

WALKER INTERACTIVE SYSTEMS INC
Form 10-Q
May 10, 2002

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended March 31, 2002

OR

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

For the transition period from _____ to _____

Commission file number 0-19872

WALKER INTERACTIVE SYSTEMS, INC. (Exact name of Registrant as
specified in its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

95-2862954

(I.R.S. Employer Identification Number)

303 Second Street

San Francisco, California 94107

(Address of Principal Executive Offices including Zip Code)

(415) 495-8811

(Registrant's Telephone Number, Including Area Code)

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

There were 15,188,644 Shares of \$.001 Par Value Common Stock outstanding as of May 8, 2002.

WALKER INTERACTIVE SYSTEMS, INC.
QUARTERLY REPORT ON FORM 10-Q FOR THE PERIOD ENDED MARCH 31, 2002
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PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements See notes to consolidated financial statements

WALKER INTERACTIVE SYSTEMS, INC.**CONSOLIDATED BALANCE SHEETS (UNAUDITED)***(in thousands)*

	March 31, 2002	December 31, 2001
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$5,208	\$4,583
Short-term investments.....	451	458
Accounts receivable, net of allowance for doubtful accounts of \$419 - March 31, 2002 and \$476 - December 31, 2001.....	10,472	11,431
Prepaid expenses.....	1,311	904
Other receivables.....	63	50
	-----	-----
Total current assets.....	17,505	17,426
Property and equipment, net	1,835	1,740
Capitalized software, net of accumulated amortization of \$53,022 - March 31, 2002 and \$52,865 - December 31, 2001.....	4,423	4,853
Long-term accounts receivable.....	448	562
Other assets.....	436	431
	-----	-----
Total assets.....	\$24,647	\$25,012
	=====	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable.....	\$2,820	\$2,411
Accrued liabilities.....	7,963	8,660
Deferred revenue.....	12,976	11,809
	-----	-----
Total current liabilities.....	23,759	22,880
Deferred revenue.....	1,670	2,901
Other long-term obligations.....	2,491	2,818
	-----	-----
Total liabilities.....	27,920	28,599

Commitments and contingencies

Stockholders' equity (deficit):

Common stock, \$.001 par value: 50,000 shares authorized; issued 15,188 shares - March 31, 2002; 14,987 shares - December 31, 2001.....	15	15
Additional paid-in capital.....	76,759	76,751
Accumulated other comprehensive income.....	411	358
Accumulated deficit.....	(80,458)	(80,711)
	-----	-----
Total stockholders' deficit.....	(3,273)	(3,587)
	-----	-----
Total liabilities and stockholders' deficit.....	\$24,647	\$25,012
	=====	=====

See notes to consolidated financial statements

WALKER INTERACTIVE SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(in thousands, except per share amounts)

	Three Months Ended March 31,	
	2002	2001
	-----	-----
REVENUES:		
License.....	\$1,224	\$3,823
Maintenance.....	5,574	5,754
Consulting.....	6,334	3,057
	-----	-----
Total revenues.....	13,132	12,634
OPERATING EXPENSES:		
Costs of revenues:		
Cost of licenses, maintenance and consulting.....	5,212	4,051
Amortization of capitalized software.....	1,032	763
Sales and marketing.....	3,115	3,174
Product development.....	1,469	2,589
General and administrative.....	2,047	2,028
	-----	-----
Total operating expenses.....	12,875	12,605
	-----	-----
Operating income.....	257	29
Interest income, net.....	21	131

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Income before income taxes.....	278	160
Provision for income taxes.....	25	25
NET INCOME.....	253	135
BASIC NET INCOME PER SHARE.....	\$0.02	\$0.01
Shares used to compute basic net income per share.....	15,185	14,843
DILUTED NET INCOME PER SHARE.....	\$0.02	\$0.01
Shares used to compute diluted net income per share.....	15,580	14,846

See notes to consolidated financial statements

WALKER INTERACTIVE SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Three Months Ended March 31,	
	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income.....	\$253	\$135
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation and amortization.....	1,298	1,078
Provision for doubtful accounts.....	113	--
Changes in operating assets and liabilities:		
Accounts receivable.....	833	(1,594)
Prepays and other assets.....	(407)	(334)
Accounts payable & accrued liabilities.....	(590)	(898)
Deferred revenue.....	(64)	728
Other.....	59	120
Net cash provided (used) by operating activities..	1,495	(765)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from employee stock purchase plan		

