

RAINING DATA CORP
Form 10KSB
June 29, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

(Mark one)

**ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended March 31, 2004

or

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

For the transition period from to .

Commission file number 0-16449

RAINING DATA CORPORATION

(Name of Small Business Issuer in Its Charter)

Delaware
(State of Incorporation)

94-3046892
(I.R.S. Employer ID. No.)

17500 Cartwright Road
Irvine, California
(Address of Principal Executive Offices)

92614
(Zip Code)

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(949) 442-4400

(Issuer's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Exchange Act:

Title of Each Class	Name of Each Exchange on Which Registered
None	N/A

**Securities registered under Section 12(g) of the Exchange Act:
Common Stock, \$0.10 par value**

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the 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 No

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Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

The Registrant's revenues for the fiscal year ended March 31, 2004 were \$22.3 million.

The aggregate market value of the voting stock held by non-affiliates of the Registrant was \$12,915,069 on June 9, 2004 based on the closing sale price of such stock on that date.

As of June 9, 2004, the Registrant had 18,428,141 shares of its common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

Transitional Small Business Disclosure Format (check one): Yes No

RAINING DATA CORPORATION
FISCAL YEAR 2004 FORM 10-KSB ANNUAL REPORT

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

This Form 10-KSB 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 (the Exchange Act). Such statements include our expectations, hopes and intentions regarding the future, including but not limited to statements regarding our strategy, competition, development plans (including anticipated cost, timing and eventual acceptance of new products and services by the market), financing, revenue and operations.

Forward-looking statements involve certain risks and uncertainties and actual results may differ materially from those discussed in any such statement. Factors that could cause actual results to differ materially from such forward-looking statements include the risks described in the

Risk Factors section and elsewhere in this Form 10-KSB. All forward-looking statements in this document are made as of the date hereof, based on information available to us as of the date hereof, and we assume no obligation to update any forward-looking statement.

Overview

We were incorporated in the State of Delaware in August 1987. We were originally incorporated as Blyth Holdings, Inc., and our name was changed to Omnis Technology Corporation in September 1997. Effective December 1, 2000, we completed the acquisition of PickAx, Inc., a Delaware corporation (PickAx). Concurrent with the acquisition, we changed our name to Raining Data Corporation.

Our principal business is the design, development, sale and support of software infrastructure. Our software may be categorized into four product lines: Multi-dimensional database management systems (MDMS), Rapid Application Development (RAD) software tools, XML data management servers (XDMS) and Pick Data Provider (PDP) for the Microsoft .NET development environment. Our products allow customers to create and enhance flexible software applications for their own needs. The MDMS products are based on the multi-dimensional data model and are designed to operate in environments such as Windows, Unix and Linux. Our RAD products support the full life cycle of software application development and are designed for rapid prototyping, development and deployment of graphical user interface (GUI) client/server and web applications. The RAD products are object-oriented and component-based, providing the ability to deploy applications on operating system platforms such as Windows, Unix and Linux, as well as database environments such as MySQL, Oracle, DB2, Sybase, Microsoft SQL Server and other Open Data Base Connectivity (ODBC) compatible database management systems. We continue to develop and enhance our MDMS and RAD products. New releases in all of our product lines are currently in progress.

Beginning in fiscal 2002, we changed the mix of our research and development efforts to include the development of technologies and products outside of our historical market, specifically XML-based XDMS infrastructure products. The first product related to these development efforts was the production release of TigerLogic version 1.1 in May 2003. TigerLogic XDMS is a high-performance information infrastructure software that provides both scalability, XA-compliant transactional integrity and fine-grain search capabilities typically associated with enterprise databases, as well as the dynamic extensibility, n-tier hierarchies and ease of use and deployment, mostly found in data repositories and file systems. We have filed patent applications related to the technology utilized in the TigerLogic product and those patents were pending as of March 31, 2004.

In September 2004, we announced the production release of the Pick Data Provider for .NET. The Pick Data Provider component for the Microsoft .NET Framework is tightly integrated with Microsoft Visual Studio .NET. It allows software developers using IBM's Universe and

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Unidata databases and our D3 database platform to build Client/Server applications, Web applications or Web services using any of the languages and technologies that run on the Microsoft .NET Framework, such as Microsoft ASP.NET, Visual Basic .NET, Visual C# .NET and Visual J# .NET.

Products

We market our products under the Raining Data brand name. Many of our products are based on the Pick Universal Data Model (Pick UDM), which we created, and are capable of handling data from many sources. The Pick UDM is a core component across the MDMS, XDMS and PDP product lines. Our products also include RAD software tools for computer application development.

Multidimensional Database Management Systems Products

Our MDMS products include a comprehensive set of Pick UDM based software development tools that allow the user to write, compile and run application programs. Historically, the principal advantages of the Multidimensional Database system have been simple program development, maximum flexibility, ease of use, and low total cost of ownership. Over the years, a community of vertical market application developers using the Multidimensional Database platform has emerged.

The MDMS product line consists principally of the D3 Data Base Management System (D3), which operates on many systems including but not limited to IBM AIX, DG/UX, HP-UX, Linux and Windows NT. D3 allows application programmers to create new business solution software in less time than it normally takes in many other environments. This can translate into lower costs for the developer, lower software prices for the customer and reduced costs of ownership for both the developer and end user. Our MDMS products also include mvEnterprise, a scalable multidimensional database solution that allows the user to leverage the capabilities of the UNIX operating system and mvBase, a multidimensional database solution that runs on all Windows platforms.

RAD Products

The RAD product line is an object-oriented development environment that is designed to allow customers to develop and deploy web and client/server applications. The products include Omnis Studio, Omnis Studio for SAP and Omnis Classic, which offer cross-platform support for Windows, Mac and Linux.

XDMS Products

Our XML data management server product line includes TigerLogic XDMS (TigerLogic). TigerLogic XDMS is a mid-tier operational data server software product that simplifies and streamlines information access for XML-enabled Java and .NET applications. The TigerLogic XDMS decouples structured and unstructured data from the back-end sources, transforms it into XML, stores aggregated views in the mid-tier, profiles and indexes them for fast retrieval. The TigerLogic XDMS includes innovative XML processing technology that boosts the performance and efficiency of data architectures by aggregating and moving commonly requested data to the mid-tier, between front-end Web Services composite applications and back-end operational systems and legacy applications. TigerLogic XDMS uses the Pick UDM to power its underlying storage engine and allow new data to be processed in the TigerLogic XDMS data model with almost no programming. This creates an extensible and flexible environment enabling companies to leverage the full power of XML. TigerLogic supports industry standards, including J2EE Connector Architecture (JCA), World Wide Web Consortium's (W3C's) XML Schema, XSLT, SOAP and XPath specifications.

PDP Products

The PDP products include the Pick Data Provider for .NET. This product extends the intrinsic capabilities of Pick and Pick-like databases to the Microsoft .NET framework technology, allowing for ease of development and deployment of applications using the Visual Studio.NET development environment while allowing native access to our D3 database as well as the Universe and Unidata databases from IBM.

Training Services

As part of our sales efforts, we offer training programs to our customers and prospective customers. These programs include classes on basic and advanced skills as well as classes designed to assist customers in the implementation and use of our products.

Technical Support

Our products are used by our customers to build and deploy applications that may become a critical component of their business operations. As a result, continuing to provide customer technical support services is an important element of our business strategy. Customers who participate in our support programs receive periodic maintenance releases and direct technical support when required.

Sales and Distribution

In the United States, we sell our products through established distribution channels consisting of system integrators, specialized vertical application software developers and consulting organizations. We also sell our products directly through our sales personnel to end user organizations.

Outside the United States, we maintain direct sales offices in the United Kingdom, France and Germany. Approximately 28% and 29% of our revenue came from sales through our offices located outside the United States for the fiscal years ended 2004 and 2003, respectively.

We sell our products in U.S. Dollars in North America, British Pounds Sterling in the United Kingdom and Euros in Germany and France. Because we recognize revenue and expense in these various currencies but report our financial results in U.S. Dollars, changes in exchange rates may cause variances in our period-to-period revenue and results of operations in future periods. Recorded foreign exchange gains and

losses have not been material to our performance to date.

We license our software on a per-server basis or per-user basis. Therefore, the addition of servers or users to existing systems increases our revenue from our installed base of licenses.

Customers

Our customers may be classified into two general categories:

Independent Software Vendors and Software Developers. The majority of our revenue is derived from independent software vendors, which typically write their own vertical application software that they sell as a complete package to end user customers. This category includes value added resellers (VARs) and software-consulting companies that provide contract programming services to their customers.

Corporate Information Technology (IT) Departments.

For the three years ended March 31, 2004, 2003 and 2002, no single customer accounted for more than 10% of our revenue.

Research and Development

We have devoted significant resources to the research and development of products and technology. We believe that our future success will depend in large part on a strong development effort with respect to both our existing and new products. These development efforts have resulted in updates and upgrades to existing MDMS and RAD products and the launch of new products including the XDMS and PDP product lines. We expect to continue our research and development efforts in all product lines for the foreseeable future. We intend for these efforts to improve our operating results and increase cash flow. However, such efforts may not result in additional new products, and we can make no assurances that the recently announced products or future products will be successful.

Competition

The application development tools software market is rapidly changing and intensely competitive. Our MDMS products compete with products developed by companies such as Oracle, Microsoft and IBM. Our Omnis line of RAD products currently encounters competition from several direct competitors including Microsoft Corporation, and competing development environments, including JAVA. Competition is developing and

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evolving in the XML market for which our XDMS products are intended. Companies who do or are expected to compete in this market include Oracle, IBM, Microsoft and BEA, as well as a number of smaller companies with products that directly and indirectly compete with our XDMS products. Our new initiatives in the .NET area are subject to significant competition, primarily from Microsoft and Oracle. Most of our competitors have significantly more financial, technical, marketing and other resources than we do. As a result, these competitors may be able to respond more quickly to new or emerging technologies, evolving markets, changes in customer requirements, and may devote greater resources to the development, promotion and sale of their products.

We believe that our ability to compete in the various MDMS, RAD, XDMS and PDP markets depends on factors both within and outside our control, including the timing, performance and price of new products developed by both us and our competitors. Although we believe that we currently compete favorably with respect to most of these factors, we may not be able to maintain our competitive position against current and potential competitors, especially those with greater resources.

Intellectual Properties and Other Proprietary Rights

We rely primarily on a combination of trade secret, copyright and trademark laws and contractual provisions to protect our intellectual property and proprietary rights. Our registered trademarks include Raining Data, Pick, D3, Omnis, Omnis Studio, mvEnterprise, mvBase, mvDesigner and our service marks include TigerLogic, among others. We also have one pending U.S. patent application as of March 31, 2004.

We license our products to end users on a right to use basis pursuant to a perpetual license agreement that restricts use of products to a specified number of users. We generally rely on click-wrap licenses that become effective when a customer downloads and installs the software on its system. In order to retain exclusive ownership rights to our software and technology, we generally provide our software in object code only, with contractual restrictions on copying, disclosure, and transferability. There can be no assurance that these protections will be adequate, or that our competitors will not independently develop technologies that are substantially equivalent or superior to our technology.

Backlog

We generally ship software products as orders are received and have historically operated with little backlog. As a result, our license revenue in any given quarter is dependent upon orders received and product shipped during the quarter. Traditionally there has been a short cycle between receipt of an order and shipment. Consequently, we do not believe that our backlog as of any particular date is meaningful.

Employees

At March 31, 2004, we had 142 employees worldwide of which 104 were in the United States and 38 were in our international offices. Of the 142 employees, approximately 45% are in research and development, 20% in technical support, 20% in sales and marketing and 15% in general and administrative functions.

