SYSTEMS & COMPUTER TECHNOLOGY CORP
Form 10-Q
February 13, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

# Form 10-Q

(Mark One)
/X/ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended December 31, 2001 or

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

0-11521
(Commission File Number)

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

| Delaware | 23-1701520 |
|---|---|
| (State or other jurisdiction of incorporation) | (I.R.S. Employer Identification No.) |

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

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

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

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

33,111,123 Common shares, $.01 par value, as of February 5, 2002

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SYSTEMS & COMPUTER TECHNOLOGY CORPORATION AND SUBSIDIARIES

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

| | December 31, 2001 (UNAUDITED) | September 30, 2001 (NOTE) |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 55,233 | $101,475 |
| Short-term investments, including accrued interest of $870 and $206 | 98,805 | 62,854 |
| Receivables, including $32,900 and $26,026 of earned revenues in excess of billings, net of allowance for doubtful accounts of $6,259 and $5,802 | 81,332 | 88,680 |

| | | |
|---|---|---|
| Prepaid expenses and other receivables | 28,632 | 18,962 |
| TOTAL CURRENT ASSETS | 264,002 | 271,971 |
| PROPERTY AND EQUIPMENT--at cost, net of accumulated depreciation | 50,423 | 52,415 |
| CAPITALIZED COMPUTER SOFTWARE COSTS, net of accumulated amortization | 12,394 | 13,369 |
| COST IN EXCESS OF FAIR VALUE OF NET ASSETS ACQUIRED, net of accumulated amortization | 13,217 | 12,690 |
| INTANGIBLE ASSETS, net of accumulated amortization | 7,554 | 8,301 |
| OTHER ASSETS AND DEFERRED CHARGES | 28,388 | 29,095 |
| TOTAL ASSETS | $375,978 | $387,841 |

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

See notes to condensed consolidated financial statements.

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

| | December 31, 2001 (UNAUDITED) | September 30, 2001 (NOTE) |
|---|---|---|
| LIABILITIES & STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | $ 5,667 | $ 9,188 |
| Current portion of long-term debt | 2,583 | 2,771 |
| Income taxes payable | 981 | 7,697 |
| Accrued expenses | 36,832 | 42,180 |
| Deferred revenue | 29,269 | 26,137 |
| TOTAL CURRENT LIABILITIES | 75,332 | 87,973 |
| LONG-TERM DEBT, less current portion | 74,723 | 74,723 |
| OTHER LONG-TERM LIABILITIES | 3,341 | 3,748 |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock, par value $.10 per share--authorized 3,000 shares, none issued | -- | -- |
| Common stock, par value $.01 per share--authorized 100,000 shares, issued 37,717 and 37,634 shares | 377 | 376 |

| | | |
|---|---|---|
| Capital in excess of par value | 120,564 | 120,040 |
| Retained earnings | 127,259 | 126,697 |
| Accumulated other comprehensive loss | (347) | (340) |
| | 247,853 | 246,773 |
| Less | | |
| Held in treasury, 4,619 and 4,630 common shares--at cost | (24,771) | (24,876) |
| Notes receivable from stockholders | (500) | (500) |
| | 222,582 | 221,397 |
| TOTAL LIABILITIES & STOCKHOLDERS' EQUITY | $375,978 | $387,841 |

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

See notes to condensed consolidated financial statements.

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

| | For the Three Months Ended December 31, | |
|---|---|---|
| | 2001 | 2000 |
| Revenues: | | |
| Outsourcing services | $ 12,406 | $ 15,628 |
| Software sales and commissions | 7,612 | 15,613 |
| Maintenance and enhancements | 26,040 | 22,234 |
| Software services | 28,886 | 31,359 |
| Interest and other income | 1,611 | 1,309 |
| | 76,555 | 86,143 |
| Expenses: | | |
| Cost of outsourcing services | 9,356 | 12,101 |
| Cost of software sales, commissions, maintenance and enhancements | 17,752 | 19,286 |
| Cost of software services | 22,043 | 22,365 |
| Selling, general and administrative | 25,359 | 28,320 |
| Interest expense | 1,108 | 1,214 |
| | 75,618 | 83,286 |
| Income from continuing operations before income taxes | 937 | 2,857 |
| Provision for income taxes | 375 | 1,112 |
| Income from continuing operations | 562 | 1,745 |
| Discontinued operations: | | |
| Income from discontinued operations, adjusted for applicable provision for income taxes of $0 and $160 | -- | 318 |
| Net income | $ 562 | $ 2,063 |

| | | |
|---|---|---|
| Income from continuing operations: | | |
| per common share | $ 0.02 | $ 0.05 |
| per share -- assuming dilution | $ 0.02 | $ 0.05 |
| Income from discontinued operations: | | |
| per common share | $ -- | $ 0.01 |
| per share -- assuming dilution | $ -- | $ 0.01 |
| Net income: | | |
| per common share | $ 0.02 | $ 0.06 |
| per share -- assuming dilution | $ 0.02 | $ 0.06 |
| Common shares and equivalents outstanding: | | |
| Average common shares | 33,068 | 32,729 |
| Average common shares -- assuming dilution | 33,471 | 33,336 |

See notes to condensed consolidated financial statements.

