

RAINING DATA CORP
Form 10KSB
June 29, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

(Mark one)

**ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended March 31, 2004

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 0-16449

RAINING DATA CORPORATION

(Name of Small Business Issuer in Its Charter)

Delaware

(State of Incorporation)

**17500 Cartwright Road
Irvine, California**

(Address of Principal Executive Offices)

94-3046892

(I.R.S. Employer ID. No.)

92614

(Zip Code)

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(949) 442-4400

(Issuer's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Exchange Act:

Title of Each Class	Name of Each Exchange on Which Registered
None	N/A

**Securities registered under Section 12(g) of the Exchange Act:
Common Stock, \$0.10 par value**

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

The Registrant's revenues for the fiscal year ended March 31, 2004 were \$22.3 million.

The aggregate market value of the voting stock held by non-affiliates of the Registrant was \$12,915,069 on June 9, 2004 based on the closing sale price of such stock on that date.

As of June 9, 2004, the Registrant had 18,428,141 shares of its common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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

RAINING DATA CORPORATION
FISCAL YEAR 2004 FORM 10-KSB ANNUAL REPORT

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

This Form 10-KSB contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Such statements include our expectations, hopes and intentions regarding the future, including but not limited to statements regarding our strategy, competition, development plans (including anticipated cost, timing and eventual acceptance of new products and services by the market), financing, revenue and operations.

Forward-looking statements involve certain risks and uncertainties and actual results may differ materially from those discussed in any such statement. Factors that could cause actual results to differ materially from such forward-looking statements include the risks described in the

Risk Factors section and elsewhere in this Form 10-KSB. All forward-looking statements in this document are made as of the date hereof, based on information available to us as of the date hereof, and we assume no obligation to update any forward-looking statement.

Overview

We were incorporated in the State of Delaware in August 1987. We were originally incorporated as Blyth Holdings, Inc., and our name was changed to Omnis Technology Corporation in September 1997. Effective December 1, 2000, we completed the acquisition of PickAx, Inc., a Delaware corporation (PickAx). Concurrent with the acquisition, we changed our name to Raining Data Corporation.

Our principal business is the design, development, sale and support of software infrastructure. Our software may be categorized into four product lines: Multi-dimensional database management systems (MDMS), Rapid Application Development (RAD) software tools, XML data management servers (XDMS) and Pick Data Provider (PDP) for the Microsoft .NET development environment. Our products allow customers to create and enhance flexible software applications for their own needs. The MDMS products are based on the multi-dimensional data model and are designed to operate in environments such as Windows, Unix and Linux. Our RAD products support the full life cycle of software application development and are designed for rapid prototyping, development and deployment of graphical user interface (GUI) client/server and web applications. The RAD products are object-oriented and component-based, providing the ability to deploy applications on operating system platforms such as Windows, Unix and Linux, as well as database environments such as MySQL, Oracle, DB2, Sybase, Microsoft SQL Server and other Open Data Base Connectivity (ODBC) compatible database management systems. We continue to develop and enhance our MDMS and RAD products. New releases in all of our product lines are currently in progress.

Beginning in fiscal 2002, we changed the mix of our research and development efforts to include the development of technologies and products outside of our historical market, specifically XML-based XDMS infrastructure products. The first product related to these development efforts was the production release of TigerLogic version 1.1 in May 2003. TigerLogic XDMS is a high-performance information infrastructure software that provides both scalability, XA-compliant transactional integrity and fine-grain search capabilities typically associated with enterprise databases, as well as the dynamic extensibility, n-tier hierarchies and ease of use and deployment, mostly found in data repositories and file systems. We have filed patent applications related to the technology utilized in the TigerLogic product and those patents were pending as of March 31, 2004.

In September 2004, we announced the production release of the Pick Data Provider for .NET. The Pick Data Provider component for the Microsoft .NET Framework is tightly integrated with Microsoft Visual Studio .NET. It allows software developers using IBM's Universe and

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Unidata databases and our D3 database platform to build Client/Server applications, Web applications or Web services using any of the languages and technologies that run on the Microsoft .NET Framework, such as Microsoft ASP.NET, Visual Basic .NET, Visual C# .NET and Visual J# .NET.

Products

We market our products under the Raining Data brand name. Many of our products are based on the Pick Universal Data Model (Pick UDM), which we created, and are capable of handling data from many sources. The Pick UDM is a core component across the MDMS, XDMS and PDP product lines. Our products also include RAD software tools for computer application development.

