SYSTEMS & COMPUTER TECHNOLOGY CORP
Form 10-Q
August 10, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-Q

(Mark One)
/X/ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2001 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	23-1701520
(State or other jurisdiction of incorporation)	(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 /X/ No / /

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

32,954,449 Common shares, $.01 par value, as of August 3, 2001

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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, 2001 (UNAUDITED)	September 30, 2000 (NOTE)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$127,674	$ 49,155
Short-term investments, including accrued interest of $0 and $206	20,889	16,787
Receivables, including $42,046 and $48,140 of earned revenues in excess of billings, net of allowance for doubtful accounts of $4,280 and $4,534	101,500	111,908
Prepaid expenses and other receivables	4,741	18,598
	--------	--------

TOTAL CURRENT ASSETS	254,804	196,448
PROPERTY AND EQUIPMENT--at cost, net of accumulated depreciation	58,173	61,151
CAPITALIZED COMPUTER SOFTWARE COSTS, net of accumulated amortization	14,380	18,080
COST IN EXCESS OF FAIR VALUE OF NET ASSETS ACQUIRED, net of accumulated amortization	13,107	14,218
OTHER ASSETS AND DEFERRED CHARGES	42,892	35,072
NET ASSETS OF DISCONTINUED OPERATIONS	--	36,692
TOTAL ASSETS	$383,356	$361,661

Note: The condensed consolidated balance sheet at September 30, 2000 has been derived from the audited financial statements at that date.

See notes to condensed consolidated financial statements.

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

	June 30, 2001 (UNAUDITED)	September 30, 2000 (NOTE)
LIABILITIES & STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 7,890	$ 9,513
Current portion of long-term debt	2,955	712
Income taxes payable	4,042	1,793
Accrued expenses	54,250	39,240
Deferred revenue	23,129	29,415
TOTAL CURRENT LIABILITIES	92,266	80,673
LONG-TERM DEBT, less current portion	74,723	77,521
OTHER LONG-TERM LIABILITIES	1,160	2,030
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 37,519 and 37,264 shares	375	372
Capital in excess of par value	117,388	115,247
Retained earnings	123,430	111,879
Accumulated other comprehensive loss	(504)	(540)

	240,689	226,958
Less		
Held in treasury, 4,642 and 4,642 common shares--at cost	(24,982)	(24,911)
Notes receivable from stockholders	(500)	(610)
	215,207	201,437
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$383,356	$361,661

Note: The condensed consolidated balance sheet at September 30, 2000 has been derived from the audited financial statements at that date.

See notes to condensed consolidated financial statements.

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,	
	2001	2000
Revenues:		
Outsourcing services	$ 15,424	$ 15,595
Software sales and commissions	14,745	20,851
Maintenance and enhancements	26,301	21,475
Software services	34,123	32,795
Interest and other income	1,092	1,011
	91,685	91,727
Expenses:		
Cost of outsourcing services	11,828	13,021
Cost of software sales, commissions, maintenance and enhancements	22,967	17,432
Cost of software services	22,841	22,651
Selling, general and administrative	26,651	25,381
Restructuring charge	3,954	--
Interest expense	1,207	1,157
	89,448	79,642
Income from continuing operations before income taxes	2,237	12,085
Provision for income taxes	1,217	5,133
Income from continuing operations	1,020	6,952
Discontinued operations:		
Income (loss) from discontinued operations, adjusted for applicable provision (benefit) for income taxes of ($195) and $2,861	(411)	4,346
Gain on sale of discontinued operations, net of income taxes of $13,111 and $0	20,155	--
Income from discontinued operations	19,744	4,346

Net income	$ 20,764	$ 11,298
	========	========
Income from continuing operations		
per common share	$ 0.03	$ 0.21
per share - assuming dilution	$ 0.03	$ 0.21
Income from discontinued operations		
per common share	$ 0.60	$ 0.13
per share - assuming dilution	$ 0.60	$ 0.13
Net income		
per common share	$ 0.63	$ 0.35
per share - assuming dilution	$ 0.63	$ 0.33
Common shares and equivalents outstanding:		
Average common shares	32,868	32,502
Average common shares - assuming dilution	33,042	33,857

See notes to condensed consolidated financial statements.

