

SYSTEMS & COMPUTER TECHNOLOGY CORP

Form 10-Q

August 14, 2002

SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 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 June 30, 2002 or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_.

0-11521  
(Commission File Number)

SYSTEMS & COMPUTER TECHNOLOGY CORPORATION  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction  
of incorporation)

23-1701520  
(I.R.S. Employer  
Identification No.)

Great Valley Corporate Center  
4 Country View Road  
Malvern, Pennsylvania 19355  
(Address of principal executive offices)

Registrant's telephone number, including area code: (610) 647-5930

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

33,432,091 Common shares, \$.01 par value, as of August 5, 2002

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SYSTEMS & COMPUTER TECHNOLOGY CORPORATION AND SUBSIDIARIES

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## SYSTEMS & COMPUTER TECHNOLOGY CORPORATION AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS (in thousands, except per share amounts)

	June 30, 2002 (UNAUDITED)	September 30, 2001 (NOTE)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 33,142	\$101,475
Short-term investments, including accrued interest of \$776 and \$327	82,732	62,854
Receivables, including \$39,477 and \$25,779 of earned revenues in excess of billings, net of		

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allowance for doubtful accounts of \$5,194 and \$5,528	79,604	65,541
Prepaid expenses and other receivables	35,993	17,108
	-----	-----
TOTAL CURRENT ASSETS	231,471	246,978
PROPERTY AND EQUIPMENT--at cost, net of accumulated depreciation	27,440	31,295
CAPITALIZED COMPUTER SOFTWARE COSTS, net of accumulated amortization	5,057	7,045
GOODWILL, net of accumulated amortization	28,535	2,340
INTANGIBLE ASSETS, net of accumulated amortization	9,080	1,219
OTHER ASSETS AND DEFERRED CHARGES	19,703	28,892
NET ASSETS OF DISCONTINUED OPERATIONS	31,772	49,622
	-----	-----
TOTAL ASSETS	\$353,058	\$367,391
	=====	=====

Note: The condensed consolidated balance sheet at September 30, 2001, has been derived from the audited financial statements at that date.

See notes to condensed consolidated financial statements.

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SYSTEMS & COMPUTER TECHNOLOGY CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS (continued)  
(in thousands, except per share amounts)

	June 30, 2002 (UNAUDITED)	September 30, 2001 (NOTE)
LIABILITIES & STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 6,257	\$ 6,748
Current portion of long-term debt	2,260	2,771
Income taxes payable	598	7,697
Accrued expenses	36,476	34,650
Deferred revenue	12,784	15,657
	-----	-----
TOTAL CURRENT LIABILITIES	58,375	67,523
LONG-TERM DEBT, less current portion	74,723	74,723
OTHER LONG-TERM LIABILITIES	2,911	3,748

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STOCKHOLDERS' EQUITY

Preferred stock, par value \$.10 per share--authorized 3,000 shares, none issued	--	--
Common stock, par value \$.01 per share--authorized 100,000 shares, issued 38,021 and 37,634 shares	380	376
Capital in excess of par value	125,136	120,040
Retained earnings	116,592	126,697
Accumulated other comprehensive loss	(516)	(340)
	-----	-----
	241,592	246,773
Less		
Held in treasury, 4,597 and 4,630 common shares--at cost	(24,543)	(24,876)
Notes receivable from stockholders	--	(500)
	-----	-----
	217,049	221,397
	-----	-----
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$353,058	\$367,391
	=====	=====

Note: The condensed consolidated balance sheet at September 30, 2001, has been derived from the audited financial statements at that date.

See notes to condensed consolidated financial statements.

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SYSTEMS & COMPUTER TECHNOLOGY CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)  
(in thousands, except per share amounts)

	For the Three Months Ended June 30,	
	2002	2001
Revenues:		
Outsourcing services	\$ 8,172	\$ 10,049
Software sales and commissions	10,871	11,922
Maintenance and enhancements	20,190	19,860
Software services	21,658	16,708
Interest and other income	517	1,092
	-----	-----
	61,408	59,631
Expenses:		
Cost of outsourcing services	6,836	7,520
Cost of software sales, commissions, maintenance and enhancements	13,350	13,828
Cost of software services	17,598	13,134
Selling, general and administrative	16,767	13,823
Asset impairment charge	5,425	--
Retirement and restructuring charges	--	2,485
Interest expense	1,064	1,048
	-----	-----
	61,040	51,838

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Income from continuing operations		
before income taxes	368	7,793
Provision for income taxes	527	3,358
	-----	-----
Income (loss) from continuing operations	(159)	4,435
Discontinued operations:		
Loss from discontinued operations, adjusted for applicable benefit for income taxes of \$616 and \$2,336	(265)	(3,826)
Gain (loss) on sale of discontinued operations, net of income tax provision (benefit) of (\$9) and \$13,111	(15)	20,155
	-----	-----
Income (loss) from discontinued operations	(280)	16,329
	-----	-----
Net income (loss)	\$ (439)	\$ 20,764
	=====	=====
Income (loss) from continuing operations:		
per common share	(\$0.00)	\$0.13
per share -- assuming dilution	(\$0.00)	\$0.13
Income (loss) from discontinued operations:		
per common share	(\$0.01)	\$0.50
per share -- assuming dilution	(\$0.01)	\$0.49
Net income (loss):		
per common share	(\$0.01)	\$0.63
per share -- assuming dilution	(\$0.01)	\$0.63
Common shares and equivalents outstanding:		
Average common shares	33,323	32,868
Average common shares -- assuming dilution	33,323	33,042

See notes to condensed consolidated financial statements.

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SYSTEMS & COMPUTER TECHNOLOGY CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)  
 (in thousands, except per share amounts)

	For the Nine Months Ended	
	June 30,	
	2002	2001
Revenues:		
Outsourcing services	\$ 24,875	\$ 30,077
Software sales and commissions	23,840	22,492
Maintenance and enhancements	61,171	53,375
Software services	57,789	46,282
Interest and other income	3,231	3,665
	-----	-----
	170,906	155,891
Expenses:		
Cost of outsourcing services	19,788	23,125
Cost of software sales, commissions, maintenance and enhancements	39,947	35,556

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Cost of software services	47,435	36,618
Selling, general and administrative	45,939	42,888
Asset impairment charge	5,425	7,831
Retirement and restructuring charges	4,874	2,485
Interest expense	3,157	3,151
	-----	-----
	166,565	151,654
Income from continuing operations		
before income taxes	4,341	4,237
Provision for income taxes	2,096	1,941
	-----	-----
Income from continuing operations	2,245	2,296
Discontinued operations:		
Loss from discontinued operations,		
adjusted for applicable benefit		
for income taxes of \$1,845 and \$6,457	(5,293)	(10,900)
Gain (loss) on sale of discontinued		
operations, net of income tax provision		
(benefit) of (\$3,455) and \$13,111	(7,057)	20,155
	-----	-----
Income (loss) from discontinued operations	(12,350)	9,255
	-----	-----
Net income (loss)	\$ (10,105)	\$ 11,551
	=====	=====
Income from continuing operations:		
per common share	\$0.07	\$0.07
per share -- assuming dilution	\$0.07	\$0.07
Income (loss) from discontinued operations:		
per common share	(\$0.37)	\$0.28
per share -- assuming dilution	(\$0.37)	\$0.28
Net income (loss):		
per common share	(\$0.30)	\$0.35
per share -- assuming dilution	(\$0.30)	\$0.35
Common shares and equivalents outstanding:		
Average common shares	33,173	32,803
Average common shares -- assuming dilution	33,639	33,240

See notes to condensed consolidated financial statements.

