



# **FORM 10-Q**

**AXS ONE INC – AXO**

**Filed: August 13, 1998 (period: June 30, 1998)**

Quarterly report which provides a continuing view of a company's financial position

# Table of Contents

SIGNATURES

## Part II

**Item 1.** Legal Proceedings

**Item 4.** Submission of Matters to a Vote of Securities Holders

**Item 6.** Exhibits and Reports on Form 8-K

SIGNATURE

EX-10.27 (Material contracts)

EX-10.28 (Material contracts)

EX-27

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarter ended June 30, 1998      Commission File Number      0-26358

COMPUTRON SOFTWARE, INC.

-----  
(Exact name of registrant as specified in its charter)

DELAWARE      13-2966911  
(State or other jurisdiction of      (I.R.S. Employer Identification No.)  
incorporation or organization)

301 Route 17 North      07070  
Rutherford, New Jersey      (Zip Code)  
(Address of principal executive offices)

(201) 935-3400  
(Registrant's telephone number, including area code)

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  
-----      -----

Number of shares outstanding of the issuer's common stock as of August 3, 1998

| Class   | Number of Shares Outstanding |
|---|------------------------------|
| -----<br>Common Stock, par value \$0.01 per share | -----<br>23,794,355          |

INDEX

|   | Page<br>Number<br>----- |
|---|-------------------------|
| PART I FINANCIAL INFORMATION  |                         |
| Item 1. Financial Statements  |                         |
| Consolidated Balance Sheets   |                         |
| December 31, 1997 and June 30, 1998.....  | 3                       |
| Consolidated Statements of Operations   |                         |
| Three and six months ended June 30, 1997 and 1998.....  | 4                       |
| Consolidated Statements of Cash Flows   |                         |
| Six months ended June 30, 1997 and 1998.....  | 5                       |
| Notes to Consolidated Interim Financial Statements.....   | 6                       |
| Item 2. Management's Discussion and Analysis of Financial<br>Condition and Results of Operations..... | 10                      |
| PART II OTHER INFORMATION   |                         |
| Item 1. Legal Proceedings.....  | 24                      |
| Item 4. Submission of Matters to a Vote of Securities Holders.....                                    | 24                      |
| Item 6. Exhibits and Reports on Form 8-K.....   | 25                      |
| SIGNATURES  |                         |
| Signatures.....   | 26                      |

COMPUTRON SOFTWARE, INC.  
CONSOLIDATED BALANCE SHEETS  
(In thousands, except share data)

|  | December 31,<br>1997 | June 30,<br>1998 |
|--|----------------------|------------------|
|  | -----                | -----            |
|  |                      | Unaudited        |
| <b>ASSETS</b>  |                      |                  |
| Current assets:  |                      |                  |
| Cash and cash equivalents  | \$ 6,280             | \$ 2,415         |
| Short-term investments   | 193                  | 188              |
| Restricted cash  | 6,124                | 5,985            |
| Accounts receivables, less reserves of \$3,056 at<br>December 31, 1997 and \$2,579 at June 30, 1998  | 11,420               | 12,454           |
| Prepaid expenses and other current assets  | 3,230                | 3,071            |
|  | -----                | -----            |
| Total current assets   | 27,247               | 24,113           |
|  | -----                | -----            |
| Equipment and leasehold improvements, at cost:   |                      |                  |
| Computer and office equipment  | 11,844               | 12,649           |
| Furniture and fixtures   | 1,298                | 1,506            |
| Leasehold improvements   | 592                  | 967              |
|  | -----                | -----            |
|  | 13,734               | 15,122           |
| Less--accumulated depreciation and amortization  | 9,670                | 10,948           |
|  | -----                | -----            |
|  | 4,064                | 4,174            |
|  | -----                | -----            |
| Capitalized software development costs, net of<br>accumulated amortization of \$3,734 at December 31, 1997 and<br>\$4,087 at June 30, 1998                               | 1,429                | 1,076            |
| Goodwill, net of accumulated amortization of \$1,072 at<br>December 31, 1997 and \$1,328 at June 30, 1998  | 1,732                | 1,450            |
| Other assets   | 1,126                | 890              |
|  | -----                | -----            |
|  | \$ 35,598            | \$ 31,703        |
|  | -----                | -----            |
|  | -----                | -----            |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>  |                      |                  |
| Current liabilities:   |                      |                  |
| Current portion of long-term debt and capital leases   | 71                   | 1,691            |
| Accounts payable   | 4,375                | 4,818            |
| Accrued expenses   | 10,956               | 10,538           |
| Deferred revenue   | 9,078                | 9,987            |
|  | -----                | -----            |
| Total current liabilities  | 24,480               | 27,034           |
|  | -----                | -----            |
| Long-term liabilities:   |                      |                  |
| Long-term debt and capital leases, less current portion  | 23                   | 3,075            |
|  | -----                | -----            |
| Common stock subject to repurchase   | 5,000                | 5,000            |
|  | -----                | -----            |
| Commitments and contingencies  |                      |                  |
| Stockholders' equity (deficit):  |                      |                  |
| Preferred stock, \$.01 par value, authorized 5,000<br>shares, no shares issued and outstanding   | --                   | --               |
| Common stock, \$.01 par value, authorized 50,000 shares;<br>23,777 shares and 23,794 shares issued and<br>outstanding at December 31, 1997 and June 30, 1998, respective | 238                  | 238              |
| Additional paid-in capital   | 69,373               | 69,396           |
| Accumulated deficit  | (63,016)             | (72,454)         |
| Cumulative translation adjustment  | (500)                | (586)            |
|  | -----                | -----            |

|                                      |           |           |
|--------------------------------------|-----------|-----------|
| Total stockholders' equity (deficit) | 6,095     | (3,406)   |
|                                      | -----     | -----     |
|                                      | \$ 35,598 | \$ 31,703 |
|                                      | -----     | -----     |
|                                      | -----     | -----     |

The accompanying notes are an integral part of these consolidated financial statements.

COMPUTRON SOFTWARE, INC.  
CONSOLIDATED BALANCE SHEETS  
(In thousands, except share and per share data)  
(Unaudited)

|   | Three Months Ended |                  | Six Months Ended |                  |
|---|--------------------|------------------|------------------|------------------|
|   | June 30,<br>1997   | June 30,<br>1998 | June 30,<br>1997 | June 30,<br>1998 |
| Revenues:   |                    |                  |                  |                  |
| License fees  | \$ 4,883           | \$ 3,360         | \$ 10,512        | \$ 7,379         |
| Services  | 11,923             | 11,460           | 23,085           | 22,464           |
| Total revenues  | 16,806             | 14,820           | 33,597           | 29,843           |
| Operating expenses:   |                    |                  |                  |                  |
| Cost of license fees  | 606                | 796              | 887              | 1,810            |
| Cost of services  | 6,871              | 7,127            | 13,433           | 14,262           |
| Sales and marketing   | 3,427              | 4,110            | 8,381            | 8,359            |
| Research and development  | 2,365              | 2,375            | 4,796            | 5,011            |
| General and administrative                                      | 3,964              | 4,264            | 7,793            | 8,568            |
| Restructuring costs   | --                 | 1,311            | --               | 1,311            |
| Total operating expenses  | 17,233             | 19,983           | 35,290           | 39,321           |
| Operating loss  | (427)              | (5,163)          | (1,693)          | (9,478)          |
| Other income (expense):   |                    |                  |                  |                  |
| Costs related to class action litigation                        | (1,281)            | (18)             | (2,273)          | (40)             |
| Other income  | 255                | 131              | 548              | 263              |
| Other expense   | (32)               | (183)            | (64)             | (183)            |
| Other income (expense), net                                     | (1,058)            | (70)             | (1,789)          | 40               |
| Net loss  | \$ (1,485)         | \$ (5,233)       | \$ (3,482)       | \$ (9,438)       |
| Basic and diluted net loss per<br>common share                  | \$ (0.07)          | \$ (0.22)        | \$ (0.17)        | \$ (0.40)        |
| Weighted average basic and diluted<br>common shares outstanding | 20,818             | 23,791           | 20,814           | 23,784           |

The accompanying notes are an integral part of these consolidated financial statements.

COMPUTRON SOFTWARE, INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(In thousands, except share and per share data)  
(Unaudited)

|   | Six Months Ended<br>June 30, 1997 | Six Months Ended<br>June 30, 1998 |
|---|-----------------------------------|-----------------------------------|
| Cash flows from operating activities:   |                                   |                                   |
| Net loss  | \$ (3,482)                        | \$(9,438)                         |
| Adjustments to reconcile net loss to net cash flows provided by (used in) operating activities- |                                   |                                   |
| Depreciation and amortization   | 1,732                             | 1,919                             |
| Changes in current assets and liabilities   |                                   |                                   |
| Restricted cash   | 1,788                             | 139                               |
| Accounts receivable   | 7,912                             | (1,114)                           |
| Prepaid expenses and other current assets   | (191)                             | 151                               |
| Accounts payable and accrued expenses   | (3,367)                           | 101                               |
| Deferred revenue  | (3,777)                           | 982                               |
| Net cash flows provided by (used in) operating activities                                       | 615                               | (7,260)                           |
| Cash flows from investing activities:   |                                   |                                   |
| Other assets  | 192                               | 229                               |
| Purchase of equipment and leasehold improvements  | (762)                             | (1,460)                           |
| Short-term investments  | (762)                             | 2                                 |
| Net cash flows used in investing activities   | (1,332)                           | (1,229)                           |
| Cash flows from financing activities:   |                                   |                                   |
| Proceeds from exercise of stock options   | 12                                | 23                                |
| Proceeds from long term debt  | --                                | 5,000                             |
| Repayment of notes payable  | (1,402)                           | --                                |
| Payments of long term debt and capital lease obligations  | (472)                             | (325)                             |
| Decrease in liabilities related to acquisitions   | (754)                             | --                                |
| Net cash flows provided by (used in) financing activities                                       | (2,616)                           | 4,698                             |
| Foreign currency exchange rate effects  | 143                               | (74)                              |
| Net decrease in cash and cash equivalents   | (3,190)                           | (3,865)                           |
| Cash and cash equivalents, beginning of period  | 19,730                            | 6,280                             |
| Cash and cash equivalents, end of period  | \$ 16,540                         | \$ 2,415                          |
| Supplemental disclosures of cash flow information and noncash financing activities:             |                                   |                                   |
| Cash paid during the period for -   |                                   |                                   |
| Interest  | \$ 12                             | \$ 86                             |
| Income taxes  | \$ 67                             | \$ 40                             |

The accompanying notes are an integral part of these consolidated financial statements.

COMPUTRON SOFTWARE, INC.  
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
(In thousands, except share and per share data)

(1) OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

The Company designs, develops, markets and supports client/server financial, workflow, plant maintenance and archival data management software solutions to manage mission-critical applications in large organizations operating across a broad range of industries worldwide.

Basis of Presentation:

The accompanying unaudited consolidated financial statements include the accounts of Computron Software, Inc. and its wholly owned foreign subsidiaries located in Australia, Canada, France, Germany, Poland, Singapore, South Africa and the United Kingdom (collectively, the "Company"). These consolidated financial statements have been prepared by the Company in accordance with generally accepted accounting principles and in the opinion of management, contain all adjustments, consisting only of those of a normal recurring nature, necessary for a fair presentation of these consolidated financial statements.

These consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's 1997 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

The results of operations for the three and six months ended June 30, 1998, are not necessarily indicative of results to be expected for any future periods.

(a) Revenue Recognition

The Company recognizes revenue in accordance with Statement of Position 97-2 "Software Revenue Recognition" ("SOP 97-2"). Revenue from non-cancelable software licenses is recognized when contract negotiations are complete, delivery has occurred, the fee is fixed or determinable and collectibility is probable. Post contract support (maintenance) service fees are typically billed separately and are recognized on a straight line basis over the life of the applicable agreement. The Company recognizes service revenues from consulting and implementation services, including training, provided by both its own personnel and by third parties, upon performance of the services. The Company recognizes revenue from certain contracts, generally those with fixed prices, using the percentage of completion method. Anticipated losses, if any, are charged to operations in the period such losses are determined.

The adoption in 1998 of SOP 97-2, which is effective for transactions entered into in fiscal years beginning after December 15, 1997, did not have a significant impact on the Company's revenue recognition policies.

COMPUTRON SOFTWARE, INC.  
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)  
(In thousands, except share and per share data)

(b) Cash and Cash Equivalents

Cash equivalents are stated at cost, which approximates market, and consist of short-term, highly liquid investments with original maturities of less than three months.

(c) Reclassification

Certain reclassifications have been made to prior periods to conform to the current period presentation.

(2) REVOLVING LINE OF CREDIT AND LONG-TERM DEBT

On March 31, 1998, the Company entered into a Loan and Security Agreement ("Agreement") which provides for maximum borrowings of up to \$10 million. Upon signing, the Company borrowed \$5 million pursuant to a three year term loan. The term loan bears interest at prime plus 1.5%, and is repayable in 36 monthly installments beginning May 1, 1998. The Company currently has available the lesser of \$5 million or 85% of eligible receivables under a revolving line of credit pursuant to the Agreement.

Borrowings under the revolving line of credit will bear interest at prime plus 1.25%. The Agreement provides for yearly fees as follows: (i) \$111 in year one, \$86 in years two and three and (ii) an unused revolving line of credit fee of .375% per annum. The agreement is secured by substantially all domestic assets of the Company together with a pledge of 65% of the stock of its foreign subsidiaries, and contains certain financial and restrictive covenants, which were amended as of June 30, 1998.

(3) CONTINGENCIES

On March 6, 1998, the District Court issued a final order approving a settlement in the class action securities litigation, In re Computron Software, Inc. Securities Litigation, Master File No. 96-1911 (AJL), brought against the Company and certain of its present and former officers and directors in the United States District Court for the District of New Jersey.

The overall settlement includes consideration totaling \$15 million for the benefit of class members, including consideration from the Company, and payments from certain of its present and former officers and directors, its former auditors, and the insurance companies that provided Computron with directors and officers liability insurance. In return for the payments by the insurance companies, the settlement also resolves a separate lawsuit brought by the Company against the insurance companies. As its share of the settlement, the Company has paid \$1 million in cash, and will issue 1 million shares of Common Stock of the Company.

COMPUTRON SOFTWARE, INC.  
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)  
(in thousands, except share and per share data)

Class members will receive a non-transferable right to resell the stock received in the settlement to a business trust formed by the Company at a price of \$5.00 per share. In March 1998, the trust was capitalized by a contribution of \$5 million from the Company's restricted cash, which will be used to pay the claims of any class members who receive stock in the settlement and exercise their right to resell such stock to the trust according to the terms of the Stipulation of Settlement.