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issuances and stock options exercised.....	112	213
Capital lease payments.....	(25)	(39)
	-----	-----
Net cash provided by financing activities.....	87	174
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of short- and long-term investments.....	--	(1,055)
Maturities of short-term investments.....	--	3,049
Purchases of property and equipment.....	(357)	(135)
Additions to capitalized software.....	(605)	(317)
Other.....	5	--
	-----	-----
Net cash provided (used) by investing activities..	(957)	1,542
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS.....	625	951
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD.....	4,583	4,219
	-----	-----
CASH AND CASH EQUIVALENTS - END OF PERIOD.....	\$5,208	\$5,170
	=====	=====
Supplemental disclosure:		
Cash paid for income taxes.....	\$61	\$49

See notes to consolidated financial statements

WALKER INTERACTIVE SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles and include all adjustments (consisting only of normal recurring adjustments) which the Company considers necessary for a fair presentation of the financial position, operating results and cash flows for those periods. Results for the interim periods are not necessarily indicative of the results for the entire year. These consolidated financial statements and any notes thereto should be read in conjunction with the audited consolidated financial statements included in the Walker Interactive Systems, Inc. Annual Report on Form 10-K for the year ended December 31, 2001.

2. EARNINGS PER SHARE

The Company calculates basic earnings per share ("EPS") and diluted EPS in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share." Basic EPS is computed by dividing net income (loss) by the weighted average number of common shares outstanding for that period. Diluted EPS takes into account the effect of dilutive instruments, such as stock options, and uses the average share price for the period in determining the number of common stock equivalents that are to be added to the weighted average number of shares outstanding. Common stock equivalents are excluded from the diluted loss per share calculation if the effect would be antidilutive.

3. COMPREHENSIVE INCOME

SFAS No. 130 requires disclosure of total non-stockholder changes in equity, which include unrealized gains and losses on securities classified as available-for-sale under SFAS No. 115, foreign currency translation adjustments accounted for under SFAS No. 52, and minimum pension liability adjustments made pursuant to SFAS No. 87.

The reconciliation of net income to comprehensive income for the three months ended March 31, 2002 and 2001 is as follows (in thousands):

	Three Months Ended March 31,	
	2002	2001
Net income.....	\$253	\$135
Other comprehensive income.....	53	125
Total comprehensive income.....	\$306	\$260

4. ACQUISITION AND DIVESTURES**Acquisition**

On November 1, 2001, the Company acquired from the administrative receiver of QSP Group PLC ("QSP"), QSP's intellectual property and a consulting contract. QSP, headquartered in Newcastle, United Kingdom, was a global provider of financial systems on mainframe and UNIX platforms to Global 2000 companies and was placed in administrative receivership on October 17, 2001. The acquisition cost of \$2.0 million has been allocated to the intellectual property and is being amortized on a straight line-basis over a two-year period from the date of acquisition. Subsequent to November 1, 2001, the Company has hired certain former QSP employees, provided consulting services under the acquired contract, and engaged in discussions with the former QSP customer base to establish new relationships. Revenues and costs related to these activities have been included in the Company's consolidated financial statements from November 1, 2001.

Divestures

In October 2000, the Company sold the net assets of its Aptos product line to B-Plan Information Systems Limited ("B-Plan"). The Aptos product line was an integrated suite of client/server financial applications for medium-sized companies and was marketed primarily in Western Europe. The divestiture agreement provided for total consideration of approximately \$2.3 million. The Company

received an initial payment of approximately \$425,000 in December 2000 and, in October 2001, the Company and B-Plan executed a mutual release from any and all claims associated with the divestiture agreement. Under the terms of the mutual release agreement B-Plan paid the Company approximately \$442,000 including interest, in November 2001 and is obligated to pay the Company an aggregate of approximately \$575,000 in quarterly installments from April 2002 through January 2006. The quarterly payments from B-Plan will be recognized in the financial statements as received.

In April 2000, the Company sold its stock ownership in Revere Inc. ("Revere") to Gores Technology Group ("GTG"). Revere's main product comprised the IMMPOWER asset management application. The divestiture agreement provided that GTG pay the Company \$500,000 at closing, and, dependent upon the parties reaching mutual agreement on a final determination of Revere's net assets as defined in the divestiture agreement, an additional amount may be due to or from GTG. Management believes such additional amount, if any, would not be material to the Company's financial statements.

During the period that the Company owned and operated the divested product lines (approximately 1994 to 2000), reserves were established in the normal course of business to provide for contractual and other obligations. The Company retained certain of those reserves when the product lines were divested to cover certain existing obligations and those that may arise from the change in ownership. Management periodically reviews such reserves and believes the remaining reserves are sufficient to cover any obligations that may arise.

5. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method and addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination. SFAS No. 142 addresses the initial recognition and measurement of intangible assets acquired outside of a business combination and the accounting for goodwill and other intangible assets subsequent to their acquisition. SFAS No. 142 provides that intangible assets with finite useful lives be amortized and that goodwill and intangible assets with indefinite lives will not be amortized, but will rather be tested at least annually for impairment. The Company has adopted SFAS No. 142 for its fiscal year beginning January 1, 2002. As the Company does not have any goodwill recorded in its consolidated financial statements as of January 1, 2002 the adoption SFAS No. 142 did not have an impact on the financial position, results of operations or cash flows of the Company.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment of Long-Lived Assets", which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", but retains the fundamental provisions for recognizing and measuring impairment of long-lived assets to be held and used or disposed of by sale. The Statement also supercedes the accounting and reporting provisions for the disposal of a segment of a business, and eliminates the exception to consolidation for a subsidiary for which control is likely to be temporary. SFAS No. 144 eliminates the conflict between accounting models for treating the dispositions of long-lived assets that existed between SFAS No. 121 and the guidance for a segment of a business accounted for as a discontinued operation by adopting the methodology established in SFAS No. 121, and also resolves implementation issues to SFAS No. 121. This Statement is effective for fiscal years beginning after December 15, 2001. The Company

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has adopted SFAS No. 144 for its fiscal year beginning January 1, 2002. The adoption of SFAS No. 144 did not have an impact on the financial position, results of operations or cash flows of the Company.

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

The following discussion of results of operations and financial condition of the Company should be read in conjunction with the Company's unaudited financial statements and notes thereto included elsewhere in this Form 10-Q. The report on this Form 10-Q contains forward-looking statements, including statements related to industry trends and demand for mainframe products, cash commitments and working capital requirements. Discussions containing such forward-looking statements may be found in the material set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations," generally and specifically therein under the captions "Recent Developments," "Liquidity and Capital Resources," and "Additional Risk Factors." You can identify forward-looking statements by the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," "seeks," "approximately," "intends," "plans," "pro forma," "estimates," or "anticipates," or the negative of these words and phrases or similar words or phrases. You can also identify forward-looking statements by discussions of strategy, plans or intentions. Forward-looking statements involve numerous risks and uncertainties and you should not rely upon them as predictions of future events. There is no assurance that the events or circumstances reflected in forward-looking statements will occur or be achieved. Forward-looking statements are necessarily dependent on assumptions, data, or methods that may be imprecise and we may not be able to realize them. The risk factors on pages 13 through 20, among others, should be considered in evaluating the Company's prospects and future financial performance.

RECENT DEVELOPMENTS

On February 4, 2002 we announced we would start doing business as Elevon, Inc.

On November 1, 2001, we announced our acquisition of certain assets of QSP Group PLC ("QSP"). QSP, headquartered in the United Kingdom, provided financial systems to Global 2000 companies and was placed in administrative receivership on October 17, 2001. We acquired QSP's intellectual property and a consulting services contract for \$2.0 million in cash. We intend to provide customer support and consulting services to QSP's customers, and market and sell the solutions through our existing sales channels. We renamed the QSP product line "Elevon 5", to distinguish it from our existing Elevon 2 product line. Total Elevon 5 license, maintenance and consulting revenues for the three months ended March 31, 2002 were approximately \$3.0 million.

In the second quarter of 2000, we formed a wholly owned subsidiary, RareVision, Inc., to further the development and market testing of a business-to-business internet model for a web-based, knowledge management analytical application for smaller businesses. During fiscal 2000 and 2001, product development and marketing expenses totaling \$6.6 million were incurred and charged to operations. During 2001, further development of the RareVision product line on a standalone basis was suspended and the remaining components of the development effort were integrated into our analytics product line.

On March 5, 2001, we announced that our common stock would be removed from the Nasdaq National Market and become eligible for trading on the Over the Counter Bulletin Board under the symbol "WALK.OB", effective March 6, 2001. Nasdaq's decision to delist our common stock from the Nasdaq National Market was based primarily on our net tangible assets, as defined by Nasdaq, falling below the minimum requirement.

RESULTS OF OPERATIONS

REVENUES.

Total revenues for the three months ended March 31, 2002 were \$13.1 million, an increase of \$498,000, or 3.9%, as compared to the three months ended March 31, 2001. The increase in total revenues is attributable to higher consulting revenue, partially offset by lower license revenue.

License revenues for the three months ended March 31, 2002 were \$1.2 million, a decrease of \$2.6 million, or 68.0%, as compared to the three months ended March 31, 2001. Our Elevon enterprise solutions have a long sales cycle as collaborative commerce involves coordination with multiple vendors, which generally increases the value of each transaction, but adds time and complexity to the process. Our license revenues for the three months ended March 31, 2002 were negatively impacted by the general slowdown and reduction in corporate spending for technology, particularly in North America. We also signed several individually larger license agreements during the first quarter of 2001, which contributed to the decrease in license revenues in the first quarter of 2002 when compared to the first quarter of 2001.