Multidimensional Database Management Systems Products

Our MDMS products include a comprehensive set of Pick UDM based software development tools that allow the user to write, compile and run application programs. Historically, the principal advantages of the Multidimensional Database system have been simple program development, maximum flexibility, ease of use, and low total cost of ownership. Over the years, a community of vertical market application developers using the Multidimensional Database platform has emerged.

The MDMS product line consists principally of the D3 Data Base Management System (D3), which operates on many systems including but not limited to IBM AIX, DG/UX, HP-UX, Linux and Windows NT. D3 allows application programmers to create new business solution software in less time than it normally takes in many other environments. This can translate into lower costs for the developer, lower software prices for the customer and reduced costs of ownership for both the developer and end user. Our MDMS products also include mvEnterprise, a scalable multidimensional database solution that allows the user to leverage the capabilities of the UNIX operating system and mvBase, a multidimensional database solution that runs on all Windows platforms.

RAD Products

The RAD product line is an object-oriented development environment that is designed to allow customers to develop and deploy web and client/server applications. The products include Omnis Studio, Omnis Studio for SAP and Omnis Classic, which offer cross-platform support for Windows, Mac and Linux.

XDMS Products

Our XML data management server product line includes TigerLogic XDMS (TigerLogic). TigerLogic XDMS is a mid-tier operational data server software product that simplifies and streamlines information access for XML-enabled Java and .NET applications. The TigerLogic XDMS decouples structured and unstructured data from the back-end sources, transforms it into XML, stores aggregated views in the mid-tier, profiles and indexes them for fast retrieval. The TigerLogic XDMS includes innovative XML processing technology that boosts the performance and efficiency of data architectures by aggregating and moving commonly requested data to the mid-tier, between front-end Web Services composite applications and back-end operational systems and legacy applications. TigerLogic XDMS uses the Pick UDM to power its underlying storage engine and allow new data to be processed in the TigerLogic XDMS data model with almost no programming. This creates an extensible and flexible environment enabling companies to leverage the full power of XML. TigerLogic supports industry standards, including J2EE Connector Architecture (JCA), World Wide Web Consortium's (W3C's) XML Schema, XSLT, SOAP and XPath specifications.

PDP Products

The PDP products include the Pick Data Provider for .NET. This product extends the intrinsic capabilities of Pick and Pick-like databases to the Microsoft .NET framework technology, allowing for ease of development and deployment of applications using the Visual Studio.NET development environment while allowing native access to our D3 database as well as the Universe and Unidata databases from IBM.

Training Services

As part of our sales efforts, we offer training programs to our customers and prospective customers. These programs include classes on basic and advanced skills as well as classes designed to assist customers in the implementation and use of our products.

Technical Support

Our products are used by our customers to build and deploy applications that may become a critical component of their business operations. As a result, continuing to provide customer technical support services is an important element of our business strategy. Customers who participate in our support programs receive periodic maintenance releases and direct technical support when required.

Sales and Distribution

In the United States, we sell our products through established distribution channels consisting of system integrators, specialized vertical application software developers and consulting organizations. We also sell our products directly through our sales personnel to end user organizations.

Outside the United States, we maintain direct sales offices in the United Kingdom, France and Germany. Approximately 28% and 29% of our revenue came from sales through our offices located outside the United States for the fiscal years ended 2004 and 2003, respectively.

We sell our products in U.S. Dollars in North America, British Pounds Sterling in the United Kingdom and Euros in Germany and France. Because we recognize revenue and expense in these various currencies but report our financial results in U.S. Dollars, changes in exchange rates may cause variances in our period-to-period revenue and results of operations in future periods. Recorded foreign exchange gains and

losses have not been material to our performance to date.

We license our software on a per-server basis or per-user basis. Therefore, the addition of servers or users to existing systems increases our revenue from our installed base of licenses.

Customers

Our customers may be classified into two general categories:

Independent Software Vendors and Software Developers. The majority of our revenue is derived from independent software vendors, which typically write their own vertical application software that they sell as a complete package to end user customers. This category includes value added resellers (VARs) and software-consulting companies that provide contract programming services to their customers.

Corporate Information Technology (IT) Departments.

For the three years ended March 31, 2004, 2003 and 2002, no single customer accounted for more than 10% of our revenue.

Research and Development

We have devoted significant resources to the research and development of products and technology. We believe that our future success will depend in large part on a strong development effort with respect to both our existing and new products. These development efforts have resulted in updates and upgrades to existing MDMS and RAD products and the launch of new products including the XDMS and PDP product lines. We expect to continue our research and development efforts in all product lines for the foreseeable future. We intend for these efforts to improve our operating results and increase cash flow. However, such efforts may not result in additional new products, and we can make no assurances that the recently announced products or future products will be successful.