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,	
	2001	2000
Revenues:		
Outsourcing services	$ 46,399	$ 49,426
Software sales and commissions	36,929	40,083
Maintenance and enhancements	72,399	63,031
Software services	99,809	102,809
Interest and other income	3,665	1,511
	--------	--------
	259,201	256,860
Expenses:		
Cost of outsourcing services	36,263	40,178
Cost of software sales, commissions, maintenance and enhancements	63,780	56,093
Cost of software services	68,179	70,591
Selling, general and administrative	84,411	74,974
Restructuring charge	3,954	1,000
Asset impairment charges	7,831	--
Equity in losses of affiliates	--	4,761
Interest expense	3,628	3,449
	--------	--------
	268,046	251,046
Income (loss) from continuing operations before income taxes	(8,845)	5,814
Provision (benefit) for income taxes	(3,096)	2,989
	--------	--------
Income (loss) from continuing operations	(5,749)	2,825
Discontinued operations:		
Income (loss) from discontinued operations, adjusted for applicable provision (benefit) for income taxes of ($1,420) and $3,875	(2,855)	5,885
Gain on sale of discontinued operations,		

net of income taxes of $13,111 and $0	20,155	--
Income from discontinued operations	17,300	5,885
Net income	$ 11,551	$ 8,710
Income (loss) from continuing operations		
per common share	$(0.18)	$ 0.09
per share - assuming dilution	$(0.18)	$ 0.08
Income from discontinued operations		
per common share	$ 0.53	$ 0.18
per share - assuming dilution	$ 0.53	$ 0.18
Net income		
per common share	$ 0.35	$ 0.27
per share - assuming dilution	$ 0.35	$ 0.26
Common shares and equivalents outstanding:		
Average common shares	32,803	32,320
Average common shares - assuming dilution	32,803	33,577

See notes to condensed consolidated financial statements.

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

	For the Nine Months Ended June 30,	
	2001	2000
OPERATING ACTIVITIES		
Net income	$ 11,551	$ 8,710
Adjustments to reconcile net income to net cash provided by operating activities:		
Asset impairment charge	7,831	--
Equity in losses of affiliate	--	4,761
Gain on sale of assets	--	(6,430)
Gain on sale of discontinued operations	(20,155)	--
WebCT commission income	(2,700)	--
Depreciation and amortization	21,073	20,271
Provision for doubtful accounts	2,677	2,027
Deferred tax benefit	(15,423)	477
Changes in operating assets and liabilities:		
(Increase) decrease in receivables	3,313	(5,238)
(Increase) decrease in prepaid expenses and other receivables	6,280	(2,176)
Increase in accounts payable	(49)	(5,496)
Decrease in other accrued expenses	(416)	(998)
Increase (decrease) in deferred revenue	(8,550)	7,929
Other, net	2,070	(1,235)
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,502	22,602
INVESTING ACTIVITIES		
Purchase of property and equipment	(7,750)	(4,888)
Capitalized computer software costs	(754)	(3,098)

Purchase of investments available for sale	(31,453)	(13,752)
Proceeds from sale or maturity of investments available for sale	27,503	4,506
Proceeds from sale of discontinued operations	85,000	--
Purchase of subsidiary, net of cash acquired	(3,009)	(300)
Purchase of long-term investments	--	(10,000)
Proceeds from sale of assets	--	2,000
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	69,537	(25,532)
FINANCING ACTIVITIES		
Repayment of borrowings	(528)	(17,283)
Proceeds from borrowings, net of issuance costs	--	16,800
Repurchase of Company stock	(71)	--
Decrease in notes receivable from stockholders	110	--
Proceeds from exercise of stock options	1,969	3,553
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,480	3,070
INCREASE IN CASH & CASH EQUIVALENTS	78,519	140
CASH & CASH EQUIVALENTS-BEGINNING OF PERIOD	49,155	27,030
CASH & CASH EQUIVALENTS-END OF PERIOD	$127,674	$ 27,170
SUPPLEMENTAL INFORMATION		
Noncash investing and financing activities:		
Purchase of subsidiary - noncash portion	$ 500	$ --
Conversion of subordinated debentures into common stock	27	--

See notes to condensed consolidated financial statements.

SYSTEMS & COMPUTER TECHNOLOGY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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 1O-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, the fiscal year 2001 asset impairment charge, the fiscal year 2001 restructuring charge, and the fiscal year 2000 restructuring charge) 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, 2000. On June 29, 2001, the Company completed the sale of its Global Government Systems (GGS) business. The GGS business is accounted for as a discontinued operation, 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, 2001, are not necessarily indicative of the results that may be expected for the year ending September 30, 2001.

NOTE B--CASH AND SHORT-TERM INVESTMENTS

Cash equivalents are short-term, highly liquid investments with a maturity of

three months or less at the date of purchase.

Short-term investments consist of corporate debt securities. Management determines the appropriate classification of the debt securities at the time of purchase. At June 30, 2001 the portfolio of debt securities has been classified as available for sale and, as a result, is stated at fair value. The available-for-sale portfolio is comprised of highly liquid investments available for current operations and general corporate purposes and, accordingly, is classified as current assets.