Maintenance revenues for the three months ended March 31, 2002 were \$5.6 million, a decrease of \$180,000, or 3.1%, as compared to the three months ended March 31, 2001. The decline of maintenance revenue in our Elevon 2 product line was partially offset by incremental revenue arising from new Elevon 5 customer support contracts signed during the quarter.

Consulting revenues for the three months ended March 31, 2002 were \$6.3 million, an increase of \$3.3 million, or 107.2%, as compared to the three months ended March 31, 2001. The increase is due to continuing strong revenues in our North American Elevon 2 consulting business and incremental consulting revenues from the Elevon 5 consulting business in the United Kingdom.

COSTS OF LICENSES, MAINTENANCE AND CONSULTING.

Costs of licenses, maintenance and consulting were \$5.2 million for the three months ended March 31, 2002, representing 39.7% of total revenues, and \$4.1 million for the three months ended March 31, 2001, representing 32.1% of total revenues. The \$1.1 million increase in the costs of licenses, maintenance and consulting is primarily attributable to our consulting business where our revenues increased approximately \$3.3 million as compared to the first quarter of 2001.

The costs of licenses as a percentage of license revenues increased in the three months ended March 31, 2002 as compared to the three months ended March 31, 2001. Most of the increase is attributable to the Elevon 5 product line, where we sell a higher proportion of products that use technology licensed from third parties.

The cost of maintenance, as a percentage of related revenue, was substantially the same in the three months ended March 31, 2002 as compared to the three months ended March 31, 2001.

The costs of consulting, as a percentage of related revenue, decreased in the three months ended March 31, 2002 as compared to the three months ended March 31, 2001. The decrease in the three months ended March 31, 2002 as compared to the three months ended March 31, 2001 reflects the higher utilization rates achieved on several major consulting projects in North America and the effect of spreading certain fixed costs over a larger revenue base.

SALES AND MARKETING.

Sales and marketing costs for the three months ended March 31, 2002 were \$3.1 million, a decrease of \$59,000, or 1.9%, as compared to the three months ended March 31, 2001. As a percentage of total revenues, sales and marketing expenses were 23.7% and 25.1% in the three months ended March 31, 2002 and 2001, respectively. The decrease is primarily attributable to reduced discretionary spending.

PRODUCT DEVELOPMENT.

Product development related expenses, excluding amortization of capitalized software, were as follows (in thousands):

	Three Months Ended March 31,	
	2002	2001
Product development expenditures.....	\$2,074	\$2,906
Less:		
Additions to capitalized software.	(605)	(317)
Product development expense.....	\$1,469	\$2,589

Net product development expense decreased \$1.1 million, or 43.3%, in the three months ended March 31, 2002 as compared to the three months ended March 31, 2001 and was 11.2% and 20.5% of total revenues, respectively. For the three months ended March 31, 2002, total product development expenditures decreased \$832,000, mainly reflecting the effect of our suspension of developing Rare Vision as a stand alone product after fiscal 2001. RareVision costs were approximately \$1.1 million for the quarter ended March 31, 2001. Additions to capitalized software increased \$288,000, or 90.8%, in the first quarter of fiscal 2002 as compared to the first quarter of fiscal 2001 and were 29.2% and 10.9% of product development expenditures, respectively. The increase in software costs capitalized in the three months ended March 31, 2002 is primarily attributable to significant product development resources being allocated to "Active Financial Planning", our analytics product that is due to be launched in the second quarter of fiscal 2002.

AMORTIZATION OF CAPITALIZED SOFTWARE.

Capitalized software amortization in the three months ended March 31, 2002 was \$1.0 million, an increase of \$269,000, or 35.3%, as compared to the three months ended March 31, 2001. The increase is mainly due to the incremental amortization of the intellectual property acquired from QSP for \$2.0 million, which is being amortized on a straight-line basis over two years.

GENERAL AND ADMINISTRATIVE.

General and administrative expenses in the three months ended March 31, 2002 were \$2.0 million, an increase of \$19,000, or 1.0%, as compared to the three months ended March 31, 2001. As a percentage of total revenues, general and administrative expenses were 15.6% and 16.1% in the three months ended March 31, 2002 and 2001, respectively. An increase in general and administrative expenses resulting from the additional infrastructure, administrative and employee costs required to support the Elevon 5 product line was offset by lower employee costs in our previously existing operations.

PROVISION FOR INCOME TAXES.