Competition

The application development tools software market is rapidly changing and intensely competitive. Our MDMS products compete with products developed by companies such as Oracle, Microsoft and IBM. Our Omnis line of RAD products currently encounters competition from several direct competitors including Microsoft Corporation, and competing development environments, including JAVA. Competition is developing and

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evolving in the XML market for which our XDMS products are intended. Companies who do or are expected to compete in this market include Oracle, IBM, Microsoft and BEA, as well as a number of smaller companies with products that directly and indirectly compete with our XDMS products. Our new initiatives in the .NET area are subject to significant competition, primarily from Microsoft and Oracle. Most of our competitors have significantly more financial, technical, marketing and other resources than we do. As a result, these competitors may be able to respond more quickly to new or emerging technologies, evolving markets, changes in customer requirements, and may devote greater resources to the development, promotion and sale of their products.

We believe that our ability to compete in the various MDMS, RAD, XDMS and PDP markets depends on factors both within and outside our control, including the timing, performance and price of new products developed by both us and our competitors. Although we believe that we currently compete favorably with respect to most of these factors, we may not be able to maintain our competitive position against current and potential competitors, especially those with greater resources.

Intellectual Properties and Other Proprietary Rights

We rely primarily on a combination of trade secret, copyright and trademark laws and contractual provisions to protect our intellectual property and proprietary rights. Our registered trademarks include Raining Data, Pick, D3, Omnis, Omnis Studio, mvEnterprise, mvBase, mvDesigner and our service marks include TigerLogic, among others. We also have one pending U.S. patent application as of March 31, 2004.

We license our products to end users on a right to use basis pursuant to a perpetual license agreement that restricts use of products to a specified number of users. We generally rely on click-wrap licenses that become effective when a customer downloads and installs the software on its system. In order to retain exclusive ownership rights to our software and technology, we generally provide our software in object code only, with contractual restrictions on copying, disclosure, and transferability. There can be no assurance that these protections will be adequate, or that our competitors will not independently develop technologies that are substantially equivalent or superior to our technology.

Backlog

We generally ship software products as orders are received and have historically operated with little backlog. As a result, our license revenue in any given quarter is dependent upon orders received and product shipped during the quarter. Traditionally there has been a short cycle between receipt of an order and shipment. Consequently, we do not believe that our backlog as of any particular date is meaningful.

Employees

At March 31, 2004, we had 142 employees worldwide of which 104 were in the United States and 38 were in our international offices. Of the 142 employees, approximately 45% are in research and development, 20% in technical support, 20% in sales and marketing and 15% in general and administrative functions.

Executive Officers

The following sets forth certain information regarding our executive officers as of March 31, 2004:

Name	Age	Position(s)
Carlton H. Baab	46	President, Chief Executive Officer and Director
Brian C. Bezdek	33	Chief Financial Officer and Secretary
Mario I. Barrenechea	43	Senior Vice President, Worldwide Sales and Marketing
Mark Allen	59	Vice President, Worldwide Customer Support & Training
Boris Geller	40	Vice President, Market Development
Gwyneth M. Gibbs	60	Vice President, European Operations
Soheil Raissi	48	Vice President, Product Development & Professional Services

Mr. Baab joined us as the President and Chief Executive Officer in August 2001 and was appointed as a member of the Board in December 2001. From May 2001 to August 2001, Mr. Baab served as a Managing Principal of Astoria Capital Management (ACM), a Securities and Exchange Commission (the SEC) registered investment advisor and a General Partner of Astoria Capital Partners, L.P. (ACP), a significant stockholder of ours. In August 2001, Mr. Baab took a formal leave of absence from ACM to join us. From March 2000 to April 2001, Mr. Baab was the Vice President of Finance and Chief Financial Officer of Certive, Inc., a web-based small-business services firm. From January 1999 to March 2000, Mr. Baab was the Chief Operating Officer and Chief Financial Officer of RemarQ Communities, Inc., a web-based provider of discussion group services. Mr. Baab served as Chief Financial Officer of the CKS Group (CKS), a marketing communications company, from February 1994 through December 1998. In addition, Mr. Baab served as an Executive Vice President and the Secretary of CKS from August 1995 through December 1998 and as CKS's Chief Operating Officer from August 1995 through May 1996. Mr. Baab also served on the Board of Directors of Momentum Business Applications, Inc. (Nasdaq: MMTM), which provided research and development expertise on a contract basis, until it was acquired by PeopleSoft (Nasdaq: PSFT) in April 2002. Mr. Baab also serves on the University of Southern California, School of Engineering Board of Councilors. Mr. Baab holds a B.S. in Electrical Engineering, with honors, from the University of Southern California and an M.B.A. from the Harvard Graduate School of Business Administration.

