RAINING DATA CORP
Form 10QSB/A
March 21, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB/A

(Mark One)

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

For the quarterly period ended September 30, 2001

[ ] 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	94-3046892
(State of Incorporation)	(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 Securities 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 [X] No [ ]

As of March 14, 2002 there were 17,870,266 shares of registrant's Common Stock, $.10 par value, outstanding.

EXPLANATORY NOTE

On February 14, 2002, the Company announced that it would restate its financial statements for the fiscal year ended March 31, 2001, and each of the quarters in the six quarterly periods ended September 30, 2001, due to the misapplication of

certain accounting standards. This amended filing contains restated financial information and related disclosures for the year ended March 31, 2001 and the three and six months ended September 30, 2001 and 2000, and reflects, where appropriate, changes as a result of the restatements.

This amendment does not otherwise attempt to update the information in the originally filed Form 10-QSB to reflect events occurring after the original filing date.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

RAINING DATA CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS

	Restated September 30, 2001 (unaudited)
ASSETS	
Current Assets	
Cash	$ 3,409,000
Trade Accounts Receivable-less allowance for doubtful accounts of $328,000 at September 30, 2001 and $156,000 at March 31, 2001	2,557,000
Other Current Assets	165,000
Total Current Assets	6,131,000
Property, Furniture and Equipment-net	1,178,000
Intangible Assets-net	9,740,000
Goodwill-net	30,130,000
Other Assets	75,000
Total Assets	$ 47,254,000
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities	
Accounts Payable	$ 1,379,000
Accrued Liabilities	3,748,000
Deferred Revenue	4,383,000
Current Portion of Long-Term Debt	160,000
Total Current Liabilities	9,670,000
Long-Term Debt, net of Current Portion	17,581,000
Total Liabilities	27,251,000
Commitments and Contingencies	--
Stockholders' Equity	
Preferred Stock: $1.00 par value; 300,000 shares authorized, issued, and outstanding	300,000
Common Stock: $0.10 par value; 30,000,000 shares authorized, 17,558,538 issued, and outstanding at September 30, 2001; 15,716,090 issued and outstanding at March 31, 2001	1,756,000
Additional Paid-in Capital	94,393,000
Deferred Stock-Based Compensation	(1,752,000)
Accumulated Other Comprehensive Income	713,000
Accumulated Deficit	(75,407,000)
Total Stockholders' Equity	20,003,000

Total Liabilities and Stockholders' Equity	$ 47,254,000

See accompanying notes to the unaudited consolidated financial statements.

RAINING DATA CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	Restated Three Months Ended September 30,		Re Six M Sep
	2001	2000	2001
Net Revenue			
License	$ 2,222,000	$ 834,000	$ 5,074,00
Service	2,371,000	235,000	4,755,00
Total Net Revenue	4,593,000	1,069,000	9,829,00
Costs of Revenue			
Cost of License Revenue	87,000	11,000	193,00
Cost of Service Revenue	970,000	146,000	2,019,00
Total Cost of Revenues	1,057,000	157,000	2,212,00
Gross Profit	3,536,000	912,000	7,617,00
Cost of Operations			
Selling and Marketing	1,599,000	1,164,000	3,711,00
Research and Development	1,525,000	586,000	2,741,00
General and Administrative	1,637,000	327,000	3,413,00
Stock-Based Compensation	257,000	357,000	613,00
Amortization of Goodwill and Intangible Assets	3,196,000	--	6,382,00
Total Operating Expense	8,214,000	2,434,000	16,860,00
Operating Loss	(4,678,000)	(1,522,000)	(9,243,00
Other Expense			
Interest Expense-net	(950,000)	(58,000)	(1,847,00
Other Expense	1,000	(5,000)	(49,00
	(949,000)	(63,000)	(1,896,00
Net Loss	$ (5,627,000)	$ (1,585,000)	$(11,139,00

Basic and Diluted Net Loss Per Share	$ (0.36)	$ (0.16)	$ (0.7
Weighted Average Number of Common Shares Outstanding	15,757,319	10,133,995	15,770,77

See accompanying notes to the unaudited consolidated financial statements.

RAINING DATA CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Res Six Mon Septe
	2001
Cash flows from operating activities:	
Net loss	$(11,139,000)
Adjustments to reconcile net loss to net cash used for operating activities:	
Depreciation and amortization	6,750,000
Note discount amortization	1,809,000
Stock-based compensation	613,000
Software exchanged for common stock	--
Change in assets and liabilities:	
Trade accounts receivable	(55,000)
Other current and non-current assets	292,000
Accounts payable and accrued liabilities	(522,000)
Deferred revenue	1,109,000
Net cash used for operating activities	(1,143,000)
Cash flows from investing activities:	
Purchase of furniture and equipment	(96,000)
Acquisition of software assets	--
Net cash used for investing activities	(96,000)
Cash flows from financing activities:	
Proceeds from exercise of incentive stock options	45,000
Net proceeds from issuance of common stock	2,319,000
Additions of debt	--
Repayment of debt	(168,000)
Net cash provided by financing activities	2,196,000
Effect of exchange rate changes on cash	28,000

Net increase in cash	985,000
Cash at the beginning of period	2,424,000
Cash at end of period	$ 3,409,000

See accompanying condensed notes to the unaudited consolidated financial statements.