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SYSTEMS & COMPUTER TECHNOLOGY CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)  
 (in thousands)

	For the Nine Months Ended	
	June 30,	
	2002	2001
OPERATING ACTIVITIES		
Net income (loss)	\$ (10,105)	\$ 11,551
Adjustments to reconcile net income (loss)		
to net cash provided by (used in)		
operating activities:		

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Asset impairment charge	5,425	7,831
Loss (gain) on sale of discontinued operations	7,057	(20,155)
WebCT commission income	--	(2,700)
Depreciation and amortization	16,010	21,073
Provision for doubtful accounts	1,813	2,677
Deferred tax benefit	(1,504)	(15,423)
Changes in operating assets and liabilities:		
(Increase) decrease in receivables	(7,708)	3,313
(Increase) decrease in other current assets, principally prepaid expenses	(16,486)	6,280
Decrease in accounts payable	(2,373)	(49)
Increase (decrease) in income taxes payable	(7,099)	2,249
Decrease in accrued expenses	(6,592)	(416)
Decrease in deferred revenue	(9,320)	(8,550)
(Increase) decrease in other operating assets and deferred charges	3,476	(179)
	-----	-----
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(27,406)	7,502
INVESTING ACTIVITIES		
Purchase of property and equipment	(787)	(7,750)
Capitalized computer software costs	(770)	(754)
Purchase of investments available for sale	(85,232)	(31,453)
Proceeds from sale or maturity of investments available for sale	65,771	27,503
Proceeds from sale of discontinued operations	10,476	85,000
Purchase of businesses, net of cash acquired	(33,499)	(3,009)
	-----	-----
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(44,041)	69,537
FINANCING ACTIVITIES		
Repayment of borrowings	(511)	(528)
Issuance (repurchase) of Company stock	333	(71)
Decrease in notes receivable from stockholders	500	110
Proceeds from exercise of stock options	2,792	1,969
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	3,114	1,480
INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(68,333)	78,519
CASH & CASH EQUIVALENTS--BEGINNING OF PERIOD	101,475	49,155
	-----	-----
CASH & CASH EQUIVALENTS--END OF PERIOD	\$ 33,142	\$127,674
	=====	=====
SUPPLEMENTAL INFORMATION Noncash investing and financing activities:		
Purchase of businesses -- noncash portion	\$ --	\$ 500
Conversion of subordinated debentures into common stock	--	27

See notes to condensed consolidated financial statements.

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### NOTE A--INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals, except for the retirement and restructuring charges and the asset impairment charges in fiscal years 2002 and 2001) considered necessary for a fair presentation have been included. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2001. During the quarter ended June 30, 2002, the Company completed the sale of the Global Manufacturing & Distribution Solutions (MDS) business and announced the discontinuation of the Global Energy and Utilities Solutions (EUS) business. The MDS and EUS businesses are accounted for as discontinued operations, and accordingly, amounts in the consolidated balance sheets and statements of operations and related notes for all periods presented have been restated to reflect discontinued operations accounting. Operating results for the three and nine-month periods ended June 30, 2002, are not necessarily indicative of the results that may be expected for the year ending September 30, 2002.

Prior year information has been reclassified to reflect certain reimbursed out-of-pocket expenses as revenue and expense.

### NOTE B--CASH AND SHORT-TERM INVESTMENTS

(in thousands)

Cash equivalents are short-term, highly liquid investments with maturities of three months or less at the date of purchase.

Short-term investments consist of corporate and municipal debt securities. Management determines the appropriate classification of the securities at the time of purchase. At June 30, 2002, the portfolio of securities has been classified as available for sale. These securities are carried at fair value, based on quoted market values, with the unrealized gains and losses, net of income taxes, reported as a component of accumulated other comprehensive loss. The available-for-sale portfolio is comprised of highly liquid investments available for current operations and general corporate purposes and, accordingly, is classified as a current asset.

Short-term investments at June 30, 2002, are comprised of:

State and municipal securities	\$ 36,440
Corporate securities	46,292
	-----
	\$ 82,732

The contractual maturities of short-term investments held as of June 30, 2002, are:

Due in one year or less	\$ 36,950
Due after one year through four years	45,782
	-----
	\$ 82,732



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### NOTE C--LONG-TERM INVESTMENTS

The Company has made investments for strategic business purposes in the common and preferred stock of WebCT, a privately held Internet company. The fair value of this investment, which is classified as a long-term asset, is not readily determinable; therefore, it is carried at cost adjusted for other-than-temporary impairments discussed below. On a quarterly basis, the Company reviews the underlying operating performance, cash flow forecasts, private equity transactions, and stock prices and equity values of publicly traded competitors of this privately held company in assessing impairment. During the third quarter of fiscal year 2002, the Company recorded asset impairment charges of \$5.4 million against its aggregate investment, further reducing the carrying value of the investment in WebCT to \$4.0 million, which is included in other assets and deferred charges in the consolidated balance sheet. At June 30, 2002, the Company owns approximately 11% of the voting shares of WebCT.

The Company made a series of investments in Campus Pipeline, Inc. As of June 30, 2002, the Company held an approximately 57% interest in the common stock of this affiliate, with a carrying amount of zero. The Company has determined that it does not control Campus Pipeline because there are fully voting convertible preferred shares outstanding that lower the Company's voting interest to approximately 42%. Therefore, the Company accounts for its investment using the equity method of accounting. The Company will not record any additional future losses of Campus Pipeline and will not record any future earnings until the cumulative, unrecorded losses are offset.

### NOTE D--MANAGEMENT CHANGES AND RESTRUCTURING CHARGES

In the second quarter of fiscal year 2002, Michael J. Emmi, President, Chief Executive Officer, and Chairman of the Board of Directors retired from the Company. Michael D. Chamberlain, who has served the Company in various executive capacities since 1986, most recently as Chief Operating Officer, and a member of the Board of Directors since 1989, was elected President and Chief Executive Officer. Allen R. Freedman, a member of the Company's Board of Directors since 1982, was elected non-executive Chairman of the Board. Mr. Freedman was Chairman and Chief Executive Officer of Fortis, Inc., a multi-billion dollar financial services company, prior to his retirement in July 2000.

In connection with Mr. Emmi's retirement, he received a compensation package including a reduction of indebtednesses, the continuation of Mr. Emmi's life and health insurance and other fringe benefits for periods ranging from two to five years, as well as an assignment to Mr. Emmi of life insurance policies covering Mr. Emmi, and the immediate vesting of certain rights under other compensation plans. All Company stock options held by Mr. Emmi became vested and were amended to permit Mr. Emmi to exercise them by the earlier of their original expiration date or two years from the date of his resignation. The Company recorded a charge of approximately \$3.5 million related to the above actions in the second quarter of fiscal year 2002. At June 30, 2002, \$0.7 million of the accrual remains. The Company may pay an additional amount to Mr. Emmi if certain strategic corporate objectives established by the Board before Mr. Emmi's termination are achieved on or before December 31, 2002.

Also, during the quarter ended March 31, 2002, the Company implemented a plan for restructuring, which included the termination of employees, management changes, discontinuation of non-critical programs and the disposition of related assets. During the quarter, the Company recorded a charge of \$1.3 million related to severance payments and disposition of assets. At June 30, 2002, \$0.4 million of the accrual remains. In January 2002, the Company terminated approximately 40 employees engaged primarily in development, special-programs, and sales functions.

During the third quarter of fiscal year 2001, the Company implemented restructuring actions that were considered necessary to improve the Company's performance. The restructuring plan included the termination of employees, management changes, consolidation of certain facilities, and discontinuation of non-critical programs. During the quarter ended June 30, 2001, the Company accrued \$2.0 million related to severance and termination benefits and \$0.4 million of other costs based on a termination plan developed by management in consultation with the Board of Directors. As of June 30, 2002, \$0.2 million of this accrual remains. In May and June 2001, the Company terminated approximately 80 employees engaged primarily in marketing, administrative, special-programs, and development functions.