Executive Officers

The following sets forth certain information regarding our executive officers as of March 31, 2004:

Name	Age	Position(s)
Carlton H. Baab	46	President, Chief Executive Officer and Director
Brian C. Bezdek	33	Chief Financial Officer and Secretary
Mario I. Barrenechea	43	Senior Vice President, Worldwide Sales and Marketing
Mark Allen	59	Vice President, Worldwide Customer Support & Training
Boris Geller	40	Vice President, Market Development
Gwyneth M. Gibbs	60	Vice President, European Operations
Soheil Raissi	48	Vice President, Product Development & Professional Services

Mr. Baab joined us as the President and Chief Executive Officer in August 2001 and was appointed as a member of the Board in December 2001. From May 2001 to August 2001, Mr. Baab served as a Managing Principal of Astoria Capital Management (ACM), a Securities and Exchange Commission (the SEC) registered investment advisor and a General Partner of Astoria Capital Partners, L.P. (ACP), a significant stockholder of ours. In August 2001, Mr. Baab took a formal leave of absence from ACM to join us. From March 2000 to April 2001, Mr. Baab was the Vice President of Finance and Chief Financial Officer of Certive, Inc., a web-based small-business services firm. From January 1999 to March 2000, Mr. Baab was the Chief Operating Officer and Chief Financial Officer of RemarQ Communities, Inc., a web-based provider of discussion group services. Mr. Baab served as Chief Financial Officer of the CKS Group (CKS), a marketing communications company, from February 1994 through December 1998. In addition, Mr. Baab served as an Executive Vice President and the Secretary of CKS from August 1995 through December 1998 and as CKS's Chief Operating Officer from August 1995 through May 1996. Mr. Baab also served on the Board of Directors of Momentum Business Applications, Inc. (Nasdaq: MMTM), which provided research and development expertise on a contract basis, until it was acquired by PeopleSoft (Nasdaq: PSFT) in April 2002. Mr. Baab also serves on the University of Southern California, School of Engineering Board of Councilors. Mr. Baab holds a B.S. in Electrical Engineering, with honors, from the University of Southern California and an M.B.A. from the Harvard Graduate School of Business Administration.

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Mr. Bezdek has served as our Chief Financial Officer since January 2003 and has served as Secretary since April 2002. Mr. Bezdek joined us as Vice President, Finance, Corporate Controller and Secretary in April 2002. From May 1996 to April 2002, Mr. Bezdek held various corporate finance positions, most recently as Vice President of Finance, at Activision Publishing Inc. (Nasdaq: ATVI), a worldwide publisher, developer and distributor of video games and interactive entertainment products. Mr. Bezdek holds a B.S. in Business Administration from Bowling Green State University and is a Certified Public Accountant as well as a Certified Treasury Professional.

Mr. Barrenechea has served as our Senior Vice President, Worldwide Sales and Marketing since December 2000. Mr. Barrenechea joined us from PickAx, with whom the Company merged in December 2000, where he served in a similar capacity. From 1994 until joining PickAx in 2000, Mr. Barrenechea served in various executive sales and marketing capacities at Informix, Inc., a leading supplier of computer software relational and multidimensional databases. Mr. Barrenechea holds a B.S. in Electrical Engineering from Temple University.

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Mr. Allen joined us as Vice President, Worldwide Customer Support and Training in August 2001. From January 2000 to August 2001, Mr. Allen served as Vice President, Service and Support at Bay Logics, a computer software company. From July 1998 to December 1999, Mr. Allen served as Director, Software Services at SGI (formally Silicon Graphics Computer Systems). In addition, from June 1997 to June 1998, Mr. Allen served as Director, Research and Development at CoCreate Software, Inc. Mr. Allen attended the University of Massachusetts where he majored in Business Administration.

Mr. Geller has served as our Vice President, Market Development since March 2002. Mr. Geller joined us from Steeleye Technology, Inc., an enterprise reliability and disaster recovery software company, where he served as Vice President, Marketing since May 2000. From February 1999 to May 2000, Mr. Geller served as Senior Director, Marketing and Alliances for BEA Systems (Nasdaq: BEAS), a provider of application infrastructure. From April 1998 to February 1999, Mr. Geller served as Senior Director, Marketing and Business Development for Imparto Software Corp., a web marketing automation software company. Prior to that, Mr. Geller served in a variety of executive and senior management positions in marketing, business development and product development at BMC/BGS (NYSE: BMC), HP/Digital Equipment Corp. (NYSE: HPQ), Legato/Qualix (Nasdaq: LGTO) and other enterprise software companies. Mr. Geller holds a B.S. and a M.S. in Computer Science from Boston University and an M.B.A. from Bentley College.

Mrs. Gibbs has served as our Vice President, European Operations from our offices in the United Kingdom since December 2000. Mrs. Gibbs served as President and Interim Chief Executive Officer of Omnis, Inc. from October 1998 until our merger with PickAx in December 2000. Mrs. Gibbs joined us in October 1994 and was initially responsible for Research and Development in Europe. Mrs. Gibbs holds a B.S. in Astronomy from the University of London.

Mr. Raissi has served as our Vice President, Product Development and Professional Services since September 2001. From March 2001 to September 2001, Mr. Raissi performed independent software and management consulting services. From September 2000 to March 2001, Mr. Raissi served as Vice President, Product Development for Equative, Inc., a computer software company providing web-based enterprise resource management applications to medium and larger enterprises. From September 1999 to August 2000, Mr. Raissi served as Vice President, Technical Services for Zland.com, an application service provider supplying hosted web-based applications through the Internet. From February 1996 to September 1999, Mr. Raissi served as the founding President of the Information Technology Group, which provided record and information management and retention scheduling software services to Fortune 1000 companies. Mr. Raissi holds a B.S. in Computer Science from California State University, Dominguez Hills and a B.A. in Literature from Pars University in Tehran, Iran.

ITEM 2. DESCRIPTION OF PROPERTY

We currently lease approximately 44,750 square feet of office space in two buildings in Irvine, California pursuant to a lease that expires in November 2005 and that provides for a base monthly rent of approximately \$69,000. The facility accommodates engineering, technical support, sales, marketing, and general administration. We sublease one of the two buildings representing approximately 13,000 square feet to an unrelated third party. The sublease also has a November 2005 expiration date.

We own a building consisting of approximately 5,900 total square feet located on approximately six acres of land in Suffolk, England. The facility houses engineers, marketing, and technical support.

We also lease three sales and support offices in Europe.

ITEM 3. LEGAL PROCEEDINGS

We are subject from time to time to litigation, claims and suits arising in the ordinary course of business. As of March 31, 2004, we were not a party to any material litigation, claim or suit.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our stockholders during the fourth quarter of the fiscal year ended March 31, 2004.

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

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Our common stock is traded on the Nasdaq SmallCap Market under the symbol RDTA.

The following table sets forth the high and low closing prices for our common stock for fiscal years 2003 and 2004:

	High	Low
<i>Fiscal Year 2003</i>		
First Quarter	\$ 3.10	\$ 1.46
Second Quarter	\$ 1.55	\$ 0.74
Third Quarter	\$ 3.05	\$ 0.77
Fourth Quarter	\$ 2.12	\$ 1.50

	High	Low
<i>Fiscal Year 2004</i>		
First Quarter	\$ 4.13	\$ 1.45
Second Quarter	\$ 4.01	\$ 2.62
Third Quarter	\$ 3.70	\$ 2.53
Fourth Quarter	\$ 4.81	\$ 3.07

On March 31, 2004, the closing price for our common stock on the Nasdaq SmallCap Market was \$3.49 and there were approximately 140 holders of record of our common stock.

Dividends

We have never declared or paid dividends on our common stock. We intend to retain earnings, if any, for the operation and expansion of our business, and therefore do not anticipate paying any cash dividends in the foreseeable future.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS

This Form 10-KSB contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. Such statements include our expectations, hopes, and intentions regarding the future, including but not limited to statements regarding our strategy, competition, development plans (including anticipated cost, timing and eventual acceptance of new products and services by the market), financing, revenue, and operations. Forward-looking statements involve certain risks and uncertainties, and actual results may differ materially from those discussed in any such statement. Factors that could cause actual results to differ materially from such forward-looking statements include the risks described in the Risk Factor section and elsewhere in this

Form 10-KSB. All forward-looking statements in this document are made as of the date hereof, based on information available to us as of the date hereof, and we assume no obligation to update any forward-looking statement.

This discussion and analysis of the financial statements and results of operations should be read in conjunction with our audited Consolidated Financial Statements, including the related notes thereto, contained elsewhere in this Form 10-KSB.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent liabilities.

On an on-going basis, we evaluate our estimates, including those related to revenue recognition and accounting for intangible assets and goodwill. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

We have identified the accounting policies below as the policies critical to our business operations and the understanding of our results of operations. We believe the following critical accounting policies and the related judgments and estimates affect the preparation of our consolidated financial statements:

REVENUE RECOGNITION. We recognize revenue using the residual method pursuant to the requirements of Statement of Position No. 97-2, Software Revenue Recognition (SOP 97-2), as amended. Under the residual method, revenue is recognized in a multiple element arrangement when company-specific objective evidence 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. At the outset of the arrangement with the customer, we defer revenue for the fair value of our undelivered elements (e.g., contract revenue amount for maintenance) based on company-specific objective evidence of the amount such items are sold individually to our customers and recognize revenue for the remainder of the arrangement fee attributable to the elements initially delivered in the arrangement (e.g., software license) when the basic criteria in SOP 97-2 have been met.

Under SOP 97-2, revenue attributable to an element in a customer arrangement is recognized when persuasive evidence of an arrangement exists and delivery has occurred, provided the fee is fixed or determinable, collectibility is probable and the arrangement does not require significant customization of the software. If at the outset of the customer arrangement, we determine that the arrangement fee is not fixed or determinable, we defer the revenue and recognize the revenue when the arrangement fee becomes due and payable.

Professional services, maintenance and other revenue relate primarily to consulting services, maintenance and training. Maintenance revenue is initially deferred and then recognized ratably over the term of the maintenance contract, typically 12 months. Consulting and training revenue is recognized as the services are performed and is usually calculated on a time and materials basis. Such services primarily consist of implementation services related to the installation of our products and do not include significant customization to or development of the

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underlying software code. We do not have price protection programs, conditional acceptance agreements or warranty programs, and sales of our products are made without right of return.

INTANGIBLE ASSETS AND GOODWILL. We assess the impairment of identifiable intangibles, long-lived assets and goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We also assess the value of goodwill at least annually. Factors we consider to be important which could trigger an impairment review include the following:

Significant underperformance relative to expected historical or projected future operating results;

Timing of our revenue, significant changes in the manner of use of the acquired assets or the strategy for the overall business;

Significant negative industry or economic trends;

Significant decline in our stock price for a sustained period; and

Our market capitalization relative to net book value.

When we determine that the carrying value of intangibles and other long-lived assets may not be recoverable based upon the existence of one or more of the above indicators of impairment and the carrying value of the asset cannot be recovered from projected undiscounted cash flows, we measure any impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in the current business model. Significant management judgment is required in determining whether an indicator of impairment exists and in projecting cash flows.

Following the adoption of SFAS No. 142, Goodwill and Other Intangible Assets, we updated our policy for assessing and determining impairment of goodwill. The SFAS No. 142 goodwill impairment model is a two-step process. The first step is used to identify potential impairment by comparing the fair value of a reporting unit with its net book value (or carrying amount), including goodwill. If the fair value exceeds the carrying amount, goodwill of the reporting unit is considered not impaired and the second step of the impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. That is, the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit.

Determining the fair value of a reporting unit under the first step of the goodwill impairment test and determining the fair value of individual assets and liabilities of a reporting unit (including unrecognized intangible assets) under the second step of the goodwill impairment test is judgmental in nature and often involves the use of significant estimates and assumptions. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and the magnitude of any such charge. Estimates of fair value are primarily determined using discounted cash flows and are based on our best estimate of future revenue and operating costs and general market conditions. These estimates are subject to review and approval by management. This approach uses significant assumptions, including projected future cash flows (including timing), the discount rate reflecting the risk inherent in future cash flows, and a terminal growth rate.

Results of Operations

The following table sets forth certain Consolidated Statement of Operations data in total dollars, as a percentage of total net revenue and as a percentage change from the prior year. Cost of license revenue and the cost of service revenue are expressed as a percentage of the related revenue. This information should be read in conjunction with the Consolidated Financial Statements and the notes thereto included elsewhere in this Form 10-KSB.