In the three months ended March 31, 2002 and 2001, the Company provided \$25,000 for state and foreign income taxes that could not be offset against net operating loss carryforwards.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2002, our principal sources of liquidity included cash, cash equivalents and short-term investments aggregating \$5.7 million, and funds from operations. In addition, we have lines of credit, secured by accounts receivable, totaling \$5.4 million. Under the terms of our domestic credit facility, which is renewable annually in the first quarter, we may borrow up to \$4.0 million, dependent upon the amount of eligible domestic accounts receivable, as defined in the agreement. In November 2001, we also established a credit line for our United Kingdom receivables, whereby we may borrow up to \$1.4 million (£1.0 million) against eligible receivables, as defined in the agreement. We have never borrowed under these lines of credit. As of March 31, 2002, we have future operating lease obligations of approximately \$11.8 million through 2009 of which approximately \$2.2 million is payable during the twelve month period from March 31, 2002.

Our operating activities provided cash of \$1.5 million in the three months ended March 31, 2002, and used cash of \$765,000 in the three months ended March 31, 2001.

Financing activities are comprised of proceeds from employee stock purchase plan issuances, offset by capital lease payments. These activities provided cash of \$87,000 and \$174,000 in the three months ended March 31, 2002 and 2001, respectively.

Investing activities include the purchase of fixed assets, additions to capitalized software and net purchases, sales and maturities of our investment portfolio. These activities used \$957,000 of cash in the three months ended March 31, 2002 and provided \$1.5 million during the three months ended March 31, 2001. Cash flows in the three months ended March 31, 2002 consisted of fixed asset purchases of \$357,000 and additions to capitalized software of \$605,000. Cash flows from investing activities in the three months ended March 31, 2001 consisted of net inflows from purchases and maturities of our investment portfolio totaling \$2.0 million, offset by additions to capitalized software of \$317,000 and fixed asset purchases of \$135,000.

We believe that our principal sources of liquidity, which include cash, cash equivalents and short term investments of \$5.7 million as of March 31, 2002 and funds expected from operations will satisfy our currently anticipated working capital and capital expenditure requirements for at least the next twelve months. While there can be no assurance, we believe the non-cash charges in our statement of operations for depreciation and amortization of capitalized software will continue to exceed our cash requirements for capital expenditures and our additions to capitalized software, thereby providing cash flow to fund our working capital requirements. Variations in our working capital requirements are dependent primarily on the rate of growth in our revenues, the timing and mix of our revenues, and the timing of collections of accounts receivable associated with our revenues. In addition, we have credit facilities that provide for up to \$5.4 million of borrowings, dependent upon the amount of eligible accounts receivable, as defined in the agreements. However, the following factors, among others, could affect our liquidity and capital resources:

- Our ability to successfully integrate the Elevon 5 intellectual property into our product portfolio and to generate positive cashflows from this product range.
- The operational currency for our operations in Europe, the Middle East and Africa is the British pound. We do not have any formal hedge in place to mitigate potential exchange rate risk. A significant devaluation in the pound would adversely affect our reported revenues, costs, assets and liabilities. As of March 31, 2002, our operations in Europe, the Middle East and Africa represented approximately 40% of our total revenues and 30% of our assets.
- Our ability to successfully transition our product offerings to collaborative commerce solutions and to gain market acceptance for our new products, including the Active Financial Planning product scheduled for release during the second quarter of 2002.
- Our performance is sensitive to general economic conditions. A sustained recession, in which customers delay or cancel discretionary software purchases, would be damaging to our operational results and cashflows.

We cannot assure you that we will not need to raise additional capital to fund operations within the next twelve months. We cannot assure you that additional financing can be obtained on acceptable terms, or at all. If additional funds are raised by issuing equity securities, dilution to stockholders may result. If adequate funds are not available, our financial condition, our results from operations and the market price of our stock could be adversely affected.

ADDITIONAL RISK FACTORS

We operate in a rapidly changing environment that involves numerous risks and uncertainties that could have a material adverse effect on us. The following discussion details some, but not all, of these risks and uncertainties.

Our operating results may fluctuate, which may adversely affect the trading price of our stock.

Our operating results fluctuate as a result of a variety of factors including:

- the execution of new license agreements;
- the shipment of software products;
- customer acceptance criteria for services performed;
- completion of milestone or other significant development requirements pursuant to our license agreements;
- the financial terms of consulting agreements and the inclusion of fixed as opposed to variable pricing;
- third-party royalty payments for licensed software;
- the demand for our products and services;
- changes in our product and services mix;
- the development and launch of new products and services, and the life cycles of our existing products and services;
- product development expenditures required to update and expand our product portfolio and related third-party consulting costs;
- sales and marketing expenses generally related to the entry into new markets with new or existing products and maintenance of market share in existing markets;
- acquisitions and the integration and development of acquired entities or products;
- competitive conditions in the industry; and
- general economic conditions.

