BLUE MARTINI SOFTWARE INC
Form 10-Q
May 08, 2002

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

FORM 10-Q

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended March 31, 2002

OR

¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission File Number: 0-30925

BLUE MARTINI SOFTWARE, INC.
(Exact name of registrant as specified in its charter)

Delaware	**94-3319751**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

2600 Campus Drive
San Mateo, California 94403
(Address of principal executive offices)

Telephone Number (650) 356-4000
(Registrant s telephone number, including area code)

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

As of April 29, 2002 there were approximately 73,992,000 shares of the registrant s common stock outstanding.

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Condensed Consolidated Balance Sheets
(In thousands, except per share data)

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	March 31, 2002	December 31, 2001
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents, including restricted cash of $7,068 in 2002 and $2,399 in 2001	$ 20,183	$ 12,945
Short-term investments	68,684	84,554
Accounts receivable, net	4,930	5,558
Prepaid expenses and other current assets	1,943	2,370
Total current assets	95,740	105,427
Property and equipment, net	3,573	4,654
Intangible assets and other, net	11,174	12,340
Total assets	$ 110,487	$ 122,421
Liabilities And Stockholders Equity		
Current liabilities:		
Accounts payable	$ 1,176	1,848
Accrued employee compensation	6,423	6,354
Other current liabilities	4,755	6,696
Deferred revenues	4,242	5,061
Total current liabilities	16,596	19,959
Stockholders equity:		
Common stock, $0.001 par value, authorized 5,000 shares, issued and outstanding 69,384 shares in 2002 and 68,964 shares in 2001	249,904	254,014
Deferred stock compensation	(4,624)	(8,000)
Accumulated other comprehensive income	12	595
Accumulated deficit	(151,401)	(144,147)
Total stockholders equity	93,891	102,462
Total liabilities and stockholders equity	$ 110,487	$ 122,421

See accompanying notes to condensed consolidated financial statements.

BLUE MARTINI SOFTWARE, INC.

Condensed Consolidated Statements of Operations
(In thousands, except per share data)

	Three Months Ended March 31,	
	2002	**2001**
	(Unaudited)	
Revenues:		
License	$ 1,029	$ 8,023
Service	7,480	13,372
Total revenues	8,509	21,395
Cost of revenues:		
License	621	1,179
Service*	5,222	13,146
Total cost of revenues	5,843	14,325
Gross profit	2,666	7,070
Operating expenses:		
Sales and marketing*	6,931	15,518
Research and development*	3,545	6,203
General and administrative*	1,636	4,116
Amortization of deferred stock compensation	(2,018)	7,038
Restructuring charges	703	2,107
Total operating expenses	10,797	34,982
Loss from operations	(8,131)	(27,912)
Interest income and other, net	877	2,207
Net loss	$ (7,254)	$ (25,705)
Basic and diluted net loss per common share	$ (0.11)	$ (0.41)
Shares used in computing basic and diluted net loss per common share	66,940	62,110

* Amounts exclude amortization of deferred stock compensation as follows:

Cost of service revenues: $58 in 2002 and $1,612 in 2001
Sales and marketing: $(476) in 2002 and $1,369 in 2001
Research and development: $204 in 2002 and $1,188 in 2001
General and administrative: $(1,804) in 2002 and $2,869 in 2001

See accompanying notes to condensed consolidated financial statements.

BLUE MARTINI SOFTWARE, INC.

Condensed Consolidated Statements of Cash Flows
(In thousands)

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
	(Unaudited)	
Operating activities:		
Net loss	$ (7,254)	$ (25,705)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property and equipment and amortization of intangible and other assets	2,294	3,040
Amortization of deferred stock compensation	(2,018)	7,038
Non-cash restructuring charges		2,107
Changes in operating assets and liabilities:		
Accounts receivable	628	1,886
Prepaid expenses and other current assets	427	(769)
Accounts payable, accrued employee compensation and other current liabilities	(2,515)	(3,177)
Deferred revenues	(819)	(4,729)
Net cash used in operating activities	(9,257)	(20,309)
Cash flows from investing activities:		
Purchases of property and equipment	(75)	(2,898)
Purchase of intangible assets		(4,250)
Sales and maturities of short-term investments	35,721	66,107
Purchases of short-term investments	(20,404)	(50,733)
Net cash provided by investing activities	15,242	8,226
Cash flows from financing activities:		
Net proceeds from issuance of common stock	1,328	3,111
Repurchases of common stock	(44)	(41)
Other	(31)	(41)
Net cash provided by financing activities	1,253	3,029
Net increase (decrease) in cash and cash equivalents	7,238	(9,054)
Cash and cash equivalents at beginning of period	12,945	40,101
Cash and cash equivalents at end of period	$ 20,183	$ 31,047

