

RAINING DATA CORP
Form 10QSB
August 03, 2004

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

**Quarterly Report under Section 13 or 15(d) of the Securities
Exchange Act of 1934**

For the quarterly period ended June 30, 2004

**Transition Report Pursuant to Section 13 or 15(d) of the
Exchange Act**

For the transition period from to

Commission File number 0-16449

RAINING DATA CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

94-3046892
(IRS Employer Identification No.)

17500 Cartwright Road
Irvine, CA 92614
(Address of principal executive offices)

(949) 442-4400
(Registrant's telephone number)

Check whether the issuer: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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

As of June 30, 2004, there were 18,428,141 shares of registrant's Common Stock, \$.10 par value, outstanding.

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Transitional Small Business Disclosure Format (Check one): Yes No

RAINING DATA CORPORATION

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

RAINING DATA CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2004	(In thousands)	March 31, 2004
ASSETS			
Current assets			
Cash	\$ 8,344		\$ 7,783
Trade accounts receivable-net	1,499		1,865
Other current assets	303		390
Total current assets	10,146		10,038
Property, furniture and equipment-net	742		795
Intangible assets-net			
Goodwill	1,083		1,733
Other assets	27,684		27,684
Total assets	\$ 39,835		\$ 40,451
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities			
Accounts payable	\$ 270		\$ 242
Accrued liabilities	1,622		2,257
Deferred revenue	5,220		5,006
Note payable	22		38
Total current liabilities	7,134		7,543
Long term debt-net of discount	23,431		23,117
Total liabilities	30,565		30,660
Commitments and contingencies			
Stockholders equity			
Preferred stock	300		300
Common stock	1,843		1,840
Additional paid-in capital	95,472		95,418
Deferred stock-based compensation	(33)		(41)
Accumulated other comprehensive income	1,302		1,509
Accumulated deficit	(89,614)		(89,235)
Total stockholders equity	9,270		9,791
Total liabilities and stockholders equity	\$ 39,835		\$ 40,451

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See accompanying condensed notes to the unaudited condensed consolidated financial statements.

RAINING DATA CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED JUNE 30,

	2004	2003
Net revenues		
Licenses	\$ 2,222	\$ 2,286
Services	2,975	3,123
Total net revenues	5,197	5,409
Costs of revenues		
Cost of license revenues	72	89
Cost of service revenues	468	489
Total cost of revenues	540	578
Gross profit	4,657	4,831
Cost of operations		
Selling and marketing	1,414	1,457
Research and development	1,738	1,974
General and administrative	889	920
Stock-based compensation	32	50
Amortization of intangible assets	650	650
Total operating expenses	4,723	5,051
Operating loss	(66)	(220)
Other expense		
Interest expense-net	(303)	(296)
Other income (expense)-net	(10)	16
	(313)	(280)
Net loss	\$ (379)	\$ (500)
Basic and diluted loss per share	\$ (0.02)	\$ (0.03)
Shares used in computing basic and diluted loss per share	18,415	17,956
<u>Departmental allocation of stock-based compensation</u>		
Cost of service revenues	\$	\$ 3
Selling and marketing expense		16
Research and development expense	30	28
General and administrative expense	2	3
Total stock-based compensation	\$ 32	\$ 50

See accompanying condensed notes to the unaudited condensed consolidated financial statements.

RAINING DATA CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

THREE MONTHS ENDED JUNE 30,

	2004	(In thousands)	2003
Cash flows from operating activities:			
Net loss	\$	(379)	\$ (500)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:			
Depreciation and amortization of long-lived assets		725	741
Note discount amortization		21	21
Amortization of deferred stock-based compensation		32	50
Change in assets and liabilities:			
Trade accounts receivable		398	119
Other current and non-current assets		86	36
Accounts payable and accrued liabilities		(602)	(912)
Deferred revenue		284	32
Net cash provided by (used for) operating activities		565	(413)
Cash flows from investing activities:			
Purchase of property, furniture and equipment - net		(7)	(1)
Net cash used for investing activities		(7)	(1)
Cash flows from financing activities:			
Proceeds from exercise of stock options and warrants		32	44
Proceeds from issuance of common stock			278
Repayment of debt		(16)	(272)
Net cash provided by financing activities		16	50
Effect of exchange rate changes on cash		(13)	34
Net increase (decrease) in cash and equivalents		561	(330)
Cash and equivalents at beginning of period		7,783	5,279
Cash and equivalents at end of period	\$	8,344	\$ 4,949
Other non-cash activities:			
Issuance of payment-in-kind notes for accrued interest	\$	289	\$ 182

See accompanying condensed notes to the unaudited condensed consolidated financial statements.

RAINING DATA CORPORATION AND SUBSIDIARIES

CONDENSED NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004 (Unaudited)

1. INTERIM FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial information furnished herein reflects all adjustments, consisting only of normal recurring items, which in the opinion of management are necessary to fairly state Raining Data Corporation's (the Company) financial position, the results of its operations and its cash flows for the dates and periods presented and to make such information presented not misleading. 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 omitted pursuant to SEC rules and regulations; nevertheless, management of the Company believes that the disclosures herein are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the Company's audited financial statements for the year ended March 31, 2004, contained in the Company's Annual Report on Form 10-KSB. The results of operations for the period ended June 30, 2004, are not necessarily indicative of results to be expected for any other interim period or the fiscal year ending March 31, 2005.

Stock Options

Pro forma information, which assumes the Company had accounted for stock options granted under the fair value method prescribed by Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-based Compensation, is presented below. The per share weighted-average fair values of stock options granted for the three month periods ended June 30, 2004 and 2003, as estimated using the Black-Scholes option-pricing model were \$2.83 and \$1.50, respectively. The following assumptions were used for the three-month period ended June 30, 2004: dividend yield of 0%; expected volatility of 126%; risk-free interest rate of 4.18%; and expected life of 7 years. The following assumptions were used for the three-month period ended June 30, 2003: dividend yield of 0%; expected volatility of 142%; risk-free interest rate of 3.13%; and expected life of 7 years.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods. The Company's historical and pro forma net loss per share for the three month periods ended June 30, 2004 and 2003 are as follows (in thousands, except per share data):

	2004	Three Months ended June 30,	2003
Net loss:			
As reported	\$	(379)	\$ (500)
Add:			
Stock-based employee compensation expense included in net loss		32	50
Less:			

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Total stock-based employee compensation expense determined under the fair value method for all awards		(290)		(492)
Pro forma net loss:	\$	(637)	\$	(942)
Basic and diluted loss per share				
As reported	\$	(0.02)	\$	(0.03)
Pro forma	\$	(0.03)	\$	(0.05)

Reclassifications

Certain reclassifications have been made to prior period amounts to conform to the current period presentation.

2. LONG-TERM DEBT

Long-term debt of the Company, including the Convertible Subordinated Note payable to Astoria Capital Partners, L.P. (Astoria), the Company's controlling stockholder, as of June 30, 2004 and March 31, 2004, is as follows (in thousands):

**RAINING DATA CORPORATION AND SUBSIDIARIES
LONG-TERM DEBT SCHEDULE**

	June 30, 2004	March 31, 2004
Subordinated Convertible Note payable to Astoria	\$ 23,462	\$ 23,172
Plus accrued interest	292	289
Less unamortized discount	(323)	(344)
	23,431	23,117
Other long-term liabilities	22	38
Total debt	23,453	23,155
Less current portion of long-term debt	(22)	(38)
Total long-term debt	\$ 23,431	\$