of Five Percent or Less of a Class

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following .

Instruction. Dissolution of a group requires a response to this item.

Item 6. Ownership of More than Five Percent on Behalf of Another Person.

Not Applicable.

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company or Control Person.

Not Applicable

Item 8. Identification and Classification of Members of the Group

See Item 2

Item 9. Notice of Dissolution of Group

Not Applicable

Item 10. Certification

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

**** SEE INSTRUCTION BEFORE FILLING OUT ****

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SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

02/11/11

Date

/s/ Jonathan D. Wood

Signature

Jonathan D. Wood as Chief Financial Officer of
Whitebox Advisors, LLC.

Name/Title

The original statement shall be signed by each person on whose behalf the statement is filed or his authorized representative. If the statement is signed on behalf of a person by his authorized representative other than an executive officer or general partner of the filing person, evidence of the representative's authority to sign on behalf of such person shall be filed with the statement, provided, however, that a power of attorney for this purpose which is already on file with the Commission may be incorporated by reference. The name and any title of each person who signs the statement shall be typed or printed beneath his signature.

NOTE: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See § 240.13d-7 for other parties for whom copies are to be sent.

Attention: Intentional misstatements or omissions of fact constitute Federal criminal violations (See 18 U.S.C. 1001)

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**** SEE INSTRUCTION BEFORE FILLING OUT ****

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