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

| | For the Three Months Ended December 31, | |
|---|---|---|
| | 2001 | 2000 |
| OPERATING ACTIVITIES | | |
| Net income | $ 562 | $ 2,063 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 5,306 | 6,779 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in receivables | 6,686 | (6,037) |
| (Increase) decrease in other current assets | (9,670) | 1,390 |
| Decrease in accounts payable | (3,521) | (2,250) |
| Decrease in income taxes payable | (6,716) | -- |
| Decrease in accrued expenses | (5,348) | (3,818) |
| Increase in deferred revenue | 2,842 | 604 |
| Other, net | 330 | 748 |
| NET CASH USED IN OPERATING ACTIVITIES | (9,529) | (521) |
| INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (1,065) | (1,658) |
| Capitalized computer software costs | (278) | (288) |
| Purchase of investments available for sale | (57,099) | (4,442) |
| Proceeds from sale or maturity of investments available for sale | 21,835 | 12,506 |
| Purchase of subsidiary assets, net of cash acquired | (527) | (2,800) |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | (37,134) | 3,318 |
| FINANCING ACTIVITIES | | |
| Repayment of borrowings | (188) | (172) |
| Issuance (repurchase) of Company stock | 105 | (148) |
| Decrease in notes receivable from stockholders | -- | 110 |

| | | |
|---|---|---|
| Proceeds from exercise of stock options | 504 | 1,043 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 421 | 833 |
| INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS | (46,242) | 3,630 |
| CASH & CASH EQUIVALENTS-BEGINNING OF PERIOD | 101,475 | 49,155 |
| CASH & CASH EQUIVALENTS-END OF PERIOD | $ 55,233 | $ 52,785 |
| SUPPLEMENTAL INFORMATION | | |
| Noncash investing and financing activities: | | |
| Purchase of subsidiary -- noncash portion | $ -- | $ 500 |
| Conversion of subordinated debentures into common stock | -- | 27 |

See notes to condensed consolidated financial statements.

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

NOTE A--INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 1O-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2001. Operating results for the three-month period ended December 31, 2001, are not necessarily indicative of the results that may be expected for the year ending September 30, 2002.

NOTE B--CASH AND SHORT-TERM INVESTMENTS
(in thousands)

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

Short-term investments consist of corporate and municipal debt securities. Management determines the appropriate classification of the securities at the time of purchase. At December 31, 2001, the portfolio of securities has been classified as available for sale. These securities are carried at fair value, based on quoted market values, with the unrealized gains and losses, net of income taxes, reported as a component of accumulated other comprehensive loss. The available-for-sale portfolio is comprised of highly liquid investments available for current operations and general corporate purposes and, accordingly, is classified as current assets.

Short-term investments at December 31, 2001 are comprised of:

| | |
|---|---|
| State and municipal securities | $ 335 |
| Corporate securities | 98,470 |
| | $ 98,805 |

The contractual maturities of short-term investments held as of December 31, 2001 are:

| | |
|---|---|
| Due in one year or less | $ 98,257 |
| Due after one year through four years | 548 |
| | $ 98,805 |

NOTE C--LONG-TERM INVESTMENTS

The Company has made investments for strategic business purposes of $16.0 million in the common and preferred stock of WebCT, a privately held Internet company. The fair value of this investment, which is classified as a long-term asset, is not readily determinable; therefore, it is carried at cost adjusted for an other-than-temporary impairment discussed below. The Company regularly reviews the underlying operating performance, cash flow forecasts, and recent private equity transactions of this privately held company in assessing impairment. In the second quarter of fiscal year 2001, the Company recorded asset impairment charges of $7.8 million related to this investment.

In the third quarter of fiscal year 2001, the Company earned $2.7 million in shares of WebCT. The Company earned these shares as a result of a joint marketing agreement with WebCT pursuant to which schools with cumulative enrollments totaling one million students licensed a product jointly developed by the Company and WebCT. Commissions in the form of shares of WebCT will continue to be earned as additional schools license this product now that this threshold has been met. At December 31, 2001, the Company owns approximately 10% of the voting shares of WebCT. At December 31, 2001, the aggregate investment in WebCT is $10.9 million, and is included in other assets and deferred charges in the consolidated balance sheet.

Throughout fiscal year 1999, the Company made a series of investments in Campus Pipeline, Inc. As of December 31, 2001 the Company held an approximately 57% interest in the common stock of this affiliate, with a carrying amount of zero. The Company has determined that it does not control Campus Pipeline because there are fully voting convertible preferred shares outstanding that lower the Company's voting interest to approximately 42%. Therefore, the Company accounts for its investment using the equity method of accounting. The Company will not record any additional future losses of Campus Pipeline and will not record any future earnings until the cumulative, unrecorded losses are offset.