The exercise period during which class members may resell these shares to the trust will be December 1, 1998 to December 21, 1998, or later period if all necessary court proceedings have not been completed by November 1, 1998. The resale right will expire at the end of the exercise period, or earlier as to any shares issued in the settlement that are sold by class members prior to the final day of the exercise period. The resale right will also expire earlier than the exercise period if the closing price of the Company's Common Stock is higher than \$5.00 per share for 20 consecutive trading days. The Company recorded a charge to operations of \$6 million during the quarter ended September 30, 1997, reflecting the Company's share of the settlement costs, excluding legal fees.

Historically, the Company has been involved in other disputes and/or litigation encountered in its normal course of business. The Company believes that the ultimate outcome of these proceedings will not have a material adverse effect on the Company's business, financial condition and results of operations or cash flows.

(4) Comprehensive Income (Loss)

Effective January 1, 1998 the Company adopted SFAS No. 130, a new accounting rule on reporting comprehensive income (loss). The rule requires reporting of comprehensive income (loss), which includes net income (loss) and all other non-owner changes in equity (deficit) during a period as follows:

|                                   | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|-----------------------------------|--------------------------------|-----------|------------------------------|-----------|
|                                   | 1997                           | 1998      | 1997                         | 1998      |
| Net loss                          | \$(1,485)                      | \$(5,233) | \$(3,482)                    | \$(9,438) |
| Cumulative translation adjustment | 604                            | 94        | (90)                         | (86)      |
| Comprehensive loss                | \$ (881)                       | \$(5,139) | \$(3,572)                    | \$(9,524) |

(5) Basic and Diluted Net Loss Per Common Share

Basic and diluted net loss per common share is presented in accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS No. 128"). SFAS No. 128 provides for new accounting principles used in the calculations of earnings (loss) per share and was effective for financial statements for both interim and annual periods ended after December 15, 1997. The Company has restated the net loss per common share for all periods presented to give effect to SFAS No. 128.

COMPUTRON SOFTWARE, INC.  
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)  
(in thousands, except share and per share data)

Basic net loss per common share is based on the weighted average number of shares of common stock outstanding during the period. Diluted net loss per common share is the same as basic net loss per common share since the effect of stock options, warrants, and contingently issuable shares in connection with the December 1997 private placement of common stock is antidilutive.

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

Overview

This Report contains statements of a forward-looking nature relating to future events or the future financial performance of the Company. Investors are cautioned that such statements are only predictions and that actual events or results may differ materially. In evaluating such statements, investors should specifically consider the various factors identified in this Report and in the Company's 1997 Annual Report on Form 10-K filed with the Securities and Exchange Commission which could cause actual results to differ materially from those indicated by such forward-looking statements, including the matters set forth under the caption "Certain Factors That May Affect Future Results and Financial Condition and the Market Price of Securities" below.

The Company was founded in 1978 as a developer of custom financial software for mission-critical applications in large organizations, primarily financial institutions. In the early 1980's, the Company developed financial software for legacy platforms and introduced sophisticated enterprise-wide financial software. Identifying the need for client/server financial software applications in the late 1980's, the Company commenced the re-architecture of its financial software and began the development and deployment of new product, specifically a workflow and document management product. In 1993, the Company introduced Computron Financials and Computron Workflow, the client/server versions of its financial and workflow products. Computron COOL was introduced in the latter half of 1993. Since 1994, the Company has released versions of its products with the capability to interoperate with popular RDBMS software. During the fourth quarter of 1995, the Company acquired the rights to its Yorvik Software.

During 1996, the Company acquired the Financial Services Division of Generale de Service Informatique (GSI) based in Paris, France, and certain assets of AT&T Istel and Co., GMBH, in Essen, Germany. These operations primarily provide software services in their respective countries.

The Company's revenues are derived from license fees and services. Revenues for services and training are recognized upon performance of the services. The Company's license agreements generally do not provide a right of return. Historically, the Company's backlog has not been substantial, since products are generally shipped as orders are received.

The Company has experienced, and may in the future experience, significant fluctuations in its quarterly and annual revenues and results of operations. The Company believes that domestic and international operating results will continue to fluctuate significantly in the future as a result of a variety of factors, including the timing of revenue recognition related to significant license agreements, the lengthy sales cycle for the Company's products, the proportion of revenues attributable to license fees versus services, the utilization of third parties to perform services, the amount of revenue generated by resales of third party software, changes in product mix, demand for the Company's products, the size and timing of individual license transactions, the introduction of new products and product enhancements by the Company or its competitors,

changes in customers' budgets, competitive conditions in the industry and general economic conditions.

Following the audits of the Company's consolidated financial statements for 1994, 1995 and 1996 the Company received management letters from its former independent public accountants, which enumerated material weaknesses in the Company's financial and accounting processes, controls, reporting systems and procedures. The Company's former independent public accountants highlighted the Company's need for additional financial and accounting personnel with software industry experience.

In response to the management letters and recent operating results, during 1997 the Company hired senior executives with significant experience in the software industry, and improved financial and accounting processes, controls, reporting systems and procedures, which eliminated all material weaknesses.

The Company incurred net losses of \$8.6 million for 1995, \$31.8 million for 1996, and \$13.6 million for 1997, and reported a net loss of \$9.4 million for the six months ended June 30, 1998. As of June 30, 1998, the Company had an accumulated deficit of \$72.5 million. There can be no assurance that the Company will be profitable in the future.

In June 1997, the FASB issued SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information" ("SFAS 131"). SFAS 131 establishes standards for the way public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about reporting segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas and major customers. SFAS 131 is effective for financial statements for fiscal years beginning after December 15, 1997, and the Company will comply beginning with year-end 1998 results. Financial statement disclosures for prior periods are required to be restated. The Company is in the process of evaluating the disclosure requirements. The adoption of SFAS 131 will have no impact on the Company's consolidated results of operations, financial position or cash flows.

## Results of Operations

The following table sets forth, for the periods indicated, certain operating data as a percentage of total revenues:

|   | Three Months Ended<br>June 30, |                | Six Months Ended<br>June 30, |                |
|---|--------------------------------|----------------|------------------------------|----------------|
|   | 1997                           | 1998           | 1997                         | 1998           |
| <b>Revenues:</b>                              |                                |                |                              |                |
| License fees.....                             | 29.1%                          | 22.7%          | 31.3%                        | 24.7%          |
| Services.....                                 | 70.9                           | 77.3           | 68.7                         | 75.3           |
| <b>Total revenues.....</b>                    | <b>100.0</b>                   | <b>100.0</b>   | <b>100.0</b>                 | <b>100.0</b>   |
| <b>Operating expenses:</b>                    |                                |                |                              |                |
| Cost of license fees.....                     | 3.6                            | 5.4            | 2.6                          | 6.1            |
| Cost of services.....                         | 40.9                           | 48.1           | 40.0                         | 47.8           |
| Sales and marketing .....                     | 20.4                           | 27.7           | 24.9                         | 28.0           |
| Research and development .....                | 14.1                           | 16.0           | 14.3                         | 16.8           |
| General and administrative .....              | 23.5                           | 28.8           | 23.2                         | 28.7           |
| Restructuring costs.....                      | -                              | 8.8            | -                            | 4.4            |
| <b>Total operating expenses.....</b>          | <b>102.5</b>                   | <b>134.8</b>   | <b>105.0</b>                 | <b>131.8</b>   |
| Operating loss.....                           | (2.5)                          | (34.8)         | (5.0)                        | (31.8)         |
| Costs related to class action litigation..... | (7.6)                          | (0.1)          | (6.8)                        | (0.1)          |
| Other income (expense) .....                  | 1.3                            | (0.4)          | 1.4                          | 0.3            |
| <b>Net loss.....</b>                          | <b>(8.8)%</b>                  | <b>(35.3)%</b> | <b>(10.4)%</b>               | <b>(31.6)%</b> |

## Total Revenues

Total revenues decreased 11.8% and 11.2% for the three and six months ended June 30, 1998, compared to the corresponding prior year periods. The decrease was primarily attributable to a decrease in license fees.

The Company derived approximately \$6.5 million and \$14.4 million, or 44.0 % and 48.3 % of its total revenues, from customers outside of the United States for the three and six months ended June 30, 1998, respectively, compared to \$8.0 million and \$15.2 million, or 47.5% and 45.2%, respectively, for the corresponding prior year periods. The Company expects that revenues from customers outside the United States will continue to represent a significant percentage of its total revenues in the future. Most of the Company's international license fees and services revenue are denominated in foreign currencies. With respect to the Company's sales that are US dollar-denominated, decreases in the value of foreign currencies relative to the US dollar could make the Company's products less price competitive.

#### License Fees

License fees include revenues from software license agreements entered into between the Company and its customers with respect to both the Company's products and third party products resold by the Company. License fees decreased 31.2% and 29.8% for the three and six months ended June 30, 1998, respectively, as compared to the prior year periods. The decrease for the six month period was attributed to a \$3.5 million license contract in 1997 from one customer, which represented 33.3% of total license revenues during the six months ended June 30, 1997.

#### Services Revenue

Services revenue includes fees from software maintenance agreements, training, installation and consulting services. Maintenance fees are billed separately and are recognized ratably over the period of the maintenance agreement. Training, installation and consulting service revenues are recognized as the services are performed. Services revenue declined by approximately 3.9% and 2.7% for the three and six months ended June 30, 1998 due to declines in legacy product service revenues in the Company's France operations, as compared to the corresponding previous periods.

#### Cost of License Fees

Cost of license fees consists primarily of amortization of capitalized software development costs, amounts paid to third parties with respect to products resold by the Company in conjunction with licensing of the Company's products and, to a lesser extent, the costs of product media, duplication, manuals and shipping.

The dollar cost of license fees increased during the three and six months ended June 30, 1998, as compared to the corresponding prior year period, primarily as a result of increased third party products resold by the Company.

#### Cost of Services

Cost of services consists primarily of personnel costs for product quality assurance, training, installation, consulting and customer support. These costs include training third party service and support organizations for the Company's products.

For the three and six months ended June 30, 1998, cost of services as a percentage of services revenue increased compared to the three and six months ended June 30, 1997, primarily as a result of the Company focusing on product delivery and quality assurance processes, which increased the number of service personnel working on product delivery and quality assurance.

#### Sales and Marketing

Sales and marketing expenses consist primarily of salaries, commissions, bonuses and travel and promotional expenses.

Sales and marketing expenses increased for the three months ended June 30, 1998 as compared to the prior year period, primarily due to increased marketing program costs, increased personnel costs and increased sales and marketing activities in the Company's foreign locations.

#### Research and Development

Research and development expenses consist primarily of personnel costs, and costs of software for development purposes, and costs of outside consultants hired by the Company to assist its product development efforts. Research and development expenses are generally charged to operations as incurred. However, certain software development costs are capitalized in accordance with Statement of Financial Accounting Standards No. 86. Such capitalized software development costs are generally amortized on a straight line basis over periods not exceeding three years.

Research and development expenses increased 0.4% and 4.5%, respectively during the three and six months ended June 30, 1998, as compared to the prior year periods. The Company has not capitalized software development costs in either 1997 or 1998. The rate of capitalization of software development costs may fluctuate depending on the mix and stage of development of the Company's product development and engineering projects.

#### General and Administrative

General and administrative expenses consist primarily of administrative, executive and financial personnel costs, and outside professional fees. General and administrative expenses increased 7.6% and 9.9% for the three and six months ended June 30, 1998, as compared to prior year periods, primarily due to increases in payroll and related costs attributed to an increase in finance and general management personnel as part of a plan to institute financial and management controls throughout the Company.

#### Restructuring Costs

During the three months ended June 30, 1998, the Company committed itself to a plan whereby it eliminated 32 positions in the United States rendered redundant through a reengineering process, and eliminated 16 positions outside the United States servicing legacy products. Accordingly, the Company recorded a charge to operations totaling approximately \$1.3 million, reflecting the termination costs of those personnel. As of June 30, 1998, the Company has \$1.1 million included in accrued expenses related to such terminations.

#### Other Income (Expense)

Other income (expense) net increased to (\$70) thousand and \$40 thousand for the three and six months ended June 30, 1998, respectively, compared to (\$1.1) million and (\$1.8) million for the comparable prior year periods primarily due to the settlement of the class action litigation (Note 3), offset by interest expense on Company borrowings and lower invested balances of cash, cash equivalents and short term investments.

#### Liquidity and Capital Resources

At June 30, 1998, the Company had cash, cash equivalents, restricted cash and short-term investments of \$8.6 million and working capital deficit of (\$2.9) million. On March 31, 1998, the Company signed a \$10 million credit facility pursuant to which it borrowed \$5 million under a three year term loan (Note 2). Borrowings under the Agreement are secured by substantially all domestic assets of the Company including a pledge of 65% of the stock of the Company's foreign

subsidiaries. The Company is required to comply with quarterly and annual financial statement reporting requirements, as well as certain financial covenants, which were amended as of June 30, 1998. The ability to continue to borrow under the Agreement is dependent upon future compliance with such covenants. Management believes that the Company's projected operating results over the next twelve months will result in compliance under the Agreement, although there can be no assurance that such operating results will be achieved. In addition, the Company has a facility, with a separate financial institution, for \$0.5 million of an outstanding letter of credit that matures on September 1, 1998.

The Company's operating activities provided (used) cash of \$0.6 million and (\$7.3) million for the six months ended June 30, 1997 and 1998, respectively. Net cash used by operations in the six months ended June 30, 1998 was comprised primarily of the net loss offset by an increase in deferred revenue. Net cash provided by operations during the six months ended June 30, 1997 was comprised of decreases in accounts receivable and restricted cash, offset by the net loss and decreases in accounts payable and accrued expenses.

The Company's investing activities used cash of \$1.3 million and \$1.2 million for the six months ended June 30, 1997 and 1998, respectively. The principal uses during 1998 have been leasehold improvements and equipment purchases.

Cash provided (used) by financing activities was (\$2.6) million and \$4.7 million during the six months ended June 30, 1997 and 1998, respectively and related mainly to the issuance of long-term debt in 1998 and repayment of debt in 1997.

During the three months ended June 30, 1998, the Company executed a cost reduction plan which included eliminating 32 positions in the United States rendered redundant through a reengineering process, as well as eliminating 20 positions servicing legacy products outside the United States; bringing previously outsourced training and documentation activities back in-house; and refocusing its sales and marketing efforts on those industries where management believes it maintains a competitive advantage.

Management believes that the result of these actions will be to reduce its quarterly expense rate to levels experienced by the Company during the 1997 third quarter, without damaging its competitiveness.