As a result, we believe that period-to-period comparisons of our operating results are not necessarily meaningful and should not be relied upon as indications of our future performance.

Our quarterly operating results are particularly dependent on the number of license agreement bookings we execute in each quarter. The amount of quarterly bookings has varied substantially from quarter to quarter due to a variety of reasons including:

- a high proportion of license agreements are negotiated during the latter part of each quarter and these negotiations may not be completed before the quarter end;
- the sales cycles for some of our products are relatively long due to our focus on "enterprise solutions" as opposed to individual products, which adds complexity to the customer's selection, negotiation and approval process;
- our longer sales cycle resulting from our transition to e- business, as the transition to collaborative commerce involves coordination with multiple vendors that can delay the sales process;
- the amount related to each booking may vary significantly due to the need for different solutions for different customers;
- procurement procedures may vary from customer to customer, which may affect the timing of the bookings;
- the period for a customer to complete product evaluations and to complete any subsequent purchase approval may be delayed due to resource limitations; and
- economic, political and industrial conditions can adversely affect business opportunities without notice.

In addition, bookings that we execute during a particular quarter may not be recognized as revenue during such quarter because such bookings may not have met our revenue recognition criteria. We cannot assure you that we will be able to effect new bookings in accordance with historical results or management's expectations, and our inability to do so could have a material adverse effect on our operating results, financial condition and the market price of our stock.

While we typically sell our software under a standard license agreement, license agreements associated with large enterprise solutions often require the negotiation of terms and conditions that differ substantially from our standard license agreement terms. The negotiation of these agreements may extend the sales cycle. We may not always obtain terms and conditions that permit the recognition of revenue upon shipment of the licensed product or under the percentage of completion method of contract accounting rules. Accordingly, revenue may not be recognized after shipment of a product because specified milestones have not been met or because applicable services have not been completed.

We have and expect to enter into fixed-price consulting agreements, particularly in response to increased competition in the industry. We have recognized lower profit margins on certain fixed-price service agreements when compared to variable agreements. No assurance can be given that we will be able to conclude fixed-price agreements on terms that will allow us to achieve acceptable operating margins, and the failure to do so could have a material adverse effect on our operating results, financial condition and the market price of our stock.

We historically have generated a majority of our consulting revenue from pre- and post-implementation services. We have provided services that include, but are not limited to, Year 2000 readiness engagements, best practice solution engagements and other hardware and software solutions. We intend to continue to pursue consulting engagements for which we believe we are qualified. We cannot assure you that these engagements will result in profit margins equal to

or greater than those engagements that are specific to a customer's product implementation. Further, we cannot assure you that consulting revenue generated from non-implementation related projects will continue in the future. Our inability to obtain consulting engagements and derive adequate profit margins from such engagements could have a material adverse effect on our operating results, financial condition and the market price of our stock.

Employee and facility related expenditures comprise a significant portion of our operating costs and expenses, and are therefore relatively fixed over the short term. In addition, our expense levels are based, in significant part, on our forecasted revenue. If revenue levels fall below our expectations, operating results are likely to be adversely affected. There can be no assurance that we will be able to achieve profitability on a quarterly or annual basis in the future. Any of the foregoing factors could cause our future operating results to fall below the expectations of public securities market analysts, which could have an adverse effect on the trading price of our common stock.

We were delisted from the Nasdaq National Market, which may adversely affect the trading price of our stock.

As of March 6, 2001 our stock trades on the Over the Counter Bulletin Board. This is generally considered a less efficient market, and our stock price, as well as the liquidity of our common stock, may be adversely affected as a result. Further, we cannot assure you that our stock will be relisted on the Nasdaq National Market, or any other exchange, in the future.

The market price of our stock may experience volatility, which may cause the value of your investment in our common stock to decline.

Technology companies, including ourselves, frequently experience volatility in their common stock prices. Factors such as quarterly fluctuations in results of operations, announcements of technological innovations by us or our competitors, the introduction of new products by us or our competitors, and macroeconomic conditions in the computer hardware and software industries generally may have a material adverse impact on the market price of our stock. If revenues or earnings in any quarter fail to meet the expectations of the investment community, our stock price could be impacted immediately. In addition, we have issued shares and stock options, which, if sold directly or exercised and sold on the open market in large concentrations, could cause our stock price to decline in the short term. Furthermore, the stock market has from time to time experienced extreme price and volume fluctuations that have particularly affected the market price for many technology companies, in some cases unrelated to the operating performance of those companies. These broad market fluctuations may materially adversely affect the market price of our stock.