NOTE D--RESTRUCTURING CHARGES

During the second quarter of fiscal year 2001, the Company decided that restructuring actions were necessary to improve the Company's performance. The restructuring plan included the termination of employees, management changes, consolidation of certain facilities, and discontinuation of non-critical programs. During the quarter ended June 30, 2001, the Company accrued $3.5 million related to severance and termination benefits and $0.4 million of other costs based on a termination plan developed by management in consultation with the Board of Directors. As of December 31, 2001, $0.8 million of this accrual remains. In May and June 2001, the Company terminated approximately 150 employees engaged primarily in marketing, administrative, special-programs, and development functions.

The Company continued to evaluate its business prospects and forecasts during the fourth quarter of fiscal year 2001. As a result of its evaluation, the Company implemented another restructuring plan, which included the discontinuation of non-critical programs, termination of employees, and

consolidation of certain facilities primarily in the energy and utilities business. The restructuring was carried out in an effort to improve the Company's performance. During the quarter, the Company accrued $0.5 million related to severance and termination benefits and $0.6 million of other costs based on a termination plan developed by management in consultation with the Board of Directors. As of December 31, 2001, $0.5 million of this accrual remains. In August 2001, the Company terminated approximately 40 employees engaged primarily in marketing, administrative, special-programs, and development functions.

NOTE E--EARNINGS PER SHARE
(in thousands, except per share amounts)

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

| | For the Three Months Ended December 31, 2001 | 2000 |
|---|---|---|
| Numerator: | | |
| Income from continuing operations available to common stockholders | $ 562 | $ 1,745 |
| Discontinued operations: | | |
| Income from discontinued operations, net of income taxes | -- | 318 |
| Net income available to common stockholders | $ 562 | $ 2,063 |
| Denominator: | | |
| Weighted average common shares | 33,068 | 32,729 |
| Effect of dilutive securities: | | |
| Employee stock options | 403 | 637 |
| Weighted average common shares -- assuming dilution | 33,471 | 33,366 |
| Income from continuing operations | | |
| per common share | $ 0.02 | $ 0.05 |
| per share -- assuming dilution | $ 0.02 | $ 0.05 |
| Income from discontinued operations | | |
| per common share | $ -- | $ 0.01 |
| per share -- assuming dilution | $ -- | $ 0.01 |
| Net income | | |
| per common share | $ 0.02 | $ 0.06 |
| per share -- assuming dilution | $ 0.02 | $ 0.06 |

Potentially dilutive securities with an anti-dilutive effect (convertible debt

in all periods presented) are not included in the above calculation.

NOTE F--PRODUCT DEVELOPMENT

Product development expenditures, including software maintenance expenditures, for the three months ended December 31, 2001 and 2000, were approximately $11.6 million and $12.9 million, respectively. After capitalization, these amounts were approximately $11.3 million and $12.6 million, respectively, and were charged to operations as incurred. For the same periods, amortization of capitalized software costs (not included in expenditures above) amounted to $1.3 million and $1.4 million, respectively.

NOTE G--BUSINESS SEGMENTS

(in thousands)

The Company has three reportable segments: Global Education Solutions (GES); Global Manufacturing & Distribution Solutions (M&DS); and Global Energy, Utilities & Communications Solutions (EUC). Summarized financial information concerning the Company's reportable segments is shown in the following table. The "All Other" column includes corporate-related items, elimination of inter-segment transactions, and amortization of intangible assets purchased in business acquisitions. Interest and other income is not included in the revenue disclosures below.

Three months ended December 31, 2001

| | GES | M&DS | EUC | All Other | Total |
|---|---|---|---|---|---|
| Outsourcing services | $ 8,353 | $ -- | $ 4,053 | $ -- | $ 12,406 |
| Software sales and commissions, and maintenance and enhancements | 25,020 | 3,608 | 5,024 | -- | 33,652 |
| Software services | 14,709 | 4,470 | 9,707 | -- | 28,886 |
| External revenues | 48,082 | 8,078 | 18,784 | -- | 74,944 |
| Intersegment revenues | -- | -- | 18 | (18) | -- |
| Segment profit (loss) | 5,203 | (2,996) | 745 | (2,015) | 937 |

Three months ended December 31, 2000

| | GES | M&DS | EUC | All Other | Total |
|---|---|---|---|---|---|
| Outsourcing services | $ 10,182 | $ 1,281 | $ 4,165 | $ -- | $ 15,628 |
| Software sales and commissions, and maintenance and enhancements | 22,174 | 6,103 | 9,570 | -- | 37,847 |
| Software services | 12,411 | 5,919 | 13,029 | -- | 31,359 |
| External revenues | 44,767 | 13,303 | 26,764 | -- | 84,834 |
| Intersegment revenues | 332 | 3 | -- | (335) | -- |
| Segment profit (loss) | 5,145 | (3,457) | 3,420 | (2,251) | 2,857 |