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Mr. Bezdek has served as our Chief Financial Officer since January 2003 and has served as Secretary since April 2002. Mr. Bezdek joined us as Vice President, Finance, Corporate Controller and Secretary in April 2002. From May 1996 to April 2002, Mr. Bezdek held various corporate finance positions, most recently as Vice President of Finance, at Activision Publishing Inc. (Nasdaq: ATVI), a worldwide publisher, developer and distributor of video games and interactive entertainment products. Mr. Bezdek holds a B.S. in Business Administration from Bowling Green State University and is a Certified Public Accountant as well as a Certified Treasury Professional.

Mr. Barrenechea has served as our Senior Vice President, Worldwide Sales and Marketing since December 2000. Mr. Barrenechea joined us from PickAx, with whom the Company merged in December 2000, where he served in a similar capacity. From 1994 until joining PickAx in 2000, Mr. Barrenechea served in various executive sales and marketing capacities at Informix, Inc., a leading supplier of computer software relational and multidimensional databases. Mr. Barrenechea holds a B.S. in Electrical Engineering from Temple University.

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Mr. Allen joined us as Vice President, Worldwide Customer Support and Training in August 2001. From January 2000 to August 2001, Mr. Allen served as Vice President, Service and Support at Bay Logics, a computer software company. From July 1998 to December 1999, Mr. Allen served as Director, Software Services at SGI (formally Silicon Graphics Computer Systems). In addition, from June 1997 to June 1998, Mr. Allen served as Director, Research and Development at CoCreate Software, Inc. Mr. Allen attended the University of Massachusetts where he majored in Business Administration.

Mr. Geller has served as our Vice President, Market Development since March 2002. Mr. Geller joined us from Steeleye Technology, Inc., an enterprise reliability and disaster recovery software company, where he served as Vice President, Marketing since May 2000. From February 1999 to May 2000, Mr. Geller served as Senior Director, Marketing and Alliances for BEA Systems (Nasdaq: BEAS), a provider of application infrastructure. From April 1998 to February 1999, Mr. Geller served as Senior Director, Marketing and Business Development for Imparto Software Corp., a web marketing automation software company. Prior to that, Mr. Geller served in a variety of executive and senior management positions in marketing, business development and product development at BMC/BGS (NYSE: BMC), HP/Digital Equipment Corp. (NYSE: HPQ), Legato/Qualix (Nasdaq: LGTO) and other enterprise software companies. Mr. Geller holds a B.S. and a M.S. in Computer Science from Boston University and an M.B.A. from Bentley College.

Mrs. Gibbs has served as our Vice President, European Operations from our offices in the United Kingdom since December 2000. Mrs. Gibbs served as President and Interim Chief Executive Officer of Omnis, Inc. from October 1998 until our merger with PickAx in December 2000. Mrs. Gibbs joined us in October 1994 and was initially responsible for Research and Development in Europe. Mrs. Gibbs holds a B.S. in Astronomy from the University of London.

Mr. Raissi has served as our Vice President, Product Development and Professional Services since September 2001. From March 2001 to September 2001, Mr. Raissi performed independent software and management consulting services. From September 2000 to March 2001, Mr. Raissi served as Vice President, Product Development for Equative, Inc., a computer software company providing web-based enterprise resource management applications to medium and larger enterprises. From September 1999 to August 2000, Mr. Raissi served as Vice President, Technical Services for Zland.com, an application service provider supplying hosted web-based applications through the Internet. From February 1996 to September 1999, Mr. Raissi served as the founding President of the Information Technology Group, which provided record and information management and retention scheduling software services to Fortune 1000 companies. Mr. Raissi holds a B.S. in Computer Science from California State University, Dominguez Hills and a B.A. in Literature from Pars University in Tehran, Iran.

ITEM 2. DESCRIPTION OF PROPERTY

We currently lease approximately 44,750 square feet of office space in two buildings in Irvine, California pursuant to a lease that expires in November 2005 and that provides for a base monthly rent of approximately \$69,000. The facility accommodates engineering, technical support, sales, marketing, and general administration. We sublease one of the two buildings representing approximately 13,000 square feet to an unrelated third party. The sublease also has a November 2005 expiration date.

We own a building consisting of approximately 5,900 total square feet located on approximately six acres of land in Suffolk, England. The facility houses engineers, marketing, and technical support.

We also lease three sales and support offices in Europe.