The Company has no significant capital commitments. The Company's aggregate minimum operating lease payments for the remainder of 1998 and 1999 are expected to be approximately \$4.0 million. The Company expects that its operating cash flow will be sufficient to fund the Company's working capital requirements through 1998. However, the Company's ability to achieve this result is affected by the extent of cash generated from operations and the pace at which the Company utilizes its available resources. Accordingly, the Company may in the future be required to seek additional sources of financing including the issuance of debt and/or sale of equity securities. No assurance can be given that any such additional sources of financing or guarantees will be available on acceptable terms or at all.

Certain Factors That May Affect Future Results and Financial Condition and the Market Price of Securities

The Company's future business, results of operations and financial condition are also dependent on the Company's ability to successfully develop, manufacture, market and support its products in order to meet customer demands. Inherent in this process are a number of factors that the Company must carefully manage in order to be successful. A discussion of certain of these factors is discussed below.

#### History of Operating and Net Losses

The Company generated a net loss of \$31.8 million for 1996, \$13.6 million for 1997 and reported a net loss for the six months ended June 30, 1998 of \$9.4 million. The Company also incurred a net loss for each of the five years in the period ended December 31, 1995. As of June 30, 1998, the Company had an accumulated deficit of \$72.5 million. There can be no assurance that the Company will be profitable in the future.

#### Potential for Significant Fluctuations in Quarterly Operating Results; Seasonality

The Company has experienced, and may in the future experience, significant quarter to quarter fluctuations in revenues and results of operations. Such fluctuations may result in volatility in the price of the Company's Common Stock. Quarterly revenues and results of operations may fluctuate as a result of a variety of factors, including the proportion of revenues attributable to license fees versus services, the utilization of third parties to perform services, the amount of revenue generated by resales of third party software, changes in product mix, demand for the Company's products, the size and timing of individual license transactions, the introduction of new products and product enhancements by the Company or its competitors, changes in customer budgets, competitive conditions in the industry and general economic conditions. Further, the license of the Company's products generally involves a significant commitment of capital by the customer and may be delayed due to time-consuming authorization procedures within an organization. For these and other reasons, the sales cycles for the Company's products are typically lengthy and subject to a number of significant risks over which the Company has little or no control, including customers' budgetary constraints and internal authorization reviews. The Company has historically operated with little backlog, since its products are generally shipped as orders are received. The Company has historically recognized a substantial portion of its revenues in the last month of a quarter, with these revenues frequently concentrated in the last week of the quarter. License fees in any quarter are substantially dependent on orders booked and shipped in the last month and last week of that quarter. Delays in the timing of recognition of specific revenues may adversely and disproportionately affect the Company's results of operations because a high percentage of the Company's operating expenses are relatively fixed, planned expenditures are based primarily on sales forecasts and only a small percentage of the Company's operating expenses vary with its revenues. Accordingly, the Company believes that period to period comparisons of results of operations are not necessarily meaningful and should not be relied upon as an indication of future results of operations. There can be no assurance that the Company will be profitable in any future quarter.

The Company's business has experienced and is expected to continue to experience significant seasonality, due in part to customer buying patterns. These fluctuations are caused primarily by customer budgeting and purchasing patterns, and by the Company's sales commission policies which generally compensate sales personnel on the basis of quarterly and annual performance quotas. The Company believes this pattern may continue in the future.

Due to the foregoing factors, the Company's operating results may be below the expectations of public market analysts and investors, in some future quarter. Such an event may have a material adverse effect on the price of the Company's Common Stock. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

#### Litigation

During 1996, the Company and certain of its current and former officers and directors were named as defendants in six civil suits filed as class actions on behalf of individuals claiming to have purchased Computron Common Stock during the time period from August 24, 1995, through January 27, 1997. The suits were filed in the United States District Court for the District of New Jersey and have been consolidated by court order into one suit captioned In re Computron Software, Inc. Securities Litigation, Master File No-96-1911 (AJL). See "Item 3. Legal Proceedings".

On March 6, 1998, the District Court issued a final order approving the settlement of this class action securities litigation. See Footnote 3 to the Consolidated Interim Financial Statements.

Historically, the Company has been involved in other disputes and/or litigation encountered in its normal course of business. The Company believes that the ultimate outcome of these proceedings will not have a material adverse effect on the Company's business, financial condition and results of operations or cash flows.

#### Management Changes

The Company experienced significant turnover of executive management during 1996 and early 1997. In February 1997, the Company added a number of key officers, including its President and Chief Executive Officer and its Executive Vice President and Chief Financial Officer, and later in 1997 added its Senior Vice President of Operations and Senior Vice President of Sales and Marketing. Failure to attract and maintain key management and employee personnel could have material adverse effects on the quality of the Company's products, and the Company's business and financial condition and results of operations.

#### Intense Competition

The financial applications and business software market is intensely competitive and rapidly changing. A number of companies offer products similar to the Company's products and target the same customers as the Company. The Company believes its ability to compete depends upon many factors within and outside its control, including the timing and market acceptance of new products and enhancements developed by the Company and its competitors, product functionality, performance, price, reliability, customer service and support, sales and marketing efforts and product distribution. The primary competition for Computron Financials is the financial applications software offered by Oracle Corporation, PeopleSoft, Inc. and SAP AG. The principal competitors for the Company's Computron Workflow and Computron COOL(TM) software are Eastman Kodak Company ("Kodak"), which acquired the software division of Wang Laboratories, Inc. ("Wang"), and FileNet Corporation. The principal competitors for the Company's Computron Yorvik(TM) software are Project Software Development, Inc. (PSDI), Indus International, Inc. (Indus) and others. The Company has an agreement with Kodak pursuant to which Kodak has the right to license Computron COOL software to third parties under its own

private label and modify such software. Most of the Company's competitors are substantially larger than the Company and have significantly greater financial, technical, and marketing resources, and extensive direct and indirect channels of distribution. As a result, they may be able to respond more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the development, promotion and sale of their products than the Company. The Company's products also compete with products offered by other vendors, and with proprietary software developed by third-party professional service organizations and management information systems departments of potential customers. Due to the relatively low barriers to entry in the software market, the Company expects additional competition from other established and emerging companies as the client/server applications software market continues to develop and expand. The Company also expects that competition will increase as a result of software industry consolidations. In addition, current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to increase the ability of their products to address the needs of the Company's prospective customers. Accordingly, it is possible that new competitors or alliances among competitors may emerge and rapidly acquire significant market share. Increased competition is likely to result in price reductions, reduced gross margins and loss of market share, any of which would have a material adverse effect on the Company's business, results of operations and financial condition. There can be no assurance that the Company will be able to compete successfully against current or future competitors or that competitive pressures will not have a material adverse effect on the Company's business, results of operations and financial condition. See "Business--Competition", in the Company's 1997 Annual Report on Form 10-K.

#### Dependence on Principal Products

Substantially all of the Company's revenues are derived from the licensing of Computron Financials, Computron Workflow, Computron COOL, Computron Yorvik and fees from related services. These products and services are expected to continue to account for substantially all of the Company's revenues for the foreseeable future. Accordingly, the Company's future results of operations will depend, in part, on achieving broader market acceptance of these products and services, as well as the Company's ability to continue to enhance these products and services to meet the evolving needs of its customers. A reduction in demand or increase in competition in the market for financial applications or business software, or decline in sales of such products and services, could have a material adverse effect on the Company's business, results of operations and financial condition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and, in the Company's Annual Report on Form 10-K, "Business--Products".

#### New Products and Rapid Technological Change; Risk of Product Defects, Development Delays and Lack of Market Acceptance

The financial applications and business software market is characterized by rapid technological change, changes in customer requirements, frequent new product introductions and enhancements and emerging industry standards. Such changes may or may not affect the Company's software performance, customization, reporting functionality, or other business objectives, and may or may not render the Company incapable of meeting future customer software demands. The introduction of products embodying new technologies and emergence of new industry standards can render existing products obsolete and unmarketable. Accordingly, the life cycles of the Company's products are difficult to estimate. The Company's future success

will depend in part upon its ability to enhance its current products and to develop and introduce new products that respond to evolving customer requirements and keep pace with technological development and emerging industry standards, such as new operating systems, hardware platforms, interfaces and third party applications software. There can be no assurance that the Company will be successful in developing and marketing product enhancements or new products that respond to technological change, changes in customer requirements, or emerging industry standards, that the Company will not experience difficulties that could delay or prevent the successful development, introduction and marketing of such products and enhancements, or that any new products or enhancements that it may introduce will achieve market acceptance. The inability of the Company, for technological or other reasons, to develop and introduce new products or enhancements in a timely manner in response to changing customer requirements, technological change or emerging industry standards, would have a material adverse effect on the Company's business, results of operations and financial condition.

Software products as complex as those offered by the Company often encounter development delays and may contain undetected errors or failures when introduced or when new versions are released. Such delays, errors or failures create a risk that the software will not meet its stated functionality and could cause the Company's future operating results to fall short of the published expectations of certain public market financial analysts. From time to time, the Company ports its products to various, new platforms, though no assurance can be given concerning the successful development of the Company's software products on these additional platforms or the performance characteristics of its applications. In addition, the Company and its products and technologies rely upon third-party products from hardware vendors, software vendors, RDBMS vendors, tools vendors, reporting products, etc. Such dependencies may or may not affect the Company's ability in the future to provide continued availability and/or support for all Computron products. The Company has in the past experienced delays in the development of software by third parties which software is being licensed to and implemented by customers who are simultaneously licensing and implementing the Company's products. Those delays have resulted in delays in the development and shipment of the Company's products. There can be no assurance that, despite testing by the Company and by current and potential customers, errors will not be found in new products or enhancements after commencement of commercial shipments, or that the Company will not experience development delays, resulting in loss of or delay in market acceptance of a new product or enhancement, which could have a material adverse effect on the Company's business, results of operations and financial condition. See "Business--Product Development," in the Company's 1997 Annual Report on Form 10-K.

#### Dependence on Proprietary Rights; Risks of Infringement

The Company's success is heavily dependent upon its proprietary technology. The Company regards its software as proprietary, and relies primarily on a combination of contractual provisions and trade secrets, copyright and trademark law to protect its proprietary rights. The Company has no patents or patent applications pending, and existing trade secrets and copyright laws afford only limited protection. Despite the Company's efforts to protect its proprietary rights, unauthorized parties may attempt to copy aspects of the Company's products or to obtain and use information that the Company regards as proprietary. Policing unauthorized use of the Company's products is difficult, and while the Company is unable to determine the extent to which piracy of its software products exists, software piracy can be expected to be a persistent problem. The Company makes source code available to certain of its customers which may increase the likelihood of misappropriation or other misuse of the Company's software. In

addition, the laws of some foreign countries do not protect the Company's proprietary rights to the same extent as do the laws of the United States. There can be no assurance that the steps taken by the Company to protect its proprietary rights will be adequate or that the Company's competitors will not independently develop technologies that are substantially equivalent or superior to the Company's technologies.

The Company has obtained a Federal registration for its trademark "Computron", and its application for a Federal registration for its trademark "Yorvik" is pending in the United States. In addition the Company has certain U.S. common law rights, and rights under foreign laws in relation to its trademarks, service marks and product names. Although the Company believes that the trademarks and service marks it uses are distinct, there can be no assurance that the Company will be able to register or protect such trademarks and service marks.

The Company does not believe that any of its products, trademarks or other proprietary rights infringe the proprietary rights of third parties. However, there can be no assurance that third parties will not assert infringement claims against the Company in the future with respect to current or future products. As the number of software products in the industry increases and the functionality of these products further overlap, the Company believes that software developers may become increasingly subject to infringement claims. Any such claims, with or without merit, can be time consuming and expensive to defend, cause product shipment delays or require the Company to enter into royalty or licensing agreements. Such royalty and license agreements, if required, may not be available on terms acceptable to the Company, or at all, which could have a material adverse effect on the Company's business, results of operations and financial condition. See "Business--Intellectual Property," in the Company's 1997 Annual Report on Form 10-K.

#### Security Risks

The Company's products provide security features designed to protect its users' data from unauthorized retrieval or modification. Its built in security features utilize the capabilities of its own applications, the client operating system software, as well as the security features contained in the RDBMS platforms on which the applications run. Computron's systems add additional capabilities to those provided by the underlying security systems. Though the Company is not aware of any violations of its application security architecture within its installed base, and its security features are subject to constant review and enhancement, no assurances can be given concerning the successful implementation of security features and their effectiveness within a customer's operating environment. In the event of an actual security breach, there may be a material adverse effect on the Company's business, results of operations, and financial condition.

#### Risks Associated with International Operations

The Company derived approximately \$14.2 million, \$21.3 million and \$29.4 million or 26.9%, 39.2% and 43.4% of its total revenues, from customers outside of the United States in 1995, 1996, and 1997, respectively. The Company derived approximately \$15.2 million and \$14.4 million or 45.2% and 48.3% of its total revenues from customers outside the United States for the six months ended June 30, 1997 and 1998, respectively. The Company expects that such revenues will continue to represent a significant percentage of its total revenues in the future. The Company believes that its continued growth and profitability will require expansion of its sales in

international markets. There can be no assurance, however, that the Company will be able to maintain or increase international market demand for its products and services. Most of the Company's international license fees and services revenue are denominated in foreign currencies. The Company does not currently hedge its foreign exchange exposure. With respect to the Company's sales that are U.S. dollar-denominated, decreases in the value of foreign currencies relative to the U.S. dollar could make the Company's products less price competitive. Additional risks inherent in the Company's international business activities generally include unexpected changes in regulatory requirements, tariffs and other trade barriers, costs of localizing products for foreign countries, lack of acceptance of localized products in foreign markets, longer accounts receivable payment cycles, difficulties in managing international operations, potentially adverse tax consequences, restrictions on repatriation of earnings, reduced legal protection of the Company's intellectual property, and the burdens of complying with a wide variety of foreign laws. There can be no assurance that such factors will not have a material adverse effect on the Company's future international revenues and, consequently, on the Company's business, results of operations and financial condition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

#### Expansion of Indirect Channels

An integral part of the Company's strategy is to expand indirect marketing channels using systems integrators and to increase the proportion of the Company's customers licensed through such indirect channels. The Company is currently investing, and intends to continue to invest, significant resources to develop indirect marketing channels. There can be no assurance that the Company will be able to attract and maintain relationships with systems integrators that will be able to market the Company's products effectively and will be qualified to provide timely and cost-effective customer support and service. The Company's agreements with such third parties are generally not exclusive and many of those third parties also market competitive products. In many cases, these agreements may be terminated by either party at any time without cause. The inability to attract and retain systems integrators could have a material adverse effect on the Company's business, results of operations and financial condition. See "Business--Sales and Marketing" and "Strategic Alliances, " in the Company's 1997 Annual Report on Form 10-K.

#### Reliance on Certain Relationships

The Company relies on relationships with a number of consultants, systems integrators and software and hardware vendors to enhance its product development and marketing and sales efforts, to implement the Company's software products and to support its customers. These relationships, many of which are not the subject of formal written agreements, provide marketing and sales leads to the Company's direct sales force, assistance in the Company's product development process and assistance in the service and implementation of the Company's products. There can be no assurance that these companies, most of which have significantly greater financial and marketing resources than the Company, will not develop or market software products which compete with the Company's products in the future or will not otherwise discontinue their relationships with or support of the Company. The failure by the Company to maintain its existing relationships, or to establish new relationships in the future, because of a divergence of interests, acquisition of one or more of these third parties or other reason, could have a material adverse effect on the Company's business, product development, results of operations, and financial condition.

The Company also licenses software from third parties which is incorporated into its products. These licenses expire from time to time. In addition, the Company generally does not have access to source code for the software supplied by these third parties. Certain of these third parties are small companies that do not have extensive financial and technical resources. If any of these relationships were terminated or if any of these third parties were to cease doing business or terminate the support of these products, the Company may be forced to expend significant time and development resources to try to replace the licensed software. Such an event would have a material adverse effect upon the Company's business, results of operations and financial condition. See "Business--Strategic Alliances," and "Intellectual Property," in the Company's 1997 Annual Report on Form 10-K.

#### Control by Existing Stockholders

The Company's executive officers, directors and affiliates together beneficially own approximately 58% of the outstanding shares of Common Stock as of March 6, 1998. As a result, these stockholders are able to exercise control over matters requiring stockholder approval, including the election of directors, and mergers, consolidations and sales of all or substantially all of the assets of the Company. This may prevent or discourage tender offers for the Company's Common Stock unless the terms are approved by such stockholders.

#### Reliance on Key Personnel

The Company's future success will depend to a significant extent upon a number of key management and technical personnel. The loss of the services of one or more key employees could have a material adverse effect on the Company's business. The Company is a party to employment agreements with certain key personnel. In addition, the Company is the beneficiary of key-person life insurance on the lives of certain key personnel. The Company believes that its future success will also depend in large part upon its ability to attract and retain highly skilled technical, management, sales and marketing personnel. Competition for such personnel is intense, and the services of qualified personnel are difficult to obtain and replace. There can be no assurance that the Company will be successful in attracting and retaining the personnel necessary to develop, market, service and support its products and conduct its operations successfully. The inability of the Company to attract, hire, assimilate and retain such personnel, or to increase revenues at a rate sufficient to absorb the resulting increased expenses, would have a material adverse effect on the Company's business, results of operations and financial condition.

#### Possible Volatility of Stock Price

The trading price of the Company's Common Stock has been, and, in the future could be, subject to significant fluctuations in response to variations in quarterly operating results, the gain or loss of significant contracts, changes in estimates of operating results by analysts, announcements of technological innovations or new products by the Company or its competitors, general conditions in the software and computer industries and other events or factors. In addition, the stock market in general has experienced extreme price and volume fluctuations which have affected the market price from many companies in industries similar or related to that of the Company and which have been unrelated to the operating performance of such companies. These market fluctuations may adversely affect the market price of the Company's Common Stock.

#### Anti-Takeover Effect of Certain Charter and By-Law Provisions and Delaware Law

The Company's Fourth Amended and Restated Certificate of Incorporation authorizes the Board of Directors to issue, without stockholder approval, 5,000,000 shares of Preferred Stock with voting, conversion and other rights and preferences that could materially and adversely affect the voting power or other rights of the holders of Common Stock. Although the Company has no current plans to issue any shares of Preferred Stock, the issuance of Preferred Stock or of rights to purchase Preferred Stock could be used to discourage an unsolicited acquisition proposal. In addition, the possible issuance of Preferred Stock could discourage a proxy contest, make more difficult the acquisition of a substantial block of the Company's Common Stock or limit the price that investors might be willing to pay in the future for shares of the Company's Common Stock. Certain provisions of the Company's by-laws and of Delaware law applicable to the Company could delay or make more difficult a merger, tender offer or proxy contest involving the Company.

COMPUTRON SOFTWARE, INC.

Part II  
Other Information

Item 1. Legal Proceedings

On March 6, 1998 the District Court issued a final order approving a settlement in the class action securities litigation, In re Computron Software, Inc. Securities Litigation, Master File No. 96-1911 (AJL), brought against the Company and certain of its present and former officers and directors in the United States District Court for the District of New Jersey.

The overall settlement includes consideration totaling \$15 million for the benefit of class members, including consideration of \$6 million from the Company, and payments from certain of its present and former officers and directors, its former auditors, and the insurance companies that provided Computron with directors and officers liability insurance. In return for the payments by the insurance companies, the settlement also resolves a separate lawsuit brought by the Company against the insurance companies. As its share of the settlement, the Company has paid \$1 million in cash, and will issue 1 million shares of Common Stock of the Company.

Class members will receive a non-transferable right to resell the stock received in the settlement to a business trust formed by the Company at a price of \$5.00 per share. The trust was capitalized by a contribution of \$5 million by the Company in March of 1998, which will be used to pay the claims of any class members who receive stock in the settlement and exercise their right to resell such stock to the trust according to the terms of the Stipulation of Settlement. The exercise period during which class members may resell these shares to the trust will be December 1, 1998 to December 21, 1998, or a later period if all necessary court proceedings have not been completed by November 1, 1998. The resale right will expire at the end of the exercise period, or earlier, as to any shares issued in the settlement that are sold by class members prior to the final day of the exercise period. The resale right will also expire earlier than the exercise period if the closing price of Computron's Common Stock is higher than \$5.00 per share for 20 consecutive trading days. The Company recorded a charge to operations of \$6 million during the quarter ended September 30, 1997, reflecting the Company's share of the settlement costs, excluding legal fees.

Historically, the Company has been involved in other disputes and/or litigation encountered in its normal course of business. The Company believes that the ultimate outcome of these proceedings will not have a material adverse effect on the Company's business, financial condition and results of operations or cash flows.

Item 4. Submission of Matters to a Vote of Securities Holders

At the Company's Annual Meeting of Stockholders on June 10, 1998 the Stockholders voted to (i) approve the Company's 1998 Stock Option Plan to reserve for issuance 1,500,000 shares of Common Stock, (17,200,756 votes for, 172,808 votes against, 30,390 votes abstained) and (ii) ratify the appointment of KPMG Peat Marwick LLP as the Company's independent auditors for 1998 (21,520,484 votes for, 52,387 votes against, 18,490 votes abstained).

Further, at the Annual Meeting of Stockholders held on June 10, 1998, the following directors were nominated and elected by the votes indicated:

|                    | Votes For<br>----- | Votes Withheld<br>----- |
|--------------------|--------------------|-------------------------|
| Elias Typaldos     | 21,523,163         | 68,198                  |
| John A. Rade       | 21,523,163         | 68,198                  |
| Gennaro Vendome    | 21,523,163         | 68,198                  |
| Gregory Kopchinsky | 21,523,163         | 68,198                  |
| Robert Migliorino  | 21,523,163         | 68,198                  |
| Michel Berty       | 21,523,163         | 68,198                  |
| William E. Vogel   | 21,523,163         | 68,198                  |
| Edwin T. Brondo    | 21,523,163         | 68,198                  |

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

Exhibit 10.27 - 1998 Stock Option Plan

Exhibit 10.28 - Amendment to the Loan and Security Agreement  
with Foothill Capital Corporation.

Exhibit 27 - Financial Data Schedule (Edgar filing only).

b) Reports on Form 8-K - None

COMPUTRON SOFTWARE, INC.

SIGNATURE

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.

COMPUTRON SOFTWARE, INC.

Date: August 13, 1998 By: :/s/ Michael R. Jorgensen

-----  
Michael R. Jorgensen  
Executive Vice President, Chief Financial Officer,  
Treasurer and Secretary (Principal Financial and  
Accounting Officer)

26

</TEXT>  
</DOCUMENT>

COMPUTRON SOFTWARE, INC.

1998 STOCK OPTION PLAN

TABLE OF CONTENTS

|   | Page |
|---|------|
|   | ---- |
| ARTICLE I. PURPOSE.....   | 1    |
| ARTICLE II. DEFINITIONS.....  | 1    |
| ARTICLE III. ADMINISTRATION.....  | 5    |
| ARTICLE IV. SHARE AND OTHER LIMITATIONS.....  | 9    |
| ARTICLE V. ELIGIBILITY.....   | 11   |
| ARTICLE VI. STOCK OPTIONS.....  | 12   |
| ARTICLE VII. STOCK APPRECIATION RIGHTS.....   | 14   |
| ARTICLE VIII. NON-EMPLOYEE DIRECTOR STOCK OPTIONS.....                                    | 16   |
| ARTICLE IX. NON-TRANSFERABILITY AND TERMINATION OF EMPLOYMENT/CONSULTANCY PROVISIONS..... | 19   |
| ARTICLE X. CHANGE IN CONTROL PROVISIONS.....  | 21   |
| ARTICLE XI. TERMINATION OR AMENDMENT OF PLAN.....   | 23   |
| ARTICLE XII. UNFUNDED PLAN.....   | 24   |
| ARTICLE XIII. GENERAL PROVISIONS.....   | 24   |
| ARTICLE XIV. EFFECTIVE DATE OF PLAN.....  | 27   |
| ARTICLE XV. TERM OF PLAN.....   | 27   |
| ARTICLE XVI. NAME OF PLAN.....  | 27   |

Computron Software, Inc.  
1998 Stock Option Plan

ARTICLE I.

PURPOSE

The purpose of the Computron Software, Inc. 1998 Stock Option Plan (the "Plan") is to enhance the profitability and value of Computron Software, Inc. (the "Company") and its Affiliates for the benefit of the Company's stockholders by enabling the Company: (i) to offer employees and Consultants of the Company and its Affiliates, stock based incentives and other equity interests in the Company, thereby creating a means to raise the level of stock ownership by employees and Consultants in order to attract, retain and reward such individuals and strengthen the mutuality of interests between such individuals and the Company's stockholders, and (ii) to make equity based awards to Non-Employee Directors of the Company thereby attracting, retaining and rewarding such Non-Employee Directors and strengthening the mutuality of interests between such individuals and the Company's stockholders.

ARTICLE II.

DEFINITIONS

For purposes of this Plan, the following terms shall have the following meanings:

2.1. "Acquisition Events" shall have the meaning set forth in Section 4.2(d).

2.2. "Affiliate" shall mean other than the Company, (i) any Subsidiary; (ii) any corporation in an unbroken chain of corporations beginning or ending with the Company which owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain; (iii) any corporation, trade or business (including, without limitation, a partnership or limited liability company) which is controlled 50% or more (whether by ownership of stock, assets or an equivalent ownership interest or voting interest) by the Company or one of its Affiliates; or (iv) any other entity, approved by the Committee as an Affiliate under the Plan, in which the Company or any of its Affiliates has a material equity interest.

2.3. "Award" shall mean any award under this Plan of any Stock Option or Stock Appreciation Right. All Awards shall be confirmed by, and subject to the terms of, a written agreement executed by the Company and the Participant.

2.4. "Board" shall mean the Board of Directors of the Company.

2.5. "Cause" shall mean, with respect to a Participant's Termination of Employment or Termination of Consultancy: (i) in the case where there is no employment agreement, consulting agreement, change in control agreement or similar agreement in effect between the Company or an Affiliate and the Participant at the time of the relevant grant or Award, or where there is an employment agreement, consulting agreement, change in control agreement or similar agreement in effect at the time of the relevant grant or Award but such agreement does not define "cause" (or words of like import), termination due to a Participant's dishonesty, fraud, insubordination, willful misconduct, refusal to perform services (for any reason other than illness or incapacity) or materially unsatisfactory performance of his or her duties for the Company or an Affiliate; or (ii) in the case where there is an employment agreement, consulting agreement, change in control agreement or similar agreement in effect between the Company or an Affiliate and the Participant at the time of the relevant grant or Award that defines "cause" (or words of like import); provided, that with regard to any agreement that conditions "cause" on occurrence of a change in control, such definition of "cause" shall not apply until a change in control actually takes place and then only with regard to a termination thereafter. A Participant shall be deemed to be terminated for "cause" if the Participant, following his or her Termination of Employment or Termination of Consultancy, engages in any "competitive activity" with the Company or its Affiliates, as determined by the Committee, in its sole discretion. With respect to a Participant's Termination of Directorship, "cause" shall mean an act or failure to act that constitutes "cause" for removal of a director under applicable Delaware law.

2.6. "Code" shall mean the Internal Revenue Code of 1986, as amended. Any reference to any section of the Code shall also be a reference to any successor provision.

2.7. "Committee" shall mean a committee or subcommittee of the Board appointed from time to time by the Board, which committee or subcommittee shall consist of two or more non-employee directors, each of whom is intended to be, to the extent required by Rule 16b-3 and Section 162(m) of the Code, a "non-employee director" as defined in Rule 16b-3 and an "outside director" as defined under Section 162(m) of the Code. Notwithstanding anything herein to the contrary, the Board shall act as the Committee under this Plan with respect to any grants of Non-Qualified Stock Options to Non-Employee Directors (whether discretionary or automatic). To the extent that no Committee exists which has the authority to administer this Plan, the functions of the Committee shall be exercised by the Board. If for any reason the appointed Committee does not meet the requirements of Rule 16b-3 or Section 162(m) of the Code, such noncompliance with the requirements of Rule 16b-3 and Section 162(m) of the Code shall not affect the validity of Awards, grants, interpretations or other actions of the Committee.

2.8. "Common Stock" shall mean the common stock, \$.01 par value per share, of the Company.

2.9. "Company" shall mean Computron Software, Inc., a Delaware corporation.

2.10. "Consultant" shall mean any adviser or consultant to the Company or its Affiliates who is eligible pursuant to Section 5.1 to be granted Stock Options and Stock Appreciation Rights under this Plan.

2.11. "Disability" shall mean total and permanent disability, as defined in Section 22(e)(3) of the Code.

2.12. "Effective Date" shall mean the effective date of this Plan as defined in Article XIV.

2.13. "Eligible Employee" shall mean any employee of the Company or its Affiliates who is eligible pursuant to Section 5.1 to be granted Stock Options and Stock Appreciation Rights under this Plan. Notwithstanding the foregoing, with respect to the grant of Incentive Stock Options, Eligible Employee shall mean any employee of the Company or any Affiliate described in Section 2.2(i) or (ii) who is eligible pursuant to Section 5.2 to be granted Incentive Stock Options under this Plan.