NOTE H--COMPREHENSIVE INCOME
(in thousands)

| | Three Months Ended December 31, 2001 | 2000 |
|---|---|---|
| Net income | $ 562 | $ 2,063 |
| Other comprehensive income (loss) | (7) | 93 |
| Total Comprehensive Income | $ 555 | $ 2,156 |

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

NOTE I--GOODWILL AND INTANGIBLE ASSETS
(in thousands, except per share amounts)

Effective October 1, 2001, the Company early adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," which resulted in discontinuing the amortization of goodwill. Under the Statement, goodwill will instead be carried at its book value as of October 1, 2001, and any future impairment of goodwill will be recognized as either a change in accounting principle (with respect to the transitional impairment test conducted within six months of adoption) or as an operating expense in the period of impairment. However, under the terms of the Statement, identifiable intangibles with identifiable lives will continue to be amortized.

The Company's goodwill was $12,690 and $13,217 at September 30, 2001 and December 31, 2001, respectively. The Company is required to complete its transitional impairment test of existing goodwill by March 31, 2002. The Company has not yet completed its transitional impairment test and as such is currently unable to assess the effect of this test on the earnings and financial position of the Company. The Company will be required to test the value of its goodwill at least annually.

The gross carrying amount and accumulated amortization of amortizing intangible assets are as follows:

| | December 31, 2001 | | September 30, 2001 | |
|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Capitalized software costs | $ 42,916 | $ (30,522) | $ 42,638 | $ (29,269) |
| Purchased software | 20,071 | (13,351) | 20,071 | (12,770) |
| Covenants-not-to-compete | 7,071 | (6,237) | 7,071 | (6,071) |
| | $ 70,058 | $ (50,110) | $ 69,780 | $ (48,110) |

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

| Fiscal Year | |
|---|---|
| 2002 | $ 8,029 |
| 2003 | 6,236 |
| 2004 | 4,674 |

| | |
|---|---|
| 2005 | 2,210 |
| 2006 | 631 |
| thereafter | 168 |
| Total | $21,948 |

Amortization expense on intangible assets was $2,000 and $2,147 for the three months ended December 31, 2001 and 2000, respectively. In addition, the fiscal year 2001 period included $368, net of taxes, related to the amortization of goodwill.

The following table discloses the effect on net income and earnings per share of excluding amortization expense related to goodwill, which was recognized in the three months ended December 31, 2000, as if such goodwill had been recognized in accordance with SFAS 142.

| | December 31, 2001 | December 31, 2000 |
|---|---|---|
| Reported net income | $ 562 | $ 2,063 |
| Plus: Goodwill amortization, net of taxes | -- | 368 |
| Adjusted net income | $ 562 | $ 2,431 |
| Per common share: | | |
| Net income | $ 0.02 | $ 0.06 |
| Goodwill amortization | -- | 0.01 |
| Adjusted net income | $ 0.02 | $ 0.07 |
| Per share -- assuming dilution | | |
| Net income | $ 0.02 | $ 0.06 |
| Goodwill amortization | -- | 0.01 |
| Adjusted net income | $ 0.02 | $ 0.07 |

NOTE J--NEW ACCOUNTING STANDARDS

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

NOTE K--SUBSEQUENT EVENTS

January 3, 2002, Michael J. Emmi, President, Chief Executive Officer, and Chairman of the Board of Directors announced his retirement from the Company effective immediately. Michael D. Chamberlain, who has served the Company in various executive capacities since 1986, most recently as Chief Operating Officer, and a member of the Board of Directors since 1989, was elected President and Chief Executive Officer. Allen R. Freedman, a member of the Company's Board of Directors since 1982, was elected non-executive Chairman of

the Board. Mr. Freedman was Chairman and Chief Executive Officer of Fortis, Inc., a multi-billion dollar financial services company, prior to his retirement in July 2000.

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

Effective January 10, 2002, the Company acquired USA Education, Inc.'s (commonly known as Sallie Mae) student information systems business (the business) for the higher education market. Under the terms of the agreement, the Company acquired Sallie Mae's Exeter Student Suite and Perkins/Campus Loan Management product lines and related resources based in Cambridge, MA for approximately $15.5 million cash. If the business achieves certain predetermined criteria during the remainder of fiscal year 2002, the Company will make an additional cash payment of up to $2.0 million at September 30, 2002. In addition, the Company could make further cash payments of up to $5.3 million over the next four years, contingent upon the revenue derived from the license or other sale of the purchased product lines over that period. The Company purchased the business to increase its market opportunities in the higher education market. The product lines purchased include an Oracle-based set of solutions and technology, the components of which are expected to be integrated into the Company's higher education product lines. The purchased product lines also include a Microsoft-based solution that is under development and when completed, will allow clients a technology choice.

On January 30, 2002, the Company announced that it has entered into an agreement to acquire Applied Business Technologies, Inc. (ABT) of Newtown Square, PA for $16.7 million cash. The consummation of the transaction is subject to certain closing conditions. If the transaction is consummated, the ABT acquisition will further increase the Company's market opportunities in the higher education market. The acquisition will give the Company a Microsoft-based solution for small to mid-sized institutions.