The contractual maturities of short-term investments held as of June 30, 2001 are (in thousands):

Due in one year or less	$ 16,693
Due after one year through four years	4,196
	$ 20,889

NOTE C--LONG-TERM INVESTMENTS

The Company made investments for strategic business purposes of $16.0 million 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 an other than temporary impairment discussed below. The Company regularly reviews the underlying operating performance, cash flow forecasts, and recent private equity transactions of this privately-held company in assessing impairment. In the second quarter of fiscal year 2001, the Company recorded asset impairment charges of $7.8 million related to this investment. 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. Shares of WebCT will continue to be earned as additional schools license this product now that this threshold has been met. At June 30, 2001, the Company owns approximately 10% of the voting shares of WebCT. At June 30, 2001, the aggregate investment in WebCT is $10.9 million, and is included in other assets and deferred charges in the consolidated balance sheet.

Throughout fiscal year 1999, the Company made a series of investments in Campus Pipeline, Inc. As of June 30, 2001 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--ACQUISITIONS AND DISPOSITIONS

On June 29, 2001, the Company completed the sale of its GGS business to Affiliated Computer Services, Inc., realizing cash proceeds of $85 million, subject to adjustment in certain circumstances and the payment of taxes. Based on a formula contained in the purchase agreement, the purchase price reduction could be as much as approximately $40 million, although the Company does not believe that any material reduction will occur. As a result of the disposition, the Company will be able to further reduce and consolidate certain corporate functions, and provided a reserve of $12.8 million for severance and real estate related costs associated with such actions. This reserve is included in accrued

expenses. After this provision, the sale resulted in a pretax gain of $33.3 million, which net of $13.1 million of income taxes, produced a gain on sale of discontinued operations of $20.2 million. The results of GGS have been reported separately as discontinued operations in the consolidated statements of operations. Prior year consolidated financial statements have been restated to present GGS as a discontinued operation. For business segment reporting purposes, GGS data was previously reported as a separate segment. Revenues from the GGS business were $22.5 million and $28.2 million for the three-month periods ending June 30, 2001 and 2000, respectively. GGS revenues for the nine-month periods ending June 30, 2001 and 2000 were $65.7 million and $74.0 million, respectively. The net assets of discontinued operations at September 30, 2000 were $36.7 million (net assets of the discontinued operation were $38.9 million at the date of the sale) comprised of the following:

Accounts receivable	$27,058
Prepaid expenses and other receivables	6,994
Property and equipment	2,184
Capitalized computer software costs	1,230
Cost in excess of fair value of net assets acquired	1,520
Other assets and deferred charges	4,169
Current liabilities	(6,463)
Net Assets of Discontinued Operations	$36,692

NOTE E--RESTRUCTURING CHARGES

During the quarter ended June 30, 2001, the Company implemented a restructuring plan, which included the termination of employees, management changes, consolidation of certain facilities, and discontinuation of non-critical programs. The restructuring was carried out in an effort to improve the Company's performance. The Company accrued $3.5 million during the quarter ended June 30, 2001, 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. In May and June 2001, the Company terminated approximately 150 employees engaged primarily in marketing, administrative, special programs and development functions.

During the quarter ended December 31, 1999, the Company implemented a restructuring plan, which included the termination of employees and discontinuation of noncritical programs. The restructuring was considered necessary in light of significantly decreased license fees in the quarter. The Company accrued $1 million related to severance and termination benefits based on a termination plan developed by management in consultation with the Board of Directors in December 1999. In January 2000, the Company terminated approximately 100 employees engaged primarily in marketing, administrative, special-programs, and development functions.

NOTE F--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,	
	2001	2000	2001	2000
Numerator:				
Income (loss) from continuing operations available to				

common stockholders,	$ 1,020	$ 6,952	$ (5,749)	$ 2,825
Discontinued operations:				
Income (loss) from discontinued operations, net of income taxes	(411)	4,346	(2,855)	5,885
Gain on sale of discontinued operations, net of income taxes	20,155	--	20,155	--
Income from discontinued operations	19,744	4,346	17,300	5,885
Net income available to common stockholders after assumed conversions	$20,764	$11,298	$11,551	$ 8,710
Denominator:				
Weighted average common shares	32,868	32,502	32,803	32,320
Effect of dilutive securities:				
Employee stock options	174	1,355	--	1,257
Weighted average common shares -- assuming dilution	33,042	33,857	32,803	33,577
Income (loss) from continuing operations				
per common share	$ 0.03	$ 0.21	$(0.18)	$ 0.09
per share - assuming dilution	$ 0.03	$ 0.21	$(0.18)	$ 0.08
Income from discontinued operations				
per common share	$ 0.60	$ 0.13	$ 0.53	$ 0.18
per share - assuming dilution	$ 0.60	$ 0.13	$ 0.53	$ 0.18
Net income				
per common share	$ 0.63	$ 0.35	$ 0.35	$ 0.27
per share - assuming dilution	$ 0.63	$ 0.33	$ 0.35	$ 0.26

Potentially dilutive securities with an anti-dilutive effect (stock options in the fiscal year 2001 nine-month period and convertible debt in all periods presented) are not included in the above calculation.