2.14. "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

2.15. "Fair Market Value" for purposes of this Plan, unless otherwise required by any applicable provision of the Code or any regulations issued thereunder, shall mean, as of any date, the last sales price reported for the Common Stock on the applicable date: (i) as reported on the principal national securities exchange on which it is then traded or the Nasdaq Stock Market, Inc. or (ii) if not traded on any such national securities exchange or the Nasdaq Stock Market, Inc., as quoted on an automated quotation system sponsored by the National Association of Securities Dealers. If the Common Stock is not readily tradable on a national securities exchange, the Nasdaq Stock Market, Inc., or any automated quotation system sponsored by the National Association of Securities Dealers, its Fair Market Value shall be set in good faith by the Committee. For purposes of the exercise of any Stock Appreciation Right the applicable date shall be the date a notice of exercise is received by the Committee or, if not a day on which the applicable market is open, the next day that it is open.

2.16. "Incentive Stock Option" shall mean any Stock Option awarded under this Plan intended to be and designated as an "incentive stock option" within the meaning of Section 422 of the Code.

2.17. "Limited Stock Appreciation Right" shall mean an Award made pursuant to Section 7.5 of this Plan which may be a Tandem Stock Appreciation Right or a Non-Tandem Stock Appreciation Right.

2.18. "Non-Employee Director" shall mean any director of the Company who is not an employee of the Company or any Affiliate and who is eligible pursuant to Section 5.3 to be granted Stock Options under Article VIII.

2.19. "Non-Qualified Stock Option" shall mean any Stock Option awarded under this Plan that is not an Incentive Stock Option.

2.20. "Non-Tandem Stock Appreciation Right" shall mean a Stock Appreciation Right entitling the holder to receive an amount in cash or stock equal to the excess of: (i) the Fair Market Value of a share of Common Stock as of the date such right is exercised, over (ii) the aggregate exercise price of such right, otherwise than on surrender of a Stock Option.

2.21. "Participant" shall mean any Eligible Employee, Consultant or Non-Employee Director to whom an Award has been made under this Plan.

2.22. "Reference Stock Option" shall have the meaning set forth in Section 7.1.

2.23. "Retirement" with respect to a Participant's Termination of Employment or Termination of Consultancy shall mean a Termination of Employment or Termination of Consultancy without Cause from the Company and an Affiliate by a Participant who has attained: (i) at least age 65; or (ii) such earlier date after age 55 as approved by the Committee, in its sole discretion, with regard to such Participant. With respect to a Participant's Termination of Directorship, Retirement shall mean the failure to stand for reelection or the failure to be reelected after a Participant has attained age 65.

2.24. "Rule 16b-3" shall mean Rule 16b-3 under Section 16(b) of the Exchange Act as then in effect or any successor provisions.

2.25. "Section 162(m) of the Code" shall mean the exception for performance-based compensation under Section 162(m) of the Code and any Treasury regulations thereunder.

2.26. "Stock Appreciation Right" or "SAR" shall mean the right pursuant to an Award granted under Article VII.

2.27. "Stock Option" or "Option" shall mean any Option to purchase shares of Common Stock granted to Eligible Employees or Consultants pursuant to Article VI or granted to Non-Employee Directors pursuant to Article VI or VIII.

2.28. "Subsidiary" shall mean any subsidiary corporation of the Company within the meaning of Section 424(f) of the Code.

2.29. "Tandem Stock Appreciation Right" shall mean a Stock Appreciation Right entitling the holder to surrender to the Company all (or a portion) of a Stock Option in exchange for an amount in cash or stock equal to the excess of: (i) the Fair Market Value, on the date such Stock Option (or such portion thereof) is surrendered, of the Common Stock covered by such Stock Option (or such portion thereof), over (ii) the aggregate exercise price of such Stock Option (or such portion thereof).

2.30. "Ten Percent Stockholder" shall mean a person owning stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or its Subsidiaries or its parent corporations, as defined in Section 424(e) of the Code.

2.31. "Termination of Consultancy" shall mean, with respect to a Consultant, that the Consultant is no longer acting as a Consultant to the Company and its Affiliates. In the event an entity shall cease to be an Affiliate, there shall be deemed a Termination of Consultancy of any individual who is not otherwise a Consultant of the Company or another Affiliate at the time the entity ceases to be an Affiliate.

2.32. "Termination of Directorship" shall mean, with respect to a Non-Employee Director, that the Non-Employee Director has ceased to be a director of the Company.

2.33. "Termination of Employment" shall mean: (i) a termination of service of a Participant from the Company and its Affiliates; or (ii) when an entity which is employing a Participant ceases to be an Affiliate, unless the Participant thereupon becomes employed by the Company or another Affiliate.

2.34. "Transfer" or "Transferred" shall mean anticipate, alienate, attach, sell, assign, pledge, encumber, charge or otherwise transfer.

### ARTICLE III.

#### ADMINISTRATION

3.1. The Committee. This Plan shall be administered and interpreted by the Committee. Notwithstanding anything herein to the contrary, the Board shall act as the Committee under this Plan in respect to any discretionary grants of Non-Qualified Stock Options to Non-Employee Directors.

3.2. Awards. The Committee or the Board, as applicable, shall have full authority to grant, pursuant to the terms of this Plan (including Article V hereof) Stock Options to Participants and Stock Appreciation Rights to Eligible Employees and Consultants and to otherwise administer this Plan. In particular, the Committee or the Board, as applicable, shall have the authority:

(a) to select the Participants to whom Stock Options may from time to time be granted hereunder and the Eligible Employees and Consultants to whom Stock Appreciation Rights may from time to time be granted hereunder;

(b) to determine whether and to what extent Stock Options are to be granted hereunder to one or more Participants and Stock Appreciation Rights are to be granted hereunder to one or more Eligible Employees or Consultants;

(c) to determine, in accordance with the terms of this Plan, the number of shares of Common Stock to be covered by each Award to a Participant hereunder;

(d) to determine the terms and conditions, not inconsistent with the terms of this Plan, of any Award granted hereunder to a Participant (including, but not limited to, the exercise or purchase price (if any), any restriction or limitation, any vesting schedule or acceleration thereof or any forfeiture restrictions or waiver thereof, regarding any Stock Option or Stock Appreciation Right, and the shares of Common Stock relating thereto, based on such factors, if any, as the Committee or the Board, as applicable, shall determine, in its sole discretion);

(e) to determine whether and under what circumstances a Stock Option may be settled in cash and/or Common Stock under Section 6.3(d);

(f) to determine whether, to what extent and under what circumstances to provide loans (which may be on a recourse basis and shall bear interest at the rate the Committee shall provide) to Eligible Employees and Consultants in order to exercise Options under this Plan;

(g) to determine whether a Stock Appreciation Right shall be a Tandem Stock Appreciation Right or Non-Tandem Stock Appreciation Right;

(h) to determine whether to require a Participant, as a condition of the granting of any Award, to not sell or otherwise dispose of shares acquired pursuant to the exercise of an Option or as an Award for a period of time as determined by the Committee or the Board, as applicable, in its sole discretion, following the date of the acquisition of such Option or Award;

(i) to modify, extend or renew an Award, subject to Section 11.1 herein, provided, however, that if an Award is modified, extended or renewed and thereby deemed to be the issuance of a new Award under the Code or the applicable accounting

rules, the exercise price of an Award may continue to be the original exercise price even if less than the Fair Market Value of the Common Stock at the time of such modification, extension or renewal; and

(j) to offer to buy out an Option previously granted, based on such terms and conditions as the Committee or the Board, as applicable, shall establish and communicate to the Participant at the time such offer is made.

3.3. Guidelines. Subject to Article XI hereof, the Committee or the Board, as applicable, shall have the authority to adopt, alter and repeal such administrative rules, guidelines and practices governing this Plan and perform all acts, including the delegation of its administrative responsibilities, as it shall, from time to time, deem advisable; to construe and interpret the terms and provisions of this Plan and any Award issued under this Plan (and any agreements relating thereto); and to otherwise supervise the administration of this Plan. The Committee or the Board, as applicable, may correct any defect, supply any omission or reconcile any inconsistency in this Plan or in any agreement relating thereto in the manner and to the extent it shall deem necessary to carry this Plan into effect, but only to the extent any such action would be permitted under the applicable provisions of both Rule 16b-3 and Section 162(m) of the Code. The Committee or the Board, as applicable, may adopt special guidelines and provisions for persons who are residing in, or subject to, the taxes of, countries other than the United States to comply with applicable tax and securities laws. To the extent applicable, this Plan is intended to comply with the applicable requirements of Rule 16b-3 and Section 162(m) of the Code and shall be limited, construed and interpreted in a manner so as to comply therewith.

3.4. Decisions Final. Any decision, interpretation or other action made or taken in good faith by or at the direction of the Company, the Board, or the Committee (or any of its members) arising out of or in connection with this Plan shall be within the absolute discretion of the Company, the Board or the Committee, as the case may be, and shall be final, binding and conclusive on the Company and its Affiliates and all employees and Participants and their respective heirs, executors, administrators, successors and assigns.

3.5. Reliance on Counsel. The Company, the Board or the Committee may consult with legal counsel, who may be counsel for the Company or other counsel, with respect to its obligations or duties hereunder, or with respect to any action or proceeding or any question of law, and shall not be liable with respect to any action taken or omitted by it in good faith pursuant to the advice of such counsel.

3.6. Procedures. If the Committee is appointed, the Board shall designate one of the members of the Committee as chairman and the Committee shall hold meetings, subject to the By-Laws of the Company, at such times and places as the Committee shall deem advisable. A majority of the Committee members shall constitute a quorum. All determinations of the Committee shall be made by a majority of its members. Any decision or determination reduced to writing and signed by all the Committee members in accordance with the By-Laws of the Company shall be fully as effective as if it had been made by a vote at a meeting duly

called and held. The Committee may keep minutes of its meetings and may make such rules and regulations for the conduct of its business as it shall deem advisable.

8

### 3.7. Designation of Consultants/Liability.

(a) The Committee or the Board, as applicable, may designate employees of the Company and professional advisors to assist the Committee or the Board, as applicable, in the administration of this Plan and may grant authority to employees to execute agreements or other documents on behalf of the Committee or the Board, as applicable.

(b) The Committee or the Board, as applicable, may employ such legal counsel, consultants and agents as it may deem desirable for the administration of this Plan and may rely upon any opinion received from any such counsel or consultant and any computation received from any such consultant or agent. Expenses incurred by the Committee or Board in the engagement of any such counsel, consultant or agent shall be paid by the Company. The Board, its directors, the Committee, its members and any person designated pursuant to Section 3.7(a) shall not be liable for any action or determination made in good faith with respect to this Plan. To the maximum extent permitted by applicable law, no officer of the Company or member or former member of the Committee or of the Board shall be liable for any action or determination made in good faith with respect to this Plan or any Award granted under it. To the maximum extent permitted by applicable law and the Certificate of Incorporation and By-Laws of the Company and to the extent not covered by insurance, each officer and member or former member of the Committee or of the Board shall be indemnified and held harmless by the Company against any cost or expense (including reasonable fees of counsel reasonably acceptable to the Company) or liability (including any sum paid in settlement of a claim with the approval of the Company), and advanced amounts necessary to pay the foregoing at the earliest time and to the fullest extent permitted, arising out of any act or omission to act in connection with this Plan, except to the extent arising out of such officer's, member's or former member's own fraud or bad faith. Such indemnification shall be in addition to any rights of indemnification the officers, directors or members or former officers, directors or members may have under applicable law or under the Certificate of Incorporation or By-Laws of the Company or any Affiliate. Notwithstanding anything else herein, this indemnification will not apply to the actions or determinations made by an individual with regard to Awards granted to him under this Plan.

## ARTICLE IV.

### SHARE AND OTHER LIMITATIONS

#### 4.1. Shares.

(a) General Limitation. The aggregate number of shares of Common Stock which may be issued or used for reference purposes under this Plan shall not exceed 1,500,000 shares (subject to any increase or decrease pursuant to Section 4.2) which

9

may be either authorized and unissued Common Stock or Common Stock held in or acquired for the treasury of the Company. If any Option or Stock Appreciation Right granted under this Plan expires, terminates or is canceled for any reason without having been exercised in full, the number of shares of Common Stock underlying any unexercised Stock Appreciation Right or Option shall again be available for the purposes of Awards under this Plan. If a Tandem Stock Appreciation Right or a Limited Stock Appreciation Right granted in tandem with an Option is granted under this Plan, such grant shall only apply once against the maximum number of shares of Common Stock which may be issued under this Plan. In addition, in determining the number of shares of Common Stock available for awards other than awards of Incentive Stock Options, if Common Stock has been exchanged by a Participant as full or partial payment to the Company, or for withholding, in connection with the exercise of a Stock Option or the number shares of Common Stock otherwise deliverable has been reduced for withholding, the number of shares of Common Stock exchanged as payment in connection with the exercise or for withholding or reduced shall again be available under this Plan. Any shares of Common Stock that are issued by the Company, and any awards that are granted through the assumption of, or in substitution for, outstanding awards previously granted by an acquired entity shall not be counted against the shares of Common Stock available for issuance under this Plan other than with regard to determining the number of shares available for Incentive Stock Options.

(b) Individual Participant Limitations. The maximum number of shares of Common Stock subject to Awards which may be granted under this Plan during any calendar year of the Company to each Eligible Employee shall be 200,000 shares (subject to any increase or decrease pursuant to Section 4.2) other than with regard to the calendar year in which an Eligible Employee initially commences employment with the Company and its Affiliates. With respect to the calendar year in which an Eligible Employee initially commences employment with the Company and its Affiliates, but only with regard to such Eligible Employee, the maximum number of shares of Common Stock subject to Awards which may be granted under this Plan shall be 400,000 shares (subject to any increase or decrease pursuant to Section 4.2). If a Tandem Stock Appreciation Right or Limited Stock Appreciation Right is granted in tandem with an Option it shall apply against the Eligible Employee's individual share limitations for both Stock Appreciation Rights and Options. To the extent that shares of Common Stock for which Options or Stock Appreciation Rights are permitted to be granted to a Participant pursuant to Section 4.1(b) during a calendar year of the Company are not covered by a grant of an Option or a Stock Appreciation Right in the Company's calendar year, such shares of Common Stock shall be available for grant or issuance to the Participant in any subsequent calendar year during the term of this Plan.

#### 4.2. Changes.

(a) The existence of this Plan and the Awards granted hereunder shall not affect in any way the right or power of the Board or the stockholders of the Company

to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, or Affiliates, any issue of bonds, debentures, preferred or prior preference stock ahead of or affecting Common Stock, the authorization or issuance of additional shares of Common Stock, the dissolution or liquidation of the Company or Affiliates, any sale or transfer of all or part of its assets or business or any other corporate act or proceeding.

