WALKER INTERACTIVE SYSTEMS INC
Form 10-Q
May 11, 2001

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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2001

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 0-19872

WALKER INTERACTIVE SYSTEMS, INC. (Exact name of Registrant as specified in its Charter)

Delaware	**95-2862954**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

303 Second Street
San Francisco, California 94107
(Address of Principal Executive Offices including Zip Code)

(415) 495-8811
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

There were 14,848,563 Shares of $.001 Par Value Common Stock outstanding as of May 8, 2001.

WALKER INTERACTIVE SYSTEMS, INC.
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Item 1. Financial Statements See notes to consolidated financial statements

WALKER INTERACTIVE SYSTEMS, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands)

	March 31, 2001 (unaudited)	December 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$5,170	$4,219
Short-term investments	3,411	5,400
Accounts receivable, net of allowance for doubtful accounts of $1,000 - March 31, 2001 and $1,528 - December 31, 2000	10,512	8,816
Prepaid expenses	1,189	854
Other receivables	331	370
Total current assets	20,613	19,659
Property and equipment, net	1,941	2,121
Capitalized software, net of accumulated amortization of $48,647 - March 31, 2001 and $56,932 - December 31, 2000	4,095	4,541
Long-term accounts receivable	1,081	1,144
Other assets	94	95
Total assets	$27,824	$27,560
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$2,373	$2,625
Accrued liabilities	11,142	11,614
Deferred revenue	13,717	12,706
Total current liabilities	27,232	26,945
Deferred revenue	2,268	2,551
Other long-term obligations	3,081	3,287

Total liabilities	32,581	32,783
Commitments and contingencies		
Stockholders' equity (deficit)		
Common stock, $.001 par value: 50,000 shares authorized; issued 14,843 shares - March 31, 2001; 14,661 shares - December 31, 2000	15	15
Additional paid-in capital	76,672	76,458
Accumulated other comprehensive income	625	501
Accumulated deficit	(82,069)	(82,197)
Total stockholders' equity(deficit)	(4,757)	(5,223)
Total liabilities and stockholders' equity (deficit)	$27,824	$27,560

See notes to consolidated financial statements

WALKER INTERACTIVE SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(in thousands, except per share amounts)

	Three Months Ended March 31,	
	2001	**2000**
REVENUES:		
License	$3,823	$826
Maintenance	5,754	7,612
Consulting	3,057	6,012
Total revenues	12,634	14,450
OPERATING EXPENSES:		
Costs of revenues:		
Costs of licenses, maintenance and consulting	4,051	7,858
Amortization of capitalized software	763	1,327
Sales and marketing	3,174	4,573
Product development	2,589	3,023
General and administrative	2,028	3,325
Total operating expenses	12,605	20,106
Operating income (loss)	29	(5,656)

Interest income, net	131	297
Income (loss) before income taxes	160	(5,359)
Provision for income taxes	25	48
NET INCOME (LOSS)	**135**	**(5,407)**
BASIC NET INCOME (LOSS) PER SHARE	**$0.01**	**($0.38)**
Shares used to compute basic net income(loss) per share	14,843	14,360
DILUTED NET INCOME (LOSS) PER SHARE	**$0.01**	**($0.38)**
Shares used to compute diluted net income (loss) per share	14,846	14,360

See notes to consolidated financial statements

WALKER INTERACTIVE SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS(UNAUDITED)
(in thousands)

	Three Months Ended March 31,	
	2001	**2000**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income(loss)	$135	($5,407)
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Depreciation and amortization	1,078	1,898
Change in allowance for doubtful accounts	(528)	(864)
Changes in operating assets and liabilities:		
Accounts receivable	(1,066)	2,276
Prepaids and other assets	(334)	(60)
Accounts payable & accrued liabilities	(898)	(1,938)
Deferred revenue	728	491
Other	120	625
Net cash used by operations	(765)	(2,979)

CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from employee stock purchase plan issuances and stock options exercised	213	994
Capital lease payments	(39)	(1)
Net cash provided by financing activities	174	993
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of short- and long-term investments	(1,055)	(499)
Maturities of short-term investments	3,049	--
Sales of short-term investments	--	1,710
Purchases of property	(135)	(319)
Additions to capitalized software	(317)	(1,106)
Other	--	(4)
Net cash provided (used) by investing activities	1,542	(218)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**951**	**(2,204)**
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	**4,219**	**9,187**
CASH AND CASH EQUIVALENTS - END OF PERIOD	**$5,170**	**$6,983**
Supplemental disclosure:		
Cash paid for income taxes	$49	$94

See notes to consolidated financial statements

WALKER INTERACTIVE SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(Amounts in thousands, except per share data)

1. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles and include all adjustments (consisting only of normal recurring adjustments) which the Company considers necessary for a fair presentation of the financial position, operating results and cash flows for those periods. Results for the interim periods are not necessarily indicative of the results for the entire year. These consolidated financial statements and any notes thereto should be read in conjunction with the audited consolidated financial statements included in the Walker Interactive Systems, Inc. Annual Report on Form 10-K for the year ended December 31, 2000.

2. EARNINGS PER SHARE

The Company calculates basic earnings per share ("EPS") and diluted EPS in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share." Basic EPS is computed by dividing net income (loss) by the weighted average number of common shares outstanding for that period. Diluted EPS takes into account the effect of dilutive instruments, such as stock options, and uses the average share price for the period in determining the number of common stock equivalents that are to be added to the weighted average number of shares outstanding. Common stock equivalents are excluded from the diluted loss per share calculation if the effect would be antidilutive.

3. COMPREHENSIVE INCOME/(LOSS)

SFAS No. 130 requires disclosure of total non-stockholder changes in equity, which include unrealized gains and losses on securities classified as available- for-sale under SFAS No. 115, foreign currency translation adjustments accounted for under SFAS No. 52, and minimum pension liability adjustments made pursuant to SFAS No. 87.

The reconciliation of net income (loss) to comprehensive income (loss) for the three months ended March 31, 2001 and 2000 is as follows:

	Three Months Ended March 31, 2001	Three Months Ended March 31, 2000
Net income(loss)....................	$135	($5,407)
Other comprehensive income(loss).....	125	(36)
Total comprehensive income(loss).....	$260	($5,443)

4. DIVESTITURES

In April 2000, the Company announced that it had sold the stock of Revere Inc. to Gores Technology Group ("GTG"). Revere Inc.'s main product comprised the IMMPOWER Asset Management Application. The terms of the purchase agreement provided that GTG would pay $500 to the Company at closing with a final settlement based upon the December 31, 2000 determination of Revere's net assets, as defined in the agreement. The final settlement, when determined, may result in the Company receiving payments from or making payments to GTG. However, the amount of such payments, if any, is not currently determinable. No gain or loss has been recorded in the financial statements. The Company is still negotiating the final settlement and anticipates resolution later in 2001.

In October 2000, the Company sold the net assets of its Aptos product line to B-Plan Information Systems Limited ("B-Plan"). The Aptos product line is an integrated suite of client/server financial applications for medium sized companies and was marketed primarily in Western Europe. The purchase agreement provides that the total consideration of approximately $2.3 million is evidenced by a non-interest bearing note denominated in British pounds sterling and is secured by a secondary interest in the Aptos software and certain shareholdings of a B-Plan executive. The note provides for the right of offset under certain circumstances, as defined in the agreement, and by its terms is payable as follows: $425-December 31, 2000; $425-March 31, 2001; $575-June 30 and December 31, 2001; and $300 on June 30, 2002. The installment due on March 31, 2001 was placed in escrow pending resolution of certain customer-related issues between the Company and B-Plan. Through March 31, 2001, no gain or loss has been recorded in the financial statements and the Company will recognize income as proceeds are received.

5. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 1998 and June 1999, the Financial Accounting Standards Board issued Statement of Financial Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," and SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133". These statements define derivatives, require that all derivatives be carried at fair value and provide for hedge accounting when certain conditions are met. SFAS No. 133, as amended, is effective for the Company for its year ending December 31, 2001. Under SFAS No. 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. The Company evaluated the requirements of SFAS No. 133 and concluded that adoption of this statement, effective January 1, 2001, had no material impact on the Company's financial position or results of operations.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101). This summarizes certain areas of the SEC's views in applying generally accepted accounting principles to revenue recognition in financial statements. The effective date for implementation is no later than the fourth quarter of fiscal years beginning after December 31, 1999. The Company implemented SAB 101 in the fourth quarter of fiscal 2000. This did not have a material adverse effect on the Company's results of operations for fiscal 2000 or the first quarter of 2001. The Company believes that the implementation of SAB 101 will not have a material adverse effect on the Company's results of operations for the remainder of fiscal 2001.

WALKER INTERACTIVE SYSTEMS, INC.

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

The following discussion of results of operations and financial condition of the Company should be read in conjunction with the Company's unaudited financial statements and notes thereto included elsewhere in this Form 10-Q. The report on this Form 10-Q contains forward-looking statements, including statements related to industry trends and demand for mainframe products, cash commitments and working capital requirements. Discussions containing such forward-looking statements may be found in the material set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations," generally and specifically therein under the captions

"Recent Developments," "Liquidity and Capital Resources," and "Additional Risk Factors." Actual events or results may differ materially from those discussed herein. The Company disclaims any obligation to update these forward-looking statements as a result of subsequent events. The risk factors on pages 12 through 18, among others, should be considered in evaluating the Company's prospects and future financial performance.

Walker designs its software products specifically for the Internet architecture and business to business ("B2B") e-business models. The Company believes that its architecture is among the most scalable and adaptable for the enterprise-level business software. The Company's strategy is to offer enterprise financial, operational and analytical e-business solutions to a variety of industries. Walker's e-business solutions support and enhance enterprise-wide financial, operational and analytic processes, including procurement, revenue management, financial management and insight, business planning, budgeting, forecasting and financial consolidation. The Company's software products utilize the Microsoft Windows operating systems on the desktop, NT, UNIX and S/390 operating systems on the server and industry-leading On Line Analytical Processing ("OLAP"), Relational Database Management Systems ("RDBMS") including IBM's DB2 and DB2 OLAP server, Hyperion Solutions' Essbase and Microsoft SQL/Server. Walker e-business solutions utilize the latest-generation IBM eServer zSeries Web Application Server. In addition, Walker utilizes iSeries, pSeries and xSeries as an integral part of its e-business strategy for Walker's analytic solutions.

RECENT DEVELOPMENTS

The Company divested its IMMPOWER product line in April 2000 and its Aptos product line in October 2000. For the first quarter of 2000, revenues and operating expenses from these divested product lines were $2.1 million and $2.8 million, respectively.

During the quarter ended September 30, 2000 the Board of Directors approved a strategic restructuring plan designed to reduce costs and strengthen the Company's position to successfully execute its e-business strategy. The Company recorded pretax restructuring charges totaling $1.9 million, primarily severance costs related to involuntary employee terminations, and an impairment charge of $4.8 million, primarily related to its legacy Tamaris software product. As of March 31, 2001, approximately $460,000 of the restructuring charges has not yet been paid out, the majority of which relates to long-term lease obligations.

The product line divestitures and the on-going effect of the strategic restructuring have reduced both total revenues and operating costs when comparing the first quarters ending March 31, 2001 and 2000.

On March 5, 2001, the Company announced that its common stock was removed from the Nasdaq National Market and became eligible for trading on the OTC Bulletin Board under the symbol "WALK.OB". Nasdaq's decision to delist the Company's common stock from the Nasdaq National Market was based primarily on the Company's net tangible assets, as defined by Nasdaq, falling below the minimum requirement.

RESULTS OF OPERATIONS

REVENUES.

Total revenues for the three months ended March 31, 2001 were $12.6 million, a decrease of $1.8 million, or 12.6%, as compared to the three months ended March 31, 2000. The decrease in total revenues relates primarily to divested product lines.

License revenues for the three months ended March 31, 2001 were $3.8 million, an increase of $3.0 million, or 362.8%, as compared to the three months ended March 31, 2000. The Company's e-business enterprise solutions have a long sales cycle as collaborative commerce involves coordination with multiple vendors, which generally increases the value of each transaction and adds time and complexity to the process. The Company was in the early stage of its transition to e-business solutions during the quarter ended March 31, 2000 whereas the Company executed several significant license agreements during the quarter ended March 31, 2001.