NOTE G--PRODUCT DEVELOPMENT

Product development expenditures, including software maintenance expenditures, for the nine months ended June 30, 2001 and 2000, were approximately $39.5 million and $36.5 million, respectively. After capitalization, these amounts were approximately $38.9 million and $33.7 million, respectively, and were charged to operations as incurred. For the same periods, amortization of capitalized software costs (not included in expenditures above) amounted to $4.3 million and $3.9 million, respectively.

NOTE H--BUSINESS SEGMENTS

(in thousands)

After the sale of GGS, the Company has three reportable segments: Global Education Solutions (GES); Global Manufacturing & Distribution Solutions (M&DS); and Global Energy, Utilities & Communications Solutions (EUC). Summarized financial information concerning the Company's reportable segments is shown in the following table. The "All Other" column includes corporate-related items, elimination of inter-segment transactions, amortization of intangible assets purchased in business acquisitions, substantially all of the asset impairment charge in fiscal year 2001, and the restructuring charges in fiscal year 2001 and 2000. Interest and other income is not included in the revenue disclosures below. Certain prior year information has been reclassified to conform with the current-year presentation.

Three months ended June 30, 2001

	GES	M&DS	EUC	All Other	Total
Outsourcing services	$ 10,049	$ 1,281	$ 4,094	$ --	$ 15,424
Software sales and commissions, and maintenance and enhancements	31,782	4,210	5,054	--	41,046
Software services	14,840	7,607	11,676	--	34,123
External revenues	56,671	13,098	20,824	--	90,593
Intersegment revenues	316	1	--	(317)	--
Segment profit (loss)	12,219	(2,820)	(913)	(6,249)	2,237

Three months ended June 30, 2000

	GES	M&DS	EUC	All Other	Total
Outsourcing services	$ 9,849	$ 2,077	$ 3,669	$ --	$ 15,595
Software sales and commissions, and maintenance and enhancements	23,105	10,424	8,797	--	42,326
Software services	13,937	6,142	12,716	--	32,795
External revenues	46,891	18,643	25,182	--	90,716
Intersegment revenues	278	6	--	(284)	--
Segment profit (loss)	8,715	1,765	4,597	(2,992)	12,085

Nine months ended June 30, 2001

	GES	M&DS	EUC	All Other	Total
Outsourcing services	$ 30,077	$ 3,843	$12,479	$ --	$ 46,399
Software sales and commissions, and maintenance and enhancements	75,867	14,438	19,023	--	109,328
Software services	41,217	20,873	37,719	--	99,809
External revenues	147,161	39,154	69,221	--	255,536
Intersegment revenues	959	25	--	(984)	--
Segment profit (loss)	21,703	(11,662)	1,063	(19,949)	(8,845)

Nine months ended June 30, 2000

	GES	M&DS	EUC	All Other	Total
Outsourcing services	$ 31,056	$ 7,387	$10,983	$ --	$ 49,426
Software sales and commissions, and maintenance and enhancements	64,446	20,755	17,913	--	103,114
Software services	41,547	22,499	38,763	--	102,809
External revenues	137,049	50,641	67,659	--	255,349
Intersegment revenues	870	18	--	(888)	--
Segment profit (loss)	19,231	(2,710)	4,077	(14,784)	5,814

NOTE I--LONG-TERM DEBT
The Company has $74.75 million of convertible subordinated debentures bearing interest at 5% and maturing on October 15, 2004. The debentures are convertible into common stock of the Company at any time prior to redemption or maturity at a conversion price of $26.375 per share, subject to change as defined in the Trust Indenture. The debentures are redeemable at any time after October 15, 2000, at prices from 102.5% of par decreasing to par on October 15, 2003. In October 2000, $27,000 of the convertible subordinated debentures were converted into approximately 1,000 shares of common stock of the Company.

NOTE J--COMPREHENSIVE INCOME
(in thousands)

	Three Months Ended June 30, 2001	Three Months Ended June 30, 2000	Nine Months Ended June 30, 2001	Nine Months Ended June 30, 2000
Net income	$20,764	$11,298	$11,551	$8,710
Other comprehensive income (loss)	(13)	28	36	(408)
Total Comprehensive Income	$20,751	$11,326	$11,587	$8,302

Other comprehensive income relates primarily to currency translation adjustments related to foreign subsidiaries whose functional currencies are their local currencies.

NOTE K--NEW ACCOUNTING STANDARDS
In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets" effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives.

The Company will adopt the new rules on accounting for goodwill beginning in the first quarter of fiscal year 2002. Application of the nonamortization provisions of the Statements is expected to result in an increase in pre-tax income of approximately $1.7 million per year subject to any impairment charges that may occur. During fiscal year 2002, the Company will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of October 1, 2001 and has not yet determined what the effect of these tests will be on the earnings and financial position of the Company.

In October 1997, the American Institute of Certified Public Accountants issued Statement of Position (SOP) 97-2, "Software Revenue Recognition," which provides guidance on recognizing revenue from software transactions. In 1998, it issued

two amendments to SOP 97-2: SOP 98-4, "Deferral of Certain Provisions of SOP 97-2," and SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions." SOP 97-2 and SOP 98-4 were effective for the Company's fiscal year beginning October 1, 1998, and SOP 98-9 was effective for the fiscal year beginning October 1, 1999. Based on the Company's interpretation of the requirements of SOP 97-2, as amended, the adoption of this statement has not had and is not expected to have a significant impact on the Company's results of operations. However, the accounting profession continues to review certain provisions of SOP 97-2, as amended, with the objective of providing additional guidance on implementing its provisions.

During the Company's fiscal year 2000, the Staff of the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) 101, "Revenue Recognition." The SAB provides examples of how the Staff applies the criteria to specific fact patterns, such as bill-and-hold transactions, up-front fees when the seller has significant continuing involvement, long-term service transactions, refundable membership fees, retail layaway sales, and contingent rental income. The SAB also addresses whether revenue should be presented on a gross or net basis for certain transactions, such as sales on the Internet. In addition, the SAB provides guidance on the disclosures that registrants should make about their revenue-recognition policies and the impact of events and trends on revenue. The Company adopted the provisions of SAB 101 during the fourth quarter of fiscal year 2001.

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.

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,		Nine Mos. Ended June 30,		Three Mos. Ended June 30	Nine Mos. Ended June 30
	2001	2000	2001	2000		
Revenues:						
Outsourcing services	17%	17%	18%	19%	(1%)	(6%)
Software sales and commissions	16%	23%	14%	16%	(29%)	(8%)
Maintenance and enhancements	29%	23%	28%	24%	22%	15%
Software services	37%	36%	39%	40%	4%	(3%)
Other	1%	1%	1%	1%	8%	143%
Total	100%	100%	100%	100%	--	1%
Expenses:						
Cost of services, software sales, commissions, maintenance and enhancements	63%	58%	65%	65%	9%	1%
Selling, general and administrative	29%	28%	33%	29%	5%	13%
Asset impairment charge	--	--	3%	--	--	--
Equity in losses of affiliates	--	--	--	2%	--	(100%)
Restructuring charges	4%	--	1%	1%	--	295%

Interest expense	1%	1%	1%	1%	4%	5%
Income (loss) from continuing operations before income taxes	3%	13%	(3%)	2%	(81%)	(252%)

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,	
	2001	2000	2001	2000
Gross Profit:				
Outsourcing services	23%	17%	22%	19%
Software sales, commissions, maintenance and enhancements	44%	59%	42%	46%
Software services	33%	31%	32%	31%
Total	36%	41%	34%	35%

Revenues:
Outsourcing services revenue decreased 6% in the first nine months of fiscal year 2001 compared with the prior-year period. This decrease is primarily the result of (i) significant pass-through revenue related to expenses recorded for a client in the process manufacturing and distribution market in the second quarter of fiscal year 2000 and (ii) the termination of several small contracts in the higher education market and decreased services provided under several other contracts in the fiscal year 2001 periods. These decreases are partially offset by increases resulting from a fourth quarter 2000 agreement with the Chicago Department of Water. As a result of a termination of an outsourcing agreement at the end of the third quarter of fiscal year 2001, it is expected that revenues will decrease and remain at the reduced level until new contracts are obtained.

Software sales and commissions decreased 29% and 8% in the third quarter and first nine months of fiscal year 2001, respectively, compared to the prior-year periods due to decreased licenses in the Company's process manufacturing and distribution and energy and utilities markets. The Company believes these decreases are primarily the result of caution in the general business climate, which has been particularly felt in the technology sector. These decreases are partially offset by increases in the higher education market. The third quarter fiscal year 2001 higher education revenues include $2.7 million in shares of WebCT, earned by licensing to schools with cumulative enrollments totaling one million students. Shares of WebCT will continue to be earned as additional schools license this product because the threshold has been met.

The 22% and 15% increases in maintenance and enhancements revenue in the third quarter and first nine months of fiscal year 2001, respectively, were the result of the growing installed base of clients in all of the Company's markets and in the third quarter of fiscal year 2001, $3.0 million from the incremental fees paid to attend the Company's users group meeting. The Company continues to experience a high annual renewal rate on existing maintenance contracts in these marketplaces, although there can be no assurances that this will continue.

Software services revenue increased 4% in the third quarter of fiscal year 2001 compared with the third quarter of fiscal year 2000. The increase is primarily the result of increases in the manufacturing and distribution and higher education markets partially offset by decreases in the energy and utilities market. Software services revenue decreased 3% in the first nine months of fiscal year 2001 compared to the prior-year period. This decrease is primarily the result of decreased implementation and integration services performed in the process manufacturing and distribution market in the first six months of fiscal year 2001 and in the third quarter of fiscal year 2001 in the energy and utilities market. These decreases were primarily the result of a decline in license fees which generate service orders.

The increase in interest and other income in the first nine months of fiscal year 2001 is primarily attributable to interest income earned on the Company's increased cash and short-term investments balances and the amortization of the WebCT noncompete agreement signed in the Company's third quarter of fiscal year 2000.

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 2000 to 36% for the third quarter of fiscal year 2001 and from 35% for the first nine months of fiscal year 2000 to 34% for the same period of fiscal year 2001. The total gross profit percentage decreased because of a decrease in the

software sales, commissions, maintenance and enhancements gross profit percentage. This decrease is primarily the result of decreased software sales during the fiscal year 2001 periods, partially offset by the WebCT commissions revenue during the third quarter of fiscal year 2001, and an increase in certain costs. The Company incurred increased development expenses during the fiscal year 2001 periods primarily in the higher education business related to a new product initiative. The decrease in the software sales, commissions, maintenance and enhancement margin was partially offset by increases in the software services and outsourcing services margins. The software services gross margin increased in the fiscal year 2001 periods compared with the prior-year periods as a result of increased utilization primarily in the process manufacturing and distribution market. The outsourcing services margin increased primarily as a result of the new Chicago Department of Water agreement signed at the end of fiscal year 2000, new work on existing contracts, and for the nine-month period, the impact of the second quarter fiscal year 2000 pass through revenue discussed above.

Selling, General and Administrative Expenses:
Selling, general and administrative expenses increased in the third quarter and first nine months of fiscal year 2001 compared with the prior year periods primarily as a result of (i) the addition of sales personnel and selling expenses primarily in the process manufacturing and distribution and higher education markets, in an effort to increase sales volume and (ii) severance costs, of approximately $0.5 million, incurred in the second quarter of fiscal year 2001.

Restructuring Charges:
During the quarter ended June 30, 2001, the Company implemented a restructuring plan, which included the termination of employees, management changes, consolidation of certain facilities, and discontinuation of non-critical programs. The restructuring, which is expected to reduce operating costs by about 5% on an annual basis, was carried out in an effort to improve the Company's performance. The Company accrued $3.5 million during the quarter ended June 30, 2001, 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. In May and June 2001, the Company terminated approximately 150 employees engaged primarily in marketing, administrative, special programs and development functions. The Company has experienced some savings in the third quarter of fiscal year 2001 and expects to experience full cost savings related to the restructuring in the fourth quarter of fiscal year 2001. The Company is evaluating the need for additional program and staff reductions in the fourth quarter of fiscal 2001.

During the quarter ended December 31, 1999, the Company implemented a restructuring plan, which included the termination of employees and discontinuation of noncritical programs. The restructuring was considered necessary in light of significantly decreased license fees in the quarter. The Company accrued $1 million related to severance and termination benefits based on a termination plan developed by management in consultation with the Board of Directors in December 1999. In January 2000, the Company terminated approximately 100 employees engaged primarily in marketing, administrative, special-programs, and development functions. The Company began to experience cost savings related to the restructuring in the second quarter of fiscal year 2000.

Long-Term Investments:
The Company made investments for strategic business purposes of $16.0 million 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 an other than temporary impairment discussed below. The Company

regularly reviews the underlying operating performance, cash flow forecasts, and recent private equity transactions of this privately-held company in assessing impairment. In fiscal 2001, the cost basis was reduced and earnings were charged as a result of an impairment that was other than temporary. Future earnings would also 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. In the second quarter of fiscal year 2001, the Company recorded an asset impairment charge of $7.8 million related to its investment in WebCT. The Company believes that the impairment in this investment is the result of changes in the business model of WebCT. The Company believes this change will result in lower future earnings achieved by WebCT than those projected when the Company invested.

In the third quarter of fiscal year 2001, the carrying value of the Company's investment in WebCT increased by $2.7 million. The increase is due to the previously described receipt of WebCT shares. At June 30, 2001, the aggregate investment in WebCT is $10.9 million, included in other assets and deferred charges in the consolidated balance sheet. As of June 30, 2001, the Company owns 10% of the voting shares of WebCT.

Throughout fiscal year 1999, the Company made a series of investments in Campus Pipeline, Inc. As of June 30, 2001 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.

Acquisitions and Dispositions:
On June 29, 2001, the Company completed the sale of its Global Government Solutions business (GGS) to Affiliated Computer Services, Inc., realizing cash proceeds of $85 million, subject to adjustment in certain circumstances and the payment of taxes. Based on a formula contained in the purchase agreement, the purchase price reduction could be as much as approximately $40 million, although the Company does not believe that any material reduction will occur. In addition, the Company made certain representations and warranties to ACS under the Purchase Agreement, which could also result in adjustments to the proceeds received. If a purchase price adjustment should result, or 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. As a result of the disposition, the Company will be able to further reduce and consolidate certain corporate functions, and provided a reserve of $12.8 million for severance and real estate related costs associated with such actions. This reserve is included in accrued expenses. After this provision, the sale resulted in a pretax gain of $33.3 million, which net of $13.1 million of income taxes, produced a gain on sale of discontinued operations of $20.2 million. The results of GGS have been reported separately as discontinued operations in the consolidated statements of operations. Prior year consolidated balance sheets and statements of operations have been restated to present GGS as a discontinued operation. For business segment reporting purposes, GGS data was previously reported as a separate segment.

Contingency:
The Company has been involved in litigation relating to a software implementation in Broward County, Florida. The Company believed that it had meritorious defenses and the probability of an unfavorable outcome against the Company was unlikely. However, on October 31, 2000, an adverse decision was rendered against the Company in this litigation. The Company's claim for approximately $3.1 million -- which was included in the Company's accounts receivable balances -- for software licensed, services rendered, and expenses incurred was denied. In addition, the Company was ordered to pay damages in the amount of approximately $3.2 million plus prejudgment interest on a portion of that amount. On post-trial motions, the amount of the judgment was reduced by approximately $0.6 million. The Company has appealed the decision and believes that insurance proceeds may be available to cover a portion of the damages awarded against it. As a result of the court's decision and the inability to predict the possibility of overturning the judgment on appeal, the Company recorded a pretax charge of $5.8 million for damages and other costs associated with the action in the fourth quarter of fiscal year 2000. In the opinion of management, this amount, plus amounts previously accrued should be adequate to cover the ultimate loss resulting from this matter in the event that the appellate court affirms the lower court's decision. While this contract was originated within GGS, which has been sold, the right to appeal and the impact of the related outcome were retained by the Company.

The Company is also involved in other 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.

LIQUIDITY, CAPITAL RESOURCES, AND FINANCIAL POSITION

The following discussion of cash flow activity is based upon historical information as the statements of cash flows do not present the GGS business as a

discontinued operation.

The Company's cash and short-term investments balance was $148.6 million and $65.9 million as of June 30, 2001, and September 30, 2000, respectively. The cash balances increased primarily as a result of cash proceeds from the sale of the Company's GGS business. The Company expects to make cash payments for taxes and for the satisfaction of accruals established at the time of the sale. The use of the remainder of the proceeds is undetermined at this time.

Cash provided by operating activities was $7.5 million for the first nine months of fiscal year 2001, compared with $22.6 million for the prior-year period. The primary sources of cash in the fiscal year 2001 period were decreased accounts receivable and prepaid expenses and other receivables. These were offset by decreased deferred revenue. Prepaid expenses and other receivables decreased primarily as a result of decreased prepaid taxes. Deferred revenue decreased primarily as a result of prepayment on a maintenance contract in the energy and utilities business in fiscal year 2000.

The Company provides outsourcing services and software-related services, including systems implementation and integration services. Contract fees from outsourcing services are typically based on multi-year contracts ranging from three to 10 years in length, and provide a recurring revenue stream throughout the term of the contract. Software services contracts, including systems implementation and integration services, usually have shorter terms than outsourcing services contracts, and billings are sometimes milestone-based. During the beginning of a typical outsourcing services contract, the Company performs services and incurs expenses more quickly than during the

later part of the contract. Billings usually remain constant during the term of the contract. In some cases when a contract term is extended, the billing period is also extended over the new life of the contract. In certain software services contracts, the Company performs services but cannot bill for them before attaining a milestone. Revenue is usually recognized as work is performed, resulting in an excess of revenues over billings in such periods. The Company's Consolidated Balance Sheet reflects this excess as unbilled accounts receivable. As an outsourcing services contract proceeds, the Company performs services and incurs expenses at a lesser rate. This results in billings that exceed revenue recognized in such periods, which causes a decrease in the unbilled accounts receivable. Likewise, billings related to the achievement of a milestone in a software services contract causes a decrease in the unbilled accounts receivable. In both cases, additional unbilled accounts receivable will continue to be recorded based on the terms of the contracts. The remaining unbilled accounts receivable balance is comprised of software sales for which the Company has shipped product and recognized revenue, but has not billed amounts due to the contractual payment terms. The Company usually bills these unbilled balances within one year.

Cash provided by investing activities was $69.5 million for the first nine months of fiscal year 2001 compared with cash used of $25.5 million for the fiscal year 2000 nine-month period. In the fiscal year 2001 period, cash was primarily provided by the sale of the GGS business offset by cash used in the purchase of investments, property and equipment, and subsidiary assets. The primary use of cash in the nine months ended June 30, 2000 was the purchase of short-term and long-term investments, property and equipment and the capitalization of software development costs.

The $1.5 million and $3.1 million in cash provided by financing activities for the first nine months of fiscal year 2001 and 2000, 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 2003 and includes optional annual renewals. There were no borrowings outstanding at June 30, 2001, or September 30, 2000. As long as borrowings are 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 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, 2001, is $74.75 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 2001 and 2000 periods and therefore are not included in the denominators for net income per share - assuming dilution.

The Company believes that its cash and cash equivalents, short-term investments, cash provided by operations, and borrowing arrangements should satisfy its financing needs for the foreseeable future.

New Accounting Standards:
In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets" effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives.

The Company will adopt the new rules on accounting for goodwill beginning in the first quarter of fiscal year 2002. Application of the nonamortization provisions of the Statements is expected to result in an increase in pre-tax income of approximately $1.7 million per year subject to any impairment charges that may occur. During fiscal year 2002, the Company will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of October 1, 2001 and has not yet determined what the effect of these tests will be on the earnings and financial position of the Company.

In October 1997, the American Institute of Certified Public Accountants issued Statement of Position (SOP) 97-2, "Software Revenue Recognition," which provides guidance on recognizing revenue from software transactions. In 1998, it issued two amendments to SOP 97-2: SOP 98-4, "Deferral of Certain Provisions of SOP 97-2," and SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions." SOP 97-2 and SOP 98-4 were effective for the Company's fiscal year beginning October 1, 1998, and SOP 98-9 was effective for the fiscal year beginning October 1, 1999. Based on the Company's interpretation of the requirements of SOP 97-2, as amended, the adoption of this statement has not had and is not expected to have a significant impact on the Company's results of operations. However, the accounting profession continues to review certain provisions of SOP 97-2, as amended, with the objective of providing additional guidance on implementing its provisions.

During the Company's fiscal year 2000, the Staff of the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) 101, "Revenue Recognition." The SAB provides examples of how the Staff applies the criteria to specific fact patterns, such as bill-and-hold transactions, up-front fees when the seller has significant continuing involvement, long-term service transactions, refundable membership fees, retail layaway sales, and contingent rental income. The SAB also addresses whether revenue should be presented on a gross or net basis for certain transactions, such as sales on the Internet. In addition, the SAB provides guidance on the disclosures that registrants should make about their revenue-recognition policies and the impact of events and trends on revenue. The Company adopted the provisions of SAB 101 in the fourth quarter of fiscal year 2001. The adoption did not have a significant impact on reported results of operations.

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, 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, or strategic priorities; 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.

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 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.

Intense competition in the various markets in which the Company competes may put pressure on the Company to reduce prices on certain products, particularly in the markets where certain vendors offer deep discounts in an effort to recapture or gain market share or to sell other software or hardware products. 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. Additionally, while the distribution of applications through application service providers may provide a new market for the Company's products, these new distribution methods could also reduce the price paid for the Company's products or adversely affect other sales of 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 email, 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.

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 partners 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 partners' products with the Company's products cost-effectively and on a timely basis, and (iv) the ability of the Company's alliance partners to achieve their financial goals.

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 outsourcing services contracts, the Company's results of operations could be adversely affected.

Certain of the Company's outsourcing 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 could be adversely affected.

The Company provides software-related services, including systems implementation and integration services. 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 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, 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.

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; continued 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 2001. Reference is made to Item 7A in the Annual Report on Form 10-K for the year ended September 30, 2000.

SYSTEMS & COMPUTER TECHNOLOGY CORPORATION AND SUBSIDIARIES

PART II

Item 1. Legal Proceedings

The Company has been involved in litigation relating to a software implementation in Broward County, Florida. The Company believed that it had meritorious defenses and the probability of an unfavorable outcome against the Company was unlikely. However, on October 31, 2000, an adverse decision was rendered against the Company in this litigation. The Company's claim for approximately $3.1 million -- which was included in the Company's accounts receivable balances -- for software licensed, services rendered, and expenses incurred was denied. In addition, the Company was ordered to pay damages in the amount of approximately $3.2 million plus prejudgment interest on a portion of that amount. On post-trial motions, the amount of the judgment was reduced by approximately $0.6 million. The Company has appealed the decision and believes that insurance proceeds may be available to cover a portion of the damages awarded against it. As a result of the court's decision and the inability to predict the possibility of overturning the judgment on appeal, the Company recorded a pretax charge of $5.8 million for damages and other costs associated with the action in the fourth quarter of fiscal year 2000. In the opinion of management, this amount, plus amounts previously accrued should be adequate to cover the ultimate loss resulting from this matter in the event that the appellate court affirms the lower court's decision.

The Company is also involved in other 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 (b). Reports on Form 8-K

The Company filed Current Reports on Form 8-K on June 28, 2001 and July 16, 2001, in connection with the Company's sale of its Global Government Solutions business.

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: 08/13/01 /s/ Eric Haskell

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