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

The purpose of this section is to give interpretive guidance to the reader of the financial statements.

## RESULTS OF OPERATIONS

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

| | % of Total Revenues | % Change from Prior Year |
|---|---|---|
| | Three Months Ended | |

| | December 31, 2001 | December 31, 2000 | |
|---|---|---|---|
| Revenues: | | | |
| Outsourcing services | 16% | 18% | (21%) |
| Software sales and commissions | 10% | 18% | (51%) |
| Maintenance and enhancements | 34% | 26% | 17% |
| Software services | 38% | 36% | (8%) |
| Interest and other income | 2% | 2% | 23% |
| Total | 100% | 100% | (11%) |
| Expenses: | | | |
| Cost of services, software sales, Commissions, and maintenance enhancements | 64% | 62% | (9%) |
| Selling, general and administrative | 33% | 33% | (11%) |
| Interest expense | 2% | 2% | (9%) |
| Income before income taxes | 1% | 3% | (67%) |

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 December 31, 2001 | Three Months Ended December 31, 2000 |
|---|---|---|
| Gross Profit: | | |
| Outsourcing services | 25% | 23% |
| Software sales and maintenance and enhancements | 47% | 49% |
| Software services | 24% | 29% |
| Total | 34% | 37% |

Revenues:
Outsourcing services revenue decreased 21% in the first three months of fiscal year 2002 compared with the prior-year period. This decrease is primarily the result of the completion of contracts in the third quarter of fiscal year 2001.

Software sales and commissions decreased 51% in the first quarter of fiscal year 2002 compared to the prior-year period due to decreased licenses in the Company's process manufacturing and distribution and energy and utilities markets. The Company believes these decreases are primarily the result of caution in the general business climate, which has been particularly felt in the technology sector, as well as concerns over deregulation in the energy and utilities market.

The 17% increase in maintenance and enhancements revenue in the first quarter of fiscal year 2002 was the result of the growing installed base of clients in all of the Company's markets. The Company continues to experience a high annual renewal rate on existing maintenance contracts in these marketplaces, although there can be no assurances that this will continue.

Software services revenue decreased 8% in the first quarter of fiscal year 2002 compared with the first quarter of fiscal year 2001. The decreases are primarily the result of decreased implementation and integration services performed in the energy and utilities and manufacturing and distribution markets partially offset by increases in the higher education market. These decreases were primarily the result of a decline in license fees, which generate service orders.

Gross Profit:
Gross profit decreased as a percentage of total revenue (excluding interest and other income) from 37% for the first quarter of fiscal year 2001 to 34% for the first quarter of fiscal year 2002. The total gross profit percentage decreased because of decreases in the software sales, commissions, maintenance, and enhancements gross profit percentage and the software services gross profit percentage. The software sales, commissions, maintenance, and enhancements gross profit percentage decrease is primarily the result of decreased software sales during the fiscal year 2002 period. These decreases were partially offset by increases in maintenance and enhancement revenue and reduced development expenses as a result of the restructuring measures taken in fiscal year 2001. Software services margins decreased primarily as a result of decreased utilization in the energy and utilities market. The Company anticipates reduced services revenue in the energy and utilities market in fiscal year 2002 and implemented a restructuring plan during fiscal year 2001 in an attempt to improve future performance. These decreases were partially offset by increases in the outsourcing services gross profit percentage primarily as a result of fiscal year 2001 cost reductions and improved utilization on existing contracts.

Selling, General and Administrative Expenses:
Selling, general and administrative expenses decreased in the first quarter of fiscal year 2002 compared with the prior year period primarily as a result of (i) decreased administrative costs due to the restructuring plans implemented in fiscal year 2001 and (ii) decreased sales commissions as a result of decreased license fee revenues in the first quarter of fiscal year 2002.

Restructuring Charges:
The Company is currently evaluating the need for additional restructuring actions in the second quarter of fiscal year 2002 to improve the Company's performance. The Company is evaluating cost structures and non-critical programs within the market units and corporate departments.

During the second quarter of fiscal year 2001, the Company decided that restructuring actions were necessary to improve the Company's performance. The restructuring plan included the termination of employees, management changes, consolidation of certain facilities, and discontinuation of non-critical programs. During the quarter ended June 30, 2001, the Company accrued $3.5 million related to severance and termination benefits and $0.4 million of other costs based on a termination plan developed by management in consultation with the Board of Directors. As of December 31, 2001, $0.8 million of this accrual remains. In May and June 2001, the Company terminated approximately 150 employees engaged primarily in marketing, administrative, special-programs, and development functions.

The Company continued to evaluate its business prospects and forecasts during the fourth quarter of fiscal year 2001. As a result of its evaluation, the Company implemented another restructuring plan, which included the discontinuation of non-critical programs, termination of employees, and consolidation of certain facilities primarily in the energy and utilities business. The restructuring was carried out in an effort to improve the Company's performance. During the quarter, the Company accrued $0.5 million related to severance and termination benefits and $0.6 million of other costs based on a termination plan developed by management in consultation with the Board of Directors. As of December 31, 2001, $.5 million of this accrual

remains. In August 2001, the Company terminated approximately 40 employees engaged primarily in marketing, administrative, special-programs, and development functions.