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	Twelve Months Ended March 31, 2004			Twelve Months Ended March 31, 2003			Twelve Months Ended March 31, 2002		
	Results	% of Net Revenues	Percent Change	Results	% of Net Revenues	Percent Change	Results	% of Net Revenues	
Net revenues									
Licenses	\$ 9,819	44%	(1)%	\$ 9,932	47%	0%	\$ 9,903	51%	
Services	12,478	56%	13%	11,074	53%	18%	9,364	49%	
Total net revenues	22,297	100%	6%	21,006	100%	9%	19,267	100%	
Cost of revenues									
Cost of license revenues (as a % of license revenues)									
	415	4%	18%	351	4%	(8)%	383	4%	
Cost of service revenues (as a % of service revenues)									
	2,174	17%	3%	2,103	19%	(23)%	2,744	29%	
Gross margin on license revenues	9,404	96%	(2)%	9,581	96%	1%	9,520	96%	
Gross margin on service revenues	10,304	83%	15%	8,971	81%	36%	6,620	71%	
Operating expenses									
Selling and marketing	5,727	26%	24%	4,628	22%	(28)%	6,402	33%	
Research and development	7,553	34%	16%	6,534	31%	7%	6,121	32%	
General and administrative	3,770	17%	(16)%	4,466	21%	(23)%	5,815	30%	
Stock-based compensation	246	1%	(30)%	351	2%	(72)%	1,247	6%	
Amortization of goodwill and intangible assets	2,600	12%	0%	2,600	12%	(80)%	12,821	67%	
Total operating expenses	19,896	89%	7%	18,579	88%	(43)%	32,406	168%	
Operating loss	(188)	(1)%	596%	(27)	(0)%	(100)%	(16,266)	(84)%	
Other income (expense), net	(1,196)	(5)%	(64)%	(3,362)	(16)%	(19)%	(4,159)	(22)%	
Loss before income taxes	(1,384)	(62)%	89%	(3,389)	(16)%	83%	(20,425)	(106)%	
Provision (benefit) for income taxes	(31)	0%	203%	30	0%	100%			
Net loss	\$ (1,353)	(6)%	(60)%	\$ (3,419)	(16)%	(83)%	\$ (20,425)	(106)%	

REVENUE

NET REVENUE. Our revenue is derived principally from two sources: fees from software licensing and fees for services, including maintenance, consulting, training and technical support. We license our software on a per-server basis or per-user basis. Therefore, the addition of servers or users to existing systems increases our revenue from our installed base of licenses. We view the MDMS and RAD markets in which we operate to be relatively stable and consistent from period to period and anticipate that our revenue on an annual basis from those products will remain stable for the foreseeable future. The increase in net revenue is primarily due to an increase in year over year service revenue. Fluctuations in revenue between quarters or year-to-year are primarily the result of changes in the mix of software licensing and service fees as well as the timing of orders and customer order patterns. We do not view the changes in year-to-year revenue for the years ended March 31, 2004, 2003 and 2002 to be representative of market trends. However, the increase in service revenues is a result of our focused efforts to increase the number of customers under support and maintain our existing supported customer base. In the longer term, we expect that the

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MDMS and RAD markets will eventually contract as customers adopt newer technologies and, therefore, the revenue generated from sales of our MDMS and RAD products is expected to decrease.

We have been selling software development kits (SDKs) for the PDP product, primarily directly to IT departments that are developing new applications and re-engineering existing applications for in-house use. SDKs are priced competitively to promote the adoption and entry into the product line and, therefore, the sale of SDKs yielded minimal initial revenue in the last fiscal year. Deployment of applications created using the PDP SDKs requires the purchase of deployment licenses, which would result in additional revenue for us. The development cycle takes time for our customers to complete prior to deployment. Should the adoption of the PDP product and our customer's development efforts be successful, we would anticipate additional revenue in future periods related to the sale of the deployment licenses.

However, we can give no assurances as to customer acceptance of any new products or services, or the ability of the current or any new products and services to generate revenue. While we are committed to research and development efforts that are designed to allow us to penetrate new markets and generate new sources of revenue, such efforts may not result in additional products, services or revenue.

COST OF REVENUE

COST OF LICENSE REVENUE. Cost of license revenue is comprised of direct costs associated with software license sales including software packaging, documentation, physical media costs and royalties. The increase in cost of license revenue in fiscal 2004 as compared to fiscal 2003 is attributable to royalty payments made to third parties for co-developed or licensed products sold in the last fiscal year. Cost of license revenue remained relatively consistent in fiscal 2003 as compared to fiscal 2002. We anticipate that the cost of license revenue, as a percentage of license revenue and in absolute dollars, will be relatively stable in future periods.

COST OF SERVICE REVENUE. Cost of service revenue includes consulting, technical support and training, all of which consist primarily of personnel related costs. Cost of service revenue remained relatively consistent in fiscal 2004 as compared to fiscal 2003. The decrease in cost of service revenue in fiscal 2003 as compared to fiscal 2002 is attributable to management's streamlining of operations and overhead cost reductions. We anticipate that the cost of service revenue as a percentage of service revenue and in absolute dollars will be relatively stable in future periods.

OPERATING EXPENSES

SELLING AND MARKETING. Selling and marketing expense consists primarily of salaries, benefits, advertising, tradeshow, travel and overhead costs for our sales and marketing personnel. The increase in selling and marketing expense in fiscal 2004 as compared to fiscal 2003 was primarily due to increased marketing efforts including trade show costs, marketing research and an increase in staffing and travel related expenses in connection with the release of the XDMS and PDP products. The decrease in selling and marketing expense in fiscal 2003 as compared to fiscal 2002 was primarily due to management's streamlining of our sales force and marketing efforts and overhead cost reductions. We anticipate that selling and marketing costs related to the XDMS and PDP products will continue to increase as we further develop the sales channel for these new products and if customer acceptance of these products increases. In addition, if our continued research and development efforts are successful, including with respect to our XDMS and PDP products, and new products or services are created, we may incur increased sales and marketing expense to promote those new products in future periods.

RESEARCH AND DEVELOPMENT. Research and development expense consists primarily of salaries and other personnel-related expenses for engineering personnel, expensable hardware and software costs, overhead costs and costs of contractors. In fiscal 2004 and 2003, we have seen an increase in our spending related to our development efforts as our new products have reached production release and as we have refined and added certain features and functionality to these products. In addition, we continue to incur costs related to the ongoing development and enhancement of all of our product lines. We are committed to our research and development efforts and expect research and development expense will remain at the current level in future periods or increase if we believe that additional spending is warranted. Such efforts may not result in additional new products and any new products, including the XDMS and PDP products, may not generate sufficient revenue, if any, to offset the research and development expense.

GENERAL AND ADMINISTRATIVE. General and administrative expense consists primarily of costs associated with our finance, human resources, legal and other administrative functions. These costs consist principally of salaries and other personnel-related expenses, professional fees, depreciation and overhead costs. The decrease in general and administrative spending in fiscal 2004 as compared to fiscal 2003 was a result of continued cost controls resulting in reduced legal and personnel related expenses. The decrease in general and administrative expense in fiscal 2003 as compared to fiscal 2002 was primarily due to significant changes in management in fiscal 2002 which resulted in incurred costs associated with severance for terminated employees, costs associated with the restatement of our financial statements and costs associated with the settlement of various legal matters in 2002. We are focused on the control of general overhead costs and intend to use any savings from such reduction for our ongoing research and development and sales and marketing efforts. During the latter portion of fiscal year 2002 and into fiscal

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year 2003, we underwent significant changes in our management, including the hiring of a new chief executive officer and chief financial officer. Since that time, we have focused on streamlining operations, including implementing standardized policies and procedures throughout the organization with increased oversight from management and necessary headcount reductions. Additionally, we settled various outstanding legal matters in fiscal years 2002 and 2003 which resulted in increased general and administrative costs in fiscal years 2002 and 2003 as compared to fiscal year 2004. We anticipate that general and administrative costs as a percentage of revenue and in absolute dollars will remain relatively stable in future periods.

STOCK-BASED COMPENSATION. The decreases in stock-based compensation in fiscal 2004 and fiscal 2003 is attributable primarily to cancellations of previously issued options with an exercise price below fair value on date of grant for terminated employees, options reaching the end of their vesting periods, no new options being granted with an exercise price below fair value at the date of grant, and fewer options granted to non-employees. We do not anticipate significant changes in stock-based compensation expense in future periods.

GOODWILL AND AMORTIZATION OF INTANGIBLE ASSETS. We continue to amortize identifiable intangible assets in

accordance with their determined useful life, estimated at four years. We stopped amortizing goodwill effective April 1, 2002.

OTHER INCOME (EXPENSE). Other expense consists primarily of net interest expense and, to a much lesser extent, gains and losses on foreign currency transactions. The decreases in fiscal 2004 and fiscal 2003 are primarily the result of the reduction of the interest rate as a result of the restructuring of our debt in January 2003. Due to the uncertainty in exchange rates, we may experience transaction gains or losses in future periods, the effect of which cannot be determined at this time.

Liquidity and Capital Resources

In connection with the acquisition of PickAx, we assumed a Secured Promissory Note issued to Astoria Capital Partners, L.P. (Astoria) dated November 30, 2000 in the amount of \$18.5 million. In January 2003, we entered into a Note Exchange Agreement (the Exchange Agreement) with Astoria to replace the existing Secured Promissory Note, as amended, with a Convertible Subordinated Note. Under the terms of the Exchange Agreement, the Secured Promissory Note was exchanged and replaced with a Convertible Subordinated Note having a principal amount of \$22.1 million, which principal amount was equal to the outstanding principal and accrued interest payable on the Secured Promissory Note as of the date of the Exchange Agreement. The Convertible Subordinated Note is convertible into common stock at any time, at the option of Astoria, at a price of \$5.00 per share. The Convertible Subordinated Note matures on May 30, 2008, extending the May 30, 2003 maturity date of the Secured Promissory Note. The Company may not redeem the Convertible Subordinated Note until January 2005. The interest rate of the Convertible Subordinated Note is 5% per annum as compared to an interest rate of 10% per annum under the Secured Promissory Note. The interest is payable quarterly at our option in cash or through increases to the outstanding principal of the Convertible Subordinated Note. For the periods ended March 31, 2003, June 30, 2003, September 30, 2003, December 31, 2003 and March 31, 2004, we issued payment in kind (PIK) notes to Astoria for the accrued interest due in the aggregate amount of \$1,322,325. For the foreseeable future, we expect to issue additional PIK notes to Astoria, in lieu of cash payments for the interest due under the Convertible Subordinated Note. If the Convertible Subordinated Note or the PIK notes are converted into common stock, our stockholders may experience substantial dilution. Unlike the Secured Promissory Note, the Convertible Subordinated Note is not secured by our assets.

If our future financial performance improves, we may seek to take advantage of opportunities in the equity and capital markets to raise additional funds for operating needs or to pay down our debt to Astoria. There can be no assurances that such opportunities will arise.

In addition to holding the Convertible Subordinated Note, Astoria is a major stockholder of ours, holding all of our preferred stock and a majority of our outstanding common stock. Richard W. Koe, a member of our Board of Directors, serves as the Managing General Partner for Astoria Capital Management, which is a general partner of Astoria. Carlton H. Baab, our President and Chief Executive Officer, served as a Managing Principal of Astoria Capital Management until taking a formal leave of absence to join us in August 2001. Gerald F. Chew, a member of our Board of Directors, is the cousin of Mr. Koe.

At March 31, 2004, we had \$7.8 million in cash. We believe that our cash flow from operating activities will be sufficient to meet our operating and capital expenditure requirements for the remainder of the fiscal year ending March 31, 2005 and through the foreseeable future. We are committed to research and development efforts that are intended to allow us to penetrate new markets and generate new sources of revenue and improve operating results. However, our research and development efforts have required, and will continue to require, cash outlays without the immediate or short-term receipt of related revenue. Our ability to service our long-term debt and meet our expenditure requirements is dependent upon our future financial performance, which will be affected by, among other things, prevailing economic conditions, our ability to penetrate new markets and attract new customers, market acceptance of our new and existing products and services, the success of research and development efforts and other factors beyond our control.

