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SYSTEMS & COMPUTER TECHNOLOGY CORP

Form 10-Q

May 15, 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 March 31, 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.

33,640,000 Common shares, \$.01 par value, as of May 09, 2003

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SYSTEMS & COMPUTER TECHNOLOGY CORPORATION AND SUBSIDIARIES

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

	March 31, 2003 UNAUDITED)	Septemb 200 (NOT
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 35,137	\$ 72,
Short-term investments, including accrued interest of \$230 and \$701	43,052	60,
Receivables, including \$53,274 and \$41,446 of earned revenues in excess of billings, net of allowance for doubtful accounts of \$3,009 and \$4,789	88,932	77,
Note receivable	10,000	
Prepaid income taxes	16,445	20,
Prepaid expenses and other assets	18,535	17,
	-----	-----
TOTAL CURRENT ASSETS	212,101	248,
PROPERTY AND EQUIPMENT--at cost, net of accumulated depreciation	27,983	27,
CAPITALIZED COMPUTER SOFTWARE COSTS, net of accumulated amortization	3,331	4,
GOODWILL	47,167	28,
INTANGIBLE ASSETS, net of accumulated amortization	19,665	10,
OTHER ASSETS AND DEFERRED CHARGES	27,365	18,
NET ASSETS OF DISCONTINUED OPERATIONS	--	28,
	-----	-----
TOTAL ASSETS	\$337,612 =====	\$367, =====

Note: The condensed 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.

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See notes to condensed consolidated financial statements.

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

	March 31, 2003 (UNAUDITED)	September 2002 (NOTE)
LIABILITIES & STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 6,159	\$ 6,402
Income taxes payable	1,130	1,096
Accrued expenses	47,512	39,212
Deferred revenue	19,374	24,948
	-----	-----
TOTAL CURRENT LIABILITIES	74,175	71,658
LONG-TERM DEBT	33,790	74,723
OTHER LONG-TERM LIABILITIES	2,911	2,912
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 38,178 and 38,029	382	380
Capital in excess of par value	126,335	125,586
Retained earnings	125,263	117,622
Accumulated other comprehensive loss	(1,042)	(583)
	-----	-----
Less	250,938	243,005
Held in treasury, 4,550 and 4,582 common share--at cost	(24,202)	(24,434)
	-----	-----
	226,736	218,571
	-----	-----
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$337,612	\$367,864
	=====	=====

Note: The condensed 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.

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See notes to condensed consolidated financial statements.

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

	For the	Three Months
	ended	ended
	at	at
	March 31,	March 31,
	2003	2003
<b>Revenues:</b>		
Software sales and commissions	\$ 7,478	\$
Maintenance and enhancements	26,618	
Software services	22,577	
Outsourcing services	8,187	
Interest and other income	483	
	-----	-----
	65,343	-----
	-----	-----
<b>Expenses:</b>		
Cost of software sales, commissions, maintenance and enhancements	19,985	
Cost of software services	17,851	
Cost of outsourcing services	6,047	
Selling, general and administrative	18,469	
Retirement and restructuring charge	1,520	
Interest expense	492	
	-----	-----
	64,364	-----
	-----	-----
Income from continuing operations before income taxes	979	
Provision for income taxes	396	
	-----	-----
Income from continuing operations	583	
<b>Discontinued operations</b>		
Loss from discontinued operations, adjusted for applicable provision (benefit) for income taxes of \$755 and (\$243)	(1,794)	
Gain (loss) on sale of discontinued operations, net of income tax provision (benefit) of \$865 and (\$3,446)	6,633	
	-----	-----
Income (loss) from discontinued operations	4,839	(
	-----	-----
Net income (loss)	\$ 5,422	\$ (
	-----	-----

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Income from continuing operations		
per common share	\$ 0.02	\$
per share -- assuming dilution	\$ 0.02	\$
Income (loss) from discontinued operations		
per common share	\$ 0.14	\$
per share -- assuming dilution	\$ 0.14	\$
Net income (loss)		
per common share	\$ 0.16	\$
per share -- assuming dilution	\$ 0.16	\$
Common shares and equivalents outstanding		
average common shares	33,611	
average common shares -- assuming dilution	33,633	

See notes to condensed consolidated financial statements.