Subsequent events:
January 3,2002, Michael J. Emmi, President, Chief Executive Officer, and Chairman of the Board of Directors announced his retirement from the Company effective immediately. Michael D. Chamberlain, who has served the Company in various executive capacities since 1986, most recently as Chief Operating Officer, and a member of the Board of Directors since 1989, was elected President and Chief Executive Officer. Allen R. Freedman, a member of the Company's Board of Directors since 1982, was elected non-executive Chairman of the Board. Mr. Freedman was Chairman and Chief Executive Officer of Fortis, Inc., a multi-billion dollar financial services company, prior to his retirement in July 2000.

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

Effective January 10, 2002, the Company acquired USA Education, Inc.'s (commonly known as Sallie Mae) student information systems business (the business) for the higher education market. Under the terms of the agreement, the Company acquired Sallie Mae's Exeter Student Suite and Perkins/Campus Loan Management product lines and related resources based in Cambridge, MA for approximately $15.5 million cash. If the business achieves certain predetermined criteria during the remainder of fiscal year 2002, the Company will make an additional cash payment of up to $2.0 million at September 30, 2002. In addition, the Company could make further cash payments of up to $5.3 million over the next four years, contingent upon the revenue derived from the license or other sale of the purchased product lines over that period. The Company purchased the business to increase its market opportunities in the higher education market. The product lines purchased include an Oracle-based set of solutions and technology, the components of which are expected to be integrated into the Company's higher education product lines. The purchased product lines also include a Microsoft-based solution that is under development and when completed will allow clients a technology choice.

On January 30, 2002, the Company announced that it has entered into an agreement to acquire Applied Business Technologies, Inc. (ABT) of Newtown Square, PA for $16.7 million cash. The consummation of the transaction is subject to certain closing conditions. If the transaction is consummated, the ABT acquisition will further increase the Company's market opportunities in the higher education market. The acquisition will give the Company a Microsoft-based solution for small to mid-sized institutions.

Contingency:
The Company had been involved in litigation relating to a software implementation in Broward County, Florida. The Company believed that it had meritorious defenses and the probability of an unfavorable outcome against the Company was unlikely. However, on October 31, 2000, an adverse decision was rendered against the Company in this litigation. The Company's claim for approximately $3.1 million -- which was included in the Company's accounts

receivable balances -- for software licensed, services rendered, and expenses incurred was denied. In addition, the Company was ordered to pay damages. In January 2002, the Company paid $2.5 million and the judgment was satisfied of record. While this contract was originated within the Global Government Solutions business, which was sold on June 29, 2001, the right to appeal and the impact of the related outcome were retained by the Company.

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

LIQUIDITY, CAPITAL RESOURCES, AND FINANCIAL POSITION

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

The Company's cash and short-term investments balance was $154.0 million and $164.3 million as of December 31, 2001, and September 30, 2001, respectively. The cash balances decreased primarily as a result of cash used in operations discussed below.

Cash used in operating activities was $9.5 million for the first quarter of fiscal year 2002, compared with $0.5 million for the prior-year period. The primary uses of cash in the fiscal year 2002 period were increased other current assets, primarily current deferred taxes, and decreased accounts payable and other current liabilities. The decrease in liabilities is primarily the result of the payment of income taxes. These charges were partially offset by decreased accounts receivable and increased deferred revenue.

The Company provides outsourcing services and software-related services, including systems implementation and integration services. Contract fees from outsourcing services are typically based on multi-year contracts ranging from three to seven years in length, and provide a recurring revenue stream throughout the term of the contract. Software services contracts, including systems implementation and integration services, usually have shorter terms than outsourcing services contracts, and billings are sometimes milestone-based. During the beginning of a typical outsourcing services contract, the Company performs services and incurs expenses more quickly than during the later part of the contract. Billings usually remain constant during the term of the contract. In some cases when a contract term is extended, the billing period is also extended over the new life of the contract. In certain software services contracts, the Company performs services but cannot immediately bill for them. Revenue is usually recognized as work is performed, resulting in an excess of revenues over billings in such periods. The Company's Consolidated Balance Sheet reflects this excess as unbilled accounts receivable. As an outsourcing services contract proceeds, the Company performs services and incurs expenses at a lesser rate. This results in billings that exceed revenue recognized in such periods, which causes a decrease in the unbilled accounts receivable. Likewise, billings in a software services contract cause a decrease in the unbilled accounts receivable. In both cases, additional unbilled accounts receivable will continue to be recorded based on the terms of the contracts. The remaining unbilled accounts receivable balance is comprised of software sales for which the Company has shipped product and recognized revenue, but has not billed amounts due to the contractual payment terms. The Company usually bills these unbilled balances within one year.