#### NOTE E--ACQUISITIONS

Effective January 10, 2002, the Company acquired USA Education, Inc.'s (commonly known as Sallie Mae) student information systems business (the business) for the higher education market. Under the terms of the agreement, the Company acquired Sallie Mae's Exeter Student Suite and Perkins/Campus Loan Management product lines and related resources based in Cambridge, MA for approximately \$15.5 million cash. If the business achieves certain predetermined criteria during the remainder of fiscal year 2002, the Company will make an additional cash payment of up to \$2.0 million at September 30, 2002. This payment will be classified as intangible assets on the Company's balance sheet. In addition, the Company could make further cash payments of up to \$5.3 million over the next four years, contingent upon the revenue derived from the license or other sale of the purchased product lines over that period. These payments will be treated as additional consideration and will likely increase the amount recorded as goodwill. The Company recorded goodwill of \$11.5 million related to the acquisition, all of which is deductible for tax purposes. Included in goodwill is \$1.3 million of costs, including professional fees and other costs directly related to the acquisition. Some of these additional acquisition costs are estimates that may change and could cause an adjustment to goodwill. Intangible assets acquired included \$3.4 million of purchased software and \$0.8 million of other intangibles. The weighted-average amortization period is 6.0 years, 5.0 years for purchased software and 10.0 years for other intangibles. The Company purchased the business to increase its market opportunities in the higher education market. The product lines purchased include an Oracle-based set of solutions and technology, certain components of which are expected to be integrated into the Company's higher education product lines. The purchased product lines also include a Microsoft-based solution that is under development and when completed, will allow clients a technology choice.

In February 2002, the Company acquired the capital stock of Applied Business Technologies, Inc. (ABT) for \$16.8 million cash. The products acquired include ABT's PowerCAMPUS, IQ.Web and PocketCAMPUS Mobile applications, as well as related resources in Newtown Square, PA and their customer base. The Company recorded goodwill of \$14.7 million related to the acquisition, of which \$4.5 million is deductible for tax purposes. Included in goodwill is \$0.5 million of costs, including professional fees and other costs directly related to the acquisition. Some of these additional acquisition costs are estimates that may change and could cause an adjustment to goodwill. Intangible assets acquired included \$2.8 million of purchased software and \$1.8 million of other intangibles. The weighted-average amortization period is 6.1 years, 5.0 years for purchased software and 9.5 years for other intangibles. The completion of this transaction provides the Company with an expanded market share in small to mid-sized institutions (enrollment under 2,500). It also allows the Company to expand its current technology offerings in higher education to institutions that

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have a preference for Microsoft, which provides a technology that is both affordable and easy to manage.

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### NOTE F--DIVESTITURES (in thousands)

The Company previously announced that it had signed a letter of intent for the sale of the Global Energy and Utilities Solutions (EUS) business. The letter of intent and negotiations with the party who signed the letter of intent have terminated. The Company is continuing in its efforts to sell the EUS business and the EUS business is treated as a discontinued operation in the consolidated statements of operations. The Company expects to recognize a gain on the sale of the EUS business. The prior year consolidated statements of operations and balance sheet have been restated to present EUS as a discontinued operation. For business segment reporting, EUS was previously reported as a separate segment. Revenues from the EUS business were \$19,613 and \$21,664 for the three-month periods ending June 30, 2002 and 2001, respectively. EUS revenues for the nine-month periods ending June 30, 2002 and 2001 were \$58,346 and \$72,092, respectively. The net assets of discontinued operations at September 30, 2001, were \$29,676. Net assets of the discontinued operation were \$31,772 as of June 30, 2002, comprised of the following:

Accounts receivable	\$ 14,955
Prepaid expenses and other receivables	2,258
Property and equipment	15,781
Capitalized computer software costs	4,065
Goodwill	1,056
Intangible assets	2,051
Other & deferred charges	1,506
Current liabilities	(9,900)
Net Assets of Discontinued Operations	\$31,772

On May 31, 2002, the Company consummated the sale of its Global Manufacturing & Distribution Solutions (MDS) business to Agilisys International Limited, a company organized under the laws of the Cayman Islands, pursuant to an Asset Purchase Agreement dated April 10, 2002. As of the end of the second quarter of fiscal year 2002, the Company had declared MDS a discontinued business; the results of MDS have been reported separately as discontinued operations in the consolidated statements of operations. The prior year consolidated statements of operations and balance sheet have been restated to present MDS as a discontinued operation. For business segment reporting, MDS was previously reported as a separate segment. The Company agreed to sell substantially all of the assets of MDS for \$13,200 in cash, subject to adjustment in certain circumstances. Due to such adjustments, which principally related to the collection of receivables by the Company, the net proceeds received by the Company were \$10,476. The proceeds are subject to further adjustment based upon the preparation of a closing date balance sheet. The Company could receive up to an additional \$3,000 based upon the new company achieving specified revenue targets over the next three years. The Company recorded a pretax loss of \$10,512 on the sale, which net of a \$3,455 tax benefit produced a net loss of \$7,057. Revenues from the MDS business were \$4,485 and \$13,098 for the two-month period ending May 31, 2002 and the three-month period ending June 30, 2001, respectively. MDS revenues for the eight-month period ending May 31, 2002 and the nine-month period ending June 30, 2001 were \$22,126 and \$39,154, respectively. The loss from discontinued

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operations, net of taxes, for the year-to-date 2002 and 2001 periods were \$4,385 and \$8,182, respectively. The net assets of discontinued operations at September 30, 2001, were \$19,946.

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### NOTE G--EARNINGS PER SHARE

(in thousands, except per share amounts)

A reconciliation of the numerators and the denominators of earnings per common share and per share -- assuming dilution follows:

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2002	2001	2002	2001
<b>Numerator:</b>				
Income (loss) from continuing operations available to common stockholders	\$ (159)	\$ 4,435	\$ 2,245	\$ 2,296
<b>Discontinued operations:</b>				
Income (loss) from discontinued operations, net of income taxes	(280)	16,329	(12,350)	9,255
	-----	-----	-----	-----
Net income (loss) available to common stockholders	\$ (439)	\$20,764	\$ (10,105)	\$11,551
	=====	=====	=====	=====
<b>Denominator:</b>				
Weighted average common shares	33,323	32,868	33,173	32,803
<b>Effect of dilutive securities:</b>				
Employee stock options	--	174	466	437
	-----	-----	-----	-----
Weighted average common shares -- assuming dilution	33,323	33,042	33,639	33,240
	=====	=====	=====	=====
<b>Income (loss) from continuing operations</b>				
per common share	(\$0.00)	\$0.13	\$0.07	\$0.07
per share -- assuming dilution	(\$0.00)	\$0.13	\$0.07	\$0.07
<b>Income (loss) from discontinued operations</b>				
per common share	(\$0.01)	\$0.50	(\$0.37)	\$0.28
per share -- assuming dilution	(\$0.01)	\$0.49	(\$0.37)	\$0.28
<b>Net income (loss)</b>				
per common share	(\$0.01)	\$0.63	(\$0.30)	\$0.35
per share -- assuming dilution	(\$0.01)	\$0.63	(\$0.30)	\$0.35

Potentially dilutive securities with an anti-dilutive effect (stock options in the fiscal year 2002 three-month period and convertible debt in all periods presented) are not included in the above calculation.