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In February 2004, we entered into a credit facility with Silicon Valley Bank which provides us with the ability to borrow up to \$1.5 million at an annual interest rate of Prime plus 1.0%, provided, that the annual interest rate shall never be less than 5%. The credit facility is collateralized by our assets and expires in February 2006. The credit facility contains financial and reporting covenants that require us to maintain certain financial ratios only when we have outstanding credit extensions. There were no outstanding borrowings at March 31, 2004.

We had no material commitments for capital expenditures at March 31, 2004.

Net cash provided by operating activities was \$2.3 million and \$0.9 million for the years ended March 31, 2004 and 2003, respectively.

Our earnings before interest, taxes, depreciation and amortization (EBITDA) were \$3 million, or 13% of total net revenue, and \$3.2

million, or 16% of total net revenue, for the years ended March 31, 2004 and 2003, respectively. The reduction in EBITDA was a result of increased development and marketing costs related to our new product initiatives. EBITDA is defined as net loss with an add-back for depreciation and amortization, intangible amortization, non-cash stock-based compensation expense, interest expense, other income and income taxes. The following table reconciles EBITDA to the reported net loss:

**RAINING DATA CORPORATION AND SUBSIDIARIES
RECONCILIATION OF EBITDA TO NET LOSS**

(Unaudited)

In \$ 000 s	For the year ended March 31,	
	2004	2003
Reported net loss	\$ (1,353)	\$ (3,419)
Depreciation and amortization	335	317
Stock-based compensation	246	351
Intangible amortization	2,600	2,600
Interest expense-net	1,215	3,409
Other income-net	(19)	(47)
Provision (benefit) for income taxes	(31)	30
EBITDA	\$ 2,993	\$ 3,241

EBITDA does not represent funds available for management's discretionary use and is not intended to represent cash flow from operations. EBITDA should not be construed as a substitute for net loss or as a better measure of liquidity than cash flow from operating activities, which are determined in accordance with generally accepted accounting principles (GAAP). EBITDA excludes components that are significant in understanding and assessing our results of operations and cash flows. In addition, EBITDA is not a term defined by GAAP and as a result our measure of EBITDA might not be comparable to similarly titled measures used by other companies.

However, EBITDA is used by management to evaluate, assess and benchmark our operational results and we believe that EBITDA is relevant and useful information, which is often reported and widely used by analysts, investors and other interested parties in our industry. Accordingly, we are disclosing this information to permit a more comprehensive analysis of our operating performance, to provide an additional measure of performance and liquidity and to provide additional information with respect to our ability to meet future debt service, capital expenditure and working capital requirements.

Our EBITDA financial information is also comparable to net cash provided by operating activities. The table below reconciles EBITDA to the GAAP disclosure of net cash provided by operating activities:

**RAINING DATA CORPORATION AND SUBSIDIARIES
RECONCILIATION OF EBITDA TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

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(Unaudited)

In \$ 000 s	For the year ended March 31,	
	2004	2003
Net cash provided by operating activities	\$ 2,328	\$ 889
Interest expense, net	1,215	3,409
Other income, net	(19)	(47)
Provision (benefit) for income taxes	(31)	30
Change in accounts receivable	(494)	169
Change in other assets	97	115
Change in accounts payable and accrued liabilities	(189)	1,023
Change in deferred revenue	169	(738)
Note discount amortization	(83)	(1,609)
EBITDA	\$ 2,993	\$ 3,241

RISK FACTORS

We operate in a rapidly changing environment that involves numerous risks and uncertainties. The following section lists some, but not all, of these risks and uncertainties that may have a material adverse effect on our business, financial condition and results of operation.

IF WE DO NOT DEVELOP NEW PRODUCTS AND ENHANCE EXISTING PRODUCTS TO KEEP PACE WITH RAPIDLY CHANGING TECHNOLOGY AND INDUSTRY STANDARDS, OUR REVENUE MAY DECLINE.

We have devoted significant resources to the research and development of products and technology. We believe that our future success will depend in large part on a strong research and development effort with respect to both our existing and new products. Since the start of fiscal year 2002, we have changed the mix of our research and development efforts to include technologies, markets and products outside of our historical market, specifically XML-based infrastructure products. In May 2003, we announced the initial production release of our first XDMS product which resulted from these development efforts. In September 2003, we released the production version of the Pick Data Provider (PDP) for .NET. This was our first release in the PDP product line which is designed to support the Microsoft.NET Framework. While we intend for these efforts to improve our operating results and increase cash flow, such efforts may not result in new products or revenue, and any new products that do result may not be successful. The development of new or enhanced software products is a complex and uncertain process requiring high levels of innovation, as well as accurate anticipation of customer and technical trends. In developing new products and services, we may fail to develop and market products that respond to technological changes or evolving industry standards in a timely or cost-effective manner, or experience difficulties that could delay or prevent the successful development, introduction and marketing of these new products. The development and introduction of new or enhanced products also requires us to manage the transition from older products in order to minimize disruptions in customer ordering patterns and to ensure that adequate supplies of new products can be delivered to meet customer demand. Failure to develop and introduce new products, or enhancements to existing products, in a timely manner in response to changing market conditions or customer requirements, or lack of customer acceptance of our products, will materially and adversely affect our business, results of operations and financial condition.

THE CONCENTRATION OF OUR STOCK OWNERSHIP AND THE DEBT OWED TO ASTORIA GIVE CERTAIN STOCKHOLDERS SIGNIFICANT CONTROL OVER OUR BUSINESS.

As of March 31, 2004, Astoria and Rockport Group, LP (Rockport) together beneficially owned approximately 71% of our outstanding common stock. As of such date, Astoria also owned all of our outstanding preferred stock. In addition, as of March 31, 2004, the Convertible Subordinated Note issued to Astoria had a balance of approximately \$23.5 million in principal and accrued interest maturing on May 30, 2008. Richard W. Koe, a member of our Board of Directors, serves as the Managing General Partner for Astoria Capital Management, which is a general partner of Astoria. Carlton H. Baab, our President and Chief Executive Officer, served as a Managing Principal of Astoria Capital Management until taking a formal leave of absence to join us in August 2001. Mr. Wagner, a member of our Board of Directors, is the Managing Director of Rockport. This concentration of stock ownership, together with the outstanding debt, would allow Astoria, acting alone, or Rockport and Astoria, acting together, to block any actions that require approval of our stockholders, including the election of members to the Board of Directors and the approval of significant corporate transactions. Also, Astoria, acting alone, or Rockport and Astoria, acting together, could approve certain corporate actions without the consent of the other stockholders. Moreover, this concentration of ownership may delay or prevent a change in control.

BECAUSE THE MARKET FOR OUR MDMS AND RAD PRODUCTS IS RELATIVELY STABLE, OUR REVENUE MAY DECLINE IF WE CANNOT MAINTAIN OUR SALES TO EXISTING CUSTOMERS OR GENERATE SALES TO NEW CUSTOMERS.

We believe that the markets for our MDMS and RAD products are relatively stable and consistent from period to period. As a result, to grow our revenue in these markets, we will need to maintain our sales to existing customers and to generate sales to new customers, including corporate development teams, commercial application developers, system integrators, independent software vendors and independent consultants. If we fail to attract new customers, if we lose our customers to competitors, or if the MDMS or RAD markets decline, our revenue may be adversely affected. In the longer term, it is expected that the MDMS and RAD markets will eventually

contract as customers adopt newer technologies.

IF WE FAIL TO INCREASE REVENUE OR IMPROVE OUR OPERATING RESULTS, WE MAY NOT BE ABLE TO REPAY OUR DEBT TO ASTORIA.

We believe that our cash and cash flow from operating activities will be sufficient to meet our operating and capital expenditure requirements at least through the foreseeable future. Our ability to meet our expenditures and service our debt obligations is dependent upon our future financial performance, which will be affected by, among other things, prevailing economic conditions, our ability to penetrate new markets and attract new customers, market acceptance of our new and existing products and services, the success of research and development efforts and other factors beyond our control. As previously noted, in January 2003, we entered into the Exchange Agreement with Astoria to replace the existing Secured Promissory Note, which was due May 2003, with a Convertible Subordinated Note, which is due and payable in May 2008. The Convertible Subordinated Note bears interest at 5% per annum and is convertible into common stock by Astoria at any time at a price of \$5.00 per share. If we are unable to penetrate new markets, generate new sources of revenue or otherwise improve our operating results, we may be unable to repay our debt to Astoria or to access opportunities in the equity and capital markets to raise additional funds for operating needs.

IF THE REGISTRATION RIGHTS HELD BY ASTORIA AND OTHER SECURITIES HOLDERS ARE EXERCISED, OR THESE SECURITIES HOLDERS SELL A SUBSTANTIAL AMOUNT OF RESTRICTED SECURITIES IN THE OPEN MARKET, OUR STOCK PRICE MAY DECLINE.

As of March 31, 2004, we had 18,403,141 outstanding shares of common stock, of which approximately 9,600,000 shares were restricted securities held by Astoria and other holders. Restricted securities may be sold in the public market only if they are registered or if they qualify for an exemption from registration promulgated under the Securities Act of 1933, as amended. At present, all of our outstanding restricted securities are either entitled to registration rights or eligible for public sale under Rule 144, subject to volume limitations and other requirements of Rule 144. If Astoria or other holders decide to exercise their demand registration rights, we would incur costs and expenses associated with the registration of securities.

Furthermore, sales of a substantial number of shares by Astoria or other securities holders in the public market, or the perception that those sales may occur, could cause the market price of our common stock to decline. In addition, if we register shares of our common stock in connection with a public offering of securities, we may be required to include shares of restricted securities in the registration, which may have an adverse effect on our ability to raise capital.

OUR FAILURE TO COMPETE EFFECTIVELY MAY HAVE AN ADVERSE IMPACT ON OUR OPERATING RESULTS.

The market for our products is highly competitive, diverse and subject to rapid change. Our products and services compete on the basis of the following key characteristics: performance; inter-operability; scalability; functionality; reliability; pricing; post sale customer support; quality; compliance with industry standards; and overall total cost of ownership.

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We currently face competition from a number of sources, including several large vendors that develop and market databases, development tools, and decision support products and consulting services. Our MDMS products compete with products developed by companies such as Oracle, Microsoft and IBM. Our Omnis line of RAD developer products currently encounters competition from several direct competitors, including Microsoft Corporation and competing development environments such as JAVA. Competition is developing and evolving in the XML market for which our XDMS products are intended. Companies who do or are expected to compete in this market include Oracle, IBM, Microsoft and BEA, as well as a number of smaller companies with products that directly and indirectly compete with our XDMS products. Our new initiatives in the .NET area are subject to significant competition, primarily from Microsoft and Oracle. Additionally, as we expand our business, we expect to compete with a different group of companies, including smaller, highly focused companies offering single products.

Most of our competitors have significantly more financial, technical, marketing and other resources than we do. As a result, these competitors may be able to respond more quickly to new or emerging technologies, evolving markets, changes in customer requirements, and may devote greater resources to the development, promotion and sale of their products. While we currently believe that our products and services compete favorably in the marketplace, our products and services could fall behind marketplace demands at any time. If we fail to address the competitive challenges, our business would suffer materially.

WE MAY EXPERIENCE QUARTERLY FLUCTUATIONS IN OPERATING RESULTS, WHICH MAY RESULT IN VOLATILITY OF OUR STOCK PRICE.

In the past, we have experienced significant quarterly fluctuations in our operating results. We expect to continue to spend substantial

amounts of money in the area of research and development, sales and marketing and operations in order to promote new product development and introduction. Because the expenses associated with these activities are relatively fixed in the short-term, we may be unable to timely adjust spending to offset any unexpected shortfall in revenue growth or any decrease in revenue levels. Operating results may also fluctuate due to factors such as:

the size and timing of customer orders;

changes in pricing policies by us or our competitors;

our ability to develop, introduce, and market new and enhanced versions of our products;

the number, timing, and significance of product enhancements and new product announcements by our competitors;

the demand for our products;

non-renewal of customer support agreements;

software defects and other product quality problems; and

personnel changes.