Long-Term Investments:
The Company has made investments for strategic business purposes of $16.0 million in the common and preferred stock of WebCT, a privately held Internet

company. The fair value of this investment, which is classified as a long-term asset, is not readily determinable; therefore, it is carried at cost adjusted for an other-than-temporary impairment discussed below. The Company regularly reviews the underlying operating performance, cash flow forecasts, and recent private equity transactions of this privately held company in assessing impairment. In fiscal 2001, the cost basis was reduced and earnings were charged as a result of an impairment that was other than temporary. Future earnings would also be reduced and earnings would be charged if there was an additional impairment that was found to be other than temporary at a future balance sheet date. The Company's future results of operations could be materially affected by a future write down in the carrying amount of this investment to recognize an impairment loss due to an other than temporary decline in the value of the investment. In the second quarter of fiscal year 2001, the Company recorded asset impairment charges of $7.8 million related to this investment. In the third quarter of fiscal year 2001, the Company earned $2.7 million in shares of WebCT. The Company earned these shares as a result of a joint marketing agreement with WebCT pursuant to which schools with cumulative enrollments totaling one million students licensed a product jointly developed by the Company and WebCT. Commissions in the form of shares of WebCT will continue to be earned as additional schools license this product now that this threshold has been met. At December 31, 2001, the Company owns approximately 10% of the voting shares of WebCT. At December 31, 2001, the aggregate investment in WebCT is $10.9 million, and is included in other assets and deferred charges in the consolidated balance sheet.

Throughout fiscal year 1999, the Company made a series of investments in Campus Pipeline, Inc. As of December 31, 2001 the Company held an approximately 57% interest in the common stock of this affiliate, with a carrying amount of zero. The Company has determined that it does not control Campus Pipeline because there are fully voting convertible preferred shares outstanding that lower the Company's voting interest to approximately 42%. Therefore, the Company accounts for its investment using the equity method of accounting. The Company will not record any additional future losses of Campus Pipeline and will not record any future earnings until the cumulative, unrecorded losses are offset.

Cash used in investing activities was $37.1 million for the first three months of fiscal year 2002 compared with cash provided of $3.3 million for the fiscal year 2001 three-month period. In the fiscal year 2002 period, cash was primarily used in the purchase of investments using the available cash balances from September 30, 2001. The primary source of cash in the three months ended December 31, 2000, was the sale and maturity of available-for-sale investments. Other cash uses included $0.5 million contingent consideration paid with respect to the August 2000 EnerLink acquisition in the fiscal year 2002 period. In the fiscal year 2001 period, other uses of cash included $2.8 million for the purchase of Omni-Tech Systems, Ltd. assets, which were subsequently sold in the June 2001 Global Government Solutions business sale.

The $0.4 million and $0.8 million in cash provided by financing activities for the first quarter of fiscal year 2002 and 2001, respectively, consists primarily of proceeds from the exercises of stock options.

The Company has a $30 million senior revolving credit facility available for general corporate purposes. The credit facility agreement expires in June 2003 and includes optional annual renewals. There were no borrowings outstanding at December 31, 2001, or September 30, 2001. As long as there are borrowings outstanding, and as a condition precedent to new borrowings, the Company must comply with certain covenants established in the agreement. Under the covenants, the Company is required to maintain certain financial ratios and other financial conditions. The Company may not pay dividends (other than dividends payable in common stock) or acquire any of its capital stock outstanding without a written waiver from its lender.

The credit agreement provides for the issuance of letters of credit. The amount available for borrowing under the revolving credit facility is reduced by the total outstanding letters of credit. At December 31, 2001, the Company had $0.5 million of letters of credit outstanding and $29.5 million available under the revolving credit facility. The Company pays a commitment fee of 5/16% on the unused portion of the revolving credit facility.

The Company has convertible debentures outstanding, which bear interest at 5% and mature on October 15, 2004. In October 2000, $27,000 of the convertible subordinated debentures were converted into approximately 1,000 shares of common stock of the Company. The remaining balance of convertible debentures at December 31, 2001, is $74.7 million. If these remaining debentures outstanding were converted, 2.8 million additional shares would be added to common shares outstanding. These debentures were antidilutive for the fiscal year 2002 and 2001 periods and therefore are not included in the above denominators for income from continuing operations per share -- assuming dilution, income from discontinued operations per share -- assuming dilution, or net income per share -- assuming dilution for these periods.

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

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

Factors That May Affect Future Results and Market Price of Stock:
The forward-looking statements discussed herein and elsewhere -- including statements concerning the Company's or management's forecasts, estimates, intentions, beliefs, anticipations, plans, expectations, or predictions for the future -- are based on current management expectations that involve risks and uncertainties that could cause actual results to differ materially from those anticipated. The following discussion highlights some, but not all, of the risks and uncertainties that may have a material adverse effect on the Company's business, results of operations, and/or financial condition.