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NOTE H--PRODUCT DEVELOPMENT

Product development expenditures, including software maintenance expenditures, for the nine months ended June 30, 2002 and 2001, were approximately \$20.8 million and \$18.8 million, respectively, all of which were charged to operations as incurred. For the same periods, amortization of capitalized software costs (not included in expenditures above) amounted to \$2.0 million and \$2.1 million, respectively.

NOTE I--BUSINESS SEGMENTS

As a result of the discontinuation of the Global Energy and Utilities Solutions business at the end of third quarter of fiscal year 2002 and the sale of the Global Manufacturing & Distribution Solutions business on May 31, 2002, the Company currently has one reportable segment: Global Education Solutions (GES). The financial statements presented above, exclusive of discontinued operations, reflect the operations of the Global Education Solutions business.

NOTE J--COMPREHENSIVE INCOME

(in thousands)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2002	2001	2002	2001
Net income (loss)	(\$439)	\$20,764	(\$10,105)	\$11,551
Foreign currency translation adjustment	334	31	191	24
Unrealized gain (loss) on marketable securities	(293)	(44)	(367)	12
	-----	-----	-----	-----
Other comprehensive income (loss)	41	(13)	(176)	36
	-----	-----	-----	-----
Total Comprehensive Income (Loss)	(\$398)	\$20,751	(\$10,281)	\$11,587

NOTE K--GOODWILL AND INTANGIBLE ASSETS

(in thousands, except per share amounts)

Effective October 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," which resulted in discontinuing the amortization of goodwill. Under the Statement, goodwill will instead be carried at its book value as of October 1, 2001, and any future impairment of goodwill will be recognized as an operating expense in the period of impairment. However, under the terms of the Statement, identifiable intangibles with identifiable lives will continue to be amortized.

The Company's goodwill was \$28,535 and \$2,340 at June 30, 2002, and September 30, 2001, respectively. The increase in goodwill at June 30, 2002, is primarily the result of the Sallie Mae and ABT acquisitions (see Note E). The Company did not recognize an impairment loss as a result of its transitional impairment test of existing goodwill. The Company will be required to test the value of its goodwill at least annually. The following table sets forth the Company's amortized and unamortized intangible assets at the periods indicated:

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	June 30, 2002		September 30, 2001	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Purchased software	10,462	(4,382)	4,284	(4,064)
Covenants-not-to-compete	6,065	(5,512)	6,000	(5,000)
Customer relationships	1,652	(69)	--	--
	-----	-----	-----	-----
	\$ 18,179	\$ (9,963)	\$ 10,284	\$ (9,064)
Unamortized intangible assets:				
Trademarks	865		--	
	-----		-----	
	\$ 865		\$ --	

Estimated amortization expense for amortized intangible assets for the next five fiscal years ending September 30, are as follows:

Fiscal Year	
2002	\$ 1,289
2003	1,840
2004	1,413
2005	1,401
2006	1,401
thereafter	1,772
	-----
Total	\$ 9,116

Amortization expense on intangible assets was \$899 and \$610 for the nine months ended June 30, 2002 and 2001, respectively.

The following table discloses the effect on net income and earnings per share of excluding amortization expense related to goodwill, which was recognized in the three and nine months ended June 30, 2001, as if such goodwill had been recognized in accordance with SFAS 142.

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2002	2001	2002	2001
Reported net income (loss)	(\$439)	\$20,764	(\$10,105)	\$11,551
Plus: goodwill amortization, net of taxes	--	33	--	99
	-----	-----	-----	-----
Adjusted net income (loss)	(\$439)	\$20,797	(\$10,105)	\$11,650
Per common share:				
Net income (loss)	(\$0.01)	\$0.63	(\$0.30)	\$0.35
Goodwill amortization	--	\$0.00	--	\$0.00
	-----	-----	-----	-----
Adjusted net income (loss)	(\$0.01)	\$0.63	(\$0.30)	\$0.35
Per share -- assuming dilution:				
Net income (loss)	(\$0.01)	\$0.63	(\$0.30)	\$0.35
Goodwill amortization	--	\$0.00	--	\$0.00
	-----	-----	-----	-----
Adjusted net income (loss)	(\$0.01)	\$0.63	(\$0.30)	\$0.35

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

The purpose of this section is to give interpretive guidance to the reader of the financial statements. The following discussion excludes the results of the Global Energy and Utilities Solutions (EUS), Global Manufacturing & Distribution Solutions (MDS), and Global Government Solutions (GGS) businesses as they have been reclassified as discontinued operations in the fiscal year 2002 and 2001 periods.

## RESULTS OF OPERATIONS

The following table sets forth: (i) income statement items as a percentage of total revenues and (ii) the percentage change for each item from the prior-year comparative period.

	% of Total Revenues				% Change from Prior Year	
	Three Mos. Ended June 30, 2002	Three Mos. Ended June 30, 2001	Nine Mos. Ended June 30, 2002	Nine Mos. Ended June 30, 2001	Three Mos. Ended June 30	Nine Mos. Ended June 30
Revenues:						
Outsourcing services	13%	17%	14%	19%	(19%)	(17%)
Software sales and commissions	18%	20%	14%	15%	(9%)	6%
Maintenance and enhancements	33%	33%	36%	34%	2%	15%
Software services	35%	28%	34%	30%	30%	25%
Interest and other income	1%	2%	2%	2%	(53%)	(12%)
	----	----	----	----		
Total	100%	100%	100%	100%	3%	10%
Expenses:						
Cost of services, software sales, commissions, and maintenance and enhancements	61%	58%	63%	61%	10%	12%
Selling, general and administrative	27%	23%	27%	27%	21%	7%
Asset impairment charge	9%	--	3%	5%	--	(31%)
Retirement and restructuring charges	--	4%	3%	2%	(100%)	96%
Interest expense	2%	2%	2%	2%	2%	--
Income from continuing operations before income taxes	1%	13%	2%	3%	(95%)	2%

The following table sets forth the gross profit for each of the following revenue categories as a percentage of revenue for each such category and the total gross profit as a percentage of total revenue (excluding interest and other income). The Company does not separately present the cost of maintenance and enhancements revenue as it is impracticable to separate such cost from the cost of software sales.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2002	2001	2002	2001
Gross Profit:				
Outsourcing services	16%	25%	20%	23%
Software sales and maintenance				

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and enhancements	57%	56%	53%	53%
Software services	19%	21%	18%	21%
	---	---	---	---
Total	38%	41%	36%	37%

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### Revenues:

Outsourcing services revenue decreased 19% and 17% in the third quarter and first nine months of fiscal year 2002 compared with the prior-year periods. These decreases are primarily the result of the completion of contracts at the end of the third quarter of fiscal year 2001 and the completion of a contract at the end of the second quarter of fiscal year 2002.

Software sales and commissions decreased 9% in the third quarter of fiscal year 2002 compared to the prior-year period. The decrease is the result of third quarter fiscal year 2001 commission revenue of \$2.7 million in shares of WebCT, earned by licensing to schools with cumulative enrollments totaling one million students; the third quarter of fiscal year 2002 had no such commissions. This decrease is offset by license fee increases from the ABT acquisition in the February 2002. In the first nine months of fiscal year 2002, software sales and commissions revenue increased 6% compared to the prior-year period due to increases in traditional license fees and the results of the ABT acquisition.

The 15% increase in maintenance and enhancements revenue in the first nine months of fiscal year 2002 compared with the prior year period was the result of the Company's growing installed base of clients. The Company continues to experience a high annual renewal rate on existing maintenance contracts in this market, although there can be no assurances that this will continue. Revenues from the Company's users' group meeting are included in maintenance and enhancement revenue in the period in which the meeting is held. The users' group meeting was held in the second quarter of fiscal year 2002 and in the third quarter of fiscal year 2001. The change in the timing of the users' group meeting resulted in a lower increase in the maintenance and enhancement revenue in the third quarter of fiscal year 2002 compared with the prior year period.