We operate without a significant backlog of orders. As a result, the quarterly sales and operating results in any given quarter are dependent, in large part, upon the volume and timing of orders booked and products shipped during that quarter. Accordingly, we may be unable to adjust spending in a timely manner to compensate for any unanticipated decrease in orders, sales or shipments. Therefore, any decline in demand for our products and services, in relation to the forecast for any given quarter, could materially and negatively impact the results of our operations. As a result, we expect our quarterly operating results to continue to fluctuate, which may cause our stock price to be volatile. In addition, we believe that period-to-period comparisons of our operating results should not be relied upon as indications of future performance.

THE SUCCESS OF OUR BUSINESS DEPENDS IN PART UPON OUR ABILITY TO RECRUIT AND RETAIN KEY PERSONNEL AND MANAGEMENT.

Many of the our executive officers joined us subsequent to the acquisition of PickAx, including our President and Chief Executive Officer, Carlton Baab, who joined us in August 2001. Additional changes in management have occurred following Mr. Baab's appointment, including the hiring of Brian Bezdek, Chief Financial Officer, Boris Geller, Vice President, Market Development and Soheil Raissi, Vice President, Product Development and Professional Services. The loss of one or more of these or other executives could adversely affect our business. In addition, we believe that our future success will depend to a significant extent on our ability to recruit, hire and retain highly skilled management and employees with experience in engineering, product management, sales, marketing and customer service. Competition for such personnel in the software industry can be intense, and there can be no assurance that we will be successful in attracting and retaining such personnel. If we are unable to do so, we may experience inadequate levels of staffing to develop and license our products and perform services for our customers, which could adversely affect our business.

THE INABILITY TO PROTECT OUR INTELLECTUAL PROPERTY COULD HARM OUR ABILITY TO COMPETE.

Our ability to compete successfully will depend, in part, on our ability to protect our proprietary technology and operations without infringing upon the rights of others. We may fail to do so. In addition, the laws of certain countries in which our products are, or may be, licensed may not protect our proprietary rights to the same extent as the laws of the United States. We rely primarily on a combination of trade secret, copyright and trademark laws and contractual provisions to protect our intellectual property and proprietary rights. Our registered trademarks include Raining Data, Pick, D3, Omnis, Omnis Studio, mvEnterprise, mvBase, mvDesigner, and our service marks include TigerLogic, among others. We also have a pending U.S. patent application as of March 31, 2004. In addition to trademark and copyright protections, we license our products to end users on a right to use basis pursuant to a perpetual license agreement that restricts use of products to a specified number of users. We generally rely on click-wrap licenses that become effective when a customer downloads and installs software on its system. In order to retain exclusive ownership rights to our software and technology, we generally provide our software in object code only, with contractual restrictions on copying, disclosure and transferability. There can be no assurance that these protections will be adequate, or that our competitors will not independently develop technologies that are substantially equivalent or superior to our technology.

OUR PRODUCTS MAY CONTAIN SOFTWARE DEFECTS, WHICH COULD HARM OUR BUSINESS.

Our enterprise applications software may contain undetected errors or failures. This includes our XDMS and PDP products, which are at higher risk given these products are in the earliest stages of the product life cycle. This may result in loss of, or delay in, customer acceptance of our products and could harm our reputation and our business. Undetected errors or failures in computer software programs are not uncommon. While we make every effort to thoroughly test our software, in the event that we experience significant software errors, we could experience delays in release, customer dissatisfaction and lost revenue. Any of these errors or defects could harm our business.

OUR PRODUCTS HAVE A LONG SALES CYCLE, WHICH COULD RESULT IN DELAYS IN THE RECEIPT OF REVENUE.

The sales cycle for our MDMS and RAD products typically ranges from three to nine months or longer and the sales cycle for our XDMS and PDP products is anticipated to be significantly longer since these new products are just beginning to be adopted by the marketplace. Our products are typically used by application developers, system integrators and value added resellers to develop applications that are critical to their corporate end user's business. Because the purchases of our products are often part of an end user's larger business process, re-engineering initiative, or implementation of client/server or web-based computing, the end users frequently view the purchase of our products as part of a long-term strategic decision regarding the management of their workforce-related operations and expenditures. Thus, this sometimes results in end users taking a significant period of time to assess alternative solutions by competitors or to defer a purchase decision as a result of an unrelated strategic issue beyond our control. As a result, a significant period of time may elapse between our research and development efforts and recognition of revenue, if any.

OUR GLOBAL OPERATIONS EXPOSE US TO ADDITIONAL RISKS AND CHALLENGES ASSOCIATED WITH CONDUCTING BUSINESS INTERNATIONALLY.

We operate on a global basis with offices or distributors in Europe, Africa, Asia, Latin America, South America, Australia and North America. Approximately 28% of our revenue for the year ended March 31, 2004 was generated from our international offices. We face several risks inherent in conducting business internationally, including but not limited to the following:

fluctuations in interest rates or currency exchange rates;

language and cultural differences;

local and governmental requirements;

difficulties and costs of staffing and managing international operations;

differences in intellectual property protections;

difficulties in collecting accounts receivable and longer collection periods;

seasonal business activities in certain parts of the world;

trade policies; and

the impact of SARS or other health advisories.

Any of these factors could harm our international operations and, consequently, affect the international growth or maintenance of our business. These factors or any combination of these factors may adversely affect our international revenue or our overall financial performance.

THE FAILURE OF OUR PRODUCTS TO CONTINUE TO CONFORM TO INDUSTRY STANDARDS MAY HARM OUR OPERATING RESULTS.

A key factor in our future success will continue to be the ability of our products to operate and perform well with existing and future leading, industry-standard enterprise software applications intended to be used in connection with our MDMS, RAD, XDMS and PDP products. Inter-operability may require third party licenses, which may not be available to us on favorable terms or at all. Failure to meet existing or future inter-operability and performance requirements of industry standard applications in a timely manner could adversely affect our business. Uncertainties relating to the timing and nature of new product announcements or introductions or

modifications of third party software applications could delay our product development, increase our product development expense or cause customers to delay evaluation, purchase, and deployment of our products.

THIRD PARTIES COULD ASSERT THAT OUR SOFTWARE PRODUCTS AND SERVICES INFRINGE ON THEIR INTELLECTUAL PROPERTY RIGHTS, WHICH COULD RESULT IN COSTLY LITIGATION, CAUSE PRODUCT SHIPMENT DELAYS, PROHIBIT PRODUCT LICENSING OR REQUIRE US TO ENTER INTO ROYALTY OR LICENSING AGREEMENTS.

There has been a substantial amount of litigation in the software industry regarding intellectual property rights. Third parties may claim that our current or potential future products and services infringe upon their intellectual property. We expect that software product developers and providers of software applications will increasingly be subject to infringement claims as the number of products and competitors in our industry segment grow and the functionality of products in different industry segments overlap. Any claims, with or without merit, could be time consuming, result in costly litigation, cause product shipment delays, prohibit product licensing or require us to enter into royalty or licensing agreements. Royalty or licensing agreements, if required, may not be available on terms acceptable to us or at all, which could seriously harm our business.

ITEM 7. FINANCIAL STATEMENTS

Our Consolidated Financial Statements, including the notes thereto, together with the report of KPMG LLP, independent registered public accounting firm, thereon are presented as a separate section of this Form 10-KSB, and the following are attached hereto beginning on Page F-1:

a) Consolidated Financial Statements:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of March 31, 2004 and March 31, 2003

Consolidated Statements of Operations for the years ended March 31, 2004, 2003 and 2002

Consolidated Statements of Cash Flows for the years ended March 31, 2004, 2003 and 2002

Consolidated Statements of Stockholders' Equity and Comprehensive Loss for the years ended March 31, 2004, 2003 and 2002

Notes to Consolidated Financial Statements

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There were no changes in or disagreements with our accountants on accounting or financial disclosure for the year ended March 31, 2004.

ITEM 8A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The evaluation of our disclosure controls and procedures and internal control over financial reporting included a review of their objectives and processes, implementation and effect on the information generated for use in this report. In the course of this evaluation, we sought to identify any significant deficiencies or material weaknesses in our controls and any acts of fraud involving personnel who have a significant role in our internal control over financial reporting, and to confirm that any necessary corrective action, including process improvements, were being undertaken. The overall goals of these evaluation activities are to monitor our disclosure controls and procedures and internal control over financial reporting and to make modifications as necessary.

Our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are effective, as of the end of the period covered by this report, to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission (SEC) rules and accumulated and

communicated to the Company's management, including its principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

However, a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Management necessarily applied its judgment in assessing the benefits of controls relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within Raining Data Corporation have been detected.

Changes in Internal Controls

There was no change in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART III

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Our Bylaws provide that the Board of Directors is to be composed of no less than five (5) and no more than nine (9) directors divided into Classes I, II and III, each with as nearly equal a number of directors as possible. The exact number of directors is currently set at five (5) by resolution of the Board. The directors are elected to serve staggered three-year terms, with the term of one class of directors expiring each year at the annual meeting of stockholders.

The following table sets forth as of March 31, 2004, the name, age, and position of the directors, the date they joined the Board of Directors and the year in which their term expires:

Name of Director	Age	Position	Director Since	Term Expires
Geoffrey P. Wagner (1,2,3)	47	Chairman	1998	2005
Carlton H. Baab	46	President, Chief Executive Officer and Director	2001	2004
Gerald F. Chew (2)	44	Director	1998	2004
Richard W. Koe (1,3)	47	Director	2003	2006
Douglas G. Marshall (1,2,3)	47	Director	1998	2005

-
- (1) Member of the Compensation Committee

 - (2) Member of the Audit Committee

 - (3) Member of the Nominating and Corporate Governance Committee

The following is a description of the background of each director as of March 31, 2004:

Mr. Wagner joined the Board in July 1998, has served as Chairman of the Board since August 2001 and served as our Secretary from February 1999 through November 2000. Mr. Wagner has served as a General Partner of Rockport Group, L.P. (Rockport) since its founding in 1990 and its sole General Partner since 1994. Rockport is the sole General Partner of RCJ Capital Partners LP (RCJ). Rockport and RCJ each invest in a variety of industries. Prior to 1990, Mr. Wagner held sales executive positions at several Wall Street firms, including five years at Bear, Stearns & Co., Inc. and five years at Kidder, Peabody & Co., Inc. Mr. Wagner holds a B.S. in Business Administration from Portland State University. Mr. Wagner serves as Chairman of the Audit Committee, the

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Compensation Committee, and the Nominating and Corporate Governance Committee, and is the sole member of the Stock Committee, a subcommittee of the Compensation Committee.

Mr. Baab joined us as the President and, Chief Executive Officer in August 2001 and was appointed as a member of the Board in December 2001. From May 2001 to August 2001, Mr. Baab served as a Managing Principal of Astoria Capital Management (ACM), a Securities and Exchange Commission (the SEC) registered investment advisor and a General Partner of Astoria Capital Partners, L.P. (ACP), a significant stockholder of ours. In August 2001, Mr. Baab took a formal leave of absence from ACM to join us. From March 2000 to April 2001, Mr. Baab was the Vice President of Finance and Chief Financial Officer of Certive, Inc., a web-based small-business services firm. From January 1999 to March 2000, Mr. Baab was the Chief Operating Officer and Chief Financial Officer of RemarQ Communities, Inc., a web-based provider of discussion group services. Mr. Baab served as Chief Financial Officer of the CKS Group (CKS), a marketing communications company, from February 1994 through December 1998. In addition, Mr. Baab served as an Executive Vice President and the Secretary of CKS from August 1995 through December 1998 and as CKS's Chief Operating Officer from August 1995 through May 1996. Mr. Baab also served on the Board of Directors of Momentum Business Applications, Inc. (Nasdaq: MMTM), which provided research and development expertise on a contract basis, until it was acquired by PeopleSoft (Nasdaq: PSFT) in April 2002. Mr. Baab also serves on the University of Southern California, School of Engineering Board of Councilors. Mr. Baab holds a B.S. in Electrical Engineering, with honors, from the University of Southern California and an M.B.A. from the Harvard Graduate School of Business Administration.

