

CENTRA SOFTWARE INC  
Form 10-Q  
May 09, 2005  
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**U.S. SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

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**FORM 10 Q**

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(Mark One)

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**FOR THE QUARTERLY PERIOD ENDED March 31, 2005**

OR

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: 000 27861

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**Centra Software, Inc.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or Other Jurisdiction of

**04 3268918**  
(I.R.S. Employer

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Incorporation or Organization)

Identification No.)

**430 Bedford Street, Lexington, MA 02420**

(Address of Principal Executive Offices)

**(781) 861 7000**

(Issuer's Telephone Number, Including Area Code)

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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 Exchange Act Rule 12b-2.) Yes " No "

The number of shares outstanding of the registrant's common stock as of May 2, 2005 was 27,891,564.

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## CENTRA SOFTWARE, INC. AND SUBSIDIARIES

**Consolidated Balance Sheets****(In Thousands, Except Share and Per Share Data)**

	<b>December 31,</b>	<b>March 31,</b>
	<b>2004</b>	<b>2005</b>
	<u>          </u>	<u>          </u>
		<b>(unaudited)</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 11,779	\$ 19,465
Short-term investments	13,356	6,124
Restricted cash	233	233
Accounts receivable, net of reserves of \$347 and \$266, respectively	7,887	4,662
Prepaid expenses	1,093	1,565
Other current assets	281	128
	<u>          </u>	<u>          </u>
<b>Total current assets</b>	<b>34,629</b>	<b>32,177</b>
	<u>          </u>	<u>          </u>
Property and equipment, at cost:		
Computers and equipment	5,898	5,981
Furniture and fixtures	1,164	1,192
Leasehold improvements	675	678
	<u>          </u>	<u>          </u>
	7,737	7,851
Less: Accumulated depreciation and amortization	6,297	6,532
	<u>          </u>	<u>          </u>
	1,440	1,319
Long-term investments	743	744
Restricted cash	400	400
Other assets	16	23
	<u>          </u>	<u>          </u>
<b>Total assets</b>	<b>\$ 37,228</b>	<b>\$ 34,663</b>
	<u>          </u>	<u>          </u>
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 1,049	\$ 921
Accounts payable	939	883
Accrued expenses	5,677	4,153
Deferred revenue	14,360	14,422

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Total current liabilities	22,025	20,379
Long-term debt, net of current maturities	1,012	854
Commitments and contingencies (Note 4)		
Stockholders' equity:		
Common stock, \$0.001 par value		
Authorized 100,000,000 shares at December 31, 2004 and March 31, 2005		
Issued 28,404,561 shares at December 31, 2004 and 28,506,368 shares at March 31, 2005		
Outstanding 27,664,298 shares at December 31, 2004 and 27,766,105 shares at March 31, 2005	28	28
Additional paid-in capital	113,456	113,621
Accumulated deficit	(99,211)	(100,171)
Accumulated other comprehensive (loss) income	(21)	13
Treasury stock (740,263 shares of common stock, at cost)	(61)	(61)
Total stockholders' equity	14,191	13,430
Total liabilities and stockholders' equity	\$ 37,228	\$ 34,663

See accompanying notes to consolidated financial statements.

**Table of Contents****CENTRA SOFTWARE, INC. AND SUBSIDIARIES****Consolidated Statements of Operations****(In Thousands, Except Per Share Data)****(unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2004</b>	<b>2005</b>
<b>Revenues:</b>		
License	\$ 2,531	\$ 2,072
Software services	2,371	2,735
Maintenance and professional services	3,734	4,202
<b>Total revenues</b>	<b>8,636</b>	<b>9,009</b>
<b>Cost of Revenues:</b>		
License	77	132
Amortization of acquired developed technology	175	
Software services	636	576
Maintenance and professional services	976	1,120
<b>Total cost of revenues</b>	<b>1,864</b>	<b>1,828</b>
<b>Gross profit</b>	<b>6,772</b>	<b>7,181</b>
<b>Operating Expenses:</b>		
Sales and marketing	5,155	3,568
Product development	2,759	2,320
General and administrative	1,978	2,321
<b>Total operating expenses</b>	<b>9,892</b>	<b>8,209</b>
<b>Operating loss</b>	<b>(3,120)</b>	<b>(1,028)</b>
Interest income	91	117
Interest expense	(25)	(11)
Other expense, net	(84)	(38)
<b>Net loss</b>	<b>\$ (3,138)</b>	<b>\$ (960)</b>
<b>Basic and diluted net loss per share</b>	<b>\$ (0.12)</b>	<b>\$ (0.03)</b>
<b>Weighted average shares outstanding:</b>		
Basic and diluted	27,151	27,721

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See accompanying notes to consolidated financial statements.

