ACCRUE SOFTWARE INC
Form 10-Q
November 12, 2002

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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 September 28, 2002

OR

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

For the transition period from to

Commission file number 000-26437

ACCRUE SOFTWARE, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	94-3238684
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

48634 MILMONT DRIVE
FREMONT, CA 94538-7353
(Address of principal executive offices, including zip code)

(510) 580-4500
(Registrant s telephone number, including area code)

[FORMER NAME OR FORMER ADDRESS, IF APPLICABLE]

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

As of September 28, 2002, there were 30,137,501 shares of the registrant s Common Stock outstanding.

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ACCRUE SOFTWARE, INC.
QUARTERLY REPORT ON FORM 10-Q

FOR THE PERIOD ENDED SEPTEMBER 28, 2002

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

ACCRUE SOFTWARE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED, IN THOUSANDS, EXCEPT PER SHARE DATA)

	MARCH 30, 2002	SEPT. 28, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$2,646	$1,335
Accounts receivable, net	1,952	554
Prepaid expenses and other current assets	476	322
Total current assets	5,074	2,211
Property and equipment, net	1,894	1,013
Goodwill and intangible assets, net	4,604	1,168
Other assets	200	200
Total assets	$11,772	$4,592

LIABILITIES AND STOCKHOLDERS   EQUITY

Current liabilities:		
Accounts payable	$633	$481
Accrued liabilities	2,363	1,585
Deferred revenue	3,146	1,047
Total current liabilities	6,142	3,113
Stockholders equity:		
Common stock, $0.001 par value	31	31
Additional paid-in capital	263,836	263,914
Deferred stock-based compensation	(93)	(76)
Accumulated other comprehensive income	72	127
Accumulated deficit	(258,216)	(262,517)
Total stockholders equity	5,630	1,479
Total liabilities and stockholders equity	$11,772	$4,592

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ACCRUE SOFTWARE, INC.
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED, IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	SEPT. 29, 2001	SEPT. 28, 2002	SEPT. 29, 2001	SEPT. 28, 2002
Net revenue:				
Software license	$1,434	$229	$2,581	$657
Maintenance and service	2,376	1,323	4,841	2,793
Total net revenue	3,810	1,552	7,422	3,450
Cost of revenue:				
Software license	105	49	210	82
Maintenance and service	1,714	602	3,842	1,648

Total cost of revenue	1,819	651	4,052	1,730
Gross profit	1,991	901	3,370	1,720
Operating expenses:				
Research and development	1,730	607	3,852	1,689
Sales and marketing	1,606	439	3,095	1,365
General and administrative	1,465	987	2,788	2,066
Amortization of intangibles	1,145	275	2,290	818
Write-down of fixed assets	141		290	
Stock-based compensation expense	276	43	485	90
Total operating expenses	6,222	2,492	12,510	6,318

Loss from operations	(4,231)	(1,591)	(9,140)	(4,598)
Other income (expense), net	77	3	211	(2)
Gain on sale of technology assets			4,306	299
Net loss	$(4,154)	$(1,588)	$(4,623)	$(4,301)
Net loss per share, basic and diluted	$(0.14)	$(0.05)	$(0.15)	$(0.14)
Shares used in computing net loss per share, basic and diluted	30,131	29,971	30,029	29,957

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ACCRUE SOFTWARE, INC.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED, IN THOUSANDS)

	SIX MONTHS ENDED	
	SEPT. 29, 2001	SEPT. 28, 2002
Cash flows from operating activities:		
Net loss	$(4,623)	$(4,301)
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain on sale of technology asset	(4,306)	(299)
Depreciation and amortization	2,844	1,275
Loss on sale of fixed assets		4
Fixed assets written off		290
Provision for sales returns and doubtful accounts	100	12
Stock-based compensation expense	485	90
Changes in operating assets and liabilities:		
Accounts receivable	(755)	1,444
Prepaid expenses and other current assets	(491)	138
Other assets	310	
Accounts payable	(392)	(153)
Accrued liabilities	(1,445)	(785)
Accrued costs related to merger and acquisition	(80)	
Deferred revenue	(1,337)	(883)