RAINING DATA CORPORATION
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2001
(Unaudited)

Note 1 - Restatement of Financial Statements

Subsequent to the filing of its Quarterly Report on Form 10-QSB for the quarter ended September 30, 2001 with the Securities and Exchange Commission, the Company became aware of certain misapplications of accounting standards related to the accounting for its business combination with PickAX, Inc. (PickAX) under the purchase method in December 2000, the purchase of technology from a third party in May 2000 and the grant of options at below market exercise prices. These misapplications can be summarized as follows:

- In computing the purchase price, the Company used the fair value of its common stock around the date the merger agreement was signed to value common stock, warrants and options to purchase common stock exchanged for similar securities of PickAX. Portions of the merger consideration were, however, to be determined based upon subsequent negotiations between the Company and PickAX's controlling stockholder. These negotiations were completed on the closing date. As a result the Company should have used the fair value of its common stock around the closing date to value stock-based merger consideration. In addition, the Company included certain shares and warrants that were contingently issuable based upon the amount of revenue reported by the combined company for the succeeding twelve months. Contingent consideration of this nature should not be included in the purchase price until the resolution of the contingency is determinable beyond a reasonable doubt.

- In connection with the merger with PickAX, a promissory note previously issued by PickAX to Astoria Capital Partners, L.P. (Astoria) in the amount of $18,525,000 in principal and accrued interest was exchanged for a new promissory note from the Company in the same amount, and Astoria also received warrants to purchase an additional 500,000 shares of the Company's common stock at an exercise price of $7.00 per share. The additional warrants were valued using the Black-Scholes model and recorded as a discount against the note. One of the assumptions used in the Company's

Black-Scholes computation was that the term of the warrant was two years. The contractual term of the option is, in fact, 5 years and the full contractual term should be used in the Black-Scholes calculation.

- The Company assigned the entire excess of the purchase price over the book value of the acquired net tangible assets to goodwill. The Company retained a valuation expert to determine the value of other identifiable intangible assets acquired in the PickAX acquisition. As a result, a portion of the purchase price should have been assigned to identifiable intangible assets, consisting principally of core technology and assembled workforce. These identifiable intangible assets will be amortized over periods ranging from 3 to 4 years. The Company has also reconsidered its determination of the amortization period for goodwill and retroactively reduced the period from 10 to 4 years. In addition, options to purchase PickAX common stock were assumed and converted in the merger into Company options to purchase common stock. A portion of the purchase price should have been allocated to unvested options whose exercise price is below the fair value of the underlying common stock on the closing date. The purchase price allocation should have also included an adjustment to reduce the carrying value of deferred revenue on the closing date balance sheet of PickAX for the theoretical seller's profit previously earned by the acquired company. The Company also recorded excess amounts for a number of facility closure, severance and litigation accruals as part of the purchase price allocation and these were subsequently released, in part, to income.

- In May 2000, the Company acquired the rights to certain incomplete software with no alternative future use with the intention to further develop it into a software product. The Company recorded the payments related to the incomplete software as an asset. The Company's policy for software development costs is to expense software development costs until technological feasibility has been achieved. In general, technological feasibility occurs near general release. Since this purchased software was incomplete and significant development efforts were required before it could be released, the amounts capitalized should have been expensed as incurred.

- At various dates during fiscal 2001 and 2002, the Company granted options to purchase common stock to employees with an exercise price at a discount from the fair market value of the common stock on the date of grant. In addition, the Company accelerated vesting or extended the term of options held by terminated employees. In neither instance did the Company record deferred stock-based compensation or stock-based compensation.

Accordingly, the consolidated financial statements for the quarters ended September 30, 2001 and 2000 have been restated as follows:

	2001		
	As Reported	Restated	As Repor
Net Revenues			
Licenses	$ 2,200,000	2,222,000	851,
Services	2,825,000	2,371,000	235,
Total Net Revenues	5,025,000	4,593,000	1,086,

Total Costs and Expenses	7,962,000	9,271,000	2,448,
Operating Loss	(2,937,000)	(4,678,000)	(1,362,
Total Other Expense	(822,000)	(949,000)	(59,
Net Loss	$ (3,759,000)	$ (5,627,000)	$ (1,421,
Basic and Diluted Net Loss Per Share	$ (.23)	$ (.36)	$ (
Weighted Average Number of Common Shares Outstanding	16,101,555	15,757,319	10,247,

The consolidated financial statements for the six months ended September 30, 2001 and 2000 have been restated as follows:

	2001		
	As Reported	Restated	As Report
Net Revenues			
Licenses	$ 5,103,000	$ 5,074,000	$ 1,665,
Services	5,930,000	4,755,000	407,
Total Net Revenues	11,033,000	9,829,000	2,072,
Total Costs and Expenses	16,365,000	19,072,000	5,364,
Operating Loss	(5,332,000)	(9,243,000)	(3,292,
Total Other Expense	(1,695,000)	(1,896,000)	(103,
Net Loss	$ (7,027,000)	$(11,139,000)	$ (3,395,
Basic and Diluted Net Loss Per Share	$ (.44)	$ (.71)	$ (
Weighted Average Number of Common Shares Outstanding	16,055,574	15,770,777	9,768,

2. INTERIM FINANCIAL STATEMENTS

The unaudited interim 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 the Company's financial position, the results of its operations and the changes in its financial position for the periods presented. 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 such SEC rules and regulations; nevertheless management of the Company believes that the disclosures herein are adequate to make the information presented not misleading. These consolidated financial

statements should be read in conjunction with the Company's audited financial statements for the year ended March 31, 2001 contained in the Company's Annual Report on Form 10-KSB. The results of operations for the period ended September 30, 2001 are not necessarily indicative of results to be expected for any other interim period or the fiscal year ending March 31, 2002.

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3. RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2001, the FASB issued SFAS No. 141, Business Combinations, (SFAS No. 141) and SFAS No. 142, Goodwill and Other Intangible Assets (SFAS No. 142). SFAS No. 141 requires that the purchase method of accounting be used for all business combinations. SFAS No. 141 specifies criteria that intangible assets acquired in a business combination must meet to be recognized and reported separately from goodwill. SFAS No. 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121 and subsequently, SFAS No. 144 after its adoption.

The Company adopted the provisions of SFAS No. 141 as of July 1, 2001, and SFAS No. 142 is effective for the Company on April 1, 2002. Goodwill and intangible assets determined to have an indefinite useful life acquired in a purchase business combination completed after June 30, 2001, but before SFAS No. 142 is adopted in full, are not amortized. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 continued to be amortized and tested for impairment prior to the full adoption of SFAS No. 142.

Upon adoption of SFAS No. 142, the Company is required to evaluate its existing intangible assets and goodwill that were acquired in purchase business combinations, and to make any necessary reclassifications in order to conform with the new classification criteria in SFAS No. 141 for recognition separate from goodwill. The Company will be required to reassess the useful lives and residual values of all intangible assets acquired, and make any necessary amortization period adjustments by the end of the first interim period after adoption. If an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of SFAS No. 142 within the first interim period. Impairment is measured as the excess of carrying value over the fair value of an intangible asset with an indefinite life. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

In connection with SFAS No. 142's transitional goodwill impairment evaluation, the Statement requires the Company to perform an assessment of whether there is an indication that goodwill is impaired as of the

date of adoption. To accomplish this, the Company must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of April 1, 2002. The Company will then have up to six months from April 1, 2002 to determine the fair value of each reporting unit and compare it to the carrying amount of the reporting unit. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit, an indication exists that the reporting unit goodwill may be impaired and the Company must perform the second step of the transitional impairment test. The second step is required to be completed as soon as possible, but no later than the end of the year of adoption. In the second step, the Company must compare the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill, both of which would be measured as of the date of adoption. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation, in accordance with SFAS No. 141. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Company's statement of operations.

As of the date of adoption of SFAS No. 142, the Company expects to have unamortized goodwill in the amount of $25.4 million and unamortized identifiable intangible assets in the amount of $8.1 million, all of which will be subject to the transition provisions of SFAS No. 142. Amortization expense related to goodwill was $3.1 million for the year ended March 31, 2001. Because of the extensive effort needed to comply with adopting SFAS No. 141 and No. 142, it is not practicable to reasonably estimate the impact of adopting the Statements on the Company's consolidated financial statements at the date of this report, including whether it will be required to recognize any transitional impairment losses as the cumulative effect of a change in accounting principle.

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations (SFAS No. 143). SFAS No. 143 requires the Company to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The Company also records a corresponding asset which is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The Company is required to adopt SFAS No. 143 on April 1, 2003, but does not expect adoption to have a material effect on its financial condition or results of operations.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144). SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash

flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. SFAS No. 144 requires companies to separately report discontinued operations and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held for sale. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The Company is required to adopt SFAS No. 144 on April 1, 2002. The Company has not yet determined the effect, if any, from the adoption of SFAS No. 144 on its financial condition and results of operations.

4. STOCKHOLDERS' EQUITY:

On September 27, 2001, the Company entered into a Common Stock Purchase Agreement with Astoria whereby the Company issued 1,760,000 shares of its common stock for consideration of $2,200,000. The common stock is not registered and Astoria is entitled to one vote for each share of common stock held.

9. PRO FORMA FINANCIAL INFORMATION:

Had the Company acquired PickAX at the beginning of the Company's fiscal year on April 1, 2000, the unaudited pro forma results for the three and six months ended September 30, 2000, would have been approximately as shown in the following table.