Maintenance revenues for the three months ended March 31, 2001 were $5.8 million, a decrease of $1.9 million, or 24.4%, as compared to the three months ended March 31, 2000. Approximately $800,000 of the decrease relates to divested product lines with the balance attributable to legacy product lines as lower license revenues during 2000 resulted in the lapse of maintenance contracts in excess of new contracts and renewals.

Consulting revenues for the three months ended March 31, 2001 were $3.1 million, a decrease of $3.0 million, or 49.1%, as compared to the three months ended March 31, 2000. Approximately $1.2 million of the decrease relates to divested product lines. The remaining decrease in consulting revenues is primarily attributable to a reduction in implementation engagements as a consequence of lower license revenues in recent quarters.

COSTS OF LICENSES, MAINTENANCE AND CONSULTING.

Costs of licenses, maintenance and consulting were $4.1 million for the three months ended March 31, 2001, representing 32.1% of total revenues, and $7.9 million for the three months ended March 31, 2000, representing 54.4% of total revenues.

The costs of licenses as a percentage of license revenues decreased in the three months ended March 31, 2001 as compared to the three months ended March 31, 2000. The decrease results from the Company selling a higher proportion of products that utilize the Company's own technology rather than technology licensed from third parties.

The cost of maintenance, as a percentage of related revenue, decreased in the three months ended March 31, 2001 as compared to the three months ended March 31, 2000. The decrease is mainly due to lower employee related costs in the three months ended March 31, 2001 resulting from the Company's restructuring actions in the third quarter of fiscal 2000.

The costs of consulting, as a percentage of related revenue, decreased in the three months ended March 31, 2001 as compared to the three months ended March 31, 2000. The decrease in the three months ended March 31, 2001 as compared to the three months ended March 31, 2000 reflects the effect of the restructuring actions taken in the third quarter of 2000 together with a relative reduction in the use of outside contractors in 2001.

SALES AND MARKETING.

Sales and marketing costs for the three months ended March 31, 2001 were $3.2 million, a decrease of $1.4 million, or 30.6%, as compared to the three months ended March 31, 2000. As a percentage of total revenues, sales and marketing expenses were 25.1% and 31.6% in the three months ended March 31, 2001 and 2000, respectively. The decrease is attributable to reduced discretionary spending and reduced sales and marketing employee related costs.

PRODUCT DEVELOPMENT.

Product development related expenses, excluding amortization of capitalized software, were as follows:

	Three Months Ended March 31, 2001	Three Months Ended March 31, 2000

Product development expenditures.....	$2,906	$4,129
Less:		
Additions to capitalized software.	(317)	(1,106)
Product development expense..........	$2,589	$3,023

Net product development expense decreased $434,000, or 14.4%, in the three months ended March 31, 2001 as compared to the three months ended March 31, 2000 and was 20.5% and 20.9% of total revenues, respectively. For the three months ended March 31, 2001, total product development expenditures decreased $1.2 million reflecting the effect of product line divestitures and restructuring actions. RareVision costs were approximately $1.1 million for the quarter ended March 31, 2001. Additions to capitalized software decreased $789,000, or 71.3%, in the first quarter of fiscal 2001 as compared to the first quarter of fiscal 2000 and were 10.9% and 26.8% of product development expenditures, respectively. The decrease in software costs capitalized in the three months ended March 31, 2001 is primarily attributable to a larger portion of product development resources being allocated to projects that do not meet the Company's capitalization criteria. During the three months ended March 31, 2000, significant research and development resources were allocated to the company's e2 product that was launched in the following quarter.

AMORTIZATION OF CAPITALIZED SOFTWARE.

Capitalized software amortization in the three months ended March 31, 2001 was $763,000, a decrease of $564,000, or 42.5%, as compared to the three months ended March 31, 2000. Amortization has decreased since the third quarter of fiscal 2000 due to the impairment of $4.8 million of capitalized software during that quarter as part of the Company's restructuring actions.

GENERAL AND ADMINISTRATIVE.

General and administrative expenses in the three months ended March 31, 2001 were $2.0 million, a decrease of $1.3 million, or 39.0%, as compared to the three months ended March 31, 2000. As a percentage of total revenues, general and administrative expenses were 16.1% and 23.0% in the three months ended March 31, 2001 and 2000, respectively. The decrease in the three months ended March 31, 2001 is primarily due to the effect of the product line divestitures and lower employee and facilities costs resulting from the Company's restructuring actions during the third quarter of 2000.

