ACCRUE SOFTWARE INC
Form 10-Q
August 13, 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 June 29, 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 (State or other jurisdiction of incorporation or organization)	94-3238684 (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 June 29, 2002, there were 30,109,501 shares of the registrant s Common Stock outstanding.

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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	JUNE 29, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,646	$ 2,256
Accounts receivable, net	1,952	768
Prepaid expenses and other current assets	476	308
Total current assets	5,074	3,332
Property and equipment, net	1,894	1,339
Goodwill and intangible assets, net	4,604	1,443
Other assets	200	200
Total assets	$ 11,772	$ 6,314
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 633	$ 416
Accrued liabilities	2,363	1,748
Deferred revenue	3,146	1,192
Total current liabilities	6,142	3,356
Stockholders equity:		
Preferred stock, $0.001 par value: Authorized 5,000 shares; issued and outstanding: none		
Common stock,$0.001 par value: Authorized 75,000 shares; issued and outstanding: 30,109 shares	31	31
Additional paid-in capital	263,836	263,910
Deferred stock-based compensation	(93)	(120)
Accumulated other comprehensive income	72	66
Accumulated deficit	(258,216)	(260,929)
Total stockholders equity	5,630	2,958
Total liabilities and stockholders equity	$ 11,772	$ 6,314

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

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

	THREE MONTHS ENDED	
	JUNE 30, 2001	**JUNE 29, 2002**
Net revenue:		
Software license	$ 1,147	$ 428
Maintenance and service	2,470	1,470
Total net revenue	3,617	1,898
Cost of revenue:		
Software license	105	33
Maintenance and service	2,133	1,046
Total cost of revenue	2,238	1,079
Gross profit	1,379	819
Operating expenses:		
Research and development	2,122	1,082
Sales and marketing	1,489	926
General and administrative	1,323	1,078
Amortization of intangibles	1,145	543
Stock-based compensation expense	209	47
Total operating expenses	6,288	3,676
Loss from operations	(4,909)	(2,857)
Other income (expense), net	134	(155)
Gain on sale of technology assets	4,306	299
Net loss	$ (469)	$ (2,713)
Net loss per share, basic and diluted	$ (0.02)	$ (0.09)
Shares used in computing net loss per share, basic and diluted	29,821	29,949

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

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

	THREE MONTHS ENDED	
	JUNE 30, 2001	JUNE 29, 2002
Cash flows from operating activities:		
Net loss	$ (469)	$ (2,713)
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain on sale of technology asset	(4,306)	(299)
Depreciation and amortization	1,417	801
Loss on sale of fixed assets		4
Fixed assets written off		149
Provision for sales returns and doubtful accounts		12
Stock-based compensation expense	209	47
Changes in operating assets and liabilities:		
Accounts receivable	812	1,231
Prepaid expenses and other current assets	399	153
Other assets		
Accounts payable	(640)	(219)
Accrued liabilities	(1,053)	(623)
Accrued costs related to merger and acquisition	(26)	
Deferred revenue	(968)	(740)
Net cash used in operating activities	(4,625)	(2,197)
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		(24)
Net cash provided by investing activities	4,306	1,851
Cash flows from financing activities:		
Proceeds from stock options and warrants exercised	9	
Proceeds from release of restricted cash held for financing commitments	2,000	
Repurchase of common stock	(29)	
Repayment of short term borrowings	(2,000)	
Net cash used in financing activities	(20)	
Effect of exchange rate changes on cash	(41)	(44)
Net decrease in cash and cash equivalents	(380)	(390)
Cash and cash equivalents at beginning of period	11,951	2,646
Cash and cash equivalents at end of period	$ 11,571	$ 2,256
Supplemental disclosure of cash flow information:		
Interest paid	$ 24	$ 2

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

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 June 29, 2002, Accrue incurred an operating loss of $2.9 million and negative cash flows from operations of $2.2 million. As of June 29, 2002, Accrue had an accumulated deficit of $260.9 million and a working capital deficit of $24,000. Management expects operating losses and negative cash flows to continue for the foreseeable future due to a decline in projected revenues 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 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 June 30, 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 on the impact of SFAS No. 141 and 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 supersedes SFAS No. 121 and APB Opinion No. 30. SFAS No. 144 was effective for the Company beginning March 31, 2002. The adoption of SFAS No.144 had no impact on the Company s financial position or results of operations.

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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 June 29, 2002 and June 30, 2001, options to purchase 4,441,000 and 6,167,000 shares, respectively, of the Company s common stock were outstanding, and 160,553 and 394,000 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	
	June 30, 2001	**June 29, 2002**
NET LOSS PER SHARE, BASIC AND DILUTED:		
Net loss	$ (469)	$ (2,713)
Weighted average shares of common stock outstanding	30,267	30,110
Less: weighted average shares subject to repurchase	(446)	(161)
Weighted average shares used in computing net loss per share, basic and diluted	29,821	29,949
Net loss per share, basic and diluted	$ (0.02)	$ (0.09)

Note 4 Equity Transactions

During the three months ended June 29, 2002 and June 30, 2001, 625 and 20,145 shares of common stock, respectively, were exercised pursuant to our stock option plans.

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 then have a transition period of six months from the date of adoption to determine if the goodwill has been impaired. We expect to complete the impairment test during the second quarter of fiscal 2003. Any goodwill impairment loss (measured as of the beginning of the fiscal year of adoption) will be recognized as the cumulative effect of a change in accounting principle no later than the end of the fiscal year 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. We have not yet determined what further effect these impairment tests will have on our results from operations and financial position. In accordance with this statement, the Company reassessed the classification of its

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intangible assets as of March 31, 2002, and reclassified $1.1 million of assembled workforce, net of accumulated amortization, to goodwill, which will no longer be amortized.

The following is a summary of reported net loss and loss per share as adjusted to exclude amortization of goodwill and assembled workforce for the three-month periods ended June 29, 2002 and June 30, 2001:

	Three Months Ended	
In thousands, except per share data	**June 30, 2001**	**June 29, 2002**
Reported net loss	$ (469)	$ (2,713)
Assembled workforce amortization	256	
Adjusted net loss	$ (213)	$ (2,713)
Basic and diluted net loss per share:		
Reported net loss	$ (0.02)	$ (0.09)
Assembled workforce amortization	0.01	
Adjusted net loss per share	$ (0.01)	$ (0.09)

The changes in the carrying amount of goodwill for the three months ended June 29, 2002, are as follows:

In thousands	**Three Months Ended June 29, 2002**
Balance as of beginning of period	$
Reclassification of assembled workforce	1,106
Amount written off related to sale of Pilot technology assets	(603)
Balance as of end of period	$ 503

Intangible assets subject to amortization were as follows:

In thousands	**March 30, 2002**	**June 29, 2002**
Developed and core technology	$ 9,437	$ 3,149
Customer relationships	100	100
Trademarks/tradenames	1,131	40
Less: Accumulated amortization of developed and core technology	(6,489)	(2,233)
Accumulated amortization of customer relationships	(75)	(83)
Accumulated amortization of trademarks / tradenames	(606)	(33)
Net intangibles	$ 3,498	$ 940

Amortization expense related to intangible assets was $0.5 million and $1.1 million for the three months ended June 29, 2002 and June 30, 2001, respectively. The future amount of amortization expense is as follows: