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

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

FORM 10-QSB/A

(Mark One)

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

For the quarter period ended JUNE 30, 2001

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Exchange Act

For the transition period from _________ to _________

Commission File number 0-16449

RAINING DATA CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	94-3046892
(State of Incorporation)	(IRS Employer Identification No.)

17500 Cartwright Road
Irvine, CA 92614
(Address of principal executive offices)

(949)442-4400
(Registrant's telephone number)

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

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

EXPLANATORY NOTE

On February 14, 2002, the Company announced that it would restate its financial statements for the fiscal year ended March 31, 2001, and each of the quarters in the six quarterly periods ended September 30, 2001, due to the misapplication of certain accounting standards. This amended filing contains restated financial information and related disclosures for the year ended March 31, 2001 and the three months ended June 30, 2001 and 2000, and reflects, where appropriate, changes as a result of the restatements.

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

RAINING DATA CORPORATION

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

RAINING DATA CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS

	Restated JUNE 30, 2001	Restate MARCH 3 2001
ASSETS		
Current Assets		
Cash	$ 1,644,000	$ 2,424
Trade Accounts Receivable less allowance for doubtful accounts of $313,000 at June 30, 2001 and $156,000 at March 31, 2001	3,004,000	2,502
Other Current Assets	193,000	263
Total Current Assets	4,841,000	5,189
Property, Furniture and Equipment-net	1,224,000	1,403
Intangible Assets-net	10,562,000	11,384
Goodwill-net	32,341,000	34,610
Other Assets	280,000	269
Total Assets	$ 49,248,000	$ 52,855
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	$ 2,245,000	$ 1,733
Accrued Liabilities	3,493,000	3,094
Deferred Revenue	3,967,000	3,274
Current Portion of Long-Term Debt	237,000	328
Total Current Liabilities	9,942,000	8,429
Long-Term Debt, net of Current Portion	16,647,000	15,758
Total Liabilities	26,589,000	24,187
Commitments and Contingencies		
Stockholders' Equity		
Preferred Stock: $1.00 par value; 300,000 shares authorized, issued, and outstanding	300,000	300
Common Stock: $0.10 par value; 30,000,000 shares authorized, 15,734,749 issued, and outstanding at June 30, 2001; 15,716,091 issued and outstanding at March 31, 2001	1,574,000	1,572
Additional Paid-in Capital	92,080,000	91,921
Additional Deferred Stock-Based Compensation	(1,859,000)	(2,073

Accumulated Other Comprehensive Income	344,000	1,216
Accumulated Deficit	(69,780,000)	(64,268
Total Stockholders' Equity	22,659,000	28,668
Total Liabilities and Stockholders' Equity	$ 49,248,000	$ 52,855

See accompanying condensed notes to the unaudited consolidated financial statements.

RAINING DATA CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	Restated Three Months Ended June 30,	
	2001	2000
Net Revenue		
License	$ 2,852,000	$ 792,000
Service	2,384,000	172,000
Total Net Revenue	5,236,000	964,000
Cost of Revenue		
Cost of License Revenue	106,000	34,000
Cost of Service Revenue	1,049,000	231,000
Total Cost of Revenue	1,155,000	265,000
Gross Profit	4,081,000	699,000
Cost of Operations		
Selling and Marketing	2,112,000	1,365,000
Research and Development	1,216,000	1,552,000
General and Administrative	1,776,000	437,000
Stock-Based Compensation	356,000	269,000
Amortization of Goodwill and Intangible Assets	3,186,000	--
Total Operating Expenses	8,646,000	3,623,000
Operating Loss	(4,565,000)	(2,924,000)
Other Expense		
Interest Expense-net	(897,000)	(44,000)
Other Expense	(50,000)	--

	(947,000)	(44,000)
Net Loss	$ (5,512,000)	$ (2,968,000)
Basic and Diluted Net Loss Per Share	$ (0.35)	$ (0.30)
Weighted Average Number of Common Shares Outstanding	15,724,291	9,839,230

See accompanying condensed notes to the unaudited consolidated financial statements.