	Three Months Ended September 30, 2000	Six Months Ended September 30, 2000
Revenue	$ 5,370,000	$ 9,861,000
Net Loss	$ (7,253,000)	$(18,848,000)
Loss Per Share	$ (0.52)	$ (1.32)

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

This Item 2, as well as other portions of this document, contains forward-looking statements about the Company's business, revenues, expenditures,

research and development efforts, operating and capital requirements, changes in operations, integration of the acquisition of PickAX, products, initial markets for its products, cost savings and reductions, and ability to raise capital in the future. In addition, forward-looking statements may be included in various other Company documents to be issued concurrently or in the future and in oral or other statements made by representatives of the Company to investors and others from time to time.

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Forward-looking statements are subject to risks and uncertainties which could cause actual results to differ materially from predicted results.

Such risks include, among others, that the Company may not be able to integrate the technologies, products, and operations of the two companies in a timely and effective way; that the Company may not be able to achieve the cost reductions or eliminate the duplicate and redundant facilities and contracts in a timely manner or at all; that the Company may not introduce new or improved products in a timely fashion or at all; that the Company's shift in research and development efforts may not result in new or improved products; that the marketplace may not accept any new or improved products; that the presence of competitors with greater technical, marketing and financial resources may significantly limit the growth and impact of the Company; that the Company may not be able to raise additional funds when needed on favorable terms, or at all; or that the Company may not be able to retire the debt due in November 2002.

The outline of risks mentioned above and this discussion should be read in conjunction with the discussion of "Risk Factors" in the Company's 10-KSB for the fiscal year ended March 31, 2001.

OVERVIEW

Effective December 1, 2000 the Company completed the acquisition of PickAX, Inc, a Delaware corporation ("PickAX"), pursuant to an Agreement and Plan of Merger dated August 23, 2000. Concurrent with the acquisition, the Company changed its name to Raining Data Corporation. The principal asset of PickAX is Pick Systems, now a wholly owned subsidiary, which PickAX acquired from the estate of Richard Pick, the founder of Pick Systems, in March 2000. Pick Systems was incorporated in California in November 1982.

The Company's principal business is the design, development, sale, and support of two major software product lines: Multi-Dimensional Databases and Rapid Application Development ("RAD") software tools. The Company's products allow customers to create and enhance flexible software applications tailor-made to their own needs. The Company's database products are based on a multi-dimensional data model and designed to operate in such operating environments as Windows, Unix and Linux. Similarly, the Company's RAD products support the full lifecycle of application development and are designed for the rapid prototyping, development and deployment of GUI Client/Server and Web applications. The Company's RAD products are object-oriented and component-based, providing the ability to deploy applications on such operating system platforms as Windows, Unix and Linux, as well as such database environments as Oracle, DB2, Sybase, Microsoft SQL Server and other Open Data Base Connectivity ("ODBC") compatible database management systems. Since the start of the 2002 fiscal year, the Company has been changing the mix of its research and development efforts to include a focus on technologies, markets and products outside its historical market, specifically XML-based products for Internet infrastructure. There can be no assurance that such shifts will result in new products or that any new products will be successful.

The Company's products are used by in-house corporate development teams, commercial application developers, system integrators, independent software vendors and independent consultants.

The Company licenses its software on a per-server basis or per-user basis. Additional servers and users, as applicable, on existing systems increase the Company's revenue from its installed base of licenses.

In addition to computer software products, the Company provides continuing maintenance and customer service contracts, as well as professional services, technical support and training to help plan, analyze, implement and maintain application software based on the Company's products.

The Company has direct sales offices in the United States, United Kingdom, France and Germany, and maintains distributor relationships in many other parts of the world. The office in South Africa was closed at the end of June 2001.

RESULTS OF OPERATIONS

As a result of the acquisition of PickAX on December 1, 2000, the results of operations for the three and six month periods ended September 30, 2001 differ materially from the same periods in the prior fiscal year. Consequently, the results of prior periods are not comparable to these periods or future periods.

RESTATEMENT OF FINANCIAL STATEMENTS

Subsequent to the filing of its Annual Report on Form 10-QSB for the quarter ended September 30, 2001 with the Securities and Exchange Commission, the Company became aware of certain misapplications of accounting standards related to the accounting for its business combination with PickAX, Inc. (PickAX) under the purchase method in December 2000, the purchase of technology from a third party in May 2000 and the grant of options at below market exercise prices. These misapplications can be summarized as follows:

- In computing the purchase price, the Company used the fair value of its common stock around the date the merger agreement was signed to value common stock, warrants and options to purchase common stock exchanged for similar securities of PickAX. Portions of the merger consideration were, however, to be determined based upon subsequent negotiations between the Company and PickAX's controlling stockholder. These negotiations were completed on the closing date. As a result the Company should have used the fair value of its common stock around the closing date to value stock-based merger consideration. In addition, the Company included certain shares and warrants that were contingently issuable based upon the amount of revenue reported by the combined company for the succeeding twelve months. Contingent consideration of this nature should not be included in the purchase price

until the resolution of the contingency is determinable beyond a reasonable doubt.