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

	For the Six Months March 31,	
	2003	2002
Revenues:		
Software sales and commissions	\$ 18,472	\$ 12,472
Maintenance and enhancements	48,651	40,651
Software services	42,304	36,304
Outsourcing services	16,463	16,463
Interest and other income	2,428	2,428
	-----	-----
	128,318	109,318
	-----	-----
Expenses:		
Cost of software sales, commissions, maintenance and enhancements	36,497	26,497
Cost of software services	35,504	29,504
Cost of outsourcing services	12,151	12,151
Selling, general and administrative	37,334	29,334
Retirement and restructuring charge	1,520	4,520
Interest expense	996	2,996
	-----	-----
	124,002	105,002
	-----	-----
Income from continuing operations before income taxes	4,316	3,316
Provision for income taxes	1,731	1,731
	-----	-----
Income from continuing operations	2,585	2,585

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Discontinued operations		
Loss from discontinued operations, adjusted for applicable provision (benefit) for income taxes of \$899 and (\$1,229)	(1,577)	(5)
Gain (loss) on sale of discontinued operations, net of income tax provision (benefit) of \$865 and (\$3,446)	6,633	(7)
	-----	-----
Income (loss) from discontinued operations	5,056	(12)
	-----	-----
Net income (loss)	\$ 7,641	\$ (9)
	-----	-----
Income from continuing operations		
per common share	\$ 0.08	\$
per share -- assuming dilution	\$ 0.08	\$
Income (loss) from discontinued operations		
per common share	\$ 0.15	\$ (
per share -- assuming dilution	\$ 0.15	\$ (
Net income (loss)		
per common share	\$ 0.23	\$ (
per share -- assuming dilution	\$ 0.23	\$ (
Common shares and equivalents outstanding		
average common shares	33,571	33
average common shares -- assuming dilution	33,619	33

See notes to condensed consolidated financial statements.

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

		For the Six Months March 31, 2003
		2003
Operating Activities		
Net income (loss)	\$ 7,641	
Adjustment to reconcile net income (loss) to net cash used in operating activities		
Gain on bond repurchase	(1,350)	
Gain on sale of business	(6,633)	
Depreciation and amortization	7,659	

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Provision for doubtful accounts	362
Deferred tax benefit	(102)
Changes in operating assets and liabilities:	
Increase in receivables	(7,822)
Decrease (increase) in prepaid income taxes	943
Increase in other current assets	(1,551)
Decrease in accounts payable	(243)
Increase (decrease) in income taxes payable	34
(Decrease) increase in accrued expenses	(14,439)
Decrease in deferred revenue	(8,138)
Decrease in other operating assets and deferred charges	2,911
Decrease in net assets of discontinued operations	8,739
	-----
NET CASH USED IN OPERATING ACTIVITIES	(11,989)
Investing Activities	
Purchase of property & equipment	(3,228)
Proceeds from sale of property & equipment	--
Capitalized computer software costs	--
Purchase of investments available for sale	(37,115)
Proceeds from sale of discontinued operations	27,774
Proceeds from the sale or maturity of investments available for sale	54,030
Purchase of business, net of cash acquired	(27,032)
	-----
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	14,429
Financing Activities	
Repayment of borrowings	(41,103)
Issuance of Company stock	232
Proceeds from exercise of stock options	748
	-----
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(40,123)
DECREASE IN CASH & CASH EQUIVALENTS	(37,683)
CASH & CASH EQUIVALENTS AT BEGINNING OF PERIOD	72,820
	-----
CASH & CASH EQUIVALENTS AT END OF PERIOD	\$ 35,137
	=====
Supplemental information	
Noncash investing and financing activities:	
Sale of business -- noncash portion	10,000

See notes to condensed consolidated financial statements.

NOTE A--BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim



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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 and fiscal year 2003 restructuring charges) 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 condensed consolidated balance sheet and condensed 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 condensed 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 six-month periods ended March 31, 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.

The statement of cash flows for the six months ended March 31, 2002 is based on historical information and has not been restated to present the MDS and EUS businesses as discontinued operations.