Net cash used in operating activities	(9,690)	(3,168)
Cash flows from investing activities:		
Net proceeds from sale of technology assets	4,306	1,873
Proceeds from sale of fixed assets		2
Acquisition of property and equipment	(53)	(34)
Net cash provided by investing activities	4,253	1,841
Cash flows from financing activities:		
Proceeds from stock options and employee stock purchase plan	22	4
Proceeds from release of restricted cash held for financing commitments	2,000	
Repurchase of common stock	(43)	
Repayment of short term borrowings	(2,000)	

Net cash provided by (used in) financing activities	(21)	4
Effect of exchange rate changes on cash	29	12
Net decrease in cash and cash equivalents	(5,429)	(1,311)
Cash and cash equivalents at beginning of period	11,951	2,646
Cash and cash equivalents at end of period	$6,522	$1,335

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ACCRUE SOFTWARE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 Basis of Presentation

Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary to fairly present the Company s financial position, results of operations and cash flows for the periods presented. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts therein. Due to the inherent uncertainty involved in making estimates, actual results in future periods may differ from those estimates.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These financial statements should be read in conjunction with the Company s financial statements and notes thereto for the year ended March 30, 2002, which are contained in the Company s Annual Report on Form 10-K. The results of operations for the current interim period are not necessarily indicative of results to be expected for the full year ending March 29, 2003 or other future periods.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant inter-company accounts and transactions have been eliminated.

Accrue has completed several rounds of equity financing, most recently its initial public offering that generated $40.8 million of net proceeds in July 1999. However, Accrue has incurred substantial losses and negative cash flows from operations in each fiscal year since inception. For the three months ended September 28, 2002, Accrue incurred an operating loss of $1.6 million and negative cash flows from operations of $1.0 million. As of September 28, 2002, Accrue had an accumulated deficit of $263 million and a working capital deficit of $0.9 million. Management expects operating losses and negative cash flows to continue for the foreseeable future due to a decline in projected revenue in comparison to fiscal 2002. Our current cash resources are insufficient to fund our business as it has historically been conducted. If we cannot raise funds quickly, it is likely that we will not be able to continue our business as a going concern. We are evaluating various initiatives to improve our cash position, including selling additional stock, selling assets, incurring additional debt, implementing further restrictions on spending and other cash generating initiatives. Additional financing, if available at all, may not be available on terms that are acceptable to Accrue because of the uncertainty prevailing in the current market climate. Accrue may not be successful in implementing or negotiating such other arrangements to improve its cash position. If Accrue raises additional funds through the issuance of equity or convertible debt securities, the percentage ownership of its stockholders would be reduced and these securities might have rights, preferences and privileges senior to those of its current stockholders. Any such financing will be dilutive to existing stockholders. Failure to quickly improve our cash position could have a material adverse effect on Accrue s ability to continue as a going concern and to achieve its intended business objectives.

The condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Note 2 Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) approved Statements of Financial Accounting Standards (SFAS) No. 141, Business Combinations and No. 142, Goodwill and Other Intangible Assets. The statements eliminate the pooling-of-interests method of accounting for business combinations and require that goodwill and certain intangible assets not be amortized. Instead, the statements provide that these assets should be tested, at least annually, for impairment with any related losses recognized as incurred. SFAS No. 141 is generally effective for business combinations completed after September 29, 2001. SFAS No. 142 was effective for the Company beginning March 31, 2002 for existing goodwill and intangible assets. See Note 5 to the Consolidated Financial Statements for additional discussion of the impact of SFAS No. 142.

In October 2001, FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This statement addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of and

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supersedes SFAS No. 121 and APB Opinion No. 30. SFAS No. 144 was effective for the Company beginning March 31, 2002. In accordance with this pronouncement, the Company recorded a write-down of fixed assets. See Note 10.