**Table of Contents****CENTRA SOFTWARE, INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows****(In Thousands)****(unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2004</b>	<b>2005</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (3,138)	\$ (960)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	597	257
Provision for bad debts	(110)	(59)
Compensation charge related to stock options	15	
Changes in assets and liabilities:		
Accounts receivable	3,525	3,301
Prepaid expenses and other current assets	188	(368)
Accounts payable	449	(45)
Accrued expenses	(896)	(1,517)
Deferred revenue	476	97
<b>Net cash provided by operating activities</b>	<b>1,106</b>	<b>706</b>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(787)	(130)
Purchases of short-term and long-term investments	(21,376)	(1,737)
Sales and maturities of short-term investments	19,873	8,969
Other assets	2	(7)
<b>Net cash (used in) provided by investing activities</b>	<b>(2,288)</b>	<b>7,095</b>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock	271	165
Payments on term loans	(519)	(286)
<b>Net cash used in financing activities</b>	<b>(248)</b>	<b>(121)</b>
Effect of foreign exchange rate changes on cash and cash equivalents	49	6
<b>Net (Decrease) Increase in cash and cash equivalents</b>	<b>(1,381)</b>	<b>7,686</b>
Cash and cash equivalents, beginning of period	13,357	11,779
<b>Cash and cash equivalents, end of period</b>	<b>\$ 11,976</b>	<b>\$ 19,465</b>



Supplemental disclosure of cash flow information:

Cash paid during the period for interest	\$	25	\$	18
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See accompanying notes to consolidated financial statements.

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**CENTRA SOFTWARE, INC. AND SUBSIDIARIES**

**Notes to Unaudited Consolidated Financial Statements**

**(1) Operations and Significant Accounting Policies**

Centra Software, Inc., together with its wholly-owned subsidiaries (Centra or the Company), is a provider of solutions for online business communication, collaboration and learning. Centra's products and services help organizations achieve important initiatives by using corporate networks and the Internet to integrate real-time, group oriented human interactions with online business initiatives. These real-time group events can range from ad hoc, one-on-one online meetings to highly interactive, structured, collaborative learning sessions to prescheduled Web seminars for larger audiences and are key elements of business processes that include collaborative learning, enterprise application rollouts, online selling and customer acquisition programs.

Centra is subject to certain business risks that could affect future operations and financial performance. These risks include, but are not limited to, rapid technological changes, significant competition, changes in senior management, dependence on key individuals, quarterly performance fluctuations, evolution and growth of the online business communications and collaboration market, failure to effectively manage changes in Centra's business environment, and Centra's ability to enhance existing products and services and to develop new products and services.

The accompanying consolidated financial statements reflect the application of certain accounting policies, as described in this note and more fully in the notes to the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004.

*(a) Basis of Presentation*

The consolidated financial statements include the accounts of Centra and its wholly-owned subsidiaries, Centra Software Europe Limited, which was incorporated in the United Kingdom, Centra Software Securities Corporation, a Massachusetts securities corporation, Centra RTP, Inc., a Delaware corporation, and Centra Software Australia Pty. Ltd, which was incorporated in Australia. Centra Software Southern Europe SAS was incorporated in France and was included in the consolidated financial statements until it was dissolved in January 2005. Centra Software Nordic ApS was incorporated in Denmark and included in the consolidated financial statements until it was dissolved in February 2004. All significant intercompany transactions and balances have been eliminated in consolidation.

The accompanying consolidated financial statements for the three months ended March 31, 2004 and 2005 are unaudited, have been prepared on a basis consistent with the December 31, 2004 audited consolidated financial statements, and include normal recurring adjustments that are, in the opinion of management, necessary for the fair presentation of the results of these periods. These unaudited interim consolidated financial statements do not include all of the footnote disclosures required in audited financial statements for the full year and, accordingly, should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004. The results of operations for the three months ended March 31, 2005 are not necessarily indicative of results to be expected for the entire year or any other period.

*(b) Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ materially from those estimates.

*(c) Revenue Recognition*

Centra follows the specific guidelines of the Securities and Exchange Commission Staff (SEC) Accounting Bulletin No. 104 (SAB 104), *Revenue Recognition in Financial Statements*, American Institute of Certified Public Accountants Statement of Position (SOP) No. 97-2, *Software Revenue Recognition*, and SOP No. 98-9, *Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions*, and related authoritative literature.