(b) In the event of any change in the capital structure or business of the Company by reason of any stock dividend or extraordinary dividend, stock split or reverse stock split, recapitalization, reorganization, merger, consolidation, split-up, combination or exchange of shares, distribution with respect to its outstanding Common Stock or capital stock other than Common Stock, reclassification of its capital stock, any sale or transfer of all or part of the Company's assets or business, or any similar change affecting the Company's capital structure or business and the Committee or the Board, as applicable, determines an adjustment is appropriate under this Plan, then the aggregate number and kind of shares which thereafter may be issued under this Plan, the number and kind of shares or other property (including cash) to be issued upon exercise of an outstanding Option or other Awards granted under this Plan and the purchase or exercise price thereof shall be appropriately adjusted consistent with such change in such manner as the Committee or the Board, as applicable, may deem equitable to prevent substantial dilution or enlargement of the rights granted to, or available for, Participants under this Plan or as otherwise necessary to reflect the change, and any such adjustment determined by the Committee or the Board, as applicable, in good faith shall be binding and conclusive on the Company and all Participants and employees and their respective heirs, executors, administrators, successors and assigns.

(c) Fractional shares of Common Stock resulting from any adjustment in Options or Awards pursuant to Section 4.2(a) or (b) shall be aggregated until, and eliminated at, the time of exercise by rounding-down for fractions less than one-half and rounding-up for fractions equal to or greater than one-half. No cash settlements shall be made with respect to fractional shares eliminated by rounding. Notice of any adjustment shall be given by the Committee or the Board, as applicable, to each Participant whose Option or Award has been adjusted and such adjustment (whether or not such notice is given) shall be effective and binding for all purposes of this Plan.

(d) In the event of a merger or consolidation in which the Company is not the surviving entity or in the event of any transaction that results in the acquisition of all or substantially all of the Company's outstanding Common Stock by a single person or entity or by a group of persons and/or entities acting in concert, or in the event of the sale or transfer of all or substantially all of the Company's assets (all of the foregoing being referred to as "Acquisition Events"), then the Committee may, in its sole discretion, terminate all outstanding Options and Stock Appreciation Rights of Eligible Employees and Consultants, effective as of the date of the Acquisition Event,

by delivering notice of termination to each such Participant at least 30 days prior to the date of consummation of the Acquisition Event; provided, that during the period from the date on which such notice of termination is delivered to the consummation of the Acquisition Event, each such Participant shall have the right to exercise in full all of his or her Options and Stock Appreciation Rights that are then outstanding (whether vested or not vested) but contingent on the occurrence of the Acquisition Event, and, provided that, if the Acquisition Event does not take place within a specified period after giving such notice for any reason whatsoever, the notice and exercise shall be null and void. If an Acquisition Event occurs, to the extent the Committee does not terminate the outstanding Options and Stock Appreciation Rights pursuant to this Section 4.2(d), then the provisions of Section 4.2(b) shall apply. This provision shall not apply to any Options granted to Non-Employee Directors.

4.3. Purchase Price. Notwithstanding any provision of this Plan to the contrary, if authorized but previously unissued shares of Common Stock are issued under this Plan, such shares shall not be issued for a consideration which is less than as permitted under applicable law.

#### ARTICLE V.

##### ELIGIBILITY

5.1. All employees and Consultants of the Company and its Affiliates are eligible to be granted Non-Qualified Stock Options and Stock Appreciation Rights under this Plan. Eligibility shall be determined by the Committee in its sole discretion.

5.2. All employees of the Company and its Affiliates described in Section 2.2(i) or (ii) are eligible to be granted Incentive Stock Options under this Plan. Eligibility shall be determined by the Committee in its sole discretion.

5.3. Non-Employee Directors of the Company are eligible to receive automatic awards of Non-Qualified Stock Options in accordance with Article VIII of this Plan and discretionary awards of Non-Qualified Stock Options under Article VI of this Plan. Eligibility for discretionary awards of Non-Qualified Stock Options shall be determined by the Board in its sole discretion.

#### ARTICLE VI.

##### STOCK OPTIONS

6.1. Options. Each Stock Option granted hereunder shall be one of two types: (i) an Incentive Stock Option intended to satisfy the requirements of Section 422 of the Code, or (ii) a Non-Qualified Stock Option.

6.2. Grants. The Committee shall have the authority to grant to any Eligible Employee one or more Incentive Stock Options, Non-Qualified Stock Options, or both types of Stock Options (in each case with or without Stock Appreciation Rights). To the extent that any Stock Option does not qualify as an Incentive Stock Option (whether because of its provisions or the time or manner of its exercise or otherwise), such Stock Option or the portion thereof which does not so qualify, shall constitute a separate Non-Qualified Stock Option. The Committee shall have the authority to grant to any Consultant one or more Non-Qualified Stock Options (with or without Stock Appreciation Rights). The Board shall have the authority to grant to any Non-Qualified Director a Non-Qualified Stock Option. Notwithstanding any other provision of this Plan to the contrary or any provision in an agreement evidencing the grant of an Option to the contrary, any Option granted to an Employee of an Affiliate (other than one described in Section 2.2(i) or (ii)), a Non-Employee Director or a Consultant shall be a Non-Qualified Stock Option.

6.3. Terms of Options. Options granted under this Plan shall be subject to the following terms and conditions, and shall be in such form and contain such additional terms and conditions, not inconsistent with the terms of this Plan, as the Committee or the Board, as applicable, shall deem desirable:

(a) Option Exercise Price. The exercise price per share of Common Stock subject to a Stock Option granted under this Article VI shall be determined by the Committee or the Board, as applicable, at the time of grant but shall not be less than 100% of the Fair Market Value of a share of Common Stock at the time of grant; provided, however, that if an Incentive Stock Option is granted to a Ten Percent Stockholder, the exercise price per share shall be no less than 110% of the Fair Market Value of the Common Stock.

(b) Option Term. The term of each Stock Option shall be fixed by the Committee or the Board, as applicable, but no Stock Option shall be exercisable more than 10 years after the date the Option is granted, provided, however, the term of an Incentive Stock Option granted to a Ten Percent Stockholder may not exceed five years.

(c) Exercisability. Stock Options shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Committee or the Board, as applicable, at the time of grant. If the Committee or the Board provides, in its discretion, that any Stock Option is exercisable subject to certain limitations (including, without limitation, that it is exercisable only in installments or within certain time periods), the Committee or the Board, as applicable, may waive such limitations on the exercisability at any time at or after the time of grant in whole or in part (including, without limitation, that the Committee or the Board, may waive the installment exercise provisions or accelerate the time at which Options may be exercised), based on such factors, if any, as the Committee or the Board shall determine, in its sole discretion.

(d) Method of Exercise. Subject to whatever installment exercise and waiting period provisions apply under Section 6.3(c), Stock Options may be exercised in whole or in part at any time during the Option term, by giving written notice of exercise to the Company specifying the number of shares to be purchased. Common Stock purchased pursuant to the exercise of a Stock Option shall be paid for at the time of exercise as follows: (i) in cash or by check, bank draft or money order payable to the order of Company; (ii) if the Common Stock is traded on a national securities exchange, the Nasdaq Stock Market, Inc. or quoted on a national quotation system sponsored by the National Association of Securities Dealers, through the delivery of irrevocable instructions to a broker to deliver promptly to the Company an amount equal to the purchase price; or (iii) on such other terms and conditions as may be acceptable to the Committee or the Board, as applicable, (which may include payment in full or part in the form of Common Stock owned by the Participant for a period of at least 6 months (and for which the Participant has good title free and clear of any liens and encumbrances) based on the Fair Market Value of the Common Stock on the payment date as determined by the Committee or the Board or the surrender of vested Options owned by the Participant). No shares of Common Stock shall be issued until payment therefor, as provided herein, has been made or provided for.

(e) Incentive Stock Option Limitations. To the extent that the aggregate Fair Market Value (determined as of the time of grant) of the Common Stock with respect to which Incentive Stock Options are exercisable for the first time by an Eligible Employee during any calendar year under this Plan and/or any other stock option plan of the Company or any Subsidiary or parent corporation (within the meaning of Section 424(e) of the Code) exceeds \$100,000, such Options shall be treated as Options which are not Incentive Stock Options. In addition, if an Eligible Employee does not remain employed by the Company, any Subsidiary or parent corporation (within the meaning of Section 424(e) of the Code) at all times from the time the Option is granted until 3 months prior to the date of exercise (or such other period as required by applicable law), such Option shall be treated as an Option which is not an Incentive Stock Option.

Should the foregoing provision not be necessary in order for the Stock Options to qualify as Incentive Stock Options, or should any additional provisions be required, the Committee may amend this Plan accordingly, without the necessity of obtaining the approval of the stockholders of the Company.

(f) Form, Modification, Extension and Renewal of Options. Subject to the terms and conditions and within the limitations of this Plan, an Option shall be evidenced by such form of agreement or grant as is approved by the Committee or the Board, as applicable, and the Committee or the Board may modify, extend or renew outstanding Options granted under this Plan (provided that the rights of a Participant are not reduced without his consent), or accept the surrender of outstanding Options (up to the extent not theretofore exercised) and authorize the granting of new Options in substitution therefor (to the extent not theretofore exercised).

(g) Other Terms and Conditions. Options may contain such other provisions, which shall not be inconsistent with any of the foregoing terms of this Plan, as the Committee or the Board, as applicable, shall deem appropriate including, without limitation, permitting "reloads" such that the same number of Options are granted as the number of Options exercised, shares used to pay for the exercise price of Options or shares used to pay withholding taxes ("Reloads"). With respect to Reloads, the exercise price of the new Stock Option shall be the Fair Market Value on the date of the "reload" and the term of the Stock Option shall be the same as the remaining term of the Options that are exercised, if applicable, or such other exercise price and term as determined by the Committee or the Board, as applicable.

#### ARTICLE VII.

##### STOCK APPRECIATION RIGHTS

7.1. Tandem Stock Appreciation Rights. A Tandem Stock Appreciation Right may be granted in conjunction with all or part of any Stock Option (a "Reference Stock Option") granted under Article VI of this Plan. In the case of a Tandem Stock Appreciation Right which is granted in conjunction with a Non-Qualified Stock Option, such rights may be granted either at or after the time of the grant of such Reference Stock Option. In the case of a Tandem Stock Appreciation Right which is granted in conjunction with an Incentive Stock Option, such rights may be granted only at the time of the grant of such Reference Stock Option. Consultants shall not be eligible for a grant of Tandem Stock Appreciation Rights granted in conjunction with all or part of an Incentive Stock Option.

7.2. Terms and Conditions of Tandem Stock Appreciation Rights. Tandem Stock Appreciation Rights shall be subject to such terms and conditions, not inconsistent with the provisions of this Plan, as shall be determined from time to time by the Committee, including Article IX and the following:

(a) Term. A Tandem Stock Appreciation Right or applicable portion thereof granted with respect to a Reference Stock Option shall terminate and no longer be exercisable upon the termination or exercise of the Reference Stock Option, except that, unless otherwise determined by the Committee, in its sole discretion, at the time of grant, a Tandem Stock Appreciation Right granted with respect to less than the full number of shares covered by the Reference Stock Option shall not be reduced until and then only to the extent the exercise or termination of the Reference Stock Option causes the number of shares covered by the Tandem Stock Appreciation Right to exceed the number of shares remaining available and unexercised under the Reference Stock Option.

(b) Exercisability. Tandem Stock Appreciation Rights shall be exercisable only at such time or times and to the extent that the Reference Stock Options to which

they relate shall be exercisable in accordance with the provisions of Article VI and this Article VII.

(c) Method of Exercise. A Tandem Stock Appreciation Right may be exercised by an optionee by surrendering the applicable portion of the Reference Stock Option. Upon such exercise and surrender, the Participant shall be entitled to receive an amount determined in the manner prescribed in this Section 7.2 and the Reference Stock Option or part thereof to which such Stock Appreciation Right is related shall be deemed to have been exercised for the purpose of the limitation set forth in Article IV of this Plan on the number of shares of Common Stock to be issued under this Plan. The Stock Options which have been so surrendered, in whole or in part, shall no longer be exercisable to the extent the related Tandem Stock Appreciation Rights have been exercised.

(d) Payment. Upon the exercise of a Tandem Stock Appreciation Right a Participant shall be entitled to receive an amount in cash and/or Common Stock (as chosen by the Committee in its sole discretion) equal in value to the excess of the Fair Market Value of one share of Common Stock over the exercise price per share specified in the Reference Stock Option multiplied by the number of shares in respect of which the Tandem Stock Appreciation Right shall have been exercised, with the Committee having the right to determine the form of payment.

7.3. Non-Tandem Stock Appreciation Rights. Non-Tandem Stock Appreciation Rights may also be granted without reference to any Stock Options granted under Article VI of this Plan.

7.4. Terms and Conditions of Non-Tandem Stock Appreciation Rights. Non-Tandem Stock Appreciation Rights shall be subject to such terms and conditions, not inconsistent with the provisions of this Plan, as shall be determined from time to time by the Committee, including Article IX and the following:

(a) Term. The term of each Non-Tandem Stock Appreciation Right shall be fixed by the Committee, but shall not be greater than 10 years after the date the right is granted.

(b) Exercisability. Non-Tandem Stock Appreciation Rights shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Committee at grant. If the Committee provides, in its discretion, that any such right is exercisable subject to certain limitations (including, without limitation, that it is exercisable only in installments or within certain time periods), the Committee may waive such limitation on the exercisability at any time at or after grant in whole or in part (including, without limitation, that the Committee may waive the installment exercise provisions or accelerate the time at which rights may be exercised), based on such factors, if any, as the Committee shall determine, in its sole discretion.

(c) Method of Exercise. Subject to whatever installment exercise and waiting period provisions apply under subsection (b) above, Non-Tandem Stock Appreciation Rights may be exercised in whole or in part at any time during its term, by giving written notice of exercise to the Company specifying the number of Non-Tandem Stock Appreciation Rights to be exercised.

(d) Payment. Upon the exercise of a Non-Tandem Stock Appreciation Right a Participant shall be entitled to receive, for each right exercised, an amount in cash and/or Common Stock (as chosen by the Committee in its sole discretion) equal in value to the excess of the Fair Market Value of one share of Common Stock on the date the right is exercised over the Fair Market Value of one share of Common Stock on the date the right was awarded to the Participant.

7.5. Limited Stock Appreciation Rights. The Committee may, in its sole discretion, grant Limited Stock Appreciation Rights. Limited Stock Appreciation Rights may be exercised only upon the occurrence of a Change in Control or such other event as the Committee may, in its sole discretion, designate at the time of grant or thereafter. Upon the exercise of Limited Stock Appreciation Rights, except as otherwise provided in an Award agreement, the Participant shall receive in cash or Common Stock, as determined by the Committee, an amount equal to the amount: (i) set forth in Section 7.2(d) with respect to Tandem Stock Appreciation Rights, or (ii) set forth in Section 7.4(d) with respect to Non-Tandem Stock Appreciation Rights.