- In connection with the merger with PickAX, a promissory note previously issued by PickAX to Astoria Capital Partners, L.P. (Astoria) in the amount of $18,525,000 in principal and accrued interest was exchanged for a new promissory note from the Company in the same amount, and Astoria also received warrants to purchase an additional 500,000 shares of the Company's common stock at an exercise price of $7.00 per share. The additional warrants were valued using the Black-Scholes model and recorded as a discount against the note. One of the assumptions used in the Company's Black-Scholes computation was that the term of the warrant was two years. The contractual term of the option is, in fact, 5 years and the full contractual term should be used in the Black-Scholes calculation.

- The Company assigned the entire excess of the purchase price over the book value of the acquired net tangible assets to goodwill. The Company retained a valuation expert to determine the value of other identifiable intangible assets acquired in the PickAX acquisition. As a result, a portion of the purchase price should have been assigned to identifiable intangible assets, consisting principally of core technology and assembled workforce. These identifiable intangible assets will be amortized over periods ranging from 3 to 4 years. The Company has also reconsidered its determination of the amortization period for goodwill and retroactively reduced the period from 10 to 4 years. In addition, options to purchase PickAX common stock were assumed and converted in the merger into Company options to purchase common stock. A portion of the purchase price should have been allocated to unvested options whose exercise price is below the fair value of the underlying common stock on the closing date. The purchase price allocation should have also included an adjustment to reduce the carrying value of deferred revenue on the closing date balance sheet of PickAX for the theoretical seller's profit previously earned by the acquired company. The Company also recorded excess amounts for a number of facility closure, severance and litigation accruals as part of the purchase price allocation and these were subsequently released, in part, to income.

- In May 2000, the Company acquired the rights to certain incomplete software with no alternative future use with the intention to further develop it into a software product. The Company recorded the payments related to the incomplete software as an asset. The Company's policy for software development costs is to expense software development costs until technological feasibility has been achieved. In general, technological feasibility occurs near general release. Since this purchased software was incomplete and significant development efforts were required before it could be released, the amounts capitalized should have been expensed as incurred.

- At various dates during fiscal 2001 and 2002, the Company granted options to purchase common stock to employees with an exercise price at a discount from the fair market value of the common stock on the date of grant. In addition, the Company accelerated vesting or extended the term of options held by terminated employees. In neither instance did the Company record deferred stock-based compensation or stock-based compensation.

Accordingly, the consolidated financial statements for the quarters ended September 30, 2001 and 2000 have been restated as follows:

	2001		
	As Reported	Restated	As Repor
Net Revenues			
Licenses	$ 2,200,000	2,222,000	851,
Services	2,825,000	2,371,000	235,
Total Net Revenues	5,025,000	4,593,000	1,086,
Total Costs and Expenses	7,962,000	9,271,000	2,448,
Operating Loss	(2,937,000)	(4,678,000)	(1,362,
Total Other Expense	(822,000)	(949,000)	(59,
Net Loss	$ (3,759,000)	$ (5,627,000)	$ (1,421,
Basic and Diluted Net Loss Per Share	$ (.23)	$ (.36)	$ (
Weighted Average Number of Common Shares Outstanding	16,101,555	15,757,319	10,247,

The consolidated financial statements for the six months ended September 30, 2001 and 2000 have been restated as follows:

	2001		
	As Reported	Restated	As Report
Net Revenues			
Licenses	$ 5,103,000	$ 5,074,000	$ 1,665,
Services	5,930,000	4,755,000	407,
Total Net Revenues	11,033,000	9,829,000	2,072,
Total Costs and Expenses	16,365,000	19,072,000	5,364,
Operating Loss	(5,332,000)	(9,243,000)	(3,292,
Total Other Expense	(1,695,000)	(1,896,000)	(103,
Net Loss	$ (7,027,000)	$(11,139,000)	$ (3,395,
Basic and Diluted Net Loss Per Share	$ (.44)	$ (.71)	$ (
Weighted Average Number of Common Shares Outstanding	16,055,574	15,770,777	9,768,

Net Revenue: Total net revenue for the three month period ended September 30, 2001 increased 330% from $1,069,000 to $4,593,000 over the same three month period in the prior fiscal year. License revenue increased 166% from $834,000 to $2,222,000 while service revenue increased 909% from $235,000 to $2,371,000 over the same three month period in the prior fiscal year.

Total net revenue for the six month period ended September 30, 2001 increased 383% from $2,033,000 to $9,829,000 over the same six month period in the prior fiscal year. License

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License revenue increased 212% to $5,074,000 from $1,626,000 while services revenue increased 1,068% to $4,755,000 from $407,000 for the same six month period in the prior fiscal year.