In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. The standard replaces EITF Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) and requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Company has not yet determined the impact of SFAS No. 146 on its financial position or results of operations.

Note 3 Net loss per share

Basic net loss per share is computed by dividing the net loss available to common stockholders for the period by the weighted average number of vested common shares outstanding during the period. Diluted net loss per share is computed by dividing the net loss for the period by the weighted average number of vested common shares and potential common shares outstanding during the period. However, as Accrue generated net losses in all periods presented, potential common shares, composed of incremental common shares issuable upon the exercise of stock options and shares subject to repurchase, are not included in diluted net loss per share because such shares are anti-dilutive.

At September 28, 2002 and September 29, 2001, options to purchase 3,354,003 and 5,727,500 shares, respectively, of the Company s common stock were outstanding, and 155,736 and 276,300 shares, respectively, of common stock issued are subject to repurchase and could potentially dilute earnings per share in future periods.

A reconciliation of shares used in the calculation of net loss per share follows (in thousands, except per share data):

	Three Months Ended		Six Months Ended	
	Sept. 29, 2001	Sept. 28, 2002	Sept. 29, 2001	Sept. 28, 2002
NET LOSS PER SHARE, BASIC AND DILUTED:				
Net loss	$(4,154)	$(1,588)	$(4,623)	$(4,301)
Weighted average shares of common stock outstanding	30,470	30,126	30,368	30,118
Less: weighted average shares subject to repurchase	(339)	(155)	(339)	(161)

Weighted average shares used in computing net loss per share, basic and diluted	30,131	29,971	30,029	29,957
Net loss per share, basic and diluted	$(0.14)	$(0.05)	$(0.15)	$(0.14)

Note 4 Equity Transactions

During the three and six months ended September 28, 2002, 625 shares of common stock were exercised pursuant to our stock option plans, at a weighted average share price of $0.12. During the three and six months ended September 28, 2002, 28,000 shares of common stock were issued pursuant to our employee stock purchase plan, at a weighted average share price of $0.14.

During January 2002, Accrue announced a voluntary stock option exchange program for certain of its employees and directors. Under the program, certain of Accrue s employees and directors were given the opportunity to cancel outstanding stock options previously granted to them that had an exercise price in excess of $4.13 per share in exchange for an equal number of new options to be granted at a future date, which was at least six months and a day from the cancellation date, and conditioned that such person remains an employee or director of the Company. The exercise price of these new options will be equal to the fair market value of Accrue s common stock on the date of grant, which is expected to be determined during November 2002. Each new option will have a vesting commencement date of September 30, 2001 and a three-year vesting schedule, with 1/3 of the options vesting on the first anniversary of the vesting commencement date (September 30, 2002) and 1/36 of the options vesting at the end of each month for the succeeding 24 months. The exchange program does not result in any additional stock-based compensation charge or variable plan accounting. During March 2002, 1.1 million options with a weighted average exercise price of $19.82 were tendered and cancelled under this program. At September 28, 2002, there were 502,000 options to be issued under this exchange program.

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Note 5 Goodwill and Other Intangible Assets

In July 2001, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 142, Goodwill and Other Intangible Assets, which addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes Accounting Principles Board (APB) Opinion No. 17, Intangible Assets. It addresses how intangible assets that are acquired individually or with a group of other assets, but not those acquired in a business combination, should be accounted for in financial statements upon their acquisition. Among other things, it requires that goodwill and certain other intangible assets no longer be amortized and be tested for impairment at least annually and written down only when impaired. Further, SFAS No. 142 requires us to perform a transitional assessment of whether there is an indication that its goodwill is impaired as of the date of adoption. We will also be required to review our other intangible assets for impairment and to reassess the useful lives of such assets and make any necessary adjustments. In accordance with this statement, the Company reassessed the cla