

BLUE MARTINI SOFTWARE INC

Form 10-Q

May 10, 2004

Table of Contents

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, 2004

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
(State or other jurisdiction of
incorporation or organization)

94-3319751
(I.R.S. Employer
Identification No.)

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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 No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of April 29, 2003, there were approximately 12,072,334 shares of the Registrant's common stock outstanding.

Table of Contents

BLUE MARTINI SOFTWARE, INC.

INDEX

	Page No.
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Condensed Consolidated Financial Statements:</u>	
<u>Condensed Consolidated Balance Sheets as of March 31, 2004 and December 31, 2003</u>	3
<u>Condensed Consolidated Statements of Operations for the Three months ended March 31, 2004 and 2003</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the Three months ended March 31, 2004 and 2003</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	10
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	17
Item 4. <u>Evaluation Disclosure Controls and Procedures</u>	18
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	20
Item 6. <u>Exhibits and Reports on Form 8-K</u>	21
<u>Signatures</u>	22

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****BLUE MARTINI SOFTWARE, INC.****Condensed Consolidated Balance Sheets****(In thousands, except per share data)**

(Unaudited)

	March 31, 2004	December 31, 2003
	<u> </u>	<u> </u>
ASSETS		
Current assets:		
Cash and cash equivalents, including restricted cash of \$940 in 2004 and \$962 in 2003	\$ 9,743	\$ 15,323
Short-term investments	32,044	30,865
Accounts receivable, net of allowance of \$604 in 2004 and 2003	4,810	3,787
Prepaid expenses and other current assets	1,433	1,334
	<u> </u>	<u> </u>
Total current assets	48,030	51,309
Property and equipment, net	397	469
Other assets	302	302
	<u> </u>	<u> </u>
Total assets	<u>\$ 48,729</u>	<u>\$ 52,080</u>
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 583	\$ 891
Accrued employee compensation	2,868	2,951
Other accrued liabilities	4,210	4,216
Accrued restructuring charges	794	794
Deferred revenues	4,474	4,872
	<u> </u>	<u> </u>
Total current liabilities	12,929	13,724
Accrued restructuring, less current portion	1,392	1,637
	<u> </u>	<u> </u>
Total liabilities	14,321	15,361
Stockholders' equity:		
Common stock, \$0.001 par value, authorized 500,000 shares authorized; 11,950 in 2004 and 11,542 in 2003 shares issued and outstanding	259,292	258,155
Accumulated other comprehensive loss	(987)	(850)
Accumulated deficit	(223,897)	(220,586)
	<u> </u>	<u> </u>

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Total stockholders' equity	34,408	36,719
Total liabilities and stockholders' equity	\$ 48,729	\$ 52,080

See accompanying notes to condensed consolidated financial statements.

Table of Contents**BLUE MARTINI SOFTWARE, INC.****Condensed Consolidated Statements of Operations****(In thousands, except per share data)**

(Unaudited)

	Three Months Ended	
	March 31,	
	2004	2003
Revenues:		
License	\$ 3,350	\$ 1,756
Service	5,544	5,901
Total revenues	8,894	7,657
Cost of revenues:		
License	263	318
Service*	3,093	4,117
Total cost of revenues	3,356	4,435
Gross profit	5,538	3,222
Operating expenses:		
Sales and marketing*	4,942	4,253
Research and development*	2,459	2,484
General and administrative*	1,581	1,804
Amortization of deferred stock compensation	96	468
Total operating expenses	9,078	9,009
Loss from operations	(3,540)	(5,787)
Interest income and other, net	229	356
Net loss	\$ (3,311)	\$ (5,431)
Basic and diluted net loss per common share	\$ (0.28)	\$ (0.51)
Shares used in computing basic and diluted net loss per common share	11,780	10,550

* Amounts exclude amortization of deferred stock compensation for the three months ended March 31, 2004 and 2003 as follows:

Cost of service revenues: \$0 in 2004; \$128 in 2003.

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Sales and marketing: \$96 in 2004; \$(9) in 2003.

Research and development: \$0 in 2004; \$105 in 2003.

General and administrative: \$0 in 2004; \$244 in 2003.

See accompanying notes to condensed consolidated financial statements.

Table of Contents**BLUE MARTINI SOFTWARE, INC.****Condensed Consolidated Statements of Cash Flows****(In thousands)**

(Unaudited)

	Three Months Ended	
	March 31,	
	2004	2003
Operating activities:		
Net loss	\$ (3,311)	\$ (5,431)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property and equipment and amortization of intangible and other assets	104	332
Amortization of deferred stock compensation	96	468
Changes in operating assets and liabilities:		
Accounts receivable	(1,023)	184
Prepaid expenses and other current assets	(99)	524
Accrued restructuring charges	(245)	(378)
Accounts payable, accrued employee compensation and other accrued liabilities	(397)	(1,132)
Deferred revenues	(398)	849
Net cash used in operating activities	(5,273)	(4,584)
Cash flows from investing activities:		
Purchases of property and equipment	(32)	(202)
Purchases of short-term investments	(17,715)	(19,096)
Sales and maturities of short-term investments	16,537	30,843
Net cash provided by (used in) investing activities	(1,210)	11,545
Cash flows from financing activities:		
Net proceeds from issuance of common stock	1,041	238
Net cash provided by financing activities	1,041	238
Effect of exchange rate changes on cash and cash equivalents	(138)	(252)
Net increase (decrease) in cash and cash equivalents	(5,580)	6,947
Cash and cash equivalents at beginning of period	15,323	7,729
Cash and cash equivalents at end of period	\$ 9,743	\$ 14,676

See accompanying notes to condensed consolidated financial statements.