The increase in net revenue in total and by category is primarily due to the acquisition of PickAX in December 2000.

As a result of the PickAX acquisition, the mix of revenue also changed. Service revenue, which includes primarily revenue from technical support services as well as revenue from consulting services and training services, increased to 52% of total year revenue for the three month period ended September 30, 2001 from 22% of total revenue for the same three month period in the prior fiscal year. Service revenue increased to 48% of total year revenue for the six month period ended September 30, 2001 from 20% of total revenue for the same six month period in the prior fiscal year.

Cost of License Revenue: Total cost of license revenue increased 691% to $87,000 for the three month period ended September 30, 2001 from $11,000 for the three month period in the prior fiscal year. At the same time, cost of license revenue increased to 4% of license revenue for the three month period ended September 30, 2001, from 1% of license revenue for the same three month period in the prior fiscal year due to the shift in product mix sold as a result of the PickAX acquisition.

Total cost of license revenue increased 329% to $193,000 for the six month period ended September 30, 2001 from $45,000 for the six month period in the prior fiscal year . At the same time, cost of license revenue increased slightly from 3% of license revenue for the same six month period in the prior fiscal year to 4% of license revenue for the six month period ended September 30, 2001.

The slight increase in the cost of license revenue as a percentage of license revenue reflects the changing mix of product shipments towards the PickAX products.

Cost of Service Revenue: Total cost of service revenue increased 564% to $970,000 for the three month period ended September 30, 2001, from $146,000 for the same three month period in the prior fiscal year reflecting the results of the PickAX acquisition. At the same time, cost of service revenue decreased to 41% of service revenue for the three months ended September 30, 2001 from 62% of service revenue for the same three month period in the prior fiscal year.

Total cost of service revenue increased 436% to $2,019,000 for the six month period ended September 30, 2001 from $377,000 for the same six month period in the prior fiscal year reflecting the results of the PickAX acquisition. At the same time, cost of service revenue decreased to 42% of service revenue for the six months ended September 30, 2001 from 93% of service revenue for the same six month period in the prior fiscal year .

The reduction in the cost of service revenue as a percentage of service revenue reflects the continuing efforts of the Company to improve the financial contribution of service businesses, including customer support, professional consulting services, training and education.

Selling and Marketing Expenses: Selling and marketing expenses increased 37% to $1,599,000 from $1,164,000 for the same three month period in the prior fiscal year for the three month period ended September 30, 2001. At the same time, sales and marketing expenses decreased from 109% of total revenues for the same three month period in the prior fiscal year to 35% of total revenues for the three month period ended September 30, 2001.

Selling and marketing expenses increased 47% to $3,711,000 for the six month period ended September 30, 2001 from $2,529,000 for the same six month period in the prior fiscal year. At the same time, sales and marketing expenses decreased to 38% of total revenues for the six month period ended September 30, 2001 from 124% of total revenues for the same six month period in the prior fiscal year.

The increase in selling and marketing expenses reflects the efforts of the company to sell and market the broader range of products offered by the acquisition of PickAX. During the three months ended September 30, 2001, the Company made a number of changes in its selling and marketing cost structure to further combine and to streamline the Company's sales and marketing efforts.

Research and Development Expenses: Research and development expenses increased 160% to $1,525,000 from $586,000 for the same three month period in the prior fiscal year for the three month period ended September 30, 2001. At the same time, research and development expenses decreased to 33% of total revenues for the three month period ended September 30, 2001 from 55% of total revenues for the same three month period in the prior fiscal year.

Research and development expenses increased 28% to $2,741,000 for the six month period ended September 30, 2001 from $2,138,000 for the same six month period in the prior fiscal year reflecting the results of the PickAX acquisition. At the same time, research and development expenses decreased to 28% of total revenues for the six month period ended September 30, 2001 from 105% of total revenues for the same six month period in the prior fiscal year.

During the six month period ended September 30, 2001, the Company began changing the mix of its research and development efforts to include a significant focus on technologies, markets and products outside its historical market, specifically XML-based products for Internet infrastructure. There can be no assurance that such shifts will result in new products or that any new products will be successful.

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General and Administrative Expenses: General and administrative expenses increased 401% to $1,637,000 for the three month period ended September 30, 2001 from $327,000 for the same three month period in the prior fiscal year.

General and administrative expenses increased 347% to $3,413,000 for the six month period ended September 30, 2001 from $764,000 for the same six month period in the prior fiscal year reflecting the results of the PickAX acquisition.

Stock Based Compensation: Stock based compensation decreased to $257,000 for the three months ended September 30, 2001, from $357,000 in the comparable prior year period. Stock-based compensation also decreased to $616,000 for the six months ended September 30, 2001, from $626,000 in the comparable prior year period. The decrease is primarily attributable to the cancellation of options for terminated employees partially offset by additional stock-based compensation arising from the "in-the-money" options assumed in connection with the PickAX acquisition.