Software services revenue increased 30% and 25% in the third quarter and first nine months of fiscal year 2002 compared with the prior-year periods. The increases are primarily the result of (i) increased implementation and integration services provided to the Company's traditional clients and (ii) new services business as a result of the ABT and Sallie Mae acquisitions in the second quarter of fiscal year 2002.

### Gross Profit:

Gross profit decreased as a percentage of total revenue (excluding interest and other income) from 41% for the third quarter of fiscal year 2001 to 38% for the third quarter of fiscal year 2002. For the nine-month periods ending June 30, gross profit as a percentage of revenue decreased from 37% in 2001 to 36% in 2002. In the three and nine-month periods, the outsourcing services gross profit percentage decreased primarily as a result of (i) the completion of contracts with higher than average margins at the end of the third quarter of fiscal year 2001 and (ii) additional costs provided for potential issues on a contract that was completed at the end of the second quarter of fiscal year 2002. These decreases were partially offset by contract renewals and additional business on existing contracts. The software sales, commissions, maintenance, and enhancements gross profit percentage remained relatively consistent over the



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three and nine-month periods of fiscal 2002 compared with fiscal 2001. The software services margins decreased in the three and nine-month periods ending June 30, 2002, compared with the prior-year periods primarily as a result of an accrual recorded in the third quarter for a decline in profitability of a contract and lower margins on software services in connection with the Company's new businesses acquired in the second quarter 2002.

### Selling, General and Administrative Expenses:

Selling, general and administrative expenses increased 21% and 7% in the third quarter and first nine months of fiscal year 2002 compared with the prior-year periods primarily as a result of increased sales commissions on professional services contracts signed during the third quarter of fiscal year 2002.

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### Retirement, Restructuring, and Asset Impairment Charges:

In the second quarter of fiscal year 2002, the Company recognized retirement and restructuring charges of \$4.8 million. The charge was comprised of \$3.5 million for the retirement compensation package of the Company's former President, Chief Executive Officer, and Chairman of the Board of Directors and \$1.3 million related to actions to reduce the workforce, discontinue non-critical programs, and consolidate certain facilities. At June 30, 2002, \$1.1 million of the \$4.8 million accrual remains.

In the third quarter of fiscal year 2002 and the second quarter of fiscal year 2001, the Company reduced the carrying value of its long-term investment in WebCT as a result of impairments that were deemed other than temporary. The Company recognized an asset impairment charge of \$5.4 million in fiscal year 2002 and \$7.8 million in fiscal year 2001, reducing the carrying value of the investment in WebCT to \$4.0 million. Future earnings would be reduced and earnings would be charged if there was an additional impairment that was found to be other than temporary at a future balance sheet date.

Income from continuing operations before income taxes was \$4.3 million for the nine months ended June 30, 2002, compared with \$4.2 million in the fiscal year 2001 period. The provision for income taxes was \$2.1 million in the current period compared to \$1.9 million in the year-ago period. The effective tax rate on income from continuing operations in the fiscal year 2002 provision does not reflect the customary relationship between income before income taxes and tax expense principally due to the effects of state income and local taxes and the limitations of the research and development tax credit.

Loss from discontinued operations before income taxes was \$7.1 million for the nine months ended June 30, 2002, compared with \$17.4 million in the fiscal year 2001 period. The benefit for income taxes was \$1.8 million in the current period compared to \$6.5 million in the prior-year period. The effective tax rate on the loss from discontinued operations in the fiscal year 2002 benefit does not reflect the customary relationship between the loss from discontinued operations and tax benefit principally due to not recording a tax benefit for losses related to the Company's foreign operations.

### Discontinued Operations:

On May 31, 2002, the Company consummated the sale of its Global Manufacturing & Distribution Solutions (MDS) business to Agilisys International Limited, pursuant to an Asset Purchase Agreement dated April 10, 2002. As of the end of the second quarter of fiscal year 2002, the Company had declared MDS a discontinued business; the results of MDS have been reported separately as discontinued operations in the consolidated statements of operations. The Company agreed to sell substantially all of the assets of MDS for \$13.2 million in cash, subject to adjustment in certain circumstances. Due to such

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adjustments, which principally related to the collection of receivables by the Company, the net proceeds of the Company were \$10.5 million. The proceeds are subject to further adjustment based upon the preparation of a closing date balance sheet. This adjustment is not expected to be material. The Company could receive up to an additional \$3.0 million based upon the new company achieving specified revenue targets over the next three years. The Company recorded a pretax loss of \$10.5 million on the sale, which net of a \$3.4 million tax benefit produced a net loss of \$7.1 million. The prior year consolidated statements of operations and balance sheet have been restated to present MDS as a discontinued operation. For business segment reporting, MDS was previously reported as a separate segment.

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The Company previously announced that it had signed a letter of intent for the sale of the Global Energy and Utilities Solutions (EUS) business. The letter of intent and negotiations with the party who signed the letter of intent have terminated. The Company is continuing in its efforts to sell the EUS business and the EUS business is treated as a discontinued operation in the consolidated statements of operations. The Company expects to recognize a gain on the sale of the EUS business. The prior year consolidated statements of operations and balance sheet have been restated to present EUS as a discontinued operation. For business segment reporting, EUS was previously reported as a separate segment.

The EUS business has a purchase commitment with Enlogix CIS L.P. to purchase development expertise in the form of labor hours, which the business is utilizing in its development efforts. The purchase commitment extends through December 22, 2005. During the remainder of the term of the commitment, the business will purchase approximately \$4 million of labor hours at agreed upon labor rates, which approximate the Company's labor rates.

### LIQUIDITY, CAPITAL RESOURCES, AND FINANCIAL POSITION

The following discussion of cash flow activity is based upon historical information and the statement of cash flows for the fiscal year 2002 period does not present the MDS and EUS businesses as discontinued operations and the fiscal year 2001 period does not present the Global Government Solutions business, which was sold on June 29, 2001, as a discontinued operation.

The Company's cash and short-term investments balance was \$115.9 million and \$164.3 million as of June 30, 2002, and September 30, 2001, respectively. The cash balances decreased as a result of cash used in operations and investing activities discussed below. The Company anticipates using its cash and short-term investments balance to fund future growth through various means, including strategic alliances and acquisitions, and development of additional service offerings.

Cash used in operating activities was \$27.4 million for the first nine months of fiscal year 2002, compared with cash provided of \$7.5 million for the prior-year period. The primary uses of cash in the fiscal year 2002 period were increased other current assets, primarily prepaid income taxes, and increased accounts receivable. The Company made estimated income tax payments throughout the fiscal year 2002 period based on the total fiscal year 2002 estimated income, which has exceeded actual income to date. The increases in accounts receivable at June 30, 2002, compared to September 30, 2001, are primarily the result of increased revenues and the timing of billings on software licenses. Cash expenditures for the first nine months of fiscal year 2002 related to retirement and restructuring charges (which are included in operating activities) were approximately \$5.2 million, and are expected to be approximately \$0.1 million

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for the remainder of fiscal year 2002 and \$1.2 million in total for all subsequent years, principally for severance and facility costs.