Mr. Chew joined the Board in July 1998. Mr. Chew most recently served as the President and Chief Operating Officer of MDSI Mobile Data Solutions Inc. (MDSI) from April 2001 to March 2002 and served as a director of MDSI from 1995 until April 2001. Mr. Chew served as Executive Vice President of Ancora Capital & Management Group, LLC, an investment firm, from June 1998 to January 2001. Since February 1997, Mr. Chew has served as Managing Director of The Cairn Group. Mr. Chew holds a B.S. in Electrical Engineering from the University of California, Davis and an M.B.A. from the Amos Tuck School of Business Administration at Dartmouth College. Mr. Chew serves on the Audit Committee.

Mr. Koe joined the Board in January 2003. Mr. Koe has served as Managing General Partner for ACP, a significant stockholder of ours, and Montavilla Partners, L.P., both of which are investment partnerships, and as President of ACM. Mr. Koe serves on the Compensation Committee and the Nominating and Corporate Governance Committee.

Mr. Marshall joined the Board in July 1998. Mr. Marshall is Senior Vice President of Deposit Strategy and Product Management at Washington Mutual (NYSE: WM), a financial services company. Mr. Marshall joined Washington Mutual in November 2001. From August 1994 to November 2001, Mr. Marshall held a number of marketing positions at Bank of America (NYSE: BAC), most recently as Vice President of Advertising and Marketing Communications. Mr. Marshall holds a B.A. in English from Seattle Pacific University and an M.B.A. from the University of Washington. Mr. Marshall serves on the Audit Committee, Compensation Committee and the Nominating and Corporate Governance Committee.

Information regarding our current executive officers, which may be found under the caption "Executive Officers" in Part I hereof, is incorporated by reference into this Item 9.

Family Relationships

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To our knowledge, with the exception of Mr. Chew and Mr. Koe who are cousins, there are no family relationships between any of our directors and executive officers.

Audit Committee Financial Expert

The Audit Committee of the Board of Directors of the Company is comprised solely of independent directors as defined in the Marketplace Rules of the Nasdaq Stock Market, and is governed by a written charter adopted by the Board of Directors. The Board of Directors has determined that Gerald F. Chew qualifies as an audit committee financial expert as that term is defined in Item 401(e) of Regulation S-B under the Exchange Act and is independent as defined in Rule 4200(a)(15) of the National Association of Securities Dealers listing standards.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our officers and directors, and persons who own more than ten percent of a registered class of our equity securities, to file certain reports of ownership with the SEC and with the National Association of Securities Dealers, Inc. To our

knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations that no other reports were required during the fiscal year ended March 31, 2004, all reports required to be filed during fiscal year ended March 31, 2004 pursuant to Section 16(a) of the Exchange Act by directors, executive officers and 10% beneficial owners were filed on timely basis.

Code of Ethics

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We have adopted a Code of Ethics for Principal Executive and Senior Financial Officers, which is posted on our Internet website at www.rainingdata.com.

ITEM 10. EXECUTIVE COMPENSATION

Summary Compensation

The following table sets forth the compensation of our Named Executive Officers, which consist of (i) all persons serving as the chief executive officer during the fiscal year ended March 31, 2004 and (ii) the four most highly compensated executive officers serving as such at the end of the fiscal year ended March 31, 2004, in addition to the chief executive officer.

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation		Long Term Compensation Awards Securities Underlying Options(#)	All Other Compensation
		Salary(\$)	Bonus(\$)		
Carlton H. Baab(1) President and Chief Executive Officer	2004	\$ 248,000	\$ 150,702		\$ 11,510
	2003	\$ 248,000	\$ 125,527		\$ 7,639
	2002	\$ 124,000	\$	1,000,000	\$ 5,523
Boris Geller Vice President, Market Development	2004	\$ 210,000	\$ 74,202		\$
	2003	\$ 210,000	\$ 74,027		\$
	2002	\$ 8,750	\$	245,000	\$
Soheil Raissi Vice President, Product Development & Professional Services	2004	\$ 200,000	\$ 70,673		\$
	2003	\$ 196,410	\$ 60,527	60,000	\$
	2002	\$ 88,077	\$	120,000	\$
Brian C. Bezdek Chief Financial Officer and Secretary	2004	\$ 175,000	\$ 61,933		\$
	2003	\$ 142,491	\$ 16,184	175,000	\$
Mario I. Barrenechea(2) Senior Vice President, Worldwide Sales and Marketing	2004	\$ 180,000	\$ 19,716		\$ 4,956
	2003	\$ 180,000	\$ 15,547		\$ 4,956
	2002	\$ 221,677	\$		\$ 4,956

(1) All Other Compensation reflects payments to a continuing medical plan Mr. Baab had in place at the time he joined us.

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(2) All Other Compensation reflects premiums paid by us on a life insurance policy owned by Mr. Barrenechea.

Aggregated Option Exercises In Last Fiscal Year and Fiscal Year-End Option Values

The Named Executive Officers exercised no options during the fiscal year ended March 31, 2004.

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The following table shows, as to the Named Executive Officers, the value of unexercised options at March 31, 2004:

Name	Number of Securities Underlying Unexercised Options at Fiscal Year End (#)		Value of Unexercised In-the-Money Options at Fiscal Year End(1)	
	Exercisable	Unexercisable	Exercisable	Unexercisable
Carlton Baab	1,050,000		\$ 2,063,500	\$
Boris Geller	122,500	122,500	\$ 118,825	\$ 118,825
Soheil Raissi	101,248	78,752	\$ 148,911	\$ 104,889
Brian C. Bezdek	71,353	103,647	\$ 82,124	\$ 127,876
Mario I. Barrenechea	251,621	7,500	\$ 123,725	\$

(1) In accordance with SEC rules, values are calculated by subtracting the exercise price from the fair market value of the underlying common stock. For purposes of this table, fair market value is deemed to be closing price of the common stock on March 31, 2004, which was \$3.49 per share.

Employment Contracts and Termination of Employment and Change-in-Control Arrangements

Effective December 1, 2000, we entered into an employment agreement with Mr. Barrenechea that provides for six (6) months severance at his salary rate then in effect in the event his employment is terminated by the Company without cause.

Effective March 18, 2002, we entered into an offer letter agreement with Mr. Geller. The offer letter provides for full vesting of Mr. Geller's options upon the termination of his employment without cause within twelve (12) months following a change of control. In addition, the offer letter provides for severance benefits, including payment of his base salary for six (6) months and acceleration of six (6) months of vesting of his stock options, upon termination of his employment by the Company without cause.

Effective April 5, 2002, we entered into an offer letter agreement with Mr. Bezdek. The offer letter provides for full vesting of Mr. Bezdek's options upon an involuntary termination of his employment other than for cause within twelve (12) months following a change of control. In addition, the offer letter provides for severance benefits, including payment of his base salary for six (6) months and acceleration of six (6) months of vesting of his stock options, upon termination of his employment without cause.

Effective June 21, 2002, we entered into an Amendment to Stock Option Agreement with Mr. Raissi, which amended two Stock Option Agreements, dated October 10, 2001 and April 26, 2002, between Mr. Raissi and us, to, in each case, provide for 100% acceleration of vesting of his stock options in the event he is terminated without cause within twelve (12) months following a change of control.

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Effective April 5, 2003, we entered into a Severance and Change of Control Agreement with Mr. Baab. The agreement provides for twelve (12) months severance at Mr. Baab's salary rate then in effect in the event of his involuntary termination of employment. In the event of Mr. Baab's termination without cause within twelve (12) months following a change of control, the agreement provides for 100% acceleration of vesting of his stock options, as well as severance payments equal to 200% of the aggregate salary and bonus paid to Mr. Baab during the twelve (12) months preceding his termination.

Effective April 1, 2004, we entered into a Service Agreement with Mrs. Gibbs. The Service Agreement may only be terminated by either party, by the giving of six months prior written notice.

DIRECTOR COMPENSATION

We reimburse directors for travel and other out-of-pocket expenses incurred in attending Board meetings. We do not pay cash compensation to our directors. No options or warrants were granted to any of our directors during the year ended March 31, 2004. Certain directors have received warrants or option grants in prior years as further disclosed in Item 11 below.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth, as of March 31, 2004, certain information with respect to the beneficial ownership of our voting securities by (i) any person (including any group as that term is used in Section 13(d)(3) of the Exchange Act) known by us to be the beneficial owner of more than 5% of any class of our voting securities, (ii) each director, (iii) each of the Named Executive Officers, and (iv) all of our current directors and executive officers as a group. As of March 31, 2004, there were 300,000 and 18,403,141 shares of issued and outstanding preferred stock and common stock, respectively. In computing the number and percentage of shares beneficially owned by a person, shares of common stock subject to options currently exercisable, or exercisable within sixty (60) days of March 31, 2004, are counted as outstanding, while these shares are not counted as outstanding for computing the percentage ownership of any other person.

Name and Address(1)	Number of Shares of Preferred Stock(2)	Percent of Total Preferred Stock	Number of Shares of Common Stock	Percent of Total Common Stock
<i>5% Stockholders</i>				
Carlton H. Baab(3)			17,366,765	67%
Richard W. Koe(4)			16,381,365	65%
Astoria Capital Partners L.P.(5)	300,000	100.00%	16,316,765	65%
Geoffrey P. Wagner(6)			1,459,174	8%
Rockport Group LP(7)			1,444,174	8%
Philip and Debra Barrett Charitable Remainder Trust(8)			1,348,168	7%
<i>Directors and Officers</i>				
Mario I. Barrenechea(9)			262,364	1%
Boris Geller(10)			136,761	*
Gerald F. Chew(11)			126,825	*
Soheil Raissi(12)			123,248	*
Douglas G. Marshall(13)			120,655	*
Brian C. Bezdek(14)			96,145	*
All directors and executive officers as a group (11 persons)(15)			20,020,064	69%

* Represents less than 1%

(1) Except as otherwise indicated below, we believe the persons whose names appear in the table above have sole voting and investment power with respect to all shares of stock shown as beneficially owned by them, subject to applicable community property laws.

(2) Preferred Stock refers to the Series A Convertible Preferred Stock, which is convertible into shares of common stock at a conversion rate of 1 to 1.667. The conversion rate may increase upon our issuance of additional shares of capital stock, as set forth in Section 5(c) of our Certificate of Designations of Series A Convertible Preferred Stock.

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(3) Represents options to purchase 1,050,000 shares of common stock exercisable within 60 days of March 31, 2004, held by Mr. Baab. Also includes the following shares beneficially owned by Astoria Capital Partners L.P. (ACP): 16,316,765 shares of common stock, which includes warrants to purchase 1,636,555 shares of common stock exercisable within 60 days of March 31, 2004, 4,427,941 shares of common stock which may be acquired upon the conversion of a subordinated convertible note payable to ACP for \$22,139,705 convertible at \$5.00 per share plus 206,691 shares of common stock issued as a payment in kind (PIK) to cover accrued interest on the note on a quarterly basis and 500,100 shares of common stock which may be acquired upon conversion of 300,000 shares of Series A Convertible Preferred Stock. Mr. Baab is an employee of ACM, which is a general partner of ACP. As a general partner of ACP, ACM has a special profit interest in ACP 's realized and unrealized gains and income in excess of a specified hurdle rate, subject to certain additional conditions. As an employee of ACM, Mr. Baab is entitled to an annual bonus equal to a fixed percentage of any special profit allocation ACP receives for the year in question. Mr. Baab, who is on formal leave of absence from ACM, disclaims beneficial ownership of the

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securities held by ACP as he does not hold voting or investment power over the holdings of ACP.

(4) Includes the following shares beneficially owned by ACP: 16,316,765 shares of common stock, which includes warrants to purchase 1,636,555 shares of common stock exercisable within 60 days of March 31, 2004, 4,427,941 shares of common stock which may be acquired upon the conversion of a subordinated convertible note payable to ACP for \$22,139,705 convertible at \$5.00 per share plus 206,691 shares of common stock issued as a PIK to cover accrued interest on the note on a quarterly basis and 500,100 shares of common stock which may be acquired upon conversion of 300,000 shares of Series A Convertible Preferred Stock. Also includes 64,600 shares beneficially owned by Mr. Koe and ACM through an investment fund managed by ACM. Mr. Koe is the President and sole shareholder of ACM and Mr. Koe and ACM are the General Partners of ACP.