See accompanying notes to condensed consolidated financial statements.

BLUE MARTINI SOFTWARE, INC.

Notes to Condensed Consolidated Financial Statements

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-months period ended March 31, 2002 are not necessarily indicative of the results that may be expected for the entire year ended December 31, 2002.

The balance sheet at December 31, 2001 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information refer to the consolidated financial statements and notes thereto included in the Blue Martini Software, Inc. (Blue Martini or the Company) Annual Report on Form 10-K for the year ended December 31, 2001.

Reclassifications

The 2001 financial information has been reclassified to conform to the 2002 presentation in three respects: (1) revenues and cost of revenues have been reclassified in accordance with EITF Topic D-103, to reflect certain out-of-pocket expenses reimbursed by customers as revenues versus an offset to the related expense. The impact was an increase to both service revenues and cost of service revenues of $866,000 for the three months ended March 31, 2001; (2) amortization of deferred stock compensation, previously included in cost of revenues, sales and marketing, research and development, and general and administrative expenses, is now presented as a separate line item as part of operating expenses; and (3) accrued interest receivable related to short-term investments, previously reported as part of other current assets, has been reclassified and is now reported as part of short-term investments. The impact of reclassification of accrued interest receivables at December 31, 2001 was $1,815,000.

Note 2. Restructuring Charges

In January 2002, the Company implemented a restructuring plan to preserve cash and reduce costs. The restructuring consisted of terminating approximately 30 employees. The action resulted in a net restructuring charge of $703,000 in the quarter ended March 31, 2002 related to severance payments to terminated employees. The following table summarized the January 2002 restructuring charge and activities related to accrued restructuring charges (in thousands):

	Accrued at December 31, 2001	Expense	Cash Payments	Accrued at March 31, 2002
Lease cancellations	$ 458	$ (83)	$ (375)	$
Severance and related charges	18	786	(804)	
	$ 476	$ 703	$ (1,179)	$

Note 3. Comprehensive Loss

The comprehensive loss was $(7,837) and $(25,214) for the three months ended March 31, 2002 and 2001, respectively. The difference between net loss and comprehensive loss is primarily due to unrealized gain or loss on available-for-sale investments.

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Notes to Condensed Consolidated Financial Statements (Continued)

Note 4. Net Loss Per Common Share

The following potential common shares have been excluded from the calculation of diluted net loss per share for all periods presented because the effect would have been anti-dilutive (in thousands):

	Three Months Ended March 31,	
	2002	**2001**
Shares issuable under stock options	11,229	11,083
Shares of restricted stock subject to repurchase	1,877	7,116
Shares issuable pursuant to warrants	2,528	2,445

Note 5. Recent Accounting Pronouncements

The Company adopted as of January 1, 2002 the provisions of SFAS No.142, *Goodwill and Other Intangible Assets.* The adoption of this new standard did not affect the Company s consolidated financial statements. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested at least annually for impairment and that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and periodically reviewed for impairment.

The Company adopted as of January 1, 2002 the provisions of SFAS No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets.* The adoption of this new standard did not affect the Company s consolidated financial statements. SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets.

The Company adopted as of January 1, 2002 the provisions of EITF Topic D-103*, Income Statement Characterization of Reimbursements Received for out-of-pocket Expense Incurred.* The impact of adoption of EITF Topic D-103 was an increase to both revenues and costs of revenues by the amounts of reimbursable out-of pocket expenses for all periods presented. See Note 1 Reclassifications.