RAINING DATA CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Restated Three Months Ended June 30, 2001	2000
Cash flows from operating activities:		
Net loss	$ (5,512,000)	$ (2,968,000)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	3,409,000	79,000
Note discount amortization	878,000	--
Amortization of deferred compensation	356,000	269,000
Software exchanged for common stock		900,000
Change in assets and liabilities:		
Trade accounts receivable	(502,000)	(148,000)
Inventory	(4,000)	6,000
Other current and non-current assets	63,000	(565,000)
Accounts payable and accrued liabilities	210,000	1,083,000
Deferred revenue	693,000	66,000
Net cash used for operating activities	(409,000)	(1,278,000)
Cash flows from investing activities:		
Purchase of property, furniture and equipment	(21,000)	(158,000)
Acquisition of software assets	--	(68,000)
Net cash used for investing activities	(21,000)	(226,000)

Cash flows from financing activities:		
Proceeds from exercise of Incentive Stock Options	19,000	61,000
Proceeds from stockholder note	--	1,055,000
Repayment of debt	(28,000)	(47,000)
Net cash provided by (used for) financing activities	(9,000)	1,069,000
Effect of exchange rate changes on cash	(341,000)	(41,000)
Net increase in cash	(780,000)	(476,000)
Cash at the beginning of period	2,424,000	1,238,000
Cash and equivalents at end of period	$ 1,644,000	$ 762,000

See accompanying condensed notes to the unaudited consolidated financial statements.

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

1. RESTATED FINANCIAL STATEMENTS

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

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

resolution of the contingency is determinable beyond a reasonable doubt.

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

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

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

- At various dates during fiscal 2001 and 2002, the Company granted options to purchase common stock to employees with an exercise price at a discount from the fair market value of the common stock on the date of grant. In addition, the Company accelerated vesting

or extended the term of options held by terminated employees. In neither instance did the Company record deferred stock-based compensation or stock-based compensation.

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

	2001		2000	
	As Reported	Restated	As Reported	Restat
Net Revenue				
License	$ 2,903,000	$ 2,852,000	$ 814,000	$ 792
Service	3,105,000	2,384,000	172,000	172
Total Net Revenue	6,008,000	5,236,000	986,000	964
Total Costs and Expenses	8,403,000	9,801,000	2,916,000	3,888
Operating Loss	(2,395,000)	(4,565,000)	(1,930,000)	(2,924
Total Other Expense	(873,000)	(947,000)	(44,000)	(44
Net Loss	$ (3,268,000)	$ (5,512,000)	$ (1,974,000)	$ (2,968
Basic and Diluted Net Loss Per Share	$ (.20)	$ (.35)	$ (.19)	$
Weighted Average Number of Common Shares Outstanding	16,009,088	15,724,291	10,124,026	9,839

2. INTERIM FINANCIAL STATEMENTS

The unaudited interim consolidated financial information furnished herein reflects all adjustments, consisting only of normal recurring items, which in the opinion of management are necessary to fairly state the Company's financial position, the results of its operations and the changes in its financial position for the periods presented. Certain information and footnote disclosures, normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been omitted pursuant to such SEC rules and regulations; nevertheless management of the Company believes that the disclosures herein are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the Company's audited financial statements for the year ended March 31, 2001 contained in the Company's Annual Report on Form 10-KSB/A. The results of operations for

the period ended June 30, 2001 are not necessarily indicative of results to be expected for any other interim period or the fiscal year ending March 31, 2002.

3. RECENTLY ISSUED ACCOUNTING STANDARDS

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

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

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

In connection with SFAS No. 142's transitional goodwill impairment evaluation, the Statement requires the Company to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. To accomplish this, the Company must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of April 1, 2002. The Company will then have up to six months from April 1, 2002 to determine the fair value of each reporting unit and compare it to the carrying amount of the reporting unit. To the extent the carrying amount of a

reporting unit exceeds the fair value of the reporting unit, an indication exists that the reporting unit goodwill may be impaired and the Company must perform the second step of the transitional impairment test. The second step is required to be completed as soon as possible, but no later than the end of the year of adoption. In the second step, the Company must compare the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill, both of which would be measured as of the date of adoption. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation, in accordance with SFAS No. 141. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Company's statement of operations.