(5) The principal address of ACP is 6600 SW 92nd Avenue, Suite 370, Portland, Oregon 97223. Includes warrants to purchase 1,636,555 shares of common stock exercisable within 60 days of March 31, 2004, 4,427,941 shares of common stock which may be acquired upon the conversion of a subordinated convertible note payable to ACP for \$22,139,705 convertible at \$5.00 per share plus 206,691 shares of common stock issued as a PIK to cover accrued interest on the note on a quarterly basis and 500,100 shares of common stock issuable upon conversion of the Series A Convertible Preferred Stock.

(6) Includes 5,000 shares of common stock owned by Mr. Wagner directly, 1,444,174 shares of common stock owned by Rockport Group LP, of which Mr. Wagner is the sole General Partner and 10,000 shares of common stock purchased on April 5, 1999 by a trust of which Mr. Wagner's wife is the sole beneficiary. Mr. Wagner disclaims beneficial ownership of such 10,000 shares except to the extent of his pecuniary interest in such shares.

(7) The principal address of Rockport Group LP is 6600 SW 92nd Avenue, Suite 370, Portland, Oregon 97223.

(8) The principal address of the Philip and Debra Barrett Charitable Remainder Trust (Trust) is P.O. Box 1033, Vancouver, Washington 98666. Shares of common stock beneficially owned include 1,348,168 shares of common stock held by the Trust.

(9) Includes options to purchase 252,871 shares of common stock exercisable within 60 days of March 31, 2004, held by Mr. Barrenechea.

(10) Includes options to purchase 132,708 shares of common stock exercisable within 60 days of March 31, 2004, held by Mr. Geller.

(11) Includes warrants and options to purchase 96,825 shares of common stock exercisable within 60 days of March 31, 2004, held by Mr. Chew.

(12) Includes options to purchase 108,748 shares of common stock exercisable within 60 days of March 31, 2004, held by Mr. Raissi.

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(13) Includes warrants and options to purchase 96,825 shares of common stock exercisable within 60 days of March 31, 2004, held by Mr. Marshall.

(14) Includes options to purchase 78,645 shares of common stock exercisable within 60 days of March 31, 2004, held by Mr. Bezdek.

(15) Includes an aggregate of 3,661,818 of common stock issuable upon exercise of options or warrants exercisable within 60 days of March 31, 2004, 4,427,941 shares of common stock which may be acquired upon the conversion of a subordinated convertible note payable to ACP for \$22,139,705 convertible at \$5.00 per share plus 206,691 shares of common stock issued as a PIK to cover accrued interest on the note on a quarterly basis and 500,100 shares of common stock issuable upon conversion of the Series A Convertible Preferred Stock.

Information Regarding Equity Compensation Plans

All of our equity compensation plans have been approved by our stockholders. Our equity compensation plans and activities are more fully discussed in the Notes to the Consolidated Financial Statements in Item 7 of this Form 10-KSB.

The following table sets forth information regarding the number of shares of our common stock that may be issued pursuant to our equity compensation plans or arrangements as of March 31, 2004.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	3,508,010(1) \$	2.85	2,057,667(2)
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	3,508,010		2,057,667

(1) Represents shares of common stock that may be issued pursuant to outstanding options granted under the following plans: 3,488,293 shares under the 1999 Stock Option Plan, 10,047 shares under the 1996 Stock Option Plan, and 9,670 shares under the 1987 Stock Option Plan. The 1996 Stock Option Plan and the 1987 Stock Option Plan were terminated, except as to options then issued and outstanding under such plans. In connection with our acquisition of PickAx in December 2000, we assumed the PickAx Option Plan, pursuant to which options to purchase 404,045 shares are outstanding with a weighted average exercise price of \$2.95 and are excluded from the total. We do not intend to grant any further options under the PickAx Option Plan.

(2) Represents shares of common stock that may be issued pursuant to options available for future grant under the following plans: 1,270,360 shares under the 1999 Stock Option Plan and 787,307 shares of common stock available for purchase by employees under the 2001 Employee Stock Purchase Plan.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On January 30, 2003, we entered into a Note Exchange Agreement with ACP, a significant stockholder of ours, to replace the existing Secured Promissory Note dated November 30, 2000, as amended, held by ACP. Under the terms of the Note Exchange Agreement, we issued to ACP a Convertible Subordinated Note having a principal amount of approximately \$22.1 million, which principal amount is equal to the outstanding principal and accrued interest payable on the Secured Promissory Note as of the date of the agreement. The Convertible Subordinated Note is convertible into common stock at a price of \$5.00 per share. The Convertible Subordinated Note matures on May 30, 2008, extending the May 30, 2003 maturity date of the Secured Promissory Note. The interest rate is 5% per annum, as compared to the interest rate of 10% per annum under the Secured Promissory Note. The interest will be payable quarterly at our option in cash or through increases to the outstanding principal of the Convertible Subordinated Note. Increases to the principal are to be done via issuance of PIK notes on a quarterly basis. Effective April 1, 2003, July 1, 2003, October 1, 2003, January 1, 2004 and April 1, 2004, we issued PIK notes to ACP for the accrued interest due April 1, 2003, July 1, 2003, October 1, 2003, January 1, 2004 and April 1, 2004. Mr. Koe, a director of the Company, is the President and sole shareholder of ACM, and Mr. Koe and ACM are the General Partners of ACP. Mr. Baab, our President, Chief Financial Officer and a director of the Company, is an employee of ACM. As an employee of ACM, Mr. Baab is entitled to an annual bonus equal to a fixed percentage of any special profit allocation ACP receives for the year in question. Mr. Baab is currently on a formal leave of absence from ACM.

Two limited partners in RCJ and a third individual related to those partners loaned us \$750,000 in August 2000. The loans had a

maturity date of two years with interest accruing at 4% per annum, payable semiannually. The notes provided for the automatic conversion of the principal and unpaid interest into shares of common stock at a conversion price of \$6.17. We issued 131,574 shares of common stock on August 23, 2002 in connection with the automatic conversion. Geoffrey P. Wagner, one of our directors, is the sole General Partner of Rockport, which is the sole General Partner of RCJ.

The Phillip and Debra Barrett Charitable Remainder Trust, a significant stockholder of ours, loaned us \$250,000 in September 2000. The loan, as amended, had a maturity date of April 2, 2003 with interest accruing at 10% per annum, payable quarterly. The note was paid in full on April 2, 2003.

A description of the terms of the offer letter agreements between us and Mr. Geller and Mr. Bezdek, the employment agreement between us and Mr. Barrenechea, the stock option agreements between us and Mr. Raissi, the Severance and Change of Control Agreement between us and Mr. Baab and the Service Agreement with Mrs. Gibbs, may be found under the caption Employment Contracts and Termination of Employment and Change-in-Control Arrangements in Item 10 hereof.

We have entered into our standard form of indemnification agreement with each of our directors and officers.

It is our current policy that all transactions between us and our officers, directors, five percent (5%) stockholders and their affiliates will be entered into only if these transactions are approved by the Company's Audit Committee, are on terms no less favorable to the Company than could be obtained from unaffiliated parties and are reasonably expected to benefit the Company.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) *Exhibits.*

Exhibit	Description
3.1	Restated Certificate of Incorporation of the Registrant dated June 4, 2003 (included as Exhibit 3.1 to the Registrant's Form 10-KSB filed with the Commission on June 6, 2003 and incorporated herein by reference).
3.2	Amended and Restated Bylaws of the Registrant, dated April 22, 2002 (included as Exhibit 3.1 to the Registrant's Form 10-QSB filed with the Commission on August 13, 2002 and incorporated herein by reference).
3.3	Certificate of Designations dated March 31, 1999, as corrected (included as Exhibit 3.1 to the Registrant's Form 8-K filed with the Commission on April 5, 1999 and incorporated herein by reference).
4.1	Registration Rights Agreement by and among the Registrant, Pamela Conrad, Donald D. Durr, Lee Summers, Robert J. Rosenberg, Gil Figueroa, Michael E. McGoey, Gerald L. Cohn and Timothy Holland dated as of November 30, 2000 (included as Exhibit 4.1 to the Registrant's Form 10-QSB filed with the Commission on February 14, 2001 and incorporated herein by reference).
4.2	Registration Rights Agreement by and among the Registrant, Astoria Capital Partners, L.P., Harrison H. Augur, Keogh MP and Robert D. van Roijen dated as of December 4, 2000, as amended on April 3, 2003, (included as Exhibit 4.3 to the Registrant's Form 10-QSB filed with the Commission on August 13, 2002 and incorporated herein by reference).
4.3	

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- Sixth Amendment to the Registration Rights Agreement by and among the Registrant, Astoria Capital Partners, L.P., Harrison H. Augur, Keogh MP and Robert D. van Roijen dated as of April 1, 2003 (included as Exhibit 4.3 to the Registrant's Form 10-KSB filed with the Commission on June 6, 2003 and incorporated herein by reference).
- 4.4 Registration Rights Agreement by and between the Registrant and Astoria Capital Partners, L.P., dated as of September 27, 2001, as amended on April 3, 2002 (included as Exhibit 4.2 to the Registrant's Form 10-QSB filed with the Commission on August 13, 2002 and incorporated herein by reference).
- 4.5 Third Amendment to Registration Rights Agreement by and between the Registrant and Astoria Capital Partners, L.P., dated as of September 27, 2001, as amended on January 30, 2003 (included as Exhibit 4.3 to the Registrant's Form 8-K filed with the Commission on January 30, 2003 and incorporated herein by reference),
- 4.6 Note Exchange Agreement between the Registrant and Astoria Capital Partners, L.P. dated January 30, 2003 (included as Exhibit 4.1 to the Registrant's Form 8-K filed with the Commission on January 30, 2003 and incorporated herein by reference).
- 4.7 5% Convertible Subordinated Note Due 2008 between the Registrant and Astoria Capital Partners, L.P. dated January 30, 2003 (included as Exhibit 4.2 to the Registrant's Form 8-K filed with the Commission on January 30, 2003 and incorporated herein by reference).
- 4.8 Form of payment in kind note, as referenced in the 5% Convertible Subordinated Note, between the Registrant and Astoria Capital Partners, L.P. (included as Exhibit 4.8 to the Registrant's Form 10-KSB filed with the Commission on June 6, 2003 and incorporated herein by reference).