PROVISION FOR INCOME TAXES.

In the three months ended March 31, 2001, the Company provided $25,000 for state and foreign income taxes that could not be offset against net operating loss carryforwards. In the three months ended March 31, 2000, the Company recorded an income tax expense of $48,000 associated with state and foreign taxes.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2001, the Company's principal sources of liquidity included cash, cash equivalents and short-term investments aggregating $8.6 million. In addition, in March 2001 the Company replaced its $6.0 million line of credit, secured by marketable securities, with a new credit facility. Under the terms of the new credit facility, which is renewable annually, the Company may borrow up to $6.0 million, dependent upon the amount of eligible accounts receivable, as defined in the agreement.

The Company's operating activities used cash of $765,000 and $3.0 million in the three months ended March 31, 2001 and March 31, 2000, respectively. Cash flows from operating activities for the three months ended March 31, 2001 primarily reflected increases in accounts receivable of $1.1 million and decreases in accounts payable and accrued expenses of $900,000, offset by depreciation and amortization of $1.1 million. Cash flows from operating activities for the three months ended March 31, 2000 primarily reflected a net loss of $5.4 million; increases in depreciation and amortization of $1.9 million; decreases in accounts receivable of $2.3 million and decreases in accounts payable and accrued expenses of $1.9 million.

Financing activities provided $174,000 and $1.0 million in cash during the three months ended March 31, 2001 and March 2000, respectively, substantially all of which comprised proceeds from the issuance of stock under the Company's employee stock purchase plan and proceeds from stock options exercised.

Investing activities provided $1.5 million in cash during the three months ended March 31, 2001 and used $218,000 in cash during the three months ended March 31, 2000. The major cash flows in the three months ended March 31, 2001 comprised net investment activity totaling $2.0 million, offset by additions to capitalized software of $317,000 and fixed asset purchases of $135,000. The major cash flows in the three months ended March 31, 2000 comprised net investment activity totaling $1.2 million, offset by additions to capitalized software of $1.1 million and fixed asset purchases of $319,000.

The Company believes that its principal sources of liquidity, which include cash and cash equivalents of $8.6 million as of March 31, 2001 and funds expected from operations will satisfy the Company's currently anticipated working capital and capital expenditure requirements for at least the next twelve months. In addition, the Company has a credit facility that provides for up to $6.0 million of borrowings, dependent upon the amount of eligible accounts receivable, as defined in the agreement. However, there can be no assurance that the Company will not need to raise additional capital to fund operations within this period. There can be no assurance that additional financing can be obtained on acceptable terms, or at all. If additional funds are raised by issuing equity securities, dilution to stockholders may result. If adequate funds are not available, the Company may be harmed.

ADDITIONAL RISK FACTORS

The Company operates in a rapidly changing environment that involves numerous risks and uncertainties which could have a material adverse effect on the Company. The following discussion details some, but not all, of these risks and uncertainties.

FLUCTUATION IN OPERATING RESULTS

The Company's operating results fluctuate as a result of a variety of factors including:

(i) the execution of new license agreements;

(ii) the shipment of software products;

(iii) customer acceptance criteria for services performed;

(iv) completion of milestone or other significant development requirements pursuant to the Company's license agreements;

(v) the financial terms of consulting agreements and the inclusion of fixed as opposed to variable pricing;

(vi) third-party royalty payments for licensed software;

(vii) the demand for the Company's products and services;

(viii) changes in the Company's product mix;

(ix) the development and launch of new products, and the life cycles of the Company's existing products;

(x) research and development expenditures required to update and expand the Company's product portfolio and related third-party consulting costs;

(xi) sales and marketing expenses generally related to the entry into new markets with new or existing products and maintenance of market share in existing markets;

(xii) acquisitions and the integration and development of acquired entities or products;

(xiii) competitive conditions in the industry; and

(xiv) general economic conditions.

As a result, the Company believes that period-to-period comparisons of its operating results are not necessarily meaningful and should not be relied upon as indications of future performance.