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

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

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144). SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. SFAS No. 144 requires companies to separately report discontinued operations and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held for sale. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The Company is required to adopt SFAS No. 144 on April 1, 2002. The Company has not yet determined the effect, if any, from the adoption of SFAS No. 144 on its financial condition and results of operations.

4. PRO FORMA FINANCIAL INFORMATION

Had the Company acquired PickAX at the beginning of the Company's fiscal year on April 1, 2000, the unaudited pro forma results for the three months ending June 30, 2000, would have been approximately as follows:

Revenue	$ 5,248,000
Net Loss Before Tax	(7,296,000)
Loss per share	$ (0.51)

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

This Item 2, as well as other portions of this document, contain forward-looking statements about the Company's business, revenue, expenditures, research and development efforts, operating and capital requirements, changes in operations, integration of the acquisition of PickAX, products, cost savings and reductions, and ability to raise capital in the future. In addition, forward-looking statements may be included in various other Company documents to be issued concurrently or in the future and in oral or other statements made by representatives of the Company to investors and others from time to time. Forward-looking statements are subject to risks and uncertainties which could cause actual results to differ materially from predicted results.

Such risks include, among others, that the Company may not be able to integrate the technologies, products, and operations of the two companies in a timely and effective way; that the Company may not be able to achieve the cost reductions or eliminate the duplicate and redundant facilities and contracts; that the Company may not introduce new or improved products in a timely fashion or at all; that the marketplace may not accept any new or improved products; that the presence of competitors with greater technical, marketing and financial resources may significantly limit the growth and impact of the Company; or that the Company may not be able to retire the debt due upon maturity.

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

OVERVIEW

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

The Company's principal business is the design, development, sale, and support of two major software products: Rapid Application Development ("RAD") software tools; and multi-dimensional database management systems. The Company's products allow customers to create and enhance flexible software applications tailor-made to their own needs. The Company's products support the full lifecycle of application development and are designed for rapid development and deployment of Web, client/server and mobile computing applications. The Company's RAD products are object-oriented, component-based tools, providing the ability to deploy applications on the Windows, Unix and Linux operating system platforms as well as the Oracle, DB2, Sybase, Microsoft and SQL Server database environments and other Open Data Base Connectivity ("ODBC") compatible database management systems. Similarly, the Company's

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multi-dimensional database products are designed to operate in the Windows, Unix, Linux operating environments.

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

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

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

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

RESULTS OF OPERATIONS

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

Restatement of Financial Statements

Subsequent to the filing of its Annual Report on Form 10-QSB for the quarter ended June 30, 2001 with the Securities and Exchange Commission, the Company became aware of certain misapplications of accounting standards principally related to the accounting for its business combination with PickAX, Inc.

(PickAX) under the purchase method in December 2000, the purchase of technology from a third party in May 2000 and the grant of options at below market exercise prices. These misapplications can be summarized as follows:

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

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

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

- In May 2000, the Company acquired the rights to certain incomplete software with no alternative future use with the intention to further

develop it into a software product.

The Company recorded the payments related to the incomplete software as an asset. The Company's policy for software development costs is to expense software development costs until technological feasibility has been achieved. In general, technological feasibility occurs near general release. Since this purchased software was incomplete and significant development efforts were required before it could be released, the amounts capitalized should have been expensed as incurred.