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- 4.9 Form of Common Stock Purchase Warrant issued by the Registrant to Astoria Capital Partners, L.P. dated April 1, 2004. Originally issued on November 30, 2000 and adjusted on April 1, 2003.
- 4.10 Registration Rights Agreement dated May 7, 2002, by and among the Registrant and Thomas A. Arata, Jr., Edward A. Runci, Jr. and Wall & Bullington, LLC (included as Exhibit 4.4 to the Registrant's 10-QSB filed with the Commission on August 13, 2002 and incorporated herein by reference).
- 4.11 Form of Amended and Restated Common Stock Purchase Warrant between the Registrant and Astoria Capital Partners, dated April 1, 2003. Originally issued as an Exchange Warrant on December 1, 2000 to holders of PickAx Warrants (included as Exhibit 4.11 to the Registrant's Form 10-KSB filed with the Commission on June 6, 2003 and incorporated herein by reference).
- 10.1* 1999 Stock Option Plan, as amended on June 21, 2002 (included as Exhibit 10.4 to the Registrant's 10-QSB filed with the Commission on August 13, 2002 and incorporated herein by reference).
- 10.2* 2001 Employee Stock Purchase Plan as amended on December 28, 2001 (included as Exhibit 10.1 to the Registrant's Form 10-QSB filed with the Commission on March 21, 2002 and incorporated herein by reference).
- 10.3* Option Agreement dated September 24, 2001, between the Registrant and Carlton H. Baab (included as Exhibit 10.22 of Registrant's Form 10-QSB filed with the Commission on November 14, 2001 and incorporated herein by reference).
- 10.4* Service Agreement by and between the Registrant and Gwyneth Gibbs dated April 1, 2004
- 10.5* Form of Indemnification Agreement entered into with officers and directors of Registrant (included as Exhibit 10.2 to the Registrant's Form 10-QSB filed with the Commission on March 21, 2002 and incorporated herein by reference).
- 10.6 Settlement Agreement and Mutual Release, between General Automation, Inc. dba GA eXpress and Raining Data, U.S., Inc. f/k/a Pick Systems, dated July 26, 2002. (included as Exhibit 4.1 to the Registrant's Form 8-K filed with the Commission on August 2, 2002 and incorporated herein by reference).
- 10.7 Compromise and Settlement Agreement, dated April 29, 2002, between the Registrant, PickAx, Inc., Pick Systems, Inc. and Thomas A. Arata, Jr., and Edward A. Runci, Jr. (included as Exhibit 10.2 to the Registrant's 10-QSB filed with the Commission on August 13, 2002 and incorporated herein by reference).
- 10.8* Amendment to Stock Option Agreement, dated June 21, 2002, between the Registrant and Soheil Raissi (included as Exhibit 10.5 to the Registrant's 10-QSB filed with the Commission on August 13, 2002 and incorporated herein by reference).
- 10.9* Offer Letter Agreement, effective April 15, 2002, between the Registrant and Brian C. Bezdek (included as Exhibit 10.6 to the Registrant's 10-QSB filed with the Commission on August 13, 2002 and incorporated herein by reference).
- 10.10* Offer Letter Agreement, effective March 18, 2002, between the Registrant and Boris Geller (included as Exhibit 10.7 to the Registrant's 10-QSB filed with the Commission on August 13, 2002 and incorporated herein by reference).
- 10.11* Stock Option Agreement, dated December 21, 2002 between the Registrant and Brian C. Bezdek (included as Exhibit 10.2 to the Registrant's 10-QSB filed with the Commission on February 12, 2003 and incorporated herein by reference).
- 10.12* Severance and Change of Control Agreement, dated April 5, 2003, between the Registrant and Carlton H. Baab (included as Exhibit 10.12 to the Registrant's Form 10-KSB filed with the Commission on June 6, 2003 and incorporated herein by reference).
- 10.13 Loan and Security Agreement dated February 11, 2004, between the Registrant, Raining Data U.S., Inc. and Silicon Valley Bank.
- 21.1 Subsidiaries of the Registrant (included as Exhibit 21.1 to the Registrant's Form 10-KSB filed with the Commission on June 28, 2002 and incorporated herein by reference).
- 23.1 Consent of Independent Registered Public Accounting Firm.
- 24.1 Power of Attorney (included in the signature page and incorporated herein by reference).
- 31.1 Certification of Chief Executive Officer.
- 31.2 Certification of Chief Financial Officer.
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Indicates management contracts or compensatory plans and arrangements filed pursuant to Item 601 or Regulation S-B under the Exchange Act.

(b) Reports on Form 8-K.

The Registrant filed no Reports on Form 8-K during the fourth quarter of fiscal year 2004.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table presents the aggregate fees billed for the indicated services performed by KPMG LLP during the 2004 and 2003 fiscal years.

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	2004	2003
Audit Fees	\$ 395,136	\$ 386,000
Audit related fees		
Tax Fees	65,062	85,000
All Other Fees		
Total	\$ 460,198	\$ 471,000

Audit Fees. Audit Fees relate to professional services rendered in connection with the audit of our annual financial statements, quarterly review of financial statements included in our 10-QSB, and audit services provided in connection with other statutory and regulatory filings.

Tax Fees. Tax Fees include professional services related to tax compliance, tax advice and tax planning and transfer pricing consultation, including but not limited to the preparation of federal and state tax returns.

The Audit Committee approved all of the services provided by KPMG LLP in fiscal years 2004 and 2003. Pursuant to the Audit Committee Charter, the Audit Committee must pre-approve audit and non-audit services to be provided to the Company by the independent auditor, or subsequently approve non-audit services in those circumstances where a subsequent approval is necessary and permissible.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RAINING DATA CORPORATION

By: /s/ Brian C. Bezdek

Brian C. Bezdek
Chief Financial Officer

Date: June 29, 2004

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Carlton H. Baab and Brian C. Bezdek, and each or any one of them, as his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-KSB, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming that all said attorneys-in-fact and agents, or any of them or their or his substitute or substituted, may lawfully do or cause to be done by virtue hereof.

In accordance with the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
<p>/s/ Carlton H. Baab Carlton H. Baab</p>	<p>President, Chief Executive Officer and Director (Principal Executive Officer)</p>	<p>June 29, 2004</p>
<p>/s/ Brian C. Bezdek Brian C. Bezdek</p>	<p>Chief Financial Officer (Principal Financial and Accounting Officer)</p>	<p>June 29, 2004</p>

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/s/ Geoffrey P. Wagner Geoffrey P. Wagner	Director	June 29, 2004
/s/ Gerald F. Chew Gerald F. Chew	Director	June 29, 2004
/s/ Douglas G. Marshall Douglas G. Marshall	Director	June 29, 2004
/s/ Richard W. Koe Richard W. Koe	Director	June 29, 2004

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Raining Data Corporation:

We have audited the accompanying consolidated balance sheets of Raining Data Corporation and subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of operations, cash flows, and stockholders' equity and comprehensive loss for each of the years in the three-year period ended March 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Raining Data Corporation and subsidiaries as of March 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4 to the consolidated financial statements, effective April 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*.

/s/ KPMG LLP

Costa Mesa, California
June 22, 2004

RAINING DATA CORPORATION AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

March 31, 2004 and 2003

	2004		2003	
	(In thousands, except per share data)			
ASSETS				
Current assets				
Cash	\$	7,783	\$	5,279
Trade accounts receivable, less allowance for doubtful accounts of \$252 in 2004 and \$287 in 2003		1,865		2,162
Other current assets		390		318
Total current assets		10,038		7,759
Property, furniture and equipment, net		795		930
Intangible assets, less accumulated amortization of \$8,667 in 2004 and \$6,067 in 2003		1,733		4,333
Goodwill		27,684		27,684
Other assets		201		258
Total assets	\$	40,451	\$	40,964
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities				
Accounts payable	\$	242	\$	600
Accrued liabilities		2,257		2,992
Deferred revenue		5,006		5,082
Notes payable		38		321
Total current liabilities		7,543		8,995
Long-term debt, net of discount and excluding current portion		23,117		21,932
Total liabilities		30,660		30,927
Commitments and contingencies				
Stockholders' equity				
Series A convertible preferred stock: \$1.00 par value; 300,000 shares authorized, issued and outstanding		300		300
Common stock: \$0.10 par value; 60,000,000 shares authorized; 18,403,141 and 17,946,842 issued and outstanding as of March 31, 2004 and 2003 respectively		1,840		1,795
Additional paid-in capital		95,418		94,919
Deferred stock-based compensation		(41)		(145)
Accumulated other comprehensive income		1,509		1,050
Accumulated deficit		(89,235)		(87,882)
Total stockholders' equity		9,791		10,037
Total liabilities and stockholders' equity	\$	40,451	\$	40,964

See accompanying notes to the consolidated financial statements.

RAINING DATA CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended March 31, 2004, 2003 and 2002

	2004	2003	2002
	(In thousands, except per share data)		
Net revenues			
Licenses	\$ 9,819	\$ 9,932	\$ 9,903
Services	12,478	11,074	9,364
Total net revenues	22,297	21,006	19,267
Costs of revenues			
Cost of license revenues	415	351	383
Cost of service revenues	2,174	2,103	2,744
Total cost of revenues	2,589	2,454	3,127
Gross profit	19,708	18,552	16,140
Cost of operations			
Selling and marketing	5,727	4,628	6,402
Research and development	7,553	6,534	6,121
General and administrative	3,770	4,466	5,815
Stock-based compensation	246	351	1,247
Amortization of goodwill and intangible assets	2,600	2,600	12,821
Total operating expenses	19,896	18,579	32,406
Operating loss	(188)	(27)	(16,266)
Other income (expense)			
Interest expense, net	(1,215)	(3,409)	(3,887)
Other income (expense), net	19	47	(272)
Total other expense	(1,196)	(3,362)	(4,159)
Loss before income taxes	(1,384)	(3,389)	(20,425)
Provision (benefit) for income taxes	(31)	30	
Net loss	\$ (1,353)	\$ (3,419)	\$ (20,425)
Basic and diluted loss per share			
	\$ (0.07)	\$ (0.19)	\$ (1.23)
Shares used in computing basic and diluted loss per share			
	18,139	17,804	16,672
Supplemental information on stock-based compensation:			
<i>Departmental allocation of stock-based compensation</i>			
Cost of service revenues	\$ 48	\$ 10	\$ 124
Selling and marketing expense	8	66	223
Research and development expense	180	330	363
General and administrative expense	10	(55)	537
Total stock-based compensation	\$ 246	\$ 351	\$ 1,247

See accompanying notes to the consolidated financial statements.

RAINING DATA CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MARCH 31, 2004, 2003 and 2002

	2004	2003	2002
	(In thousands)		
Cash flows from operating activities:			
Net loss	\$ (1,353)	\$ (3,419)	\$ (20,425)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:			
Depreciation and amortization of long-lived assets	2,935	2,917	13,437
Note discount amortization	83	1,609	2,321
Amortization of deferred stock-based compensation	246	351	1,247
Common stock exchanged for incomplete software			119
Change in assets and liabilities:			
Trade accounts receivable	494	(169)	1,117
Other current and noncurrent assets	(97)	(115)	283
Accounts payable and accrued liabilities	189	(1,023)	1,141
Deferred revenue	(169)	738	725
Net cash provided by (used for) operating activities	2,328	889	(35)
Cash flows from investing activities:			
Purchases of property, furniture and equipment	(29)	(410)	(123)
Settlement of post-retirement benefit obligations acquired, net of tax		150	
Net cash used for investing activities	(29)	(260)	(123)
Cash flows from financing activities:			
Proceeds from exercise of stock options and warrants	216	2	79
Proceeds from issuance of common stock	186	89	2,200
Repayment of debt	(321)	(51)	(229)
Net cash provided by financing activities	81	40	2,050
Effect of exchange rate changes on cash	124	110	184
Net increase in cash and equivalents	2,504	779	2,076
Cash and equivalents at beginning of period	5,279	4,500	2,424
Cash and equivalents at end of period	\$ 7,783	\$ 5,279	\$ 4,500
Supplemental disclosure of cash flow information:			
<i>Noncash financing and investing activities</i>			
Issuance of payment-in-kind notes for accrued interest	\$ 1,139	\$ 183	\$
Conversion of debt to common stock	\$	\$ 812	\$
Conversion of accrued interest to notes payable	\$	\$ 1,784	\$

See accompanying notes to the consolidated financial statements.

RAINING DATA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE LOSS

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FOR THE YEARS ENDED MARCH 31, 2004, 2003 and 2002

(in thousands, except share amounts)

	Series A Convertible Preferred Stock		Common Stock		Additional Paid to Capital	Deferred Stock-Based Compensation	Accumulated Other Comprehensive Income	Accumulated Deficit	Stockholders Equity	Comprehensive Loss
	Shares	Amount	Shares	Amount						
Balances March 31, 2001 (note 6)	300,000	\$ 300	15,716,090	\$ 1,572	\$ 91,921	\$ (2,073)	\$ 1,216	\$ (64,038)	\$ 28,898	
Common stock options exercised			71,873	7	72				79	
Stock options granted					510	(510)				
Stock options cancelled					(905)	905				
Stock-based compensation					92	1,155			1,247	
Private placement to Astoria on September 27, 2001:										
Issuance of common stock, net of issuance costs			1,760,000	176	2,024				2,200	
Issuance of common stock in connection with the purchase of incomplete software			37,500	4	115				119	
Net loss								(20,425)	(20,425)	(20,425)
Foreign currency translation adjustments										