

SYSTEMS & COMPUTER TECHNOLOGY CORP

Form 10-Q

August 14, 2003

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, 2003 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 by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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

33,818,000 Common shares, \$.01 par value, as of August 8, 2003

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SYSTEMS & COMPUTER TECHNOLOGY CORPORATION AND SUBSIDIARIES

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SIGNATURES

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

June 30,  
2003

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(UNAUDITED)

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 24,717
Short-term investments, including accrued interest of \$508 and \$701	51,794
Receivables, including \$42,226 and \$37,725 of earned revenues in excess of billings, net of allowance for doubtful accounts of \$2,803 and \$4,789	85,006
Note receivable	10,017
Prepaid income taxes	11,031
Prepaid expenses and other assets	17,994

TOTAL CURRENT ASSETS -----  
200,559

PROPERTY AND EQUIPMENT--at cost, net  
of accumulated depreciation 26,820

CAPITALIZED COMPUTER SOFTWARE COSTS,  
Net of accumulated amortization 2,785

GOODWILL 47,355

INTANGIBLE ASSETS, net of accumulated  
Amortization 18,807

OTHER ASSETS AND DEFERRED CHARGES 26,874

NET ASSETS OF DISCONTINUED OPERATIONS -

TOTAL ASSETS -----  
\$323,200  
=====

Note: The consolidated balance sheet at September 30, 2002, has been derived from the audited financial statements at that date. Certain prior year amounts have been reclassified to conform to this year's presentation. These reclassifications relate to (i) certain assets and liabilities, which were ultimately retained by the Company, related to the discontinued operations of the Global Energy and Utilities business and (ii) a reclassification between accounts receivable and deferred revenue.

See notes to consolidated financial statements.

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

June 30,  
2003  
(UNAUDITED)

Sept  
(

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LIABILITIES & STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable	\$ 3,571	\$
Income taxes payable	1,544	
Accrued expenses	39,261	
Deferred revenue	15,185	

TOTAL CURRENT LIABILITIES 59,561

LONG-TERM DEBT 31,990

OTHER LONG-TERM LIABILITIES 2,911

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 38,185 and 38,029	382	
Capital in excess of par value	126,377	1
Retained earnings	126,297	1
Accumulated other comprehensive loss	(215)	

-----  
252,841

Less

Held in treasury, 4,535 and 4,582 common shares--at cost	(24,103)	
--	----------	--

-----  
228,738

TOTAL LIABILITIES & STOCKHOLDERS' EQUITY \$323,200

=====

Note: The consolidated balance sheet at September 30, 2002, has been derived from the audited financial statements at that date. Certain prior year amounts have been reclassified to conform to this year's presentation. These reclassifications relate to (i) certain assets and liabilities, which were ultimately retained by the Company, related to the discontinued operations of the Global Energy and Utilities business and (ii) a reclassification between accounts receivable and deferred revenue.

See notes to consolidated financial statements.

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

For the

2003

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Revenues:	
Software sales and commissions	\$12,643
Maintenance and enhancements	23,757
Software services	22,659
Outsourcing services	8,312
Interest and other income	782
	-----
	68,153
	-----
Expenses:	
Cost of software sales, commissions, maintenance and enhancements	17,884
Cost of software services	16,492
Cost of outsourcing services	6,030
Selling, general and administrative	17,791
Asset impairment charge	-
Retirement and restructuring charge	1,670
Interest expense	484
	-----
	60,351
	-----
Income from continuing operations before income taxes	7,802
Provision for income taxes	3,234
	-----
Income (loss) from continuing operations	4,568
Discontinued operations	
Loss from discontinued operations, adjusted for applicable provision (benefit) for income taxes of \$629 and (\$616)	(629)
Loss on sale of discontinued operations, net of income tax provision (benefit) of \$2,905 and (\$9)	(2,905)
	-----
Loss from discontinued operations	(3,534)
	-----
Net income (loss)	\$ 1,034
	-----
Income from continuing operations	
per common share	\$ 0.14
per share -- assuming dilution	\$ 0.14
Loss from discontinued operations	
per common share	\$ (0.11)
per share -- assuming dilution	\$ (0.11)
Net income (loss)	
per common share	\$ 0.03
per share -- assuming dilution	\$ 0.03
Common shares and equivalents outstanding	
average common shares	33,641
average common shares -- assuming dilution	33,654

See notes to consolidated financial statements.

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

	For the 2003
<b>Revenues:</b>	
Software sales and commissions	\$ 31,115
Maintenance and enhancements	72,408
Software services	64,963
Outsourcing services	24,775
Interest and other income	3,210
	196,471
<b>Expenses:</b>	
Cost of software sales, commissions, maintenance and enhancements	54,381
Cost of software services	51,996
Cost of outsourcing services	18,181
Selling, general and administrative	55,125
Asset impairment charge	-
Retirement and restructuring charge	3,190
Interest expense	1,480
	184,353
Income from continuing operations before income taxes	12,118
Provision for income taxes	4,965
	7,153
Discontinued operations	
Loss from discontinued operations, adjusted for applicable provision (benefit) for income taxes of \$1,528 and (\$1,845)	(2,206)
Gain (loss) on sale of discontinued operations, net of income tax provision (benefit) of \$3,770 and (\$3,455)	3,728
	1,522
Income (loss) from discontinued operations	1,522
Net income (loss)	\$ 8,675
Income from continuing operations per common share	\$ 0.21
per share -- assuming dilution	\$ 0.21
Income (loss) from discontinued operations per common share	\$ 0.05
per share -- assuming dilution	\$ 0.05
Net income (loss)	

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per common share	\$ 0.26
per share -- assuming dilution	\$ 0.26
Common shares and equivalents outstanding	
average common shares	33,594
average common shares -- assuming dilution	33,631

See notes to consolidated financial statements.

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

	For the
	2003
Operating Activities	
Net income (loss)	\$ 8,675
Adjustment to reconcile net income (loss) to net cash used in operating activities	
Asset impairment charge	-
Loss on sale of MDS discontinued operations	2,805
Gain on bond repurchase	(1,384)
Gain on sale of EUS business	(6,533)
Depreciation and amortization	11,358
Provision for doubtful accounts	313
Deferred tax benefit	(87)
Changes in operating assets and liabilities:	
Increase in receivables	(7,568)
Decrease (increase) in prepaid income taxes	6,357
Increase in other current assets	(1,010)
Decrease in accounts payable	(2,831)
Decrease in income taxes payable	(2,357)
Decrease in accrued expenses	(19,542)
Decrease in deferred revenue	(8,606)
Decrease in other operating assets and deferred charges	3,683
Decrease in net assets of discontinued operations	8,739
NET CASH USED IN OPERATING ACTIVITIES	(7,988)
Investing Activities	
Purchase of property & equipment	(4,253)
Capitalized computer software costs	-
Purchase of investments available for sale	(49,324)
Proceeds from the sale or maturity of investments available for sale	57,788
Proceeds from sale of discontinued operations	24,451
Purchase of business, net of cash acquired	(27,032)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	1,630
Financing Activities	
Repayment of borrowings	(42,871)

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Issuance of Company stock	331
Decrease in notes receivable from stockholders	-
Proceeds from exercise of stock options	795
	-----
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(41,745)
DECREASE IN CASH & CASH EQUIVALENTS	(48,103)
CASH & CASH EQUIVALENTS AT BEGINNING OF PERIOD	72,820
	-----
CASH & CASH EQUIVALENTS AT END OF PERIOD	\$ 24,717
	=====
Supplemental information	
Noncash investing and financing activities:	
Sale of business -- noncash portion	10,000

See notes to consolidated financial statements.

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

#### NOTE A--BASIS OF PRESENTATION

The accompanying unaudited 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 and the fiscal year 2002 impairment charge; the fiscal year 2002 and fiscal year 2003 retirement and restructuring charges; and the fiscal year 2003 tax charge to discontinued operations) considered necessary for a fair presentation have been included. During the quarter ended March 31, 2003, the Company completed the sale of the Global Energy and Utilities Solutions ("EUS") business. The fiscal year 2002 consolidated balance sheet and consolidated statement of operations reflect the EUS business as a discontinued operation. During the quarter ended June 30, 2002, the Company completed the sale of the Global Manufacturing & Distribution Solutions ("MDS") business. The fiscal year 2002 consolidated statement of operations reflects the MDS business as a discontinued operation. 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, 2002. Operating results for the three and nine-month periods ended June 30, 2003 are not necessarily indicative of the results that may be expected for the year ending September 30, 2003.

Certain prior year amounts have been reclassified to conform to this year's presentation. These reclassifications relate to (i) certain assets and liabilities, which were ultimately retained by the Company, related to the discontinued operations of the Global Energy and Utilities business and (ii) a reclassification between accounts receivable and deferred revenue.

The statement of cash flows for the nine months ended June 30, 2002 is based on historical information and has not been restated to present the MDS and EUS businesses as discontinued operations.



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### NOTE B--ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company accounts for employee stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). No stock-based employee compensation cost is reflected in net income, as all options granted under the option plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation (in thousands, except per share amounts).

	Three months ended June 30,		Ni
	2003	2002	200
Net income (loss), as reported	\$1,034	\$ (439)	\$ 8,
Less: stock-based employee compensation expense determined under fair value method, net of related tax effects	(536)	(478)	(1,
Pro forma net income (loss)	\$ 498	\$ (917)	\$ 6,
Earnings (loss) per share:			
per common share, as reported	\$ 0.03	\$ (0.01)	\$ 0
per common share, pro forma	\$ 0.01	\$ (0.03)	\$ 0
per share--assuming dilution, as reported	\$ 0.03	\$ (0.01)	\$ 0
per share--assuming dilution, pro forma	\$ 0.01	\$ (0.03)	\$ 0

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

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, state and municipal, and federal debt securities. Management determines the appropriate classification of the securities at the time of purchase. At June 30, 2003, 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 income (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.

For the purpose of determining gross realized gains and losses, the cost of securities sold is based on the specific identification method. Gross realized gains on sales of available-for-sale securities were approximately \$0.3 million for the nine months ended June 30, 2003.

Short-term investments at June 30, 2003, are comprised of (in thousands):

Corporate debt securities	\$22,775
State and municipal debt securities	22,248

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Federal debt securities	6,771
	-----
	\$51,794
	-----

The contractual maturities of short-term investments held as of June 30, 2003, are (in thousands):

Due in one year or less	\$26,639
Due after one year	25,155
	-----
	\$51,794
	-----

### NOTE D--LONG-TERM INVESTMENTS

The Company has made investments for strategic business purposes in the common and preferred stock of WebCT, a privately held provider of web-based course tools for the higher education market. The fair value of the investment in WebCT, 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 fiscal year 2001 and the third quarter of fiscal year 2002, the Company recorded asset impairment charges totaling \$13.2 million and wrote-off the non-compete agreement with WebCT, which had a carrying value of \$1.5 million, 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, 2003, the Company owns approximately 11% of the voting shares of WebCT.

### NOTE E--RETIREMENT AND RESTRUCTURING CHARGES

On May 1, 2003, as part of its repositioning initiative, the Company implemented a restructuring action to improve fundamental business processes and reduce costs. This resulted in the termination of approximately 85 employees engaged primarily in product and product support activities. In connection with this, the Company recorded a restructuring charge of approximately \$1.7 million, principally for severance payments. During the third quarter of fiscal year 2003, the Company made payments of \$1.0 million related to these charges and at June 30, 2003, \$0.7 million of the accrual remains. The Company believes this amount is adequate to cover remaining obligations.

In the second quarter of fiscal year 2003, the Company implemented a restructuring action, principally in professional services, to better align resources with available backlog. This resulted in a restructuring charge of \$1.5 million for severance payments related to the reduction in force of 65 employees. Through June 30, 2003, the Company made payments of \$1.1 million related to these charges and at June 30, 2003, \$0.4 million of the accrual remains. The Company believes this amount is adequate to cover remaining obligations.

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In the second quarter of fiscal year 2002, Michael J. Emmi, former President, Chief Executive Officer, and Chairman of the Board of Directors retired from the Company. In connection with his retirement, Mr. Emmi received a compensation package including a reduction of indebtednesses of \$0.07 million, the continuation of his life and health insurance and other fringe benefits for periods ranging from two to five years, as well as an assignment to him of life insurance policies covering him, 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. During the first nine months of fiscal year 2003, the Company made payments of \$0.1 million related to these charges and at June 30, 2003, \$0.6 million of the accrual remains, which the Company believes is adequate to cover remaining obligations.

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 that quarter, the Company recorded a charge of \$1.4 million related to severance payments and disposition of assets. During the first nine months of fiscal year 2003, the Company made payments of \$0.4 million related to these charges. As of June 30, 2003, the charges recorded to this accrual are substantially complete and the Company believes that the remaining accrual is adequate to cover any outstanding obligations.

### NOTE F--ACQUISITIONS

Effective October 23, 2002, the Company acquired Campus Pipeline, Inc. for \$36.4 million cash and the assumption by the Company of certain employee bonus and severance obligations totaling \$5.2 million (the "Merger Consideration"). Campus Pipeline was a privately held corporation that provided digital and information systems products and services to colleges and universities. In accordance with the merger agreement, \$3.5 million of the Merger Consideration will be held in escrow until December 31, 2003 to secure certain indemnification obligations of the former stockholders of Campus Pipeline in favor of the Company in case of certain breaches of the merger agreement by Campus Pipeline. Pursuant to the merger agreement and Campus Pipeline's Certificate of Incorporation, holders of common stock of Campus Pipeline were not entitled to receive any portion of the Merger Consideration. The total amount of funds used to pay the Merger Consideration was obtained from the working capital of the Company. The allocation of the Campus Pipeline purchase price is as follows (in thousands):

Total cost of Campus Pipeline acquisition	\$36,391
Employee bonus and severance obligations	5,191
Accrued acquisition costs	8,660
	-----
	50,242
Net tangible assets acquired	11,598
Customer relationships	6,000
Purchased software	3,000
Trade names and trademarks	2,000
Deferred taxes	9,295
	-----

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31,893

Total goodwill

\$18,349

The Company recorded goodwill of \$18.3 million related to the acquisition. None of the goodwill is deductible for tax purposes. Goodwill includes \$8.7 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 \$6.0 million of customer relationships, \$3.0 million of purchased software and \$2.0 million of trade names and trademarks. Intangible assets acquired have a weighted-average amortization period of eight years. Additionally the Company recorded a deferred tax asset of \$9.3 million primarily to reflect the future benefit of net operating losses of Campus Pipeline. The acquired net operating losses will be used to offset the Company's future taxable income and expire in various periods ending on or before September 30, 2022. The completion of this transaction provides the Company with core technologies for the e-Education Infrastructure with portal, platform, integration, and content management technologies designed specifically for higher education. Based on open standards, these technologies can be integrated with an institution's systems to connect information, resources, and constituents.

Concurrent with the acquisition of Campus Pipeline, the Company began a detailed evaluation of Campus Pipeline's operations, resulting in a plan to terminate approximately 35 redundant employees and vacate space in a leased facility. The Company provided a reserve of \$4.2 million, which is included in the \$8.7 million accrued acquisition costs discussed above, for these actions and anticipates making payments for severance through the second quarter of fiscal year 2004 and for the leased facility through fiscal year 2012. Additionally the Company assumed certain employee bonus and severance obligations totaling \$5.2 million and anticipates making payments on these obligations through fiscal year 2004. Of the \$9.4 million total charges relating to the termination of employees, leased facilities, and employee bonus and severance obligations, the Company made, from the period of acquisition through June 30, 2003, cash payments of \$5.9 million related to these charges, primarily for severance obligations. At June 30, 2003, approximately \$3.4 million of these accruals remain, principally for lease obligations.

### NOTE G--DIVESTITURES

On March 5, 2003, the Company consummated the sale of its Global Energy and Utilities Solutions ("EUS") business to Indus International, Inc., for a sale price of \$34.5 million. The Company received cash proceeds of \$24.5 million and a \$10.0 million promissory note due within six months that is secured by a guaranty and a mortgage on real property. In connection with the sale of the EUS business, the Company retained deferred tax assets of \$4.2 million and reserves pertaining to restructurings associated with the EUS business of \$1.2 million, both of which were previously included in the net assets of the discontinued operations. Additionally, the Company retained liability for claims (including the cost of defense of such claims) arising from certain client matters. As a result, the Company accrued a \$2.0 million reserve for the defense of and resolution of these matters. The legal reserve and deferred tax asset amounts are included in the calculation of the gain on sale. The Company recorded a pretax gain of \$7.5 million on the sale, which net of an \$865 thousand tax provision that included previously unrecognized deferred taxes primarily from

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foreign operating losses, produced a net gain of \$6.6 million. During the current quarter, the Company recorded an additional net tax benefit of \$0.05 million to the gain on sale and discontinued operations of the EUS business. The net assets of discontinued operations at September 30, 2002, were \$28.9 million. Such amounts were restated as certain assets originally classified in discontinued operations were retained by the Company.

The results of EUS have been reported separately as discontinued operations in the consolidated statements of operations. For business segment reporting, EUS was previously reported as a separate segment.

On May 31, 2002, the Company consummated the sale of its Global Manufacturing & Distribution Solutions ("MDS") business to Agilisys International Limited ("Agilisys"). The Company sold substantially all of the assets of MDS for net proceeds of \$10.5 million. The Company could receive up to an additional \$3.0 million based upon the achievement by Agilisys of specified revenue targets over the three-year period subsequent to the sale. During the current quarter, the Company recorded an additional \$3.6 million tax charge to the discontinued operations of the MDS business. Of this tax charge, \$2.8 million was applied to the loss on sale and \$0.7 million was applied to loss from the discontinued operations of the MDS business. The charge was determined during preparation of the 2002 tax returns in the current quarter and relates to (i) additional foreign taxes on the discontinued business for which the Company does not expect to claim foreign tax credits and (ii) revisions to certain deductions which initially had been included in the calculation of the tax benefit on the sale of the MDS business. After consideration of the tax charge to the loss on sale, the Company recorded a loss of \$10.1 million, net of a \$0.7 million tax benefit.

The results of MDS have been reported separately as discontinued operations in the consolidated statements of operations. For business segment reporting, MDS was previously reported as a separate segment.

### NOTE H--EARNINGS PER SHARE

A reconciliation of the numerators and the denominators of earnings per common share and per share -- assuming dilution follows (in thousands, except per share amounts):

	For the Three Months Ended June 30,		For the
	2003	2002	2003
	-----	-----	-----
Numerator:			
Income (loss) from continuing operations available to common stockholders	\$ 4,568	(\$159)	\$ 7,15
Discontinued operations:			
(Loss) income from discontinued operations net of income taxes	(3,534)	(280)	1,5
	-----	-----	-----
Net income (loss) available to common stockholders	\$ 1,034	(\$439)	\$ 8,6
	=====	=====	=====

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Denominator:			
Weighted average common shares	33,641	33,323	33,5
Effect of dilutive securities:			
Employee stock options	13	-	
	-----	-----	-----
Weighted average common shares assuming dilution	33,654	33,323	33,6
	=====	=====	=====
Income from continuing operations			
per common share	\$0.14	(\$0.00)	\$0.
per share -- assuming dilution	\$0.14	(\$0.00)	\$0.
(Loss) income from discontinued operations			
per common share	(\$0.11)	(\$0.01)	\$0.
per share -- assuming dilution	(\$0.11)	(\$0.01)	\$0.
Net income (loss)			
per common share	\$0.03	(\$0.01)	\$0.
per share -- assuming dilution	\$0.03	(\$0.01)	\$0.

Potentially dilutive securities with an anti-dilutive effect (convertible debt in all periods presented) are not included in the above calculation.

NOTE I--PRODUCT DEVELOPMENT

Product development expenditures, including software maintenance expenditures, for the nine months ended June 30, 2003 and 2002, were approximately \$23.2 and \$20.8 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 \$1.6 and \$2.0 million, respectively.

NOTE J--BUSINESS SEGMENTS

The Company sold the Global Energy and Utilities Solutions business during the second quarter of fiscal year 2003 and it sold the Global Manufacturing & Distribution Solutions business in the third quarter of fiscal year 2002, leaving the Company with one reportable segment: Global Education Solutions. The financial statements presented above, exclusive of discontinued operations, reflect the operations of the Global Education Solutions business.

NOTE K--COMPREHENSIVE INCOME (LOSS)  
(in thousands)

	Three Months Ended		Nine Mo
	June 30,		Jun
	2003	2002	2003
	-----	-----	-----
Net income (loss)	\$1,034	\$(439)	\$8,675
Foreign currency translation adjustment	664	(293)	515
Unrealized gain (loss) on marketable securities	163	334	(147)
	-----	-----	-----
Other comprehensive income (loss)	827	41	368

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Total Comprehensive Income (Loss)	\$1,861	\$(398)	\$9,043
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NOTE L--GOODWILL AND INTANGIBLE ASSETS

The Company's goodwill was \$47.4 and \$28.8 million at June 30, 2003, and September 30, 2002, respectively. The increase in goodwill at June 30, 2003, is primarily the result of the Campus Pipeline acquisition (see Note F). The Company is 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 (in thousands):

	June 30, 2003		September 30, 2002	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Amortized intangible assets</b>				
Purchased software	15,462	(6,373)	12,462	(4,558)
Covenants-not-to-compete	6,065	(6,045)	6,065	(5,687)
Customer relationships	7,652	(647)	1,652	(110)
Trade names and trademarks	2,000	(172)	-	-
	31,179	(13,237)	20,179	(10,355)
<b>Unamortized intangible assets</b>				
Trade names and trademarks	865		865	
	865		865	

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

Fiscal Year	
2003	\$ 3,741
2004	3,413
2005	3,401
2006	3,401
2007	2,350
thereafter	4,518
Total	\$20,824

Amortization expense on intangible assets was \$2.9 and \$0.9 million for the nine months ended June 30, 2003 and 2002, respectively.

NOTE M--BOND REPURCHASE

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In June 2003, the Company repurchased \$1.8 million face value of its 5% convertible subordinated debentures due October 15, 2004. The Company repurchased the convertible debentures at a price of \$97.5, plus accrued interest. The transaction included \$1.8 million principal and interest of \$0.01 million for a total payment of \$1.8 million including fees. The Company recorded a gain of \$0.03 million, included in interest and other income during the quarter ended June 30, 2003. The gain was classified as interest and other income as a result of the Company's adoption of Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 62, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS 145"), at the beginning of fiscal year 2003. SFAS 145 requires that gains and losses on extinguishments of debt be classified as income or loss from continuing operations rather than as extraordinary items as previously required under Statement No. 4.

Also, in several transactions during the first quarter of fiscal year 2003, the Company repurchased \$40.9 million face value of the \$74.7 million, 5% convertible subordinated debentures due October 15, 2004. The Company repurchased the convertible debentures at prices ranging from \$94 to \$96, plus accrued interest. The transaction included \$39.2 million principal and interest of \$0.9 million for a total payment of \$40.1 million including fees. The Company recorded a gain of \$1.3 million, included in interest and other income, in the first quarter of fiscal year 2003 related to these transactions.

### NOTE N---COMMITMENTS AND CONTINGENCIES

At June 30, 2003, the Company had performance bonds outstanding that could require the Company's performance or cash payment in the event of demands by third parties. Historically, the Company has not experienced any claims that resulted in payments from the performance bonds. However, this trend is not necessarily indicative of future events. The expiration periods of the performance bonds are: less than one year, \$9.4 million and one year through three years, \$1.9 million.

The Company has guaranteed the obligations under a lease agreement assigned by the Company. Such guarantee is effective through the end of the lease term, which is March 2013. If the current leaseholder fails to meet its payment obligations under the assigned lease, the Company would be responsible for payments up to a maximum of \$2.5 million. Based on experience with these arrangements, the Company believes that any obligations that may arise will not be material. Should the Company be required to make any payments under the guarantee, it would then seek recourse from the current leaseholder.

In connection with the acquisition of Sallie Mae's student information systems business, the Company could be required to make additional cash payments of up to \$5.3 million over the next four years, contingent upon the revenue derived from license sales or other sales of the purchased product lines over that period.

### NOTE O--NEW ACCOUNTING STANDARDS

In January 2003, the Company adopted Financial Accounting Standards Board Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an Interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB



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Interpretation No. 34" ("FIN No. 45"). The interpretation requires that upon issuance of a guarantee, the entity must recognize a liability for the fair value of the obligation it assumes under that guarantee. The initial recognition and measurement provisions of FIN No. 45 are effective for guarantees issued or modified after December 31, 2002. The Company's guarantees were in existence prior to the effective date of FIN No. 45. The disclosure requirements of FIN No. 45 are included in Note N. The adoption of this interpretation has not had a material impact on the Company's consolidated financial position, consolidated results of operations, or liquidity.

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN No. 46"). This interpretation clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements", to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN No. 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. The Company will adopt the provisions of FIN No. 46 effective July 1, 2003. The Company does not believe that adoption of this interpretation will have a material impact on its consolidated financial position, consolidated results of operations, or liquidity.

### ITEM 2. 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. This Management's Discussion and Analysis of Financial Condition and Results of Operations contains descriptions of the Company's expectations regarding future trends affecting its business. These forward-looking statements and other forward-looking statements made elsewhere in this document are made in reliance upon the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. See also, Factors That May Affect Future Results and Market Price of Stock.

The following discussion excludes the results of the Global Energy and Utilities Solutions ("EUS") and Global Manufacturing & Distribution Solutions ("MDS") businesses as they were classified as discontinued operations in fiscal year 2002.

#### 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 Revenue			
Three Months		Nine Months	
Ended		Ended	
June 30,		June 30,	
2003	2002	2003	2002
----	----	----	----

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Revenues				
Software sales and commissions	19%	18%	16%	14%
Maintenance and enhancements	35%	33%	37%	36%
Software services	33%	35%	33%	34%
Outsourcing services	12%	13%	13%	15%
Interest and other income	1%	1%	2%	2%
-----				
Total	100%	100%	100%	100%
=====				
Expenses				
Cost of software sales, commissions, services, and maintenance and enhancements	59%	62%	63%	63%
Selling, general and administrative	26%	27%	28%	27%
Asset impairment charge		9%		3%
Retirement and restructuring charges	2%	0%	2%	3%
Interest expense	1%	2%	1%	2%
Income from continuing operations before income taxes	11%	1%	6%	3%
=====				

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,	
	2003	2002
	----	----
Gross Profit		
Software sales and maintenance and enhancements	51%	57%
Software services	27%	19%
Outsourcing services	27%	16%
-----		
Total	40%	38%
=====		

Revenues:

- o Software sales and commissions revenue increased 16% compared to the third quarter of fiscal year 2002 and 31% compared to the first nine months of fiscal year 2002 primarily due to the acquisition of Campus Pipeline, Inc. in the first quarter of fiscal year 2003.
- o The 18% increase in maintenance and enhancements revenue in both the third quarter and first nine months of fiscal year 2003 were the result of the growing installed base of clients in all of the Company's product lines and annual escalators on existing contracts. Maintenance and enhancements revenue from the first quarter fiscal year 2003 acquisition of Campus Pipeline provided 32% of the increase over the prior-year quarter and 24%

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of the increase over the prior-year first nine month period. The Company continues to experience a high annual renewal rate on existing maintenance contracts, although there can be no assurance that this will continue.

- o Software services revenue increased 5% and 12% in the third quarter and first nine months of fiscal year 2003 compared with the prior-year periods. The current quarter increase is primarily the result of new services business connected to the Campus Pipeline acquisition in the first quarter of fiscal year 2003. The increase over the first nine months of the prior fiscal year is driven by i) increased implementation and integration services provided to the Company's traditional Banner clients and (ii) new services business as a result of the acquisitions of ABT and the Sallie Mae student systems business in the second quarter of fiscal year 2002 and the Campus Pipeline acquisition in the first quarter of fiscal year 2003.
- o Outsourcing services revenue increased 2% in the third quarter of fiscal year 2003 compared with the prior-year period and remained flat against the first nine months of fiscal year 2003 compared with the prior fiscal year. These minimal fluctuations are reflective of the Company's decision to focus its efforts on servicing its existing outsourcing client base and obtaining renewals from these clients as opposed to aggressively seeking new outsourcing clients. As a result, the Company does not anticipate future growth in its outsourcing business.
- o Interest and other income increased when compared to the third quarter of the prior year as a result of the interest income earned on the note receivable from Indus International, Inc. Interest and other income remained flat when compared to the first nine months of the prior year as a result of the Company's decreased cash and short-term investments balances and decreased interest rates offset by the \$1.4 million gain recorded in fiscal year 2003 on the repurchase of \$42.7 million face value of the Company's \$74.7 million, 5% convertible subordinated debentures due October 15, 2004.

### Gross Profit:

-----

Gross profit increased to 40% for the third quarter of fiscal year 2003 from 38% in the prior year's third quarter and remained flat at 36% for the first nine months of both fiscal year 2003 and 2002. During the second and third quarters of fiscal 2003 the Company implemented two restructuring actions, primarily in the services and development areas, which are anticipated to reduce annualized pre-tax costs by approximately \$12.0 million. Although the anticipated quarterly savings from both of these actions will not be fully realized until the fourth quarter, the savings recognized in the current quarter from these actions has contributed to gross profit improvement. The software sales, commissions, maintenance, and enhancements gross profit percentage decreased primarily as a result of the separate development efforts related to the ABT and Sallie Mae products acquired in fiscal year 2002 and the Campus Pipeline products acquired in the first quarter of fiscal year 2003; however, the cost actions taken in the development areas are targeted at the integration of development activities and are expected to result in increased productivity and efficiencies across all product lines without compromising current systems or future development. The software services margin percent increased over the third quarter and first nine months of fiscal 2002. This increase is driven by an accrual recorded in the prior year quarter for a decline in profitability of a contract, elimination of under-utilized resources in connection with the fiscal 2003 restructuring

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actions discussed above, improved services margins on the fiscal 2002 acquisitions, and services margins on the 2003 acquisition of Campus Pipeline. In comparing the services margin for the first nine months, these positive factors are slightly offset by a decrease in the services utilization. This decrease in utilization is primarily the result of a disparity, which was identified in the first quarter of fiscal 2003, between client requirements of the Company's growing backlog of services contracts and the Company's available resources. The Company has developed methods to better analyze services backlog and has seen consistent margin improvement in both the second and third quarters of fiscal year 2003. The outsourcing services margin increased in the fiscal year 2003 periods primarily as a result of contract renewals, increased utilization of outsourcing professionals, and additional costs provided in fiscal 2002 for a contract termination.

### Selling, General and Administrative Expenses:

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Selling, general and administrative expenses increased by 6% and 20% in the third quarter and first nine months of fiscal year 2003, respectively compared with the prior-year periods. The increase over the prior year quarter is driven by (i) the 2003 acquisition of Campus Pipeline and (ii) additional amortization expense related to intangible assets from the acquired India operations at the end of fiscal 2002, in connection with the acquisition of the Sallie Mae student systems business. These increases are slightly offset by a decrease in sales commissions, which is driven by the signing of significant professional services contracts in the prior year's third quarter. The increase over the first nine months of the prior year is a result of (i) amortization and employee costs related to the acquisitions of ABT and the Sallie Mae student systems business in the second quarter of fiscal year 2002 and the Campus Pipeline acquisition in the first quarter of fiscal year 2003, and (ii) investments the Company has made in its sales and marketing organizations.

### Retirement and Restructuring Charges:

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On May 1, 2003, as part of its repositioning initiative, the Company implemented a restructuring action to improve fundamental business processes and reduce costs. This resulted in the termination of approximately 85 employees engaged primarily in product and product support activities. In connection with this, the Company recorded a restructuring charge of approximately \$1.7 million, principally for severance payments. During the third quarter of fiscal year 2003, the Company made payments of \$1.0 million related to these charges and at June 30, 2003, \$0.7 million of the accrual remains. The Company believes this amount is adequate to cover remaining obligations.

In the second quarter of fiscal year 2003, the Company implemented a restructuring action, principally in professional services, to better align resources with available backlog. This resulted in a restructuring charge of \$1.5 million for severance payments related to the reduction in force of 65 employees. Through June 30, 2003, the Company made payments of \$1.1 million related to these charges and at June 30, 2003, \$0.4 million of the accrual remains. The Company believes this amount is adequate to cover remaining obligations.

In the second quarter of fiscal year 2002, Michael J. Emmi, former President, Chief Executive Officer, and Chairman of the Board of Directors retired from the

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Company. In connection with his retirement, Mr. Emmi received a compensation package including a reduction of indebtednesses of \$0.07 million, the continuation of his life and health insurance and other fringe benefits for periods ranging from two to five years, as well as an assignment to him of life insurance policies covering him, 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. During the first nine months of fiscal year 2003, the Company made payments of \$0.1 million related to these charges and at June 30, 2003, \$0.6 million of the accrual remains, which the Company believes is adequate to cover remaining obligations.

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 that quarter, the Company recorded a charge of \$1.4 million related to severance payments and disposition of assets. During the first nine months of fiscal year 2003, the Company made payments of \$0.4 million related to these charges. As of June 30, 2003, the charges recorded to this accrual are substantially complete and the Company believes that the remaining accrual is adequate to cover any outstanding obligations.

### Discontinued Operations:

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On March 5, 2003, the Company consummated the sale of its Global Energy and Utilities Solutions ("EUS") business to Indus International, Inc., for a sale price of \$34.5 million. The Company received cash proceeds of \$24.5 million and a \$10.0 million promissory note due within six months that is secured by a guaranty and a mortgage on real property. In connection with the sale of the EUS business, the Company retained deferred tax assets of \$4.2 million and reserves pertaining to restructurings associated with the EUS business of \$1.2 million, both of which were previously included in the net assets of the discontinued operations. Additionally, the Company retained liability for claims (including the cost of defense of such claims) arising from certain client matters. As a result, the Company accrued a \$2.0 million reserve for the defense of and

resolution of these matters. The legal reserve and deferred tax asset amounts are included in the calculation of the gain on sale. The Company recorded a pretax gain of \$7.5 million on the sale, which net of an \$865 thousand tax provision that included previously unrecognized deferred taxes primarily from foreign operating losses, produced a net gain of \$6.6 million. During the current quarter, the Company recorded an additional net tax benefit of \$0.05 million to the gain on sale and discontinued operations of the EUS business. The net assets of discontinued operations at September 30, 2002, were \$28.9 million. Such amounts were restated as certain assets originally classified in discontinued operations were retained by the Company.

The results of EUS have been reported separately as discontinued operations in the consolidated statements of operations. For business segment reporting, EUS was previously reported as a separate segment.

On May 31, 2002, the Company consummated the sale of its Global Manufacturing &

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Distribution Solutions ("MDS") business to Agilisys International Limited ("Agilisys"). The Company sold substantially all of the assets of MDS for net proceeds of \$10.5 million. The Company could receive up to an additional \$3.0 million based upon the achievement by Agilisys of specified revenue targets over the three-year period subsequent to the sale. During the current quarter, the Company recorded an additional \$3.6 million tax charge to the discontinued operations of the MDS business. Of this tax charge, \$2.8 million was applied to the loss on sale and \$0.7 million was applied to loss from the discontinued operations of the MDS business. The charge was determined during preparation of the 2002 tax returns in the current quarter and relates to (i) additional foreign taxes on the discontinued business for which the Company does not expect to claim foreign tax credits and (ii) revisions to certain deductions which initially had been included in the calculation of the tax benefit on the sale of the MDS business. After consideration of the tax charge to the loss on sale, the Company recorded a loss of \$10.1 million, net of a \$0.7 million tax benefit.

The results of MDS have been reported separately as discontinued operations in the consolidated statements of operations. For business segment reporting, MDS was previously reported as a separate segment.

### Cyclical Nature of Business:

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Certain factors have resulted in quarterly fluctuations in operating results, including variability of software license fee revenues, seasonal patterns of capital spending by clients, the timing and receipt of orders, competition, pricing, new product introductions by the Company or its competitors, levels of market acceptance for new products, and general economic and political conditions. While the Company has historically generated a greater portion of license fees and total revenue in the last two fiscal quarters, the nonseasonal factors cited above may have a greater effect than seasonality on the Company's results of operations.

### Liquidity, Capital Resources, and Financial Position

The Statement of Cash Flows for the nine-month period ending June 30, 2003 shows the EUS business as a discontinued operation. The Statement of Cash Flows for the prior year period is based on historical information, which includes the cash flows of the MDS and EUS businesses for a portion of the nine month period ending June 30, 2002, and has not been restated to present the MDS and EUS businesses as discontinued operations for that entire period.

The Company's cash and short-term investments balance was \$76.5 million as of June 30, 2003 and \$133.6 million as of September 30, 2002. The cash balances decreased primarily as a result of the acquisition of Campus Pipeline and the repurchase of the Company's convertible subordinated debentures in the first quarter of fiscal year 2003, which were partially offset by the cash proceeds received from the sale of the EUS business in the second quarter of fiscal year 2003. The Company anticipates using its cash and short-term investments balance to fund future growth through various means, including strategic alliances and acquisitions.

Cash used in operating activities was \$8.0 million in the first nine months of fiscal year 2003 compared with \$27.4 million used in the prior-year period. The primary uses of cash in the fiscal year 2003 period were decreased accrued expenses, decreased deferred revenue, and increased accounts receivable

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partially offset by decreased prepaid income taxes. The decrease in accrued expenses is primarily the result of employee bonus and severance payments associated with the Campus Pipeline acquisition, severance payments connected to the second and third quarter restructurings, transaction fees and bonus payments related to the sale of the EUS business, and interest paid on the Company's convertible debentures. The increase in accounts receivable at June 30, 2003 compared to September 30, 2002, relates primarily to increased sales. Prepaid income taxes decreased as a result of a refund received in the first quarter of fiscal year 2003. Cash payments for the first nine months of fiscal year 2003 related to retirement and restructuring charges (which are included in operating activities) were approximately \$2.6 million, and are expected to be approximately \$0.8 million for the remainder of fiscal year 2003 and \$0.8 million in total for all subsequent years, principally for severance costs. Net cash payments for the first nine months of fiscal year 2003 related to an idle facilities lease were approximately \$1.4 million, and are expected to be approximately \$0.7 million for the remainder of fiscal year 2003. The Company expects to make net cash payments of approximately \$3.8 million for the idle facilities lease in subsequent years. Cash used in the fiscal year 2002 period primarily related to increased other current assets, primarily prepaid income taxes; decreased accounts and income taxes payable; decreased accrued expenses; and decreased deferred revenue. These were partially offset by the loss accrual for the sale of the manufacturing business and a decrease in other operating assets and deferred charges.

Cash provided by investing activities was \$1.6 million for the first nine months of fiscal year 2003 compared with cash used of \$44.0 million for the fiscal year 2002 period. In the fiscal year 2003 period, the Company received cash proceeds of \$24.5 million for the sale of the EUS business. Additionally, net cash of \$8.5 million was provided by the sale or maturity of investments available for sale. These were offset by the purchase of Campus Pipeline in the fiscal 2003 period for \$27.0 million. The primary use of cash in the fiscal year 2002 period was the purchase of the Sallie Mae student systems business and Applied Business Technologies, Inc. and the net purchase of investments, offset by proceeds from the sale of the MDS business.

The \$41.7 million in cash used in financing activities was primarily the repayment of \$42.7 million of the Company's 5% convertible subordinated debentures due October 15, 2004.

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, 2003 or September 30, 2002. 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 has complied with all covenants and conditions at June 30, 2003. 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, 2003, the Company had no

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letters of credit outstanding and \$30 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 several transactions in the first and third quarters of fiscal year 2003, the Company repurchased \$42.7 million face value of the \$74.7 million debentures. The Company repurchased the convertible debentures at prices ranging from \$94 to \$98, plus accrued interest. The transaction included \$40.9 million principal and interest of \$1.0 million for a total payment of \$41.9 million including fees. The Company recorded a gain of \$1.4 million primarily in the first quarter of fiscal year 2003 related to these transactions, which is included in interest and other income. If the remaining debentures outstanding were converted, 1.3 million additional shares would be added to common shares outstanding at June 30, 2003. The debentures were antidilutive for the fiscal year 2003 and 2002 periods and therefore are not included in the denominators for income 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.

At June 30, 2003, the Company had performance bonds outstanding that could require the Company's performance or cash payment in the event of demands by third parties. Historically, the Company has not experienced any claims that resulted in payments from the performance bonds. However, this trend is not necessarily indicative of future events. The expiration periods of the performance bonds are: less than one year, \$9.4 million and one year through three years, \$1.9 million.

The Company has guaranteed the obligations under a lease agreement assigned by the Company. Such guarantee is effective through the end of the lease term, which is March 2013. If the current leaseholder fails to meet its payment obligations under the assigned lease, the Company would be responsible for payments up to a maximum of \$2.5 million. Based on experience with these arrangements, the Company believes that any obligations that may arise will not be material. Should the Company be required to make any payments under the guarantee, it would then seek recourse from the current leaseholder.

In connection with the acquisition of Sallie Mae's student information systems business, the Company could be required to make additional cash payments of up to \$5.3 million over the next four years, contingent upon the revenue derived from license sales or other sales of the purchased product lines over that period.

In connection with the sale of its EUS business to Indus International, Inc., on March 5, 2003, the Company received a \$10.0 million promissory note due in the Company's fourth fiscal quarter that is secured by a guaranty and a mortgage on real property.

### Contingency:

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In connection with the sale of the Utilities business, the Company agreed to indemnify the Purchaser against all losses arising from certain claims asserted



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against the Company. The Company maintained the exclusive right to control the defense of these claims. As a result, a \$2 million reserve was established for the defense of and resolution of these claims. This amount is included in the calculation of the gain on sale of the EUS business. Additionally, the Company agreed to indemnify the purchaser for breaches of representations and warranties made by the Company in the agreement. If indemnity claims are made against the Company, the proceeds received by the Company for the sale may be subject to adjustment. After consideration of the accrual for the aforementioned legal matters, in the opinion of management any further indemnity obligations of the Company that may result would not materially affect the Company's consolidated financial statements.

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

### Critical Accounting Policies:

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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 require significant judgments and estimates in the preparation of its consolidated financial statements.

Revenue Recognition: The Company licenses software under license agreements and provides services including training, installation, consulting, and maintenance and enhancements. 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; such amounts were approximately \$13 million at June 30, 2003.

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. Maintenance and enhancement agreements are billed annually and often billed in arrears, resulting in revenues in excess of billings as revenue is recognized ratably over the contract term. The resulting excess is reflected as unbilled accounts receivable; such amounts were approximately \$18 million at June 30, 2003. Effective July 1, 2003, the Company implemented a policy whereby maintenance agreements for its Banner products will be billed at the beginning of the contract rather than in arrears.

Software services are generally provided under time and materials contracts and revenue is recognized as the services are provided. In some circumstances,

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services are provided under fixed-price arrangements in which revenue is recognized on the proportional-performance method, which relies on estimates of total expected contract revenues and costs. Since accounting for these contracts depends on estimates, which are assessed continually during the term of these contracts, recognized revenues and profit are subject to revisions as the contract progresses to completion. 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; such amounts were approximately \$9 million at June 30, 2003. Billings in these software services contracts cause a decrease in the unbilled accounts receivable, although additional unbilled accounts receivable will continue to be recorded based on the terms of the contracts.

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.

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; such amounts were approximately \$2 million at June 30, 2003. 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. 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. Many of the Company's outsourcing services contracts include contractual termination provisions, which provide for payment of a fee to the Company in the event a client terminates a contract early. The aggregate termination fees under these contracts were approximately \$6.5 million at June 30, 2003.

**Restructuring:** The Company recorded 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

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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 provider of web-based course tools for the higher education market. 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.

**Goodwill and Intangible Assets:** The Company's business acquisitions typically result in goodwill and other intangible assets, which affect the amount of future period amortization expense and possible impairment expense that the Company will incur. The determination of the value of such intangible assets requires estimates and assumptions that affect the consolidated financial statements. The Company assigns intangible assets useful lives, which are reassessed on an ongoing basis, ranging from two to 10 years, based on estimates, assumptions, and third-party valuations.

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. In assessing the recoverability of the Company's goodwill and other intangibles, the Company would 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.

**Factors That May Affect Future Results and Market Price of Stock:**  
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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, financial condition, and cash flows.

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.

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 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.

A significant part of the Company's business also results from the provision of services by the Company to clients who license the Company's software. The Company realizes lower margins on services revenues than on license revenues. The Company bases its expense levels in the services area on various factors, including the Company's expectation of future license sales and its expectation of when clients who have licensed the Company's software will actually implement the software. If software license revenues do not meet expectations, or if clients delay implementation of software licensed, the Company's business, results of operations, financial condition, and cash flows would be adversely affected.

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

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a material adverse effect on the Company's business, results of operations, financial condition, and cash flows.

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 market 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, results of operations, financial condition, and cash flows. In addition, 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 market.

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, and 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 market directly or indirectly in the future are in various stages of development.

Intense competition in the market 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, and 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

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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.

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 client base. The alliance builds upon the Company's Campus Pipeline and Luminus solutions and the Company's Banner Student Self-Service and Banner Faculty and Advisor Self-Service products to offer a unified, on-line, connected e-learning solution. This integrated solution enables clients to access information systems, learning tools, online services, campus communication, and community resources through a single point of access. The Company provides 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 continued success of this investment and strategic alliance depends upon: (i) the ability of the Company and WebCT to enhance the products over time, (ii) the market acceptance of the products, and (iii) the ability of WebCT to achieve their financial goals. In the second quarter of fiscal year 2003, the alliance with WebCT became non-exclusive, giving the Company the ability to market other e-learning tools and e-learning hubs to the client base.

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 business, results of operations, financial condition, and cash flows 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 business, results of operations, financial condition, and cash flows 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 proportional performance 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 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

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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.

In the second quarter of fiscal year 2002, the Company acquired the Sallie Mae student information systems business and Applied Business Technologies, Inc. and in October 2002, the Company acquired Campus Pipeline, Inc. These acquisitions were entered into in order 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 and technologies acquired and the services related thereto. If these acquisitions are not successful, acquired intangibles might become impaired and the Company may be required to record impairment charges that could have a material adverse impact on the Company's business, financial condition, cash flows, and results of operations.

In connection with the acquisition of Sallie Mae's student information systems business, the Company could be required to make additional cash payments of up to \$5.3 million over the next four years, contingent upon the revenue derived from license sales or other sales of the purchased product lines over that period.

On May 31, 2002, the Company consummated the sale of its process manufacturing software business to Agilisys International Limited. The Company agreed to sell substantially all of the assets of the process manufacturing software business, which resulted in net proceeds of \$10.5 million. The Company could receive up to an additional \$3.0 million based upon the achievement by Agilisys of specified revenue targets over the three-year period subsequent to the 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 in the United States and abroad; the success of the Company's new business model; the success of the Company's long-term strategy; 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.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in quantitative or qualitative disclosures for fiscal year 2003. Reference is made to Item 7A in the Annual Report on Form 10-K for the year ended September 30, 2002.

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## ITEM 4. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and its Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this quarterly report, have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that it files under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in rules and forms of the Securities and Exchange Commission.

SYSTEMS & COMPUTER TECHNOLOGY CORPORATION AND SUBSIDIARIES

## PART II

### Item 1. Legal Proceedings

In connection with the sale of the Utilities business, the Company agreed to indemnify the Purchaser against all losses arising from certain claims asserted against the Company. The Company maintained the exclusive right to control the defense of these claims. As a result, a \$2 million reserve was established for the defense of and resolution of these claims. This amount is included in the calculation of the gain on sale of the EUS business. Additionally, the Company agreed to indemnify the purchaser for breaches of representations and warranties made by the Company in the agreement. If indemnity claims are made against the Company, the proceeds received by the Company for the sale may be subject to adjustment. After consideration of the accrual for the aforementioned legal matters, in the opinion of management any further indemnity obligations of the Company that may result would not materially affect the Company's consolidated financial statements.

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

Exhibit 31.1 Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes Oxley Act of 2002.

Exhibit 31.2 Chief Financial Officer Certification pursuant to Section 302 of the Sarbanes Oxley Act of 2002.



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Exhibit 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

Exhibit 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

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

On April 9, 2003, the Company filed a Current Report on Form 8-K regarding its press release reporting estimated earnings for its second quarter ended March 31, 2003 and a conference call on April 4, 2003 with investors to discuss the Company's preliminary results announced in the press release.

On April 17, 2003, the Company filed a Current Report on Form 8-K regarding its press release reporting financial results for its second quarter ended March 31, 2003 and that the Company would hold a conference call on April 21, 2003 to discuss these results.

On April 25, 2003, the Company filed a Current Report on Form 8-K regarding the conference call with investors, held on April 21, 2003, to discuss the Company's financial results for its second quarter ended March 31, 2003.

On May 6, 2003, the Company filed a Current Report on Form 8-K regarding a letter sent by the Company's Chairman of the Board of Directors to Tocqueville Asset Management L.P. in response to their letter dated April 25, 2003.

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: August 14, 2003 Eric Haskell  
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Eric Haskell  
Executive Vice President, Finance & Administration,  
Treasurer, and Chief Financial Officer