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

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

	2001		2000	
	As Reported	Restated	As Reported	Restated
Net Revenue				
License	$2,903,000	$2,852,000	$814,000	$792,000
Service	3,105,000	2,384,000	172,000	172,000
Total Net Revenue	6,008,000	5,236,000	986,000	964,000
Total Costs and Expenses	8,403,000	9,801,000	2,916,000	3,888,000
Operating Loss	(2,395,000)	(4,565,000)	(1,930,000)	(2,924,000)
Total Other Expense	(873,000)	(947,000)	(44,000)	(44,000)
Net Loss	$(3,268,000)	$(5,512,000)	$(1,974,000)	$(2,968,000)
Basic and Diluted Net Loss Per Share	$(.20)	$(.35)	$(.19)	$(.30)
Weighted Average Number of Common Shares Outstanding	16,009,008	15,724,291	10,124,026	9,839,230

Net Revenue: Total net revenue for the three month period ended June 30, 2001 increased 443% to $5,236,000 from $964,000 for the same three month period in the prior year. License revenue increased 260% to $2,852,000 from $792,000 while services revenue increased 1,286% to $2,384,000 from $172,000 for the same three month period in the prior year. The increase in net revenue in total and by category is due to the acquisition of PickAX in December 2000. Prior to the acquisition of PickAX, the Company's revenue had been declining. In the early part of the fiscal year ended March 31, 2001, the Company reduced the price of its products

in an effort to increase demand for the Company's products. That strategy was not successful in increasing the Company's revenue.

As a result of the PickAX acquisition, the mix of revenue also changed. Services revenue increased to 46% of total year revenue for the three months ended June 30, 2001 from 18% of total revenue for the same three month period in the prior year. PickAX was more active in providing consulting and training services than the Company up to the time of acquisition.

Cost of License Revenue: Total cost of license revenue increased 212% to $106,000 for the three months ended June 30, 2001 from $34,000 for the three month period in the prior fiscal year reflecting the results of the PickAX acquisition. At the same time, cost of license revenue remained approximately 4% of license revenue for the same three month period in the prior fiscal year compared to the three months ended June 30, 2001. The Company is moving the product documentation process to CD-ROM and to Web-based downloading. In this manner, the Company was able to reduce the cost of manufacturing and shipping of the Company products.

Cost of Service Revenue: Total cost of service revenue increased 354% to $1,049,000 for the three months ended June 30, 2001 from $231,000 for the same three month period in the prior fiscal year reflecting the results of the PickAX acquisition. At the same time, cost of service revenue decreased to 44% of service revenue for the three months ended June 30, 2001 from 134% of service revenue for the same three month period in the prior fiscal year. This reflects the continuing efforts of the Company to improve the financial contribution of the service businesses to the Company including customer support, professional consulting services, and training and education.

Selling and Marketing Expenses: Selling and marketing expenses increased 55% to $2,112,000 from $1,365,000 for the same three month period in the prior fiscal year for the three months ended June 30, 2001 reflecting the results of the PickAX acquisition. At the same time, sales and marketing expenses decreased to 40% of total revenue for the three months ended June 30, 2001 from 142% of total revenue for the same three month period in the prior fiscal year.

Research and Development Expenses: Research and development expenses decreased 22% to $1,216,000 from $1,552,000 for the same three month period in the prior fiscal year for the three months ended June 30, 2001 reflecting the results of the PickAX acquisition. During the three month period ended June 30, 2001, the Company began changing the mix of its research and development efforts to include a significant focus on technologies, markets and products outside its historical market, specifically XML-based products for internet infrastructure. There can be no assurance that such shifts will result in new products or that any new products will be successful. During the three month period ended June 30, 2000, the Company purchased software still in development for $900,000 which was expensed during that period.

General and Administrative Expenses: General and administrative expenses increased 306% to $1,776,000 for the three months ended June 30, 2001 from $437,000 for the same three month period in the prior fiscal year reflecting the results of the PickAX acquisition. At the same time, general and administrative expenses decreased from 45% of total revenue for the same three month period in the prior fiscal year to 34% of total net revenue for the three months ended June 30, 2001.

Stock-Based Compensation: Stock-based compensation expense increased 32% to $356,000 from $269,000 for the same three month period in the prior fiscal year. As a percentage of total net revenue stock based compensation expense decreased to 7% for the three month period ended June 30, 2001 from 28% for the same three month period in the prior fiscal year.