The Company's quarterly operating results are particularly dependent on the number of license agreement bookings executed in each quarter. The amount of quarterly bookings has varied substantially from quarter to quarter due to a variety of reasons including:

(i) a high proportion of license agreements are negotiated during the latter part of each quarter and these negotiations may not be completed before the quarter end;

(ii) the sales cycles for some of the Company's products are relatively long due to the Company's focus on "enterprise solutions" as opposed to individual products, which adds complexity to the customer's selection, negotiation and approval process;

(iii) the Company's longer sales cycle resulting from its transition to e-business, as the transition to collaborative commerce involves coordination with multiple vendors that can delay the sales process;

(iv) the amount related to each booking may vary significantly due to the need for different solutions for different customers;

(v) procurement procedures may vary from customer to customer, which may affect the timing of the bookings;

(vi) the period for a customer to complete product evaluations and to complete any subsequent purchase approval may be delayed due to resource limitations; and

(vii) economic, political and industrial conditions can adversely affect business opportunities without notice.

In addition, bookings that are executed during a particular quarter may not be recognized as revenue during such quarter because such bookings may not have met the Company's revenue recognition criteria. No assurance can be given that the Company will be able to effect new bookings in accordance with historical results or management's expectations, and the inability of the Company to do so could have a material adverse effect on the Company's operating results.

While the Company typically sells its software under a standard license agreement, license agreements associated with large enterprise solutions often require the negotiation of terms and conditions that differ substantially from the Company's standard license agreement terms. The negotiation of these agreements may extend the sales cycle. The Company may not always obtain terms and conditions that permit the recognition of revenue upon shipment of the licensed product or under the percentage of completion method of contract accounting rules. Accordingly, revenue may not be recognized after shipment of a product because specified milestones have not been met or because applicable services have not been completed.

The Company has and expects to enter into fixed-price consulting agreements, particularly in response to increased competition in the industry. The Company has recognized lower profit margins on certain fixed-price service agreements when compared to variable agreements. No assurance can be given that the Company will be able to conclude fixed-price agreements on terms that will allow the Company to achieve acceptable operating margins.

The Company has historically generated a majority of its consulting revenue from pre- and post-implementation services. The Company has provided services that include, but are not limited to, Year 2000 readiness engagements, best practice solution engagements and other hardware and software solutions. The Company intends to continue its pursuit of consulting engagements for which the Company believes it is qualified. There can be no assurances that these engagements will result in profit margins equal to or greater than those engagements that are specific to a customer's product implementation. Also, there can be no assurances that consulting revenue generated from non-implementation related projects will continue in the future.

Employee and facility related expenditures comprise a significant portion of the Company's operating costs and expenses, and are therefore relatively fixed over the short term. In addition, the Company's expense levels are based, in significant part, on the Company's forecasted revenue. If revenue levels fall below expectations, operating results are likely to be adversely affected. There can be no assurance that the Company will be able to achieve profitability on a quarterly or annual basis in the future. Any of the foregoing factors could cause the Company's future operating results to fall below the expectations of public securities market analysts, which could have an adverse effect on the trading price of the Company's common stock. See "Volatility of Stock Price."

Nasdaq DELISTING

The Company received a Nasdaq Staff Determination indicating that the Company failed to comply with the listing requirements of the Nasdaq National Market. A determination was made by the Panel on March 5, 2001 to delist the Company's securities from the Nasdaq Stock Market effective with the open of business March 6, 2001. As of March 6, 2001 the Company's stock has traded on the Over the Counter ("OTC") Bulletin Board. This is generally considered a less efficient market, and the Company's stock price, as well as the liquidity of its common stock, may be adversely affected as a result.

VOLATILITY OF STOCK PRICE

Technology companies, including the Company, frequently experience volatility in their common stock prices. Factors such as quarterly fluctuations in results of operations, announcements of technological innovations by the Company or its competitors or the introduction of new products by the Company or its competitors and macroeconomic conditions in the computer hardware and software industries generally may have a significant adverse impact on the market price of the Company's stock. If revenues or earnings in any quarter fail to meet the expectations of the investment community, there could be an immediate impact on the Company's stock price. In addition, the Company has issued shares and stock options, which, if sold directly or exercised and sold on the open market in large concentrations, could cause the Company's stock price to decline in the short term. Furthermore, the stock market has from time to time experienced extreme price and volume fluctuations which have particularly affected the market price for many technology companies, in some cases unrelated to the operating performance of those companies. These broad market fluctuations may materially adversely affect the market price of the stock of the Company.