#### ARTICLE VIII.

##### NON-EMPLOYEE DIRECTOR STOCK OPTIONS

8.1. Options. The terms of this Article VIII shall apply only to Options granted to Non-Employee Directors.

8.2. Grants. Without further action by the Board or the stockholders of the Company, each Non-Employee Director shall, subject to the terms of this Plan, be granted:

(a) Options to purchase 20,000 shares of Common Stock as of the date the Non-Employee Director begins service as a Non-Employee Director on the Board on or after the Effective Date of this Plan, and

(b) Options to purchase 10,000 shares of Common Stock on the date of each annual stockholders meeting of the Company, beginning with the 1998 annual stockholders meeting, provided such Non-Employee Director has, as of each such annual stockholders meeting, been a Non-Employee Director for at least 12 months and has not experienced a Termination of Directorship.

8.3. Non-Qualified Stock Options. Stock Options granted under this Article VIII shall be Non-Qualified Stock Options.

8.4. Terms of Options. Options granted under this Article VIII shall be subject to the following terms and conditions and shall be in such form and contain such additional terms and conditions, not inconsistent with terms of this Plan, as the Board shall deem desirable:

(a) Option Exercise Price. The Option exercise price per share of Common Stock subject to an Option granted pursuant to Section 8.2(a)(1) shall be equal to 100% of the Fair Market Value of the share of Common Stock at the time of grant.

(b) Exercisability. Except as otherwise provided herein, 25% of any Option granted under this Article VIII shall be exercisable on or after each of the four anniversaries immediately following the date of grant. Notwithstanding the foregoing, all Options shall fully vest and become exercisable upon a Change in Control.

(c) Method of Exercise. A Non-Employee Director electing to exercise one or more Options shall give written notice of exercise to the Company specifying the number of shares to be purchased. Common Stock purchased pursuant to the exercise of a Stock Option shall be paid for at the time of exercise as follows: (i) in cash or by check, bank draft or money order payable to the order of Company; (ii) if the Common Stock is traded on a national securities exchange, the Nasdaq Stock Market, Inc. or quoted on a national quotation system sponsored by the National Association of Securities Dealers, through the delivery of irrevocable instructions to a broker to deliver promptly to the Company an amount equal to the purchase price; or (iii) on such other terms and conditions as may be acceptable to the Board (which may include payment in full or part in the form of Common Stock owned by the Participant for a period of at least 6 months (and for which the Participant has good title free and clear of any liens and encumbrances) based on the Fair Market Value of the Common Stock on the payment date as determined by the Board or the surrender of vested Options owned by the Participant). No shares of Common Stock shall be issued until payment therefore, as provided herein, has been made or provided for.

(d) Option Term. Except as otherwise provided herein, if not previously exercised each Option shall expire upon the tenth anniversary of the date of the grant thereof.

8.5. Termination of Directorship. The following rules apply with regard to Options (including Options granted under Articles VI and VIII) upon the Termination of Directorship:

(a) Termination of Directorship by reason of Death or Disability. Except as otherwise provided herein, upon the Termination of Directorship, on account of death or Disability, all then outstanding Options shall fully vest and become exercisable and shall remain exercisable by the Participant or, in the case of death, by the Participant's estate or by the person given authority to exercise such Options by his or her will or by

operation of law, at any time within a period of one year from the date of such Termination of Directorship, but in no event beyond the expiration of the stated term of such Stock Option.

(b) Otherwise Ceasing to be a Director Other than for Cause. Except as otherwise provided herein, upon the Termination of Directorship, on account of Retirement, resignation, failure to stand for reelection or failure to be reelected or otherwise other than as set forth in (b) below, all outstanding Options then exercisable and not exercised by the Participant prior to such Termination of Directorship shall remain exercisable, to the extent exercisable at the Termination of Directorship, at any time within a period of one year from the date of such Termination of Directorship, but in no event beyond the expiration of the stated term of such Stock Option.

(c) Cause. Upon removal, failure to stand for reelection or failure to be renominated for Cause, or if the Company obtains or discovers information after Termination of Directorship that such Participant had engaged in conduct that would have justified a removal for Cause during such directorship, all outstanding Options of such Participant shall immediately terminate and shall be null and void.

(d) Cancellation of Options. Except as provided in (a) above, no Options that were not exercisable during the period such person serves as a director shall thereafter become exercisable upon a Termination of Directorship for any reason or no reason whatsoever, and such Options shall terminate and become null and void upon a Termination of Directorship.

#### 8.6. Changes.

(a) The Awards to a Non-Employee Director under Articles VI and VIII shall be subject to Sections 4.2(a), (b) and (c) of this Plan and this Section 8.6, but shall not be subject to Section 4.2(d).

(b) If the Company shall not be the surviving corporation in any merger or consolidation, or if the Company is to be dissolved or liquidated, then, unless the surviving corporation assumes the Options or substitutes new Options which are determined by the Board in its sole discretion to be substantially similar in nature and equivalent in terms and value for Options then outstanding, upon the effective date of such merger, consolidation, liquidation or dissolution, any unexercised Options shall expire without additional compensation to the holder thereof; provided, that, the Board shall deliver notice to each Non-Employee Director at least 30 days prior to the date of consummation of such merger, consolidation, dissolution or liquidation which would result in the expiration of the Options and during the period from the date on which such notice of termination is delivered to the consummation of the merger, consolidation, dissolution or liquidation, such Participant shall have the right to exercise in full effective as of such consummation all Options that are then outstanding (without regard to limitations on exercise otherwise contained in the Options) but

contingent on occurrence of the merger, consolidation, dissolution or liquidation, and, provided that, if the contemplated transaction does not take place within a 90 day period after giving such notice for any reason whatsoever, the notice, accelerated vesting and exercise shall be null and void and, if and when appropriate, new notice shall be given as aforesaid.

#### ARTICLE IX.

##### NON-TRANSFERABILITY AND TERMINATION OF EMPLOYMENT/CONSULTANCY PROVISIONS

9.1. Except as otherwise provided in this Section 9.1, no Stock Option or Stock Appreciation Right shall be Transferred by the Participant otherwise than by will or by the laws of descent and distribution. All Stock Options and all Stock Appreciation Rights shall be exercisable, during the Participant's lifetime, only by the Participant. Tandem Stock Appreciation Rights may be Transferred, to the extent permitted above, only with the underlying Stock Option. No Award shall, except as otherwise specifically provided by law or herein, be Transferred in any manner, and any attempt to Transfer any such Award shall be void, and no such Award shall in any manner be used for the payment of, subject to, or otherwise encumbered by or hypothecated for the debts, contracts, liabilities, engagements or torts of any person who shall be entitled to such Award, nor shall it be subject to attachment or legal process for or against such person. Notwithstanding the foregoing, the Committee may determine at the time of grant or thereafter, that a Non-Qualified Stock Option granted pursuant to Article VI (other than a Non-Qualified Stock Option granted to a Non-Employee Director) that is otherwise not transferable pursuant to this Article IX is transferable in whole or part and in such circumstances, and under such conditions, as specified by the Committee.

9.2. Termination of Employment or Termination of Consultancy. The following rules apply with regard to Options and SARs upon the Termination of Employment or Termination of Consultancy of a Participant, unless otherwise determined by the Committee at grant or, if no rights of the Participant (or his estate in the event of death) are reduced, thereafter:

(a) Termination by Reason of Death. If a Participant's Termination of Employment or Termination of Consultancy is by reason of his death, any Stock Option or SAR held by such Participant may be exercised, to the extent exercisable at the Participant's Termination of Employment or Termination of Consultancy, by the Participant's estate or by the person given authority to exercise such Options by his or her will or by operation of law, at any time within a period of one year from the date of such death, but in no event beyond the expiration of the stated term of such Stock Option or SAR.

(b) Termination by Reason of Disability or Retirement. If a Participant's Termination of Employment or Termination of Consultancy is by reason of his

Disability or Retirement, any Stock Option or SAR held by such Participant may be exercised, to the extent exercisable at the Participant's Termination of Employment or Termination of Consultancy, by the Participant, at any time within a period of one year from the date of such Termination of Employment or Termination of Consultancy, but in no event beyond the expiration of the stated term of such Stock Option or SAR; provided, however, that, if the Participant dies within such exercise period, any unexercised Stock Option or SAR held by such Participant shall thereafter be exercisable by the Participant's estate or by the person given authority to exercise such Options by his or her will or by operation of law, to the extent to which it was exercisable at the time of death, for a period of one year (or such other period as the Committee may specify at grant or, if no rights of the Participant's estate are reduced, thereafter) from the date of such death, but in no event beyond the expiration of the stated term of such Stock Option or SAR.

(c) Involuntary Termination Without Cause. If a Participant's Termination of Employment or Termination of Consultancy is by involuntary termination without Cause, any Stock Option or SAR held by such Participant may be exercised, to the extent exercisable at termination, by the Participant at any time within a period of 90 days from the date of such termination, but in no event beyond the expiration of the stated term of such Stock Option or SAR.

(d) Voluntary Termination by the Participant. If a Participant's Termination of Employment or Termination of Consultancy is a voluntary termination by the Participant and occurs prior to, or more than 90 days after, the occurrence of an event which would be grounds for Termination of Employment or Termination of Consultancy for Cause (without regard to any notice or cure period requirements), any Stock Option or SAR held by such Participant may be exercised, to the extent exercisable at termination, by the Participant at any time within a period of 30 days from the date of such termination, but in no event beyond the expiration of the stated term of such Stock Option or SAR.

(e) Termination for Cause. If a Participant's Termination of Employment or Termination of Consultancy is: (i) for Cause, or (ii) a voluntary termination (as provided in subsection (d) above) within 90 days after an event which would be grounds for a Termination of Employment or Termination of Consultancy for Cause, any Stock Option or SAR held by such Participant shall thereupon terminate and expire as of the date of termination.

9.3. Termination Repayment. Notwithstanding anything else in this Plan to the contrary, in the event (i) a Participant's Termination of Employment or Termination of Consultancy occurs not more than 3 months after the exercise of a Stock Option or SAR, or (ii) a Participant engages in a competitive activity as determined by the Committee in its sole discretion after the exercise of a Stock Option or SAR, the Committee may, in its sole discretion, require the Participant to pay the Company an amount in cash, for each share with respect to which the Option or SAR was exercised, equal to the difference between: (i) the

Fair Market Value of the Common Stock on the date of such termination or determination, as applicable, and (ii) the exercise price for each such share.

#### ARTICLE X.

##### CHANGE IN CONTROL PROVISIONS

10.1. Benefits. In the event of a Change in Control of the Company (as defined below), except as otherwise provided by the Committee upon the grant of an Option to an Eligible Employee or Consultant, the Participant shall be entitled to the following benefits:

(a) Subject to paragraph (b) below with regard to Options granted to Eligible Employees and Consultants, all outstanding Options and the related Tandem Stock Appreciation Rights and Non-Tandem Stock Appreciation Rights of such Participant granted prior to the Change in Control shall be fully vested and immediately exercisable in their entirety. The Committee or the Board (as applicable), in its sole discretion, may provide for the purchase of any such Stock Options by the Company for an amount of cash equal to the excess of the Change in Control Price (as defined below) of the shares of Common Stock covered by such Stock Options, over the aggregate exercise price of such Stock Options. For purposes of this Section 10.1, Change in Control Price shall mean the higher of: (i) the highest price per share of Common Stock paid in any transaction related to the Change in Control of the Company, or (ii) the highest Fair Market Value per share of Common Stock at any time during the 60 day period preceding the Change in Control.

(b) Notwithstanding anything to the contrary herein, unless the Committee provides otherwise at the time an Option is granted to an Eligible Employee or Consultant hereunder or thereafter, no acceleration of exercisability shall occur with respect to such Option if the Committee reasonably determines in good faith, prior to the occurrence of the Change in Control, that the Options shall be honored or assumed, or new rights substituted therefor (each such honored, assumed or substituted option hereinafter called an "Alternative Option"), by a Participant's employer (or the parent or an subsidiary of such employer), or, in the case of a Consultant, by the entity (or its parent or subsidiary) which retains the Consultant, immediately following the Change in Control, provided that any such Alternative Option must meet the following criteria:

(i) the Alternative Option must be based on stock which is traded on an established securities market, or which will be so traded within 30 days of the Change in Control;

(ii) the Alternative Option must provide such Participant with rights and entitlements substantially equivalent to or better than the rights, terms and conditions applicable under such Option, including, but not limited to, an identical or better exercise schedule; and

(iii) the Alternative Option must have economic value substantially equivalent to the value of such Option (determined at the time of the Change in Control).

For purposes of Incentive Stock Options, any assumed or substituted Option shall comply with the requirements of Treasury regulation Section 1.425-1 (and any amendments thereto).

(c) Notwithstanding anything else herein, the Committee may, in its sole discretion, provide for accelerated vesting of an Option (other than a grant to a Non-Employee Director pursuant to Article VIII hereof) or Stock Appreciation Right, upon a Termination of Employment or Termination of Consultancy during the Pre-Change in Control Period. Unless otherwise determined by the Committee, the Pre-Change in Control Period shall be the 180 day period prior to a Change in Control.

10.2. Change in Control. A "Change in Control" shall be deemed to have occurred:

(a) upon any "person" as such term is used in Sections 13(d) and 14(d) of the Exchange Act (other than the Company, any trustee or other fiduciary holding securities under any employee benefit plan of the Company, or any company owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of Common Stock of the Company), becoming the owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 30% or more of the combined voting power of the Company's then outstanding securities (including, without limitation, securities owned at the time of any increase in ownership);

(b) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board, and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in paragraph (a), (c), or (d) of this section) or a director whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board whose election by the Board or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the two year period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority of the Board;

(c) upon the merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to

represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, provided, however, that a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no person acquires more than 50% of the combined voting power of the Company's then outstanding securities shall not constitute a Change in Control of the Company; or

(d) upon the stockholder's of the Company approval of a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets other than the sale of all or substantially all of the assets of the Company to a person or persons who beneficially own, directly or indirectly, at least 50% or more of the combined voting power of the outstanding voting securities of the Company at the time of the sale.