Cash used in investing activities was \$44.0 million for the first nine months of fiscal year 2002 compared with cash provided of \$69.5 million for the fiscal year 2001 nine-month period. In the fiscal year 2002 period, cash of \$33.0 million was used in the purchase of Sallie Mae's student information systems business and Applied Business Technologies, Inc. in January and February 2002. If the Sallie Mae acquired business achieves certain predetermined criteria during the remainder of fiscal year 2002, the Company will make an additional cash payment of up to \$2.0 million at September 30, 2002. Additional cash payments of up to \$5.3 million could be required of the Company over the next four years, contingent upon the revenue derived from the license or other sale of the purchased product lines over that period. Additionally, cash was used in the purchase of investments using the available cash balances from September 30, 2001. Purchases of property and equipment have been curtailed in fiscal year 2002 as a result of continuing cost containment measures. Fiscal year 2002 total property and equipment purchases are expected to remain below fiscal year 2001 levels. Cash of \$10.5 million was provided by the sale of the MDS business on May 31, 2002. The primary source of cash in the nine months ended June 30, 2001, was the sale of the GGS business.

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The \$3.1 million and \$1.4 million in cash provided by financing activities for the first nine months of fiscal year 2002 and 2001, respectively, consists primarily of proceeds from the exercises of stock options.

The Company has a \$30 million senior revolving credit facility available for general corporate purposes. The credit facility agreement expires in June 2004 and includes optional annual renewals. There were no borrowings outstanding at June 30, 2002, or September 30, 2001. As long as there are borrowings outstanding, and as a condition precedent to new borrowings, the Company must comply with certain covenants established in the agreement. Under the covenants, the Company is required to maintain certain financial ratios and other financial conditions. The Company may not pay dividends (other than dividends payable in common stock) or acquire any of its capital stock outstanding without a written waiver from its lender.

The credit agreement provides for the issuance of letters of credit. The amount available for borrowing under the revolving credit facility is reduced by the total outstanding letters of credit. At June 30, 2002, the Company had \$0.6 million of letters of credit outstanding and \$29.4 million available under the revolving credit facility. The Company pays a commitment fee of 5/16% on the unused portion of the revolving credit facility.

The Company has convertible debentures outstanding, which bear interest at 5% and mature on October 15, 2004. In October 2000, \$27,000 of the convertible subordinated debentures were converted into approximately 1,000 shares of common stock of the Company. The remaining balance of convertible debentures at June 30, 2002, is \$74.7 million. If these remaining debentures outstanding were converted, 2.8 million additional shares would be added to common shares outstanding. These debentures were antidilutive for the fiscal year 2002 and 2001 periods and therefore are not included in the denominators for income (loss) from continuing operations per share -- assuming dilution, income (loss) from discontinued operations per share -- assuming dilution, or net income (loss) per share -- assuming dilution for these periods.

The Company believes that its cash and cash equivalents, short-term investments,

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and borrowing arrangements should satisfy its financing needs for the foreseeable future.

### Contingency:

The Company from time to time is involved in legal proceedings and litigation arising in the ordinary course of business. In the opinion of management, the outcome of such proceedings and litigation currently pending will not materially affect the Company's consolidated financial statements.

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### Critical Accounting Policies:

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

### Revenue recognition:

Contract fees from outsourcing services are typically based on multi-year contracts ranging from three to five years in length, and provide a recurring revenue stream throughout the term of the contract. During the first several years of a typical outsourcing services contract, the Company performs services and incurs expenses at a greater rate than in the later years of the contract. Since billings usually remain constant during the term of the contract, and revenue is recognized as work is performed, revenues usually exceed billings in the early years of the contract. The resulting excess is reflected as unbilled accounts receivable. In some cases when a contract term is extended, the billing period is also extended over the new life of the contract. As a contract proceeds, services are performed, and expenses are incurred at a diminishing rate, resulting in billings exceeding revenue recognized, which causes a decrease in the unbilled accounts receivable balance, although additional unbilled accounts receivable will continue to be recorded based on the terms of the contracts. These contracts require estimates of periodic revenue earned and costs to be incurred to deliver products or services and are subject to revision as work progresses. Revisions in the estimates are reflected in operations in the period in which facts requiring those revisions become known.

Software services are generally provided under time and materials contracts and revenue is recognized as the services are provided. In some circumstances, services are provided under fixed-price arrangements in which revenue is recognized on the percentage-of-completion method. Revisions in estimates of costs to complete are reflected in operations in the period in which facts requiring those revisions become known. In certain software services contracts, the Company performs services but cannot immediately bill for them. Revenue is usually recognized as work is performed, resulting in an excess of revenues over billings in such periods. The resulting excess is reflected as unbilled accounts receivable. Billings in these software services contracts cause a decrease in

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the unbilled accounts receivable, although additional unbilled accounts receivable will continue to be recorded based on the terms of the contracts.

The Company licenses software under license agreements and provides services including training, installation, consulting, and maintenance and enhancements. Maintenance and enhancement agreements provide for telephone support and error correction for current versions of licensed systems, as well as regulatory updates and functional and technical enhancements to licensed systems if and when they become generally available. Fees for maintenance and enhancements agreements are recognized ratably over the term of the agreements. License fee revenues are recognized when a license agreement has been signed, the software product has been shipped, the fees are fixed and determinable, collection is considered probable, and no significant vendor obligations remain. In certain license arrangements, the Company ships the product and recognizes revenue, but has not billed the complete contract amount due to contractual payment terms, resulting in an excess of revenues over billings in such periods. The resulting excess is reflected as unbilled accounts receivable. The Company usually bills these unbilled balances within one year.

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For client arrangements that include license fees and implementation and other professional services, the portion of the fees related to software licenses is generally recognized in the current period, while the portion of the fees related to implementation and other professional services is recognized as such services are performed.

The Company allocates revenue to each component of the contract based on objective evidence of its fair value, which is specific to the Company, or, for products not being sold separately, the price established by management. Because licensing of the software is not dependent on the professional services portions of the contract, the software revenue is recognized upon delivery. The remainder of the contract revenue is recorded as earned as software services revenue.

### Restructuring:

During fiscal years 2002 and 2001, the Company recorded significant reserves in connection with restructuring programs. These reserves include estimates pertaining to employee separation costs, assumptions regarding idle facilities and sublease terms, and the settlements of contractual obligations resulting from these actions. Although the Company does not anticipate significant changes, the actual costs may differ from these estimates.

### Long-Term Investments:

The Company has made investments for strategic business purposes in the common and preferred stock of WebCT, a privately held Internet company. The fair value of this investment, which is classified as a long-term asset, is not readily determinable; therefore, it is carried at cost adjusted for other-than-temporary impairments. The Company recorded asset impairment charges of \$5.4 million and \$7.8 million in the third quarter of fiscal year 2002 and the second quarter of fiscal year 2001, respectively. On a quarterly basis, the Company reviews the underlying operating performance, cash flow forecasts, private equity transactions, and stock prices and equity values of publicly traded competitors of this privately held company in assessing impairment. Future earnings would be reduced and earnings would be charged if there was an additional impairment that was found to be other than temporary at a future balance sheet date. The Company's future results of operations could be materially affected by a future write down in the carrying amount of this investment to recognize an impairment loss due to an other than temporary decline in the value of the investment.

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In the third quarter of fiscal year 2001, the Company earned \$2.7 million in shares of WebCT. The Company earned these shares as a result of a joint marketing agreement with WebCT pursuant to which schools with cumulative enrollments totaling one million students licensed a product jointly developed by the Company and WebCT; however, the Company has not recorded any additional revenue as a result of this agreement.

The Company made a series of investments in Campus Pipeline, Inc., which have a carrying amount of zero. As a result of fully voting convertible preferred shares outstanding, the Company has determined that it does not control Campus Pipeline. Therefore, the Company accounts for its investment using the equity method of accounting. The convertible preferred shares have liquidation preferences, which would make realization by the Company at today's market values unlikely. Additionally, the Company will not record any additional future losses of Campus Pipeline and will not record any future earnings until the cumulative, unrecorded losses are offset.