RELIANCE ON THIRD PARTY TECHNOLOGY

The Company generates revenue from internally developed software products, some of which utilize technology licensed from third parties. The Company expects to continue utilizing third party technology and may enter into agreements with additional business partners. If sales of software utilizing third party technology increase disproportionately, gross margins may be below historical levels due to third party royalty obligations. There can be no assurances that the third parties will renew existing agreements with the Company or will not require financial conditions that are unfavorable to the Company. In addition, there can be no assurances that existing third party agreements will not be terminated.

INDUSTRY

Certain software companies, including the Company, have experienced significant economic downturns as a result of technological shifts and competitive pressures. These downturns are characterized by decreased product demand, price erosion, work slowdowns and layoffs. The Company's operations may, in the future, experience substantial fluctuations from period to period because of such industry patterns and general economic and political conditions which could affect the timing of orders from customers. There can be no assurance that such factors will not have a materially adverse effect on the Company's business, operating results or financial condition.

INTERNATIONAL

The Company will continue its presence in international markets by marketing its B2B e-business solutions for the enterprise to Global 2000 organizations. Risks associated with such pursuits include, but are not limited to, the following: changing market demands, economic and political conditions in foreign markets, foreign exchange fluctuations, longer collections cycles, difficulty in managing a geographically dispersed organization and changes in international tax laws. Operating results are likely to be adversely affected if the Company's operations in international markets are not successful.

COMPETITION

The business and financial applications software market for large, complex organizations is intensely competitive. The Company's principal competitors with e-business solutions are SAP AG, Oracle Corporation and PeopleSoft, Inc. With the Horizon suite of analytic applications, the Company principally competes with Hyperion Solutions Corporation and Comshare, Inc.

The Company also competes to a lesser extent with other independent software application vendors. Some of the Company's current and potential competitors have substantially greater financial, technical, marketing and sales resources than the Company. Some of these competitors also offer business application products not offered by the Company, primarily in the areas of human resources and manufacturing. However, Walker remains one of the few companies committed to providing and enhancing applications for the mainframe environment. Most of the competitors listed above compete with Walker by offering UNIX-based applications.

The Company encounters competition from a broader range of firms in the market for professional services. Principal competitors include Accenture (formerly Andersen Consulting) and IBM Global Services, the consulting divisions of the major accounting firms, all of which possess greater resources than the Company, and niche-consulting firms that specialize in the Company's products and compete primarily on the basis of price of services provided.

The principal competitive factors in the market for business and financial applications software and services include product functionality, flexibility, portability, integration, reliability, performance, product availability, speed of implementation, quality of customer support and user documentation, vendor reputation, experience, financial stability, cost effectiveness and price. The Company believes that it competes favorably with respect to these factors. There can be no assurance, however, that the Company will be able to compete successfully in the future.

RAPID TECHNOLOGICAL CHANGE

The software industry is characterized by rapid technological change. The pace of change has accelerated due to advances in mainframe and client/server technology and the growth in Internet, Intranet and extranet utilization. The Company expects to evaluate potential opportunities and may invest in those that are compatible with the Company's strategic direction. However, there can be no assurance that any such investments will be profitable. The Company's products are also designed primarily for use with certain mainframe and client/server systems. The introduction of products embodying new technologies and the emergence of new industry standards can render existing products obsolete. Accordingly, the Company's future success depends in part upon its ability to continue to enhance its current products and to develop and introduce new products that respond to evolving customer requirements and keep pace with technological development and emerging industry standards, such as new operating systems, hardware platforms, interfaces and third party applications software.

There can be no assurances that:

(i) the Company will be successful in developing and marketing product enhancements or new products that respond to technological change, changes in customer requirements or emerging industry standards;

(ii) the Company will not experience difficulties that could delay or prevent the successful development, introduction and marketing of such products and enhancements; or

(iii) any new products or enhancements that it may introduce will achieve market acceptance.