ITEM 3. LEGAL PROCEEDINGS

We are subject from time to time to litigation, claims and suits arising in the ordinary course of business. As of March 31, 2004, we were not a party to any material litigation, claim or suit.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our stockholders during the fourth quarter of the fiscal year ended March 31, 2004.

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

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Our common stock is traded on the Nasdaq SmallCap Market under the symbol RDTA.

The following table sets forth the high and low closing prices for our common stock for fiscal years 2003 and 2004:

	High	Low
<i>Fiscal Year 2003</i>		
First Quarter	\$ 3.10	\$ 1.46
Second Quarter	\$ 1.55	\$ 0.74
Third Quarter	\$ 3.05	\$ 0.77
Fourth Quarter	\$ 2.12	\$ 1.50

	High	Low
<i>Fiscal Year 2004</i>		
First Quarter	\$ 4.13	\$ 1.45
Second Quarter	\$ 4.01	\$ 2.62
Third Quarter	\$ 3.70	\$ 2.53
Fourth Quarter	\$ 4.81	\$ 3.07

On March 31, 2004, the closing price for our common stock on the Nasdaq SmallCap Market was \$3.49 and there were approximately 140 holders of record of our common stock.

Dividends

We have never declared or paid dividends on our common stock. We intend to retain earnings, if any, for the operation and expansion of our business, and therefore do not anticipate paying any cash dividends in the foreseeable future.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS

This Form 10-KSB contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. Such statements include our expectations, hopes, and intentions regarding the future, including but not limited to statements regarding our strategy, competition, development plans (including anticipated cost, timing and eventual acceptance of new products and services by the market), financing, revenue, and operations. Forward-looking statements involve certain risks and uncertainties, and actual results may differ materially from those discussed in any such statement. Factors that could cause actual results to differ materially from such forward-looking statements include the risks described in the Risk Factor section and elsewhere in this

Form 10-KSB. All forward-looking statements in this document are made as of the date hereof, based on information available to us as of the date hereof, and we assume no obligation to update any forward-looking statement.

This discussion and analysis of the financial statements and results of operations should be read in conjunction with our audited Consolidated Financial Statements, including the related notes thereto, contained elsewhere in this Form 10-KSB.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent liabilities.

On an on-going basis, we evaluate our estimates, including those related to revenue recognition and accounting for intangible assets and goodwill. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

We have identified the accounting policies below as the policies critical to our business operations and the understanding of our results of operations. We believe the following critical accounting policies and the related judgments and estimates affect the preparation of our consolidated financial statements:

REVENUE RECOGNITION. We recognize revenue using the residual method pursuant to the requirements of Statement of Position No. 97-2, Software Revenue Recognition (SOP 97-2), as amended. Under the residual method, revenue is recognized in a multiple element arrangement when company-specific objective evidence of fair value exists for all of the undelivered elements in the arrangement, but does not exist for one or more of the delivered elements in the arrangement. At the outset of the arrangement with the customer, we defer revenue for the fair value of our undelivered elements (e.g., contract revenue amount for maintenance) based on company-specific objective evidence of the amount such items are sold individually to our customers and recognize revenue for the remainder of the arrangement fee attributable to the elements initially delivered in the arrangement (e.g., software license) when the basic criteria in SOP 97-2 have been met.

Under SOP 97-2, revenue attributable to an element in a customer arrangement is recognized when persuasive evidence of an arrangement exists and delivery has occurred, provided the fee is fixed or determinable, collectibility is probable and the arrangement does not require significant customization of the software. If at the outset of the customer arrangement, we determine that the arrangement fee is not fixed or determinable, we defer the revenue and recognize the revenue when the arrangement fee becomes due and payable.

Professional services, maintenance and other revenue relate primarily to consulting services, maintenance and training. Maintenance revenue is initially deferred and then recognized ratably over the term of the maintenance contract, typically 12 months. Consulting and training revenue is recognized as the services are performed and is usually calculated on a time and materials basis. Such services primarily consist of implementation services related to the installation of our products and do not include significant customization to or development of the

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underlying software code. We do not have price protection programs, conditional acceptance agreements or warranty programs, and sales of our products are made without right of return.

INTANGIBLE ASSETS AND GOODWILL. We assess the impairment of identifiable intangibles, long-lived assets and goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We also assess the value of goodwill at least annually. Factors we consider to be important which could trigger an impairment review include the following:

Significant underperformance relative to expected historical or projected future operating results;

Timing of our revenue, significant changes in the manner of use of the acquired assets or the strategy for the overall business;

Significant negative industry or economic trends;

Significant decline in our stock price for a sustained period; and

Our market capitalization relative to net book value.