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### Goodwill and Intangible Assets:

The Company evaluates goodwill and other intangibles for potential impairment on an annual basis unless circumstances indicate the need for impairment testing between the annual tests. The judgments regarding the existence of impairment indicators are based on legal factors, market conditions, and operational performance of the Company's reporting segments. In assessing the recoverability of the Company's goodwill and other intangibles, the Company must make valuation assumptions to determine the fair value of the respective assets. If these estimates or their related assumptions change in the future, the Company may be required to record impairment charges which could have a material adverse impact on the Company's financial condition and results of operations.

### Deferred Taxes:

The Company records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. While the Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event the Company were to determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Likewise, should the Company determine that it would not be able to realize all or part of its net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made.

### Divestiture:

The Company previously announced that it had signed a letter of intent for the sale of the Global Energy and Utilities Solutions (EUS) business. The letter of intent and negotiations with the party who signed the letter of intent have terminated. The Company is continuing in its efforts to sell the EUS business and the EUS business is treated as a discontinued operation in the consolidated statements of operations. The Company expects to recognize a gain on the sale of the EUS business. The success of the Company's efforts to sell the EUS business depends on the Company's ability to attract potential buyers, negotiate a price acceptable to the Company, and agree on terms of the sale.

### Factors That May Affect Future Results and Market Price of Stock:

The forward-looking statements discussed herein and elsewhere -- including statements concerning the Company's or management's forecasts, estimates,

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intentions, beliefs, anticipations, plans, expectations, or predictions for the future -- are based on current management expectations that involve risks and uncertainties that could cause actual results to differ materially from those anticipated. The following discussion highlights some, but not all, of the risks and uncertainties that may have a material adverse effect on the Company's business, results of operations, and/or financial condition.

The Company's revenues and operating results can vary substantially from quarter to quarter, owing to a number of factors. Software sales revenues in any quarter depend on the execution of license agreements and the shipment of product. The execution of license agreements is difficult to predict for a variety of reasons, including the following: a significant portion of the Company's license agreements is typically signed in the last month of each quarter; the Company's sales cycle is relatively long; the size of transactions can vary widely; client projects may be postponed or cancelled due to changes in the client's management, budgetary constraints, strategic priorities, or economic uncertainty; and clients often exhibit a seasonal pattern of capital spending. The Company has historically generated a greater portion of license fees and total revenue in the last two fiscal quarters, although there is no assurance that this will continue.

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Because a significant part of the Company's business results from software licensing, it is characterized by a high degree of operating leverage. The Company bases its expense levels, in significant part, on its expectations of future revenues. Therefore, these expense levels are relatively fixed in the short term. If software-licensing revenues do not meet expectations, net income is likely to be disproportionately adversely affected. There can be no assurance that the Company will be able to increase profitability or return to its historical level of profitability on a quarterly or annual basis in the future. It is, therefore, possible that in one or more future quarters, the Company's operating results will be below expectations. This would likely have an adverse effect on the price of the Company's common stock.

The success of the Company's business depends upon certain key management, sales, and technical personnel. In addition, the Company believes that to succeed in the future, it must continue to attract, retain, and motivate talented and qualified management, sales, and technical personnel. Competition for such personnel in the information technology industry is intense. The Company sometimes has difficulty locating qualified candidates. There can be no assurance that the Company will be able to retain its key employees or that it will be able to continue to attract, assimilate, and retain other skilled management, sales, and technical personnel. The loss of certain key personnel or the inability to attract and retain qualified employees in the future could have a material adverse effect on the Company's business, results of operations, and/or financial condition.

The application software industry is characterized by intense competition, rapid technological advances, changes in client requirements, product introductions, and evolving industry standards. The Company believes that its future success will depend on its ability to compete successfully, and to continue to develop and market new products and enhancements cost-effectively. This necessitates continued investment in research and development and sales and marketing. There can be no assurance that new industry standards or changing technology will not render the Company's products obsolete or non-competitive, that the Company will be able to develop and market new products successfully, or that the Company's markets will accept its new product offerings. Furthermore, software programs as complex as those the Company offers may contain undetected errors or bugs when

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they are first introduced or as new versions are released. Despite Company and third-party testing, there can be no assurance that errors will not be found in new product offerings. Such errors can cause unanticipated costs and delays in market acceptance of these products and could have a material adverse effect on the Company's business, financial condition, or cash flows. In addition, new distribution methods, such as the Internet and other electronic channels, have removed many of the barriers to entry that small and start-up software companies faced in the past. Therefore, the Company expects competition to increase in its markets.

If the Company were to experience delays in the commercialization and introduction of new or enhanced products, if customers were to experience significant problems with the implementation and installation of products, or if customers were dissatisfied with product functionality or performance, this could have a material adverse effect on the Company's business, results of operations, financial condition, or cash flows.

There can be no assurance that the Company's new products will achieve significant market acceptance or will generate significant revenue. Additional products that the Company plans to directly or indirectly market in the future are in various stages of development.

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Intense competition in the markets in which the Company competes may put pressure on the Company to reduce prices on certain products, particularly where certain vendors offer deep discounts in an effort to recapture or gain market share or to sell other software products, hardware products, or services. The bundling of software products for promotional purposes or as a long-term pricing strategy or guarantees of product implementations by certain of the Company's competitors could have the effect over time of significantly reducing the prices that the Company can charge for its products. Any such price reductions and resulting lower license revenues could have a material adverse effect on the Company's business, results of operations, financial condition, or cash flows.

The Company uses a common industry practice to forecast sales and trends in its business. The Company's sales personnel monitor the status of prospective sales, such as the date when they estimate that a customer will make a purchase decision and the potential dollar amount of the sale. The Company regularly aggregates these estimates to generate a sales pipeline. The Company compares the pipeline at various points in time to look for trends in its business. While this pipeline analysis may provide the Company with some guidance in business planning and budgeting, these pipeline estimates are necessarily speculative and may not consistently correlate to revenues in a particular quarter or over a longer period of time. A variation in the conversion of the pipeline into contracts or in the pipeline itself could cause the Company to improperly plan or budget and thereby adversely affect its business or results of operations. In particular, a slowdown in the economy may cause purchasing decisions to be delayed, reduced in amount, or cancelled, which will therefore reduce the overall license pipeline conversion rates in a particular period of time.

Building upon its original investment, the Company continues to strengthen its strategic alliance with Campus Pipeline, Inc. The Company has enhanced the integration of its higher education information systems with the Campus Pipeline product to provide 24-hour access to campus and Internet resources and allow students to enroll, register for classes, view grades, request transcripts and loan status, obtain reading lists, buy books, access e-mail, and participate in interactive chat sessions. While some of these features have been included in a product released by Campus Pipeline, other features are scheduled for future releases.



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During fiscal year 2000, the Company made an investment in WebCT and entered into a strategic alliance with WebCT to exclusively market the WebCT e-learning tools and e-learning hub to the Company's higher education client base. The alliance builds upon the Company's existing relationship with Campus Pipeline, Inc., and the Company's self-service Web for Students and Web for Faculty products to offer a unified, on-line, connected e-learning solution. This integrated solution will enable clients to access information systems, learning tools, online services, campus communication, and community resources through a single point of access. The Company intends to provide the real-time, bi-directional exchange of data between the Company's student information system and the WebCT course environment, eliminating manual synchronization of like information.

The success of these investments and strategic alliances depends upon: (i) the ability of the Company and its alliance members to meet development and implementation schedules for products and to enhance the products over time, (ii) the market acceptance of the products, (iii) the Company's ability to integrate the alliance members' products with the Company's products cost-effectively and on a timely basis, and (iv) the ability of the Company's alliance members to achieve their financial goals.