If we are unable to renew our existing third party license agreements or obtain new agreements, we may not be able to successfully develop our technology and our business, operating results and financial condition may be adversely affected.

We generate revenue from internally developed software products, some of which utilize technology licensed from third parties. We expect to continue utilizing third party technology and may enter into agreements with additional business partners. If sales of software utilizing third party technology increase disproportionately, gross margins may be below historical levels due to third party royalty obligations. We cannot assure you that the third parties will renew existing agreements with us or will not require financial conditions that are unfavorable to us. In addition, we cannot assure you that existing third party agreements will not be terminated. If we are unable to continue utilizing third party technology, we may not be able to successfully develop certain of our current and new products and our business, operating results and financial condition could be adversely affected.

If there is a further downturn in the technology industry or in general economic conditions, our business, operating results and financial condition may be adversely affected.

Certain software companies, including ourselves, have experienced significant economic downturns as a result of technological shifts and competitive pressures. These downturns are characterized by decreased product demand, price erosion, work slowdowns and layoffs. Our operations may, in the future, experience substantial fluctuations from period to period because of such industry patterns and general economic and political conditions which could affect the timing of orders from customers. We cannot assure you that such factors will not have a materially adverse effect on our business, operating results, financial condition, or market price of our stock.

Our international presence exposes us to risks that could have a material adverse affect on our business, operating results and financial condition.

We will continue our presence in international markets by marketing our Elevon Collaborative Synergies solutions to Global 2000 organizations. Risks associated with such pursuits include, but are not limited to, the following: changing market demands, economic and political conditions in foreign markets, foreign exchange fluctuations, longer collections cycles, difficulty in managing a geographically dispersed organization and changes in international tax laws. Our operating results and financial condition are likely to be adversely affected if our operations in international markets are not successful. We do not have any formal hedge in place to mitigate potential exchange rate risk, and consequently a significant devaluation in the foreign currencies in which we operate would affect our reported revenues, costs, assets and liabilities. Our international operations have increased in 2002 as a result of the acquisition of the QSP intellectual property.

If we are unable to compete successfully in our market it will harm our business.

The business and financial applications software market for large, complex organizations is intensely competitive. Our principal competitors with e-business solutions are SAP AG, Oracle Corporation and PeopleSoft, Inc. With our analytical applications, we principally compete with Hyperion Solutions Corporation, Adaytum Software Inc. and Comshare, Inc.

We also compete to a lesser extent with other independent software application vendors. Some of our current and potential competitors have substantially greater financial, technical, marketing and sales resources than us. Some of these competitors also offer business application products not offered by us, primarily in the areas of human resources and manufacturing. However, we remain one of the few companies committed to providing and enhancing applications for the mainframe environment. Most of the competitors listed above compete with us by offering UNIX-based applications. With the addition of the QSP intellectual property, we will now compete in the UNIX environment.

We encounter competition from a broad range of firms in the professional services market, including the consulting divisions of the major accounting firms, which possess greater resources than we do, and small independent firms that compete primarily on the basis of price.

The principal competitive factors in the market for business and financial applications software and services include product functionality, flexibility, portability, integration, reliability, performance, product availability, speed of implementation, quality of customer support and user documentation, vendor reputation, experience, financial stability, cost effectiveness and price. We believe that we compete favorably with respect to these factors. There can be no assurance, however, that we will be able to compete successfully in the future, and the failure to do so could have a material adverse effect on our operating results, financial condition and the market price of our stock.

If we are unable to stay current with the rapid technological change that characterizes the software industry, our products may not gain marketplace acceptance and our business, operating results and financial condition could suffer.

The software industry is characterized by rapid technological change. The pace of change has accelerated due to advances in mainframe and client/server technology and the growth in Internet, intranet and extranet utilization. We

expect to evaluate potential opportunities and may invest in those that are compatible with our strategic direction. However, there can be no assurance that any such investments will be profitable. Our legacy products are also designed primarily for use with certain mainframe and client/server systems. Our newly acquired product line is designed primarily for use in the UNIX environment. The introduction of products embodying new technologies and the emergence of new industry standards can render existing products obsolete. Accordingly, our future success depends in part upon our ability to continue to enhance our current products and to develop and introduce new products that respond to evolving customer requirements and keep pace with technological development and emerging industry standards, such as new operating systems, hardware platforms, interfaces and third party applications software.

We cannot assure you that:

- we will be successful in developing and marketing product enhancements or new products that respond to technological change, changes in customer requirements or emerging industry standards;
- we will not experience difficulties that could delay or prevent the successful development, introduction and marketing of such products and enhancements; or
- any new products or enhancements that we may introduce will achieve market acceptance.