Amortization of Goodwill and Intangible Assets: Amortization of goodwill and intangible assets was $3,196,000 and $6,382,000 for the three and six month periods ended September 30, 2001, respectively. Amortization of goodwill and intangible assets arises from the acquisition of PickAX effective December 1, 2000.

Operating Loss: The Company's operating loss increased 207% to a net operations loss of $4,678,000 for the three month period ended September 30, 2001 from a net operating loss of $1,522,000 for the same three month period in the prior fiscal year.

The Company's operating loss increased 108% to a net operating loss of $9,243,000 for the six month period ended September 30, 2001 from a net operating loss of $4,446,000 for the same six month period in the prior fiscal year.

The operating loss for the six months period ended September 30, 2001 and September 30, 2000 include non cash charges for depreciation and various amortizations. The following table summarizes these charges for the period indicated.

(Unaudited)	Restated Three Months Ended September 30,		R E
	2001	2000	200
Operating loss	$ (4,678,000)	$ (1,522,000)	$(9,2
Add non-cash charges			
Depreciation of property, furniture and equipment	167,000	4,000	3
Amortization of Intangible Assets	822,000	--	1,6
Amortization of Stock-Based Compensation	257,000	357,000	6
Amortization of Goodwill	2,374,000	--	4,7
Operating Loss Before Depreciation and Amortization	$ (1,058,000)	$ (1,161,000)	$(1,8

Interest and Other Expense: Net interest expense increased to $949,000 for the three months ended September 30, 2001 from $63,000 for the same three month period in the prior fiscal year.

Net interest expense increased to $1,896,000 for the six months ended September 30, 2001 from $107,000 for the same six month period in the prior fiscal year. The increase reflects the increase in debt of the Company.

Net Loss: The net loss increased 255% to a net loss of $5,627,000 or ($.36) per share for the three month period ended September 30, 2001 from $1,585,000 for the same three month period in the prior fiscal year.

The net loss increased 145% to a net loss of $11,139,000 or $(.71) per share for the six months ended September 30, 2001 from $4,553,000 for the same six month period in the prior fiscal year.

LIQUIDITY AND CAPITAL RESOURCES

The Company had $3,409,000 in cash and equivalents at September 30, 2001.

The Company does not have a line of credit with a bank. The recent financial performance of the Company makes such a line of credit unlikely at the present time. Astoria is the primary secured party of substantially all of the Company's assets in relation to the replacement note issued in connection with the December 1, 2000 acquisition of PickAX. The note does not provide for any further borrowings. The note requires certain payments in the event of a public or private common or preferred stock offering and gives Astoria certain rights to approve any future acquisitions. There can be no assurances that the Company will have sufficient cash to pay the note at maturity.

The Company had a working capital deficit of $3,539,000 at September 30, 2001

compared to a working capital deficit of $3,240,000 at March 31, 2001. In calculating the deficit, current liabilities at September 30, 2001, included approximately $4,383,000 in deferred revenue that the Company earns over the remaining life of the underlying service contracts as more fully discussed in the notes to the consolidated financial statements.

On September 27, 2001, the Company entered into a Common Stock Purchase Agreement with Astoria pursuant to which the Company received an aggregate of $2.2 million in consideration for 1,760,000 shares of the Company's common stock at a price of $1.25 per share. In connection with this offering, Astoria waived the payment provisions of the Astoria note triggered by the offering.

Management believes that the Company's working capital and future cash flow from operating activities will be sufficient to meet the Company's operating and capital expenditure requirements for at least the next twelve months. However, in the event the Company experiences a decrease in revenue or increase in expenses or other unforeseen event, the Company may require additional funds to support its working capital requirements and may seek to raise such funds through public or private equity financing or bank lines of credit or from other sources. No assurances can be given that additional financing will be available or that, if available, such financing will be on terms favorable to the Company.

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

GENERAL AUTOMATION LITIGATION - In May 2001, General Automation initiated litigation in Superior Court of the State of California for the County of Orange against the Company for breach of contract relating to the Pick Systems purchase of selected assets of General Automation in August 2000. General Automation seeks in excess of $1,000,000 in damages, penalties and interest, in addition to attorneys' fees and costs. The Company has asserted counterclaims for fraud, breach of contract and indemnity. The Company believes that the suit is without merit and intends to defend the suit vigorously. A jury trial is scheduled to begin July 28, 2002.

DOUCE BIS LITIGATION - In June 2001, Douce Bis Company sued the Company in the Commercial Court of Paris, France for approximately $990,000 plus costs. The claim is for compensation and loss of profits due Douce Bis under the terms of the Douce Bis/Omnis distributorship agreement entered into in 1983 and extended from time to time thereafter. The Company terminated Douce Bis as the Omnis distributor in France effective in December 2000. The Company believes the suit is without merit and intends to defend the suit vigorously. The litigation is in the discovery phase and a hearing is scheduled in March 2002.