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Certain of the Company's contracts are subject to "fiscal funding" clauses, which entitle the client, in the event of budgetary constraints, to reduce the level of services to be provided by the Company, with a corresponding reduction in the fee the client must pay. In certain circumstances, the client may terminate the services altogether. While the Company has not been impacted materially by early terminations or reductions in service from the use of fiscal funding provisions in the past, there can be no assurance that such provisions will not give rise to early terminations or reductions of service in the future. If clients that represent a substantial portion of the Company's revenues were to invoke the fiscal funding provisions of their contracts, the Company's results of operations would be adversely affected.

Certain of the Company's outsourcing and software services contracts may be terminated by the client for convenience. If clients that represent a substantial portion of the Company's revenues terminate for convenience, the Company's future results of operations would be adversely affected.

The Company provides software-related services, including systems implementation and integration services. Services are provided under time and materials contracts, in which case revenue is recognized as the services are provided, and under fixed-price arrangements, in which case revenue is recognized on the percentage-of-completion method. Revisions in estimates of costs to complete are reflected in operations during the period in which the Company learns of facts requiring those revisions.

The impact on the Company of areas such as the Internet, online services, and electronic commerce is uncertain. There can be no assurance that the Company will be able to provide a product that will satisfy new client demands in these areas. In addition, standards for network protocols and other industry standards for the Internet are evolving rapidly. There can be no assurance that standards the Company chooses will position its products to compete effectively for business opportunities as they arise on the Internet and in other emerging areas.

The Company relies on a combination of copyright, trademark, trade secrets,

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confidentiality procedures, and contractual procedures to protect its intellectual property rights. Despite the Company's efforts to protect its intellectual property rights, it may be possible for unauthorized third parties to copy certain portions of the Company's products, or to reverse engineer or obtain and use technology or other Company-proprietary information. There can also be no assurances that the Company's intellectual property rights would survive a legal challenge to their validity or provide significant protection to the Company. In addition, the laws of certain countries do not protect the Company's proprietary rights to the same extent as do the laws of the United States. Accordingly, there can be no assurance that the Company will be able to protect its proprietary technology against unauthorized third-party copying or use, which could adversely affect the Company's competitive position.

On June 29, 2001, the Company sold its Global Government Solutions business to Affiliated Computer Services, Inc., ("ACS") for \$85 million in cash. The Company made certain representations and warranties to ACS under the purchase agreement, which could result in adjustments to the proceeds received. If the Company is found to have breached any of the representations and warranties contained in the purchase agreement, the Company may have to return cash proceeds and the Company's financial results could be adversely affected.

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In the second quarter of fiscal year 2002, the Company acquired the Sallie Mae student information systems business and Applied Business Technologies, Inc. ("ABT"). These acquisitions were entered into to increase the Company's opportunities in the higher education market. The success of these acquisitions depends upon: (i) the Company's ability to integrate the acquired products and operations with the Company's products and operations cost-effectively and on a timely basis, (ii) the Company's ability to complete development of and enhance the products acquired efficiently and cost effectively, and (iii) the market acceptance of the products.

On May 31, 2002, the Company consummated the sale of its process manufacturing business to Agilisys International Limited, a company organized under the laws of the Cayman Islands pursuant to an Asset Purchase Agreement dated April 10, 2002. The Company agreed to sell substantially all of the assets of MDS for \$13.2 million in cash, subject to adjustment in certain circumstances. Due to such adjustments, which principally related to the collection of receivables by the Company, the net proceeds received by the Company were \$10.5 million. The proceeds are subject to further adjustment based upon the preparation of a closing date balance sheet. This adjustment is not expected to be material. The Company could receive up to an additional \$3.0 million based upon the new company achieving specified revenue targets over the next three years.

The Company previously announced that it had signed a letter of intent for the sale of the Global Energy and Utilities Solutions (EUS) business. The letter of intent and negotiations with the party who signed the letter of intent have terminated. The Company is continuing in its efforts to sell the EUS business and the EUS business is treated as a discontinued operation in the consolidated statements of operations. The Company expects to recognize a gain on the sale of the EUS business. The success of the Company's efforts to sell the EUS business depends on the Company's ability to attract potential buyers, negotiate a price acceptable to the Company, and agree on terms of sale.

Other factors that could affect the Company's future operating results include the effect of publicity on demand for the Company's products and services; general economic and political conditions; the success of the Company's new business model; the success of the Company's long-term strategy; continued

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market acceptance of the Company's products and services; the timing of services contracts and renewals; continued competitive and pricing pressures in the marketplace; new product introductions by the Company's competitors; the Company's ability to complete fixed-price contracts profitably; and the Company's ability to generate capital gains sufficient to offset the capital losses that are expected to be realized upon the disposition of the investments held by the Company for which the carrying value has been reduced for financial reporting purposes.

### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

There have been no material changes in quantitative or qualitative disclosures for fiscal year 2002. Reference is made to Item 7A in the Annual Report on Form 10-K for the year ended September 30, 2001.

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## SYSTEMS & COMPUTER TECHNOLOGY CORPORATION AND SUBSIDIARIES

### PART II

#### Item 1. Legal Proceedings

The Company from time to time is involved in legal proceedings and litigation arising in the ordinary course of business. In the opinion of management, the outcome of such proceedings and litigation currently pending will not materially affect the Company's consolidated financial statements.

#### Item 6 (a). Exhibits

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|--------------|--|
| Exhibit 10.1 | Tenth Amendment and Modification to Credit Agreement dated as of May 31, 2002, among Systems & Computer Technology Corporation and SCT Software & Resource Management Corporation as Borrowers and Citizens Bank of Pennsylvania, successor to Mellon Bank, N.A. |
| Exhibit 10.2 | Form of Transaction Bonus Agreement.   |
| Exhibit 99.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.   |
| Exhibit 99.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.   |

#### Item 6 (b). Reports on Form 8-K

On June 6, 2002, the Company filed a Current Report on Form 8-K announcing that on May 31, 2002, pursuant to an Asset Purchase Agreement dated April 10, 2002, as amended, (the "Purchase Agreement") the Company consummated the sale of its Global Manufacturing & Distribution Solutions business (the "Business") to Agilisys International Limited (the "Purchaser") and its affiliated companies. The Company agreed to sell substantially all of the assets of the business for \$13.2 million in cash, subject to adjustment in certain circumstances. Due to such adjustments, which principally related to the collection of receivables by

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the Company, the net proceeds received by the Company were \$10.5 million. The proceeds are subject to further adjustment based upon the preparation of a closing date balance sheet. Pursuant to the Royalty Agreement entered into by the Company and the Purchaser in connection with the sale of the business, the Company may receive up to an additional \$3.0 million based upon the Business achieving certain specified net sales targets for each of the three years following the execution of the Purchase Agreement. The aggregate amount of consideration was determined by arms-length negotiations between the Company and Purchaser. In connection with the Purchase Agreement, the Company entered into a Non-Competition Agreement with the Purchaser and agreed not to engage, for a period of four years following the execution of the Non-Competition Agreement, in any business which, subject to certain exceptions, competes with the Business. Pursuant to the Non-Competition Agreement, for a period of two years following the execution of the Non-Competition Agreement, neither the Company nor the Purchaser, nor any of their respective affiliates, may induce or attempt to induce any employee of the other party to leave the employ of the other party or hire or solicit employment from the employees of the other party. Additionally, the Company has agreed, subject to certain exceptions, to withhold from disclosure any non-public information regarding the Business.

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SYSTEMS & COMPUTER TECHNOLOGY CORPORATION AND SUBSIDIARIES

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.

SYSTEMS & COMPUTER TECHNOLOGY CORPORATION  
(Registrant)

Date: 08/14/02

/s/ Eric Haskell

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Eric Haskell  
Senior Vice President, Finance & Administration,  
Treasurer, and Chief Financial Officer

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