The failure to do any of the above could have a material adverse effect on our operating results, financial condition and the market price of our stock.

If we are unable to introduce, develop and market new and enhanced versions of our software products, we may be put at a competitive disadvantage.

Our success depends on our continued ability to introduce, develop and market new and enhanced versions of our software products. However, we cannot assure you that this process can be maintained. We plan to continue our investment in product development in future periods. However, we cannot assure you that revenues will be sufficient to support the future product development that is required for us to be competitive. Although we may be able to release new products in addition to enhancements to existing products, we cannot assure you that our new or upgraded products will be accepted by the market, will not be delayed or canceled, or will not contain errors or "bugs" that could affect the performance of the product or cause damage to users' data.

If we are unable to effectively protect our intellectual property, we may be put at a competitive disadvantage; and if we are involved in an intellectual property rights dispute, we may not prevail and may be subject to significant liabilities or required to license rights from a third party.

We regard our products as proprietary. Through our license agreements with customers and our internal security systems, confidentiality procedures and employee agreements, we have taken steps to maintain the trade secrecy of our products. However, we cannot assure you that misappropriation will not occur. In addition, the laws of some countries do not protect our proprietary rights to the same extent as do the laws of the United States. We cannot assure you that the confidentiality of any proprietary information will provide any meaningful competitive advantage. We have no patents relating to our products. We believe that, because of the rapid pace of technological change in the computer software industry, that patents and copyrights are less significant than factors such as the knowledge, ability and experience of our employees, frequent product enhancements and the timeliness and quality of support services. We cannot assure you that our current efforts to retain our products as proprietary will be adequate. The failure to do so could have a material adverse effect on our operating results, financial condition and the market price of our stock.

Although we believe that our products do not infringe upon the proprietary rights of third parties, we cannot assure you that third parties will not assert infringement claims against us in the future with respect to current or future products, or that any such assertions will not require us to enter into royalty arrangements or result in costly litigation, or result in us being unable to use the intellectual property.

We may be subject to product liability claims if our software fails in mission critical applications, and limitation of liability provided in our license agreements may not protect us.

The license and support of our software for use in mission critical applications creates the risk of product liability claims against us. Our license agreements with our customers contain provisions designed to limit our exposure to potential product liability claims. It is possible, however, that the limitation of liability provisions contained in such license agreements may not be enforced as a result of international, federal, state and local laws or ordinances or unfavorable judicial decisions. Damage liability or injunctive relief resulting from such claims could have a materially adverse impact on our business, operating results and financial condition.

Our business depends on certain key executives, the loss of whom could weaken our management team, and on attracting and retaining qualified personnel.

We believe that our continued success depends in large part upon our ability to attract, train and retain highly skilled technical, sales, marketing and managerial personnel. Because of the high level of demand, competition for such personnel is intense and we sometimes experience difficulty in locating candidates with appropriate qualifications or within desired geographic locations. The success of our business is dependent on our ability to attract, train, retain and productively manage such personnel.

We

have excess capacity in our San Francisco headquarters.

Our headquarters are located in San Francisco under a lease that expires in 2007. Although historical commercial building vacancy rates have been low in San Francisco, recent changes in the economy have resulted in a significant increase in available office space. Our San Francisco headquarters office space exceeds our current needs and we are seeking to reduce this excess office space.

The difficulties inherent in integrating acquired businesses, products or technology could have an adverse effect on our results of operations, business and financial condition.

We have acquired and may continue to acquire complimentary businesses, products or technology. The process of integrating an acquired company's business into our operations may result in unforeseen operating difficulties and expenditures and may require significant management attention that would otherwise be available for the ongoing development of our business. Acquisitions involve numerous risks, including difficulties in the assimilation of operations, technologies and products of the acquired company, risks associated with entering markets in which we have no or limited direct prior experience and the potential loss of key employees of the acquired company. We cannot assure you that we will successfully integrate any new acquisition or realize any anticipated benefits of an acquisition. Further, future acquisitions by us could result in potentially dilutive issuances of equity securities, the incurrence of debt and contingent liabilities and amortization related to goodwill and other intangible assets, which could materially affect our operating results and financial condition.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes in the market risks as discussed in our 2001 Annual Report on Form 10-K.

PART II. OTHER INFORMATION

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits

None

a. Reports on Form 8-K

None

WALKER INTERACTIVE SYSTEMS, INC.

FORM 10Q

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WALKER INTERACTIVE SYSTEMS, INC.
(Registrant)

Date: May 10, 2002

By: /s/ Stanley V. Vogler

Stanley V. Vogler
Chief Financial Officer
(Principal Financial and Accounting Officer)