PRODUCT DEVELOPMENT

The Company's continued success is dependent on its continued ability to introduce, develop and market new and enhanced versions of its software products, although there can be no assurance that this process can be maintained. The Company plans to continue its investment in product development in future periods. However, there can be no assurance that revenues will be sufficient to support the future product development that is required for the Company to be competitive. Although the Company may be able to release new products in addition to enhancements to existing products, there can be no assurance that the Company's new or upgraded products will be accepted, will not be delayed or canceled, or will not contain errors or "bugs" that could affect the performance of the product or cause damage to users' data.

PROPRIETARY RIGHTS

The Company regards its products as proprietary. Through its license agreements with customers and its internal security systems, confidentiality procedures and employee agreements, the Company has taken steps to maintain the trade secrecy of its products. However, there can be no assurances that misappropriation will not occur. In addition, the laws of some countries do not protect the Company's proprietary rights to the same extent as do the laws of the

United States. There can be no assurance that the confidentiality of any proprietary information will provide any meaningful competitive advantage. The Company has no patents relating to its products. The Company believes that, because of the rapid pace of technological change in the computer software industry, that patents and copyrights are less significant than factors such as the knowledge, ability and experience of the Company's employees, frequent product enhancements and the timeliness and quality of support services. There can be no assurance that the Company's current efforts to retain its products as proprietary will be adequate.

Although the Company believes that its products do not infringe upon the proprietary rights of third parties, there can be no assurance that third parties will not assert infringement claims against the Company in the future with respect to current or future products or that any such assertions will not require the Company to enter into royalty arrangements or result in costly litigation.

PRODUCT LIABILITY

The Company's license agreements with its customers contain provisions designed to limit the Company's exposure to potential product liability claims. It is possible, however, that the limitation of liability provisions contained in such license agreements may not be enforced as a result of international, federal, state and local laws or ordinances or unfavorable judicial decisions. The license and support of the Company's software for use in mission critical applications creates the risk of product liability claims against the Company. Damage liability or injunctive relief resulting from such a claim could cause a materially adverse impact on the Company's business, operating results and financial condition.

EMPLOYEES

The Company believes that its continued success will depend in large part upon its ability to attract, train and retain highly skilled technical, sales, marketing and managerial personnel. Because of the high level of demand, competition for such personnel is intense and the Company sometimes experiences difficulty in locating candidates with appropriate qualifications or within desired geographic locations. Revenue growth is dependent on the Company's ability to attract, train, retain and productively manage such personnel.

FACILITIES

The Company has its headquarters in San Francisco, California under a lease that expires in 2007. Although commercial building vacancy rates have been low in San Francisco, recent changes in the technology sector have resulted in a significant increase in available office space. The Company's San Francisco headquarters office space exceeds its current needs, and the Company is seeking to reduce this excess office space. Failure to do so on commercially acceptable terms may adversely affect the Company's operations and financial results.

ACQUISITION-RELATED RISKS

The Company has acquired and may continue to acquire complimentary businesses, products or technology. The process of integrating an acquired company's business into the Company's operations may result in unforeseen operating difficulties and expenditures and may require significant management attention that would otherwise be available for the ongoing development of the Company's business. There can be no assurance that any anticipated benefits of an acquisition will be realized. Future acquisitions by the Company could result in potentially dilutive issuances of equity securities, the incurrence of debt and contingent liabilities and amortization related to goodwill and other intangible assets, which could materially affect the Company's operating results and financial condition. Acquisitions involve numerous risks, including difficulties in the assimilation of operations, technologies and products of the acquired company, risks associated with entering markets in which the Company has no or limited direct prior experience and the potential loss of key employees of the acquired company.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes in the reported market risks since December 31, 2000.

PART II. OTHER INFORMATION

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits

None

b. Reports on Form 8-K

The Company filed a report on Form 8-K on March 8, 2001 pertaining to Nasdaq's decision to delist the Company's common stock from the Nasdaq National Market on March 5, 2001.

WALKER INTERACTIVE SYSTEMS, INC.

SIGNATURES

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

WALKER INTERACTIVE SYSTEMS, INC.
(Registrant)

Dated: May 11, 2001

By: /s/ Stanley V. Vogler

Stanley V. Vogler
Chief Financial Officer
(Principal Financial and Accounting Officer)