PACE-NORTHERN IRELAND LITIGATION - In July 2000, Park Applications Computer Engineering, Ltd. (PACE) sued the Company in the Queen's Bench Division Company of the High Court of Justice in Northern Ireland. PACE sought damages of $800,000 plus penalties and interest for alleged breach of contract relating to the purchase by Pick Systems of software from PACE. In January 2002, the Company and PACE entered into a settlement agreement of the matter under which the Company agreed to pay $500,000 to PACE. Of this settlement, $250,000 was paid to PACE in January 2002 and the remaining $250,000 will be paid over a two year period.

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The Company is from time to time subject to claims and suits arising in the ordinary course of business. In the Company's opinion, the ultimate resolution of these matters will not have a material adverse effect on its financial position, results of operations, or liquidity.

ITEM 2. CHANGES IN SECURITIES

During the quarter ended September 30, 2001, the Company issued the following unregistered shares of its common stock:

(1) On September 5, 2001, the Company issued 37,500 shares to the partners of the Wainer Group, an Australian partnership, as final payment for additional services performed by the Wainer Group under an Asset Purchase Agreement dated as of May 19, 2000 in which the Company purchased incomplete computer software. The issuance of the shares to these individuals was exempt from the provisions of Section 5 of the Securities Act of 1933, as amended (the "Securities Act") under Section 4(2) thereof and/or Regulation S promulgated under the Securities Act. The Company did not offer the shares through any general solicitation, and each purchaser represented that it (i) has such knowledge and experience in financial and business matters so as to be capable of evaluating the merits and risks of the investment, and (ii) is acquiring the shares for its own account, for investment purposes and without a view to distribution.

(2) On September 27, 2001, the Company issued 1,760,000 shares to Astoria for a price of $1.25 per share, which the Board of Directors found to be fair considering the difficulty and cost of raising additional capital for the Company in the investment climate prevailing at the time. The issuance of the shares to Astoria was exempt from the provisions of Section 5 of the Securities Act under Section 4(2) thereof and/or Regulation D promulgated thereunder. The Company did not offer the shares through any general solicitation, and the purchaser represented that it (i) is an "accredited investor" within the meaning of Regulation D, (ii) has such knowledge and experience in financial and business matters so as to be capable of evaluating the merits and risks of the investment, and (iii) is acquiring the shares for its own account, for investment purposes and without a view to distribution.

ITEM 5. OTHER EVENTS

In connection with certain option grants and the September 27, 2001 sale of 1,760,000 shares of common stock to Astoria, automatic adjustments were made to certain outstanding warrants to purchase the Company's common stock pursuant to anti-dilution provision in such instruments. As a result of such anti-dilution adjustments, the number of shares of the Company's common stock underlying such warrants increased by an aggregate of 156,748 shares.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

Number	Description
10.20	Common Stock Purchase Agreement-2001, dated as of September 27, 2001, among Raining Data Corporation and Astoria Capital Partners, L.P. (incorporated by reference to Exhibit 10.1 to Form 8-K filed by the Company on October 1, 2001)
10.21	Registration Rights Agreement, dated as of September 27, 2001, by and among Raining Data Corporation and Astoria Capital Partners, L.P. (incorporated by reference to Exhibit 10.2 to Form 8-K filed by the Company on October 1, 2001)
10.22*	Option Agreement dated September 24, 2001, between the Company and Carlton H. Baab
10.23*	Waiver Letter dated as of September 27, 2001 from Astoria Capital Partners, L.P. regarding the Secured Promissory Note dated November 30, 2000

* Previously filed with the Commission.

(b) Reports on Form 8-K.

(1) The Company filed a Form 8-K/A on June 21, 2001 to amend the Form 8-K filed December 15, 2000 to include certain financial statements and pro forma financial information relating to the merger of PickAX, Inc. into a subsidiary of the Company and the Private Placement of the Company's common stock shortly thereafter.

(2) The Company filed a Form 8-K/A on August 27, 2001 to amend the Form 8-K filed December 15, 2000 to include an exhibit to the Form 8-K indicating the agreement of the Company's former independent auditors with the statements made in Item 4 therein.

(3) The Company filed a Form 8-K/A on August 30, 2001 reporting the following: resignation of Richard K. Lauer as President and Chief Operating Officer; resignation of Timothy J. Holland as Senior Vice President and Chief Technology Officer; resignation of Bryce J. Burns as Chairman of the Board and Interim Chief Executive Officer of the Company (Burns remains a Director of the Company); election of Geoffery P. Wagner, the sole general partner of the Rockport Group, L.P., a large stockholder of the Company, as Chairman of the Board; and election of Carlton H. Baab, a managing principal of Astoria as President and Chief Executive Officer of the Company.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: March 20, 2002

RAINING DATA CORPORATION

By: /s/ Scott K. Anderson, Jr.

Scott K. Anderson, Jr.
Vice President Finance, Treasurer and Secretary
(Principal Financial and Accounting Officer)