The Company's revenues and operating results can vary substantially from quarter to quarter, owing to a number of factors. Software sales revenues in any quarter depend on the execution of license agreements and the shipment of product. The execution of license agreements is difficult to predict for a variety of reasons, including the following: a significant portion of the Company's license agreements is typically signed in the last month of each quarter; the Company's sales cycle is relatively long; the size of transactions can vary widely; client projects may be postponed or cancelled due to changes in the client's management, budgetary constraints, 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 or return to its historical level of profitability on a quarterly or annual basis in the future. It is, therefore, possible that in one or more future quarters, the Company's operating results will be below expectations. This would likely have an adverse effect on the price of the Company's common stock.

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

The application software industry is characterized by intense competition, rapid technological advances, changes in client requirements, product introductions, and evolving industry standards. The Company believes that its future success will depend on its ability to compete successfully, and to continue to develop and market new products and enhancements cost-effectively. This necessitates continued investment in research and development and sales and marketing. There can be no assurance that new industry standards or changing technology will not render the Company's products obsolete or non-competitive, that the Company will be able to develop and market new products successfully, or that the Company's markets will accept its new product offerings. Furthermore, software programs as complex as those the Company offers may contain undetected errors or bugs when they are first introduced or as new versions are released. Despite Company and third-party testing, there can be no assurance that errors will not be found in new product offerings. Such errors can cause unanticipated costs and delays in market acceptance of these products and could have a material adverse effect on the Company's business, financial condition, or cash flows. In addition, new distribution methods, such as the Internet and other electronic channels, have removed many of the barriers to entry that small and start-up software companies faced in the past. Therefore, the Company expects competition to increase in its markets.

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

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

Intense competition in the various markets in which the Company competes may put pressure on the Company to reduce prices on certain products, particularly in the markets where certain vendors offer deep discounts in an effort to recapture or gain market share or to sell other software or hardware products. The

bundling of software products for promotional purposes or as a long-term pricing strategy or guarantees of product implementations by certain of the Company's competitors could have the effect over time of significantly reducing the prices that the Company can charge for its products. Any such price reductions and resulting lower license revenues could have a material adverse effect on the Company's business, results of operations, financial condition, or cash flows.

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

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

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

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

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

If clients that represent a substantial portion of the Company's revenues were to invoke the fiscal funding provisions of their outsourcing services contracts, the Company's results of operations would be adversely affected.

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

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

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

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

On June 29, 2001, the Company sold its Global Government Solutions business to Affiliated Computer Services, Inc., ("ACS") for $85 million in cash. These proceeds may be subject to adjustment in certain circumstances. Based on a formula contained in the purchase agreement, the purchase price reduction could be as much as approximately $40 million, although the Company does not believe that any material reduction will occur. In addition, the Company made certain representations and warranties to ACS under the purchase agreement, which could also result in adjustments to the proceeds received. If a purchase price adjustment should result, or if the Company is found to have breached any of the representations and warranties contained in the purchase agreement, the Company may have to return cash proceeds and the Company's financial results could be adversely affected.

In January 2002, the Company acquired the Sallie Mae student information systems business and announced that it entered into an agreement to purchase Applied Business Technologies, Inc. ("ABT"). These acquisitions were entered into to increase the Company's opportunities in the higher education market. The success of these acquisitions depends upon: (i) the Company's ability to integrate the acquired products and operations with the Company's products and operations cost-effectively and on a timely basis, (ii) the ability of the Company to meet development and implementation schedules for the acquired products and to enhance the acquired products over time, (iii) the market acceptance of the

products; and (iv) the ability of the Company to consummate the ABT acquisition.

Other factors that could affect the Company's future operating results include the effect of publicity on demand for the Company's products and services; general economic and political conditions; the events of September 11, 2001; continued market acceptance of the Company's products and services; the timing of services contracts and renewals; continued competitive and pricing pressures in the marketplace; new product introductions by the Company's competitors; the Company's ability to complete fixed-price contracts profitably; and the Company's ability to generate capital gains sufficient to offset the capital losses that are expected to be realized upon the disposition of the investments held by the Company for which the carrying value has been reduced for financial reporting purposes.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

SYSTEMS & COMPUTER TECHNOLOGY CORPORATION AND SUBSIDIARIES

PART II

Item 1. Legal Proceedings

The Company had been involved in litigation relating to a software implementation in Broward County, Florida. The Company believed that it had meritorious defenses and the probability of an unfavorable outcome against the Company was unlikely. However, on October 31, 2000, an adverse decision was rendered against the Company in this litigation. The Company's claim for approximately $3.1 million -- which was included in the Company's accounts receivable balances -- for software licensed, services rendered, and expenses incurred was denied. In addition, the Company was ordered to pay damages. In January 2002, the Company paid $2.5 million and the judgment was satisfied of record. While this contract was originated within the Global Government Solutions business, which was sold on June 29, 2001, the right to appeal and the impact of the related outcome were retained by the Company.

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

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

The registrant did not file any current reports on Form 8-K during the three months ended December 31, 2001.

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: 02/13/02

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