### 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 March 31,		Six
	2003	2002	2003
Net income (loss), as reported	\$ 5,422	\$ (10,228)	\$ 7,641
Less: stock-based employee compensation expense determined under fair value method, net of related tax effects	(738)	(485)	(1,309)
Pro forma net income (loss)	\$ 4,684	\$ (10,713)	\$ 6,332
Earnings (loss) per share:			
per common share, as reported	\$ 0.16	\$ (0.31)	\$ 0.23
per common share, pro forma	\$ 0.14	\$ (0.32)	\$ 0.19
per share--assuming dilution, as reported	\$ 0.16	\$ (0.31)	\$ 0.23
per share--assuming dilution, pro forma	\$ 0.14	\$ (0.32)	\$ 0.19

## 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 March 31, 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 six months ended March 31, 2003.

Short-term investments at March 31, 2003, are comprised of (in thousands):

Corporate debt securities	\$20,189
State and municipal debt securities	17,606
Federal debt securities	5,257
	-----
	\$43,052
	=====

The contractual maturities of short-term investments held as of March 31, 2003, are (in thousands):

Due in one year or less	\$24,854
Due after one year through four years	18,198
	-----
	\$43,052
	=====

## 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 condensed consolidated balance sheet. At March 31, 2003,

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the Company owns approximately 11% of the voting shares of WebCT.

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### NOTE E--RETIREMENT AND RESTRUCTURING CHARGES

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. During the second quarter of fiscal year 2003, the Company made payments of \$0.5 million related to these charges and at March 31, 2003, \$1 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 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 six months of fiscal year 2003, the Company made payments of \$0.08 million related to these charges and at March 31, 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 six months of fiscal year 2003, the Company made payments of \$0.3 million related to these charges and at March 31, 2003, \$0.2 million of the accrual remains, which the Company believes is adequate to cover remaining obligations.

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### 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

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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	8,473
	-----
	50,055
Net tangible assets acquired	11,598
Customer relationships	6,000
Purchased software	3,000
Trade names and trademarks	2,000
Deferred taxes	9,295
	-----
	31,893
Total goodwill	\$18,162

In the first quarter of fiscal year 2003, the Company recorded goodwill of \$16.7 million related to the acquisition. In the second quarter of fiscal year 2003, the Company provided an additional \$1.5 million reserve for real estate related costs, resulting in an adjustment to goodwill for that amount. The additional reserve results from an evaluation of the Company's ability to sublet the facilities at the terms previously anticipated. None of the goodwill is deductible for tax purposes. Goodwill includes \$8.5 million of costs (which includes the \$1.5 million additional reserve discussed above), 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 \$8.5 million accrued acquisition costs discussed above, for these actions and anticipates making payments for severance through the third quarter of fiscal year 2003 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 2003. Of the \$9.4 million total charges relating to the termination of employees, leased facilities, and employee bonus and severance obligations, the

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Company made, from the period of acquisition through March 31, 2003, cash payments of \$5 million related to these charges, primarily for severance obligations. At March 31, 2003, approximately \$4.4 million of these accruals remain.

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### 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 \$37.8 million, subject to adjustment based on working capital at the closing date. Due to such adjustment, principally related to receivable collections by the Company, the sale price was reduced by \$3.3 million, resulting in a net sale price of \$34.5 million. During the quarter, the Company received cash proceeds of \$27.8 million and a \$10 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. The net assets of the discontinued operations at September 30, 2002 have been restated to reflect these reclassifications. 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 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. After such considerations, 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. EUS revenues were \$23.9 million for the five-month period ending March 5, 2003 and \$38.7 million for the six-month period ending March 31, 2002, respectively. The loss from discontinued operations, net of taxes, was \$1.6 million for both the five-month period ending March 5, 2003 and for the six-month period ending March 31, 2002. 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 statement of operations. During fiscal year 2002, the Company declared EUS as discontinued, and as a result the prior year consolidated statements of operations have been restated to present EUS as a discontinued operation. For business segment reporting, EUS 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):

Three Months  
Ended  
March 31,

Six  
En  
Mar

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	2003 ----	2002 ----	2003 ----
Numerator:			
Income from continuing operations available to common stockholders	\$ 583	\$ 510	\$ 2,585
Discontinued operations:			
Income (loss) from discontinued operations net of income taxes	4,839 -----	(10,738) -----	5,056 -----
Net income (loss) available to common stockholders	\$ 5,422 =====	(\$10,228) =====	\$ 7,641 =====
Denominator:			
Weighted average common shares	33,611	33,126	33,571
Effect of dilutive securities:			
Employee stock options	22 -----	319 -----	48 -----
Weighted average common shares assuming dilution	33,633 =====	33,445 =====	33,619 =====
Income from continuing operations per common share	\$ 0.02	\$ 0.02	\$ 0.08
per share -- assuming dilution	\$ 0.02	\$ 0.02	\$ 0.08
Income (loss) from discontinued operations per common share	\$ 0.14	(\$0.32)	\$ 0.15
per share -- assuming dilution	\$ 0.14	(\$0.32)	\$ 0.15
Net income (loss) per common share	\$ 0.16	(\$0.31)	\$ 0.23
per share -- assuming dilution	\$ 0.16	(\$0.31)	\$ 0.23

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 six months ended March 31, 2003 and 2002, were approximately \$15.8 and \$13.3 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 \$1.1 and \$1.3 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,

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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		S
	March 31,		
	2003	2002	20
	----	----	--
Net income (loss)	\$ 5,422	\$ (10,228)	\$7,64
Foreign currency translation adjustment	(57)	12	(14
Unrealized loss on marketable securities	(46)	(222)	(31
	-----		-----
Other comprehensive loss	(103)	(210)	(45
	-----		-----
Total Comprehensive Income (Loss)	\$ 5,319	\$ (10,438)	\$7,18
	=====		=====

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NOTE L--GOODWILL AND INTANGIBLE ASSETS

The Company's goodwill was \$47.2 and \$28.8 million at March 31, 2003, and September 30, 2002, respectively. The increase in goodwill at March 31, 2003, is primarily the result of the Campus Pipeline acquisition (see Note F). The Company will be required to test the value of its goodwill at least annually. The following table sets forth the Company's amortized and unamortized intangible assets at the periods indicated (in thousands):

	March 31, 2003		September 30, 2002	
	Gross Carrying Accumulated		Gross Carrying Accumulated	
	Amount	Amortization	Amount	Amortization
	-----	-----	-----	-----
Amortized intangible assets				
Purchased software	15,462	(5,777)	12,462	(4,558)
Covenants-not-to-compete	6,065	(6,037)	6,065	(5,687)
Customer relationships	7,652	(456)	1,652	(110)

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Trade names and trademarks	2,000	(109)	--	--
	-----	-----	-----	-----
	31,179	(12,379)	20,179	(10,355)
	=====	=====	=====	=====
Unamortized intangible assets				
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 \$2.0 and \$0.5 million for the six months ended March 31, 2003 and 2002, respectively.

NOTE M--BOND REPURCHASE

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. 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.

NOTE N--NEW ACCOUNTING STANDARDS

Effective January 1, 2003, the Company adopted SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when



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they are incurred rather than at the date of commitment to an exit or disposal plan. SFAS No. 146 replaces previous accounting guidance provided by Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" and is effective for exit or disposal activities initiated after December 31, 2002. Adoption of this statement had no significant impact on the Company's consolidated financial position, consolidated results of operations, or liquidity.

### NOTE O--SUBSEQUENT EVENTS

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 accrued a restructuring charge of approximately \$1.7 million in the third quarter of fiscal year 2003, principally for severance payments.

### 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. 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.

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	% of Total Revenue			
	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2003	2002	2003	2002
	----	----	----	----
Revenues				
Software sales and commissions	11%	12%	14%	12%
Maintenance and enhancements	41%	38%	38%	38%
Software services	35%	34%	33%	33%
Outsourcing services	12%	14%	13%	15%
Interest and other income	1%	2%	2%	2%
	-----	-----	-----	-----
Total	100%	100%	100%	100%
	=====	=====	=====	=====
Expenses				
Cost of software sales, commissions, services, and maintenance and enhancements	67%	64%	66%	63%
Selling, general and administrative	28%	25%	29%	27%
Retirement and restructuring charges	2%	8%	1%	4%
Interest expense	1%	2%	1%	2%
Income from continuing operations before income taxes	1%	1%	3%	4%
	=====	=====	=====	=====

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		Six Months Ended
	March 31,		
	2003	2002	
	----	----	----
Gross Profit			
Software sales and maintenance and enhancements	41%	48%	
Software services	21%	20%	
Outsourcing services	26%	25%	
	-----	-----	-----
Total	32%	35%	
	=====	=====	=====

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### Revenues:

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- o Software sales and commissions revenue increased 8% compared to the second quarter of fiscal year 2002 and 42% compared to the first six months of fiscal year 2002 due to the acquisitions of Campus Pipeline, Inc. in the first quarter fiscal year 2003 and Applied Business Technologies, Inc. ("ABT") in the second quarter of fiscal year 2002. Although traditional Banner sales were down in the second quarter compared to the prior year, they were flat in the first six months of fiscal year 2003 compared to the prior year period.
- o The 21% and 19% increases in maintenance and enhancements revenue in the second quarter and first six 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 second quarter fiscal year 2002 acquisitions of ABT and the Sallie Mae student systems business and the first quarter fiscal year 2003 acquisition of Campus Pipeline provided 30% of the increase over the prior-year quarter and 41% of the increase over the prior-year first six month period. Additionally, the Company's annual user conference held in the second quarter of fiscal year 2003 and 2002 accounted for 31% and 19% of the growth in maintenance and enhancements in the second quarter and first six months of fiscal year 2003, respectively, due to increased attendance. 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 13% in the first three months of fiscal year 2003 compared with the prior-year period and 17% when compared to the first six months of the prior fiscal year. The increase is primarily the result of (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 decreased 2% and 1% in the second quarter and first six months of fiscal year 2003 compared with the prior-year periods. This decrease is primarily the result 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 decreased when compared to the second quarter of the prior year as a result of the Company's decreased cash and short-term investments balances. Interest and other income decreased when compared to the first six 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 \$1.3 million gain recorded in the first quarter of fiscal year 2003 on the repurchase of \$40.9 million face value of the Company's \$74.7 million, 5% convertible subordinated debentures due October 15, 2004.

Gross Profit:

-----  
Although the Company's gross profit increased, the total gross profit as a percentage of total revenue (excluding interest and other income) decreased from 35% for the second quarter and first six months of fiscal year 2002 to 32% for the second quarter of fiscal year 2003 and 33% for the first six months of fiscal year 2003. 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. The software services margin percent remained relatively flat as margins on the acquisitions in both fiscal year 2002 and fiscal year 2003 were offset by decreased utilization. The services utilization decrease is primarily the result of a disparity 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 margin improvement in the second quarter of fiscal year 2003 compared to first quarter of fiscal year 2003. The Company anticipates maintaining the services margin improvement over the year. The outsourcing services margin increased in the fiscal year 2003 periods primarily as a result of contract renewals and increased utilization of outsourcing professionals.

Selling, General and Administrative Expenses:

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Selling, general and administrative expenses increased by 27% and 28% in the second quarter and first six months of fiscal year 2003, respectively compared with the prior-year periods as 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, (ii) investments the Company has made in its sales and marketing organizations, and (iii) increased sales commissions as a result of increased revenues.

Retirement and Restructuring Charges:

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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. During the second quarter of fiscal year 2003, the Company made payments of \$0.5 million related to these charges and at March 31, 2003, \$1 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 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

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six months of fiscal year 2003, the Company made payments of \$0.08 million related to these charges and at March 31, 2003, \$0.6 million of the accrual remains, which the Company believes is adequate to cover remaining obligations.

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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 six months of fiscal year 2003, the Company made payments of \$0.3 million related to these charges and at March 31, 2003, \$0.2 million of the accrual remains, which the Company believes is adequate to cover remaining obligations.

### Discontinued Operations:

On March 5, 2003, the Company consummated the sale of its Global Energy and Utilities Solutions ("EUS") business to Indus International, Inc., for \$37.8 million, subject to adjustment based on working capital at the closing date. Due to such adjustment, principally related to receivable collections by the Company, the sale price was reduced by \$3.3 million, resulting in a net sale price of \$34.5 million. During the quarter, the Company received cash proceeds of \$27.8 million and a \$10 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. The net assets of the discontinued operations at September 30, 2002 have been restated to reflect these reclassifications. 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 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. After such considerations, 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.

The results of EUS have been reported separately as discontinued operations in the consolidated statement of operations. During fiscal year 2002, the Company declared EUS as discontinued, and as a result the prior year consolidated statements of operations have been restated to present EUS as a discontinued operation. For business segment reporting, EUS was previously reported as a separate segment.

During the second quarter of fiscal year 2002, the Company declared the Global Manufacturing & Distribution Solutions ("MDS") businesses as discontinued, and sold the business on May 31, 2002. As a result, the fiscal year 2002 loss from discontinued operations includes the results of the MDS business.

### Cyclical Nature of Business:

Certain factors have resulted in quarterly fluctuations in operating results, including variability of software license fee revenues, seasonal patterns of

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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.

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### Liquidity, Capital Resources, and Financial Position

The Statement of Cash Flows for the six-month period ending March 31, 2003 shows the EUS business as a discontinued operation. The Statement of Cash Flows for the prior year period is based on historical information and has not been restated to present the MDS and EUS businesses as discontinued operations.

The Company's cash and short-term investments balance was \$78.2 million as of March 31, 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 \$12 million in the first six months of fiscal year 2003 compared with \$19.8 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 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, other employee bonus payments, interest paid on the Company's convertible debentures, and payments related to settlement of certain legal matters in the first quarter of fiscal year 2003. The increases in accounts receivable at March 31, 2003 compared to September 30, 2002, relate primarily to payment terms and slow collections. The Company has implemented actions directed at improving payment terms and reducing days sales outstanding. Prepaid income taxes decreased as a result of a refund received in the first quarter of fiscal year 2003. Cash payments for the first six months of fiscal year 2003 related to retirement and restructuring charges (which are included in operating activities) were approximately \$0.9 million, and are expected to be approximately \$1.2 million for the remainder of fiscal year 2003 and \$0.6 million in total for all subsequent years, principally for severance costs. 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; and decreased deferred revenue. These were partially offset by increased accrued expenses related to the retirement and restructuring charges and the loss accrual for the sale of the manufacturing business.

Cash provided by investing activities was \$14.4 million for the first six months of fiscal year 2003 compared with cash used of \$60.4 million for the fiscal year 2002 period. In the fiscal year 2003 period, the Company received cash proceeds of \$27.8 million for the sale of the EUS business. Additionally, net cash of \$16.9 million was provided by the sale or maturity of investments available for

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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.

The \$40.1 million in cash used in financing activities was primarily the repayment of \$40.9 million of the Company's 5% convertible subordinated debentures due October 15, 2004.

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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 March 31, 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 March 31, 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 March 31, 2003, the Company had no 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 quarter of fiscal year 2003, the Company repurchased \$40.9 million face value of the \$74.7 million debentures. 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. If the remaining debentures outstanding were converted, 1.3 million additional shares would be added to common shares outstanding at March 31, 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 per share - assuming dilution for these periods.

At March 31, 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. 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

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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.

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### 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 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:

-----  
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



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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 \$11 million at March 31, 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 \$27 million at March 31, 2003.

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Software services are generally provided under time and materials contracts and revenue is recognized as the services are provided. In some circumstances, services are provided under fixed-price arrangements in which revenue is recognized on the 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 \$11 million at March 31, 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

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accounts receivable; such amounts were approximately \$4 million at March 31, 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 \$7 million at March 31, 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 from these estimates.

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**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

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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.

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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.

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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 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

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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.

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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 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. 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. 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

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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.

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

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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 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.

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In the second quarter of fiscal year 2002, the Company acquired the Sallie Mae student information systems business and Applied Business Technologies, Inc. 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

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software business to Agilisys International Limited. The Company agreed to sell substantially all of the assets of the process manufacturing software business for \$13.2 million in cash, subject to adjustment in certain circumstances. Due to such adjustments, which principally related to the collection of receivables by the Company, the net proceeds received by the Company were \$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.

On March 5, 2003, the Company completed the sale of its Global Energy and Utilities Solutions ("EUS") business to Indus International, Inc., for \$37.8 million, subject to adjustment based on working capital at the closing date. Due to such adjustment, principally related to receivables collections, the Company will make a payment of \$3.3 million to Indus International, Inc. in the third quarter of fiscal year 2003.

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 carried out an evaluation, under the supervision and with the participation of the Company's Disclosure Committee and the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of a date within 90 days prior to the date of filing this Quarterly Report on Form 10-Q (the "Evaluation Date"). Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that, as of Evaluation Date, the disclosure controls and procedures of the Company are effective to ensure that information required to be disclosed by the Company in its Exchange Act reports is recorded, processed, summarized and reported within the applicable time periods. Since the Evaluation Date, there have been no significant changes to the Company's internal controls or, to the Company's knowledge, in other factors that could significantly affect these controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

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 4. Submission of Matters to a Vote of Security Holders

At the Company's Annual Meeting of Shareholders held on February 21, 2003,



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Gabriel A. Battista and Robert M. Gavin, Jr. were reelected as directors of the Company for a term expiring at the Company's 2006 Annual Meeting of Shareholders. There were 26,097,981 votes cast in favor of the election of Mr. Battista and 3,199,038 votes were withheld, and there were 27,199,109 votes cast in favor of the election of Dr. Gavin and 2,097,910 votes were withheld.

### Item 6 (a). Exhibits

- Exhibit 10.1 Twelfth Amendment and Modification to Credit Agreement dated as of March 5, 2003, among Systems & Computer Technology Corporation and SCT Software & Resource Management Corporation as Borrowers and Citizens Bank of Pennsylvania, successor to Mellon Bank, N.A.
- Exhibit 99.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
- Exhibit 99.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

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

On January 3, 2003, the Company filed a Current Report on Form 8-K/A amending the Current Report on Form 8-K filed by the Company on November 5, 2002 regarding the merger on October 23, 2002 of CPI Acquisition Company, Inc., a Delaware corporation and a wholly owned subsidiary of the Company ("Acquisition Sub"), with and into Campus Pipeline, Inc., a Delaware corporation ("Campus Pipeline") pursuant to an Agreement and Plan of Merger dated September 30, 2002 by and among the Company, Campus Pipeline and Acquisition Sub. The sole purpose of the amendment was to provide the financial statements of the business acquired as required by Item 7(a) and the pro-forma financial information required by Item 7(b), which financial statements and information were excluded from the November 5, 2002, Form 8-K filing in reliance on Items 7(a)(4) and 7(b)(2), respectively, of Form 8-K.

On March 12, 2003, the Company filed a Current Report on Form 8-K announcing that on March 5, 2003 (the "Closing Date"), the Company and certain of its subsidiaries sold the Energy and Utilities Solutions business (the "Business") pursuant to a Purchase Agreement (the "Purchase Agreement") dated February 12, 2003 by and among the Company and certain of its subsidiaries and Indus International, Inc., a Delaware corporation ("Purchaser"), as amended by that certain Amendment No. 1 to the Purchase Agreement dated March 5, 2003. The purchase price consisted of (a) the payment by the Purchaser to the Company of an aggregate amount equal to \$29,035,000 in cash, subject to an adjustment based on a working capital target of the Business as of the Closing Date of \$3,637,000 (the net proceeds received by the Company on the Closing Date was \$27,774,000 based on an estimated working capital on the Closing Date, which amount is

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subject to further adjustment when the actual working capital on the Closing Date is determined) and (b) the delivery of a promissory note made by the Purchaser in favor of the Company in an amount equal to \$10,000,000, which is secured by a guaranty by the business and a mortgage on real property owned by the business that was transferred as a result of the sale.

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SYSTEMS & COMPUTER TECHNOLOGY CORPORATION AND SUBSIDIARIES

SIGNATURES

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

SYSTEMS & COMPUTER TECHNOLOGY CORPORATION  
(Registrant)

Date: 05/14/03

Eric Haskell

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

CERTIFICATIONS

CEO CERTIFICATION

I, Michael D. Chamberlain, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Systems & Computer Technology Corporation (the "Company");

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this quarterly report;

4. The Company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Company and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the Company's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

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c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Company's other certifying officers and I have disclosed, based on our most recent evaluation, to the Company's auditors and the audit committee of the Company's board of directors:

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data and have identified for the Company's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls; and

6. The Company's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

Michael D. Chamberlain

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Michael D. Chamberlain, President and  
Chief Executive Officer

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CFO CERTIFICATION

I, Eric Haskell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Systems & Computer Technology Corporation (the "Company");

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly

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report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this quarterly report;

4. The Company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Company and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the Company's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Company's other certifying officers and I have disclosed, based on our most recent evaluation, to the Company's auditors and the audit committee of the Company's board of directors:

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data and have identified for the Company's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls; and

6. The Company's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

Eric Haskell

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