#### ARTICLE XI.

##### TERMINATION OR AMENDMENT OF PLAN

11.1. Termination or Amendment. Notwithstanding any other provision of this Plan, the Board or the Committee may at any time, and from time to time, amend, in whole or in part, any or all of the provisions of this Plan (including any amendment deemed necessary to ensure that the Company may comply with any regulatory requirement referred to in this Article XI), or suspend or terminate it entirely, retroactively or otherwise; provided, however, that, unless otherwise required by law or specifically provided herein, the rights of a Participant with respect to Awards granted prior to such amendment, suspension or termination, may not be impaired without the consent of such Participant and, provided further, without the approval of the stockholders of the Company in accordance with the laws of the State of Delaware, to the extent required by the applicable provisions of Rule 16b-3 or Section 162(m) of the Code, or with respect to Incentive Stock Options, Section 422 of the Code, no amendment may be made which would: (i) increase the aggregate number of shares of Common Stock that may be issued under this Plan; (ii) increase the maximum individual Participant limitations for a fiscal year under Section 4.1(b); (iii) change the classification of employees and Consultants eligible to receive Awards under this Plan; (iv) decrease the minimum exercise price of any Stock Option or SAR; or (v) extend the maximum option term under Section 6.3(b). In no event may this Plan be amended without the approval of the stockholders of the Company in accordance with the applicable laws of the State of Delaware to increase the aggregate number of shares of Common Stock that may be issued under this Plan (subject to Section 4.2), decrease the minimum exercise price of any Stock Option, or to make any other amendment that would require stockholder approval under the rules of any exchange or system on which the Company's securities are listed or traded at the request of the Company.

The Committee (and in the case of awards of Stock Options to Non-Employee Directors, the Board) may amend the terms of any Award theretofore granted, prospectively or retroactively, but, subject to Article IV or as otherwise specifically provided herein, no such amendment or other action by the Committee (or the Board) shall impair the rights of any Participant without the Participant's consent.

#### ARTICLE XII.

##### UNFUNDED PLAN

12.1. Unfunded Status of Plan. This Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments as to which a Participant has a fixed and vested interest but which are not yet made to a Participant by the Company, nothing contained herein shall give any such Participant any rights that are greater than those of a general creditor of the Company.

#### ARTICLE XIII.

##### GENERAL PROVISIONS

13.1. Legend. The Committee or the Board, as applicable, may require each person receiving shares pursuant to an Award under this Plan to represent to and agree with the Company in writing that the Participant is acquiring the shares without a view to distribution thereof. In addition to any legend required by this Plan, the certificates for such shares may include any legend which the Committee or the Board, as applicable, deems appropriate to reflect any restrictions on Transfer.

All certificates for shares of Common Stock delivered under this Plan shall be subject to such stock transfer orders and other restrictions as the Committee or the Board, as applicable, may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Stock is then listed or any national securities association system upon whose system the Common Stock is then quoted, any applicable Federal or state securities law, and any applicable corporate law, and the Committee or the Board, as applicable, may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

13.2. Other Plans. Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to stockholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases.

13.3. No Right to Employment/Consultancy/Directorship. Neither this Plan nor the grant of any Award hereunder shall give any Participant or other employee or Consultant any

right with respect to continuance of employment or consultancy by the Company or any Affiliate, nor shall they be a limitation in any way on the right of the Company or any Affiliate by which an employee is employed or consultant retained to terminate his employment or consultancy, as applicable, at any time. Neither this Plan nor the grant of any Option hereunder shall impose any obligations on the Company to retain any Participant as a director nor shall it impose on the part of any Participant any obligation to remain as a director of the Company.

13.4. Withholding of Taxes. The Company shall have the right to deduct from any payment to be made to a Participant, or to otherwise require, prior to the issuance or delivery of any shares of Common Stock or the payment of any cash hereunder, payment by the Participant of, any Federal, state or local taxes required by law to be withheld.

The Committee shall permit any such withholding obligation with regard to an Eligible Employee or Consultant to be satisfied by reducing the number of shares of Common Stock otherwise deliverable or by delivering shares of Common Stock already owned. Any fraction of a share of Common Stock required to satisfy such tax obligations shall be disregarded and the amount due shall be paid instead in cash by the Participant.

13.5. Listing and Other Conditions.

(a) As long as the Common Stock is listed on a national securities exchange or system sponsored by a national securities association, the issue of any shares of Common Stock pursuant to an Award shall be conditioned upon such shares being listed on such exchange or system. Notwithstanding the foregoing, the grant of an Award hereunder is not intended to be conditional and the Company shall have no obligation to issue such shares unless and until such shares are so listed; provided, however, that any delay in the issuance of such shares shall be based solely on a reasonable business decision and the right to exercise any Option with respect to such shares shall be suspended until such listing has been effected.

(b) If at any time counsel to the Company shall be of the opinion that any sale or delivery of shares of Common Stock pursuant to an Award is or may in the circumstances be unlawful or result in the imposition of excise taxes on the Company under the statutes, rules or regulations of any applicable jurisdiction, the Company shall have no obligation to make such sale or delivery, or to make any application or to effect or to maintain any qualification or registration under the Securities Act of 1933, as amended, or otherwise with respect to shares of Common Stock or Awards, and the right to exercise any Option shall be suspended until, in the opinion of said counsel, such sale or delivery shall be lawful or will not result in the imposition of excise taxes on the Company.

(c) Upon termination of any period of suspension under this Section 13.5, any Award affected by such suspension which shall not then have expired or terminated shall be reinstated as to all shares available before such suspension and as to shares

which would otherwise have become available during the period of such suspension, but no such suspension shall extend the term of any Option.

13.6. Governing Law. This Plan shall be governed and construed in accordance with the laws of the State of Delaware (regardless of the law that might otherwise govern under applicable Delaware principles of conflict of laws).

13.7. Construction. Wherever any words are used in this Plan in the masculine gender they shall be construed as though they were also used in the feminine gender in all cases where they would so apply, and wherever any words are used herein in the singular form they shall be construed as though they were also used in the plural form in all cases where they would so apply. To the extent applicable, this Plan shall be limited, construed and interpreted in a manner so as to comply with Section 162(m) of the Code and the applicable requirements of Rule 16b-3; however, noncompliance with Section 162(m) of the Code and Rule 16b-3 shall have no impact on the effectiveness of an Award under this Plan.

13.8. Other Benefits. No Award payment under this Plan shall be deemed compensation for purposes of computing benefits under any retirement plan of the Company or its subsidiaries or affiliates nor affect any benefits under any other benefit plan now or subsequently in effect under which the availability or amount of benefits is related to the level of compensation.

13.9. Costs. The Company shall bear all expenses included in administering this Plan, including expenses of issuing Common Stock pursuant to any Awards hereunder.

13.10. No Right to Same Benefits. The provisions of Awards need not be the same with respect to each Participant, and such Awards to individual Participants need not be the same in subsequent years.

13.11. Death/Disability. The Committee or the Board, as applicable, may in its discretion require the transferee of a Participant's Award to supply the Company with written notice of the Participant's death or Disability and to supply the Company with a copy of the will (in the case of the Participant's death) or such other evidence as the Committee or the Board, as applicable, deems necessary to establish the validity of the Transfer of an Award. The Committee or the Board, as applicable, may also require that the transferee agree in writing to be bound by all of the terms and conditions of this Plan.

13.12. Severability of Provisions. If any provision of this Plan shall be held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provisions hereof, and this Plan shall be construed and enforced as if such provisions had not been included.

13.13. Headings and Captions. The headings and captions herein are provided for reference and convenience only, shall not be considered part of this Plan, and shall not be employed in the construction of this Plan.

ARTICLE XIV.

EFFECTIVE DATE OF PLAN

This Plan has been adopted by the Board effective as of April 21, 1998 (the "Effective Date"), subject to and conditioned upon the approval of this Plan by the stockholders of the Company in accordance with the requirements of the laws of the State of Delaware and any applicable exchange requirements.

ARTICLE XV.

TERM OF PLAN

No Award shall be granted pursuant to this Plan on or after the tenth anniversary of the Effective Date, but Awards granted prior to such tenth anniversary may extend beyond that date.

ARTICLE XVI.

NAME OF PLAN

This Plan shall be known as the Computron Software, Inc. 1998 Stock Option Plan.

ADDENDUM TO THE COMPUTRON SOFTWARE, INC.  
1998 STOCK OPTION PLAN  
FOR EMPLOYEES RESIDING IN FRANCE

The following provisions apply to awards under the Computron Software, Inc. 1998 Stock Option Plan (the "Plan") to employees of the Corporation's French subsidiary (the "French Subsidiary"):

1. Employees of the French Subsidiary are not eligible to receive awards of tandem or limited stock appreciation rights under the Plan.
2. Consultants, independent advisors and non-employee members of the board of directors of the French Subsidiary are not eligible to receive any awards under the Plan.
3. Options may not be granted to employees of the French Subsidiary who hold shares representing ten percent (10%) or more of the Corporation's share capital and/or the French Subsidiary's share capital.
4. The exercise price of any option granted to an employee of the French Subsidiary may not be less than one hundred percent (100%) of the average of the market value of a share of Common Stock on the twenty (20) daily sessions immediately preceding the option grant date.
5. Options to purchase authorized but unissued shares of Common Stock may not be granted to employees of the French Subsidiary more than five (5) years after the date on which the stockholders of the Corporation approved the Plan.
6. The exercise price of any option granted to employees of the French Subsidiary is intangible and shall be adjusted only upon the occurrence of the events specified under the July 24, 1966 corporate law (section 208-5) in accordance with French law.
7. Upon the death of an employee of the French Subsidiary, any outstanding options shall remain exercisable, to the extent exercisable at the time of death, for not more than six (6) months after the date of death (or, if earlier, the expiration of the option term).
8. The Plan Administrator shall not have the authority to grant transferable options to employees of the French Subsidiary.

</TEXT>  
</DOCUMENT>

EXECUTION VERSION

AMENDMENT NO. 1 TO  
LOAN AND SECURITY AGREEMENT  
-----

AMENDMENT NO. 1, dated as of June 30, 1998, to the LOAN AND SECURITY AGREEMENT, dated as of March 31, 1998, (the "LOAN AND SECURITY AGREEMENT"), between Foothill Capital Corporation, a California corporation, with a place of business located at 11111 Santa Monica Boulevard, Suite 1500, Los Angeles, California 90025-3333, and Computron Software, Inc., a Delaware corporation, with its chief executive offices located at 301 Route 17 North, Rutherford, New Jersey 07070.

PREAMBLE

The Borrower has requested Foothill to amend the Loan and Security Agreement to amend the Operating Income and Tangible Net Worth financial covenants. Accordingly, the Borrower and Foothill hereby agree as follows:

1. DEFINITIONS. All terms used herein which are defined in the Loan and Security Agreement and not otherwise defined herein are used herein as defined therein.

2. FINANCIAL COVENANTS. Section 7.20 of the Loan and Security Agreement is hereby amended in its entirety to read as follows:

"7.20 FINANCIAL COVENANTS. Fail to maintain:

(a) OPERATING INCOME. Operating Income of at least the following amounts, measured on a cumulative basis for the period from the beginning of a calendar year to each calendar quarter end set forth below:

|          |                |
|----------|----------------|
| 3/31/98  | \$ (5,500,000) |
| 6/30/98  | \$ (9,750,000) |
| 9/30/98  | \$(10,700,000) |
| 12/31/98 | \$ (8,200,000) |

provided that, thereafter, upon receipt of the financial projections required to be delivered to Foothill pursuant to Section 6.3 (fourth paragraph) hereof for each fiscal year, the Borrower and Foothill shall negotiate in good faith to determine the minimum Operating Income as of the end of each fiscal quarter covered by such financial projections and, in the event that the Borrower and Foothill are unable to agree upon the amounts of such Operating Income on or before the

date that is 30 days after the date that Foothill has received such projections, the Operating Income at the end of each fiscal quarter of the fiscal year covered by such financial projections shall not be less than the amount set forth for the corresponding fiscal quarter end set forth above plus a positive increase of 10% of such amount.

(b) TANGIBLE NET WORTH. Tangible Net Worth of at least the following amounts, measured on a fiscal quarter-end basis, as of the following dates:

|          |               |
|----------|---------------|
| 3/31/98  | \$(6,070,000) |
| 6/30/98  | \$(9,200,000) |
| 9/30/98  | \$(9,900,000) |
| 12/31/98 | \$(7,200,000) |

provided that, thereafter, upon receipt of the financial projections required to be delivered to Foothill pursuant to Section 6.3 (fourth paragraph) hereof for each fiscal year, the Borrower and Foothill shall negotiate in good faith to determine the minimum Tangible Net Worth as of the end of each fiscal quarter covered by such financial projections and, in the event that the Borrower and Foothill are unable to agree upon the amounts of such Tangible Net Worth on or before the date that is 30 days after the date that Foothill has received such projections, the Tangible Net Worth at the end of each fiscal quarter of the fiscal year covered by such financial projections shall not be less than the amount set forth for the corresponding quarter end set forth above plus a positive increase of 10% of such amount.

3. CONDITIONS. This Amendment shall become effective (and the covenants set forth in Section 2 above shall be applicable as of the date of this Amendment) only upon satisfaction in full of the following conditions precedent (the date upon which all such conditions have been satisfied being herein called the "Effective Date"):

(a) The representations and warranties contained in this Amendment and in Section 5 of the Loan and Security Agreement and each other Loan Document shall be correct on and as of the Effective Date as though made on and as of such date (except where such representations and warranties relate to an earlier date in which case such representations and warranties shall be true and correct as of such earlier date); no Default or Event of Default shall have occurred and be continuing on the Effective Date or result from this Amendment becoming effective in accordance with its terms.

(b) Foothill shall have received a counterpart of this Amendment, duly executed by the Borrower.

(c) The Borrower shall pay to Foothill a non-refundable amendment fee of \$2,500, which fee is earned in full on the date hereof.

(d) All legal matters incident to this Amendment shall be satisfactory to Foothill and its counsel.

4. REPRESENTATIONS AND WARRANTIES. The Borrower hereby represents and warrants to Foothill as follows:

(a) The Borrower (i) is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and (ii) has all requisite corporate power, authority and legal right to execute, deliver and perform this Amendment, and to perform the Loan and Security Agreement, as amended hereby.

(b) The execution, delivery and performance of this Amendment by the Borrower, and the performance by the Borrower of the Loan and Security Agreement, as amended hereby (i) have been duly authorized by all necessary corporate action, (ii) do not and will not contravene its charter or by-laws or any applicable law, and (iii) except as provided in the Loan Documents, do not and will not result in the creation of any Lien upon or with respect to any of its respective properties.

(c) This Amendment and the Loan and Security Agreement, as amended hereby, constitute the legal, valid and binding obligations of the Borrower, enforceable against the Borrower in accordance with its terms.

(d) No authorization or approval or other action by, and no notice to or filing with, any Governmental Authority is required in connection with the due execution, delivery and performance by the Borrower