Amortization of Goodwill and Intangible Assets: Amortization of goodwill and intangible assets was $3,186,000 for the three month period ended June 30, 2001. There was no similar charge in the three month period in the prior year. Amortization of goodwill and intangible assets arises from the acquisition of PickAX effective December 1, 2000.

Operating Loss: The Company's operating loss increased 56% to $4,565,000 for the three months ended June 30, 2001 from $2,924,000 for the same three month period in the prior fiscal year.

The operating loss for the period ended June 30, 2001 includes non cash charges for depreciation and amortization. The following table summarizes these charges for the periods indicated.

(Unaudited)	Restated Three Months Ended June 30, 2001	Restated Three Months Ended June 30, 2000
Operating Loss	$ (4,565,000)	$ (2,924,000)
Depreciation of Property, Furniture and Equipment	200,000	79,000
Amortization of Stock-Based Compensation	356,000	269,000
Amortization of Goodwill and Intangible Assets	3,186,000	--
Operating Loss before depreciation and amortization	$ (823,000)	$ (2,576,000)

Interest and Other Expense: Net interest expense increased to $947,000 for the three months ended June 30, 2001 from $44,000 for the same period in the prior year. The increase reflects the increase in debt of the Company (see notes to the consolidated financial statements). Other expense of $50,000 for the three months ended June 30, 2001 resulted primarily from foreign exchange transaction losses.

Net Loss: The net loss increased to a net loss of $5,512,000 or $(.35) per share for the three months ended June 30, 2001 from $2,968,000 for the same three month period in the prior fiscal year or $(.30) per share.

LIQUIDITY AND CAPITAL RESOURCES

The Company had $1,644,000 in cash and equivalents at June 30, 2001.

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

The Company had a working capital deficit of $5,101,000 at June 30, 2001. Of this total deficit, approximately $3,967,000 represents deferred revenue which the Company earns over the remaining life of the underlying service contracts.

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

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

COMPASS LITIGATION - Since 1994, the Company and Compass Software (Compass) have been in litigation over software copyright infringement and related claims in the courts of the State of Washington. The Company has generally prevailed in these matters. In the most recent action, the US District Court for the Western District of the State of Washington awarded statutory damages to the Company in the amount of approximately $150,000 in addition to injunctive relief and attorney fees from Compass. The Company obtained a motion for judgment to collect the $150,000 judgment awarded and for an additional $245,000 in legal fees. In February 2001, Earl Asmus, the principal in Compass, sued the Company in the Central District of California on a number of issues related to the State of Washington court proceedings. In early April 2000, the suit was dismissed, with leave to amend. Mr. Asmus amended his complaint and the Company's motion to strike the amended complaint is before the Court. In October 2001, the case was settled through the Company's insurance policy.

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

GENERAL AUTOMATION LITIGATION - In May 2001, General Automation initiated litigation in Superior Court of the State of California for the County of Orange against the Company for breach of contract relating to the Pick Systems purchase of selected assets of General Automation in August 2000. General Automation seeks approximately $690,000 plus penalties and interest. The Company has prevailed in two preliminary hearings sought by General Automation. The Company believes that the suit is without merit and intends to defend the suit vigorously. A jury trial is scheduled to begin July 28, 2002.

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

ITEM 5. OTHER INFORMATION

Ms. Gwyneth M. Gibbs resigned as an officer of the Company effective June 30, 2001. However, the effective date for the resignation of Ms. Gibbs as an employee of the Company was amended from June 30, 2001 to March 31, 2002 pursuant to a Settlement Agreement attached to this Form 10-QSB as Exhibit 10.19. In addition, effective as of August 14, 2001, Ms. Gibbs resigned as a director of the Company.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

10.19* Settlement Agreement between the Company and Gwyneth M. Gibbs.

*Previously filed with the Commission.

(b) Reports on Form 8-K.

None

SIGNATURES

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

Date: March 20, 2002

RAINING DATA CORPORATION

/s/ SCOTT K. ANDERSON, JR.

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