Table of Contents

BLUE MARTINI SOFTWARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 adjustments) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2004 are not necessarily indicative of the results that may be expected for any subsequent quarter or for the entire year ending December 31, 2004.

The preparation of the unaudited condensed consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The balance sheet at December 31, 2003 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, 2003 filed with the Securities and Exchange Commission on March 15, 2004 and a subsequent Form 10-K/A filed on March 24, 2004.

Note 2. Letter of Credit

The Company obtained a letter of credit totaling \$1.2 million as of December 31, 2002 in lieu of security deposits to secure facility lease obligations. As of March 31, 2004, the remaining balance on the letter of credit was \$847,000, and the Company pledged \$940,000 of cash equivalents as security for the letter of credit.

Note 3. Restructuring Charges

In 2003 and 2002, the Company implemented various restructuring plans that resulted in reductions in force. The following table summarizes the activities related to accrued restructuring charges (in thousands) for the three months ended March 31, 2004:

	Accrued at December 31, 2003	Expense	Cash Payments	Accrued at March 31, 2004
Lease cancellations	\$ 2,431	\$	\$ (245)	\$ 2,186
	\$ 2,431	\$	\$ (245)	\$ 2,186

The remaining lease obligation will be paid over the remaining term of the underlying leases through April 2006.

Table of Contents**BLUE MARTINI SOFTWARE, INC.****Notes To Condensed Consolidated Financial Statements (Continued)**

(Unaudited)

Note 4. Comprehensive Net Loss

Accumulated other comprehensive net loss refers to revenues, expenses, gains and losses that, under generally accepted accounting principles, are recorded in stockholders' equity, but are excluded from net loss and consist primarily of unrealized gains or losses on available-for-sale investments and foreign currency translation adjustments. The components of comprehensive net loss are as follows (in thousands):

	Three Months Ended March 31,	
	2004	2003
Net loss	\$ (3,311)	\$ (5,431)
Unrealized gains (losses) on available-for-sale investments, net of tax	1	(96)
Change in accumulated translation adjustment	(138)	(252)
Comprehensive net loss	\$ (3,448)	\$ (5,779)

Note 6. 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,	
	2004	2003
Shares issuable under stock options	3,585	3,370
Shares of restricted stock subject to repurchase	19	46
Shares issuable pursuant to warrants	477	477
Weighted average exercise price of stock options, restricted stock subject to repurchase and warrants	\$ 6.02	\$ 5.54

Note 7. Legal Actions

The Company is subject to legal proceedings and claims, asserted or unasserted, that are in the ordinary course of business and has not booked a loss accrual. The Company cannot predict the outcome of these proceedings and claims or the possible impact on the Company. Please refer to Part II, Item 1, Legal Proceedings, for further discussion of these proceedings and claims.

Note 8. Stock Option Plans and Accounting for Stock-Based Compensation

Stock Option Plans

Description of Plans. The Company's stock option program consists of two plans: the 2000 Equity Incentive Plan and the 2000 Non-Employee Directors' Stock Option Plan. Stock options granted under these plans expire no later than ten years from the grant date and generally vest over two to four years. The Incentive Plan is administered by our board of directors, which has the authority to designate participants and to determine the number and type of options to be granted, the time when options become exercisable, the method of payment and any other terms or conditions of the options. The Directors' Plan designates participants and specifies the number, type, term and pricing of options granted, the exercisability and vesting schedule of such options, the method of payment and other terms and conditions. The Directors' Plan is administered by our board of directors, which has the authority to determine provisions of options only to the extent not specified in the

Table of Contents**BLUE MARTINI SOFTWARE, INC.****Notes To Condensed Consolidated Financial Statements (Continued)**

(Unaudited)

Directors' Plan. Please refer to Note 10, Stockholders' Equity, of the Company's Annual Report on Form 10-K for the year ended December 31, 2003 for further information regarding the Company's Stock Plans.

The following table summarizes plan activity for the three months ended March 31, 2004 (in thousands, except per share amounts):

	Shares Available for Grant	Number of Options	Wtd. Avg. Exercise Price per Share
	<u> </u>	<u> </u>	<u> </u>
Balances, December 31, 2003	5,427	3,310	\$ 5.14
Additional shares authorized	1,594		
Granted	(967)	967	5.53
Exercised		(228)	2.50
Repurchases			
Cancelled	464	(464)	3.37
	<u> </u>	<u> </u>	<u> </u>
Balances, March 31, 2004			