Centra derives its revenues from the sale of software licenses, application service provider (ASP) and hosting services, maintenance (post-contract support) and professional services. Maintenance includes telephone support, error correction or

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bug fixes and rights to upgrades and enhancements on a when-and-if available basis. Centra executes contracts that govern the terms and conditions of all software licenses, ASP, hosting, and maintenance arrangements and other professional services arrangements. These contracts may be elements in a multiple-element arrangement. Revenue under multiple-element arrangements, which may include several different software products and services sold together, is allocated to each element based on the residual method in accordance with SOP No. 98-9. As described below, significant management judgments and estimates must be made and used in connection with the revenue recognized in any accounting period. Management analyzes various factors, including a review of specific transactions, historical experience, creditworthiness of customers and current market and economic conditions. Changes in judgments based upon these factors could impact the timing and amount of revenue and cost recognized and thus affect the Company's results of operations and financial condition.

Centra generally licenses its software products on a perpetual basis. Centra applies the provisions of SOP No. 97-2, as amended by SOP No. 98-9, to all transactions involving the sale of software products. Centra recognizes revenue from the sale of software licenses when persuasive evidence of an arrangement exists, the product has been delivered, the fees are fixed or determinable and collection of the resulting receivable is reasonably assured. This policy is applicable to all direct sales to end-users. License sales to distributors or to value-added resellers are recognized when an end-user customer has been identified and all other revenue recognition criteria have been met. License sales to U.S. government agencies through teaming arrangements with third-party partners are recognized when a signed order from the partner and evidence of a purchase order from the government agency to the partner is received and all other revenue recognition criteria have been met. The Company does not offer a right of return on its products.

For all sales, except those to U.S. government agencies as described above, Centra uses a signed master license or service agreement, a signed sales order or contract amendment and/or a binding purchase order as evidence of an arrangement. For arrangements with multiple elements (i.e. the sale of a product license along with the sale of maintenance and support, training and consulting to be delivered later), Centra allocates revenue to each component of the arrangement using the residual value method. Under the residual value method, revenue is recognized in a multiple element arrangement in which vendor-specific objective evidence (VSOE) of fair value exists for all of the undelivered elements in the arrangement, but does not exist for one or more of the delivered elements in the arrangement. Centra defers revenue from the arrangement equivalent to the fair value of the undelivered elements and recognizes the remaining amount from the total arrangement fee at the time of the shipment of the last element for which VSOE does not exist, assuming all other revenue recognition criteria have been met. The VSOE of fair values for professional services, training and other products sold by Centra are based upon prices realized when these services and products are sold separately. VSOE for maintenance and support obligations is based on our historical renewal rates calculated as a percentage of net discounted license or customer specific contractually stated renewal rates for maintenance and support upon expiration of the initial term.

Centra also sells its suite of products and services in a bundled package on a multi-year subscription basis for broader use by its customers. In the third quarter of 2004, the Company began to offer a bundled package of products and services for an annual fee based on a multi-year purchase commitment of two to three years. The annual fee, which is typically paid at the beginning of each year, provides for unlimited use of the specified software products within a specific department, division or entity of a corporation or for use by the entire enterprise. The suite of products and services may include a term license for the software products, ASP or hosting services, maintenance and support, consulting and training. Centra recognizes revenue from these multi-year subscriptions either ratably over the entire length of the subscription term or over each annual payment term. For classification purposes in the statement of operations, Centra allocates revenue to each of the license, software services, maintenance and professional services based on their relative fair values supported by VSOE if available or a reasonable estimate of fair value made by management based on the average discount offered on products or services when sold separately. Centra's customers may choose to purchase the enterprise wide subscription without a term license for the software and instead utilize our ASP service over the term of the agreement. Centra recognizes revenue for ASP enterprise wide subscriptions ratably over the subscription term according to SAB 104. Revenue is allocated for classification purposes to software services and professional services based on their relative fair values supported by verifiable objective evidence.

At the time of the transaction, Centra assesses whether the fee associated with the transaction is fixed or determinable based on the payment terms associated with the transaction. Billings to customers are generally due within 30 to 90 days. However, in certain circumstances, Centra has offered extended payment terms greater than 90 days but less than 365 days to certain customers for which license revenue is recognized upon shipment. These customers are well capitalized and typically have previously entered into license arrangements with Centra. Centra believes that it has sufficient history of successfully collecting all amounts within the stated terms under these types of arrangements to conclude

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that the fee is fixed or determinable at the time the product is delivered. In addition, Centra assesses whether collection is probable based on the creditworthiness of the customer. Initial creditworthiness is assessed through Dun & Bradstreet, similar credit rating agencies or the customer's SEC filings. Creditworthiness for transactions to existing customers is assessed through a review of their prior payment history. Centra does not request collateral from its customers. If the Company determines that collection of a fee is not reasonably assured, the Company will defer the fee and recognize revenue at the time collection becomes reasonably assured, which is generally upon the receipt of payment.

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Revenues from start-up fees associated with the ASP service are recognized over the estimated life of the ASP relationship. Revenues related to ASP services are recognized ratably on a straight-line basis over the period that the ASP services are provided, or on an as