Note 6. Contingency

The Company is engaged in certain legal actions initiated in 2001 related to the stock allocation practices of the underwriters of the Company s initial public offering. The Company believes that it has adequate legal defenses and that the ultimate outcome of these actions will not have a material adverse effect on its financial position and results of operations.

Note 7. Subsequent Events

On April 16, 2002, the Company announced the acquisition of Cybrant Corporation, a provider of configuration, pricing, quoting, guided selling and solution design applications in a stock for stock transaction. Under the terms of the acquisition agreement, the Company issued approximately 4.5 million shares of its common stock to purchase all of Cybrant Corporation s stock.

The purchase price is approximately $8 million, comprising the shares issued and costs related to the transaction and minimal exit activities. The purchase price will be allocated to assets and liabilities acquired, based on a valuation analysis which the Company will complete in the second quarter of 2002.

On May 3, 2002, Blue Martini was notified that a shareholder s derivative complaint was to be filed in Superior Court of the State of California, County of San Mateo, under the caption Richard D. Yager, derivatively on behalf of Blue Martini Software, Inc., v. Zweben et al. The complaint provided to the Company purports to be

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Notes to Condensed Consolidated Financial Statements (Continued)

filed on behalf of Blue Martini, names as defendants Blue Martini (as a nominal defendant), certain Blue Martini officers and directors, and Goldman Sachs, the managing underwriter of Blue Martini s initial public offering, or IPO. The complaint alleges that the defendants breached fiduciary and other duties, were negligent, and were unjustly enriched because the IPO price of Blue Martini s stock allegedly was set too low. The plaintiff seeks unspecified monetary damages and other relief. Similar complaints have been filed in California state Courts against other public companies that conducted IPOs of their common stock in the late 1990s and early 2000s. The Company believes that the lawsuit is without merit and intends to defend against it vigorously. The Company believes that the ultimate outcome of this action will not have a material adverse effect on its financial position and results of operations.

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

The following discussion of the financial condition and results of operations of Blue Martini Software, Inc. (the Company) should be read in conjunction with the Management s Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and the Notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2001. This quarterly report on Form 10-Q 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, including statements using terminology such as can, may, believe, designated to, will, expect, plan, anticipate, estimate, potential, or continue, or the negative thereof or other comparable terminology regarding b plans, expectations or intentions regarding the future. Forward-looking statements involve risks and uncertainties and actual results could differ materially from those discussed in the forward-looking statements. All forward-looking statements and risk factors included in this document are made as of the date hereof, based on information available to the Company as of the date thereof, and the Company assumes no obligation to update any forward-looking statement or risk factors.

Overview

We compete in the Customer Relationship Management, or CRM market and provide enterprise software applications and services that enable companies to market and sell more profitably. Our revenues are derived from the licensing of our application suite and the sale of related services. The license agreement for our application suite typically provides for an initial fee to use the software in perpetuity. Service revenues are principally derived from consulting services, technical support and training. Our maintenance agreements entitle customers to receive software updates, maintenance releases and technical support and typically have a one-year term. Maintenance is typically payable in advance. Consulting services and training are typically sold on a time-and-materials basis.

We market our application suite primarily through a direct sales force with support from resellers. We also engage in alliances with systems integrators and technology vendors to assist us in marketing and selling our application suite and related services. A majority of our customers use systems integrators to implement our product, and systems integrators are a significant influence in our customers purchasing decisions. We primarily target our products to the manufacturing and retail industries but have also delivered solutions to customers in a wide range of industries, including education, energy, healthcare, pharmaceuticals and telecommunications. As of March 31, 2002, we had licensed our application suite to over 100 customers worldwide.

While our revenues to date have been derived principally from customers in the United States, international revenues accounted for 24% of our revenues for the three months ended March 31, 2002. We believe international revenues will represent a significant portion of our total revenues in the future but may fluctuate as a percentage of revenues in the near term. Although we have a limited operating history, our quarterly operating results have experienced seasonal fluctuations in the past. Quarterly results fluctuate based on several factors, including our customers fiscal year, budgeting cycles, sales incentive plans, slow summer purchasing patterns and general economic conditions in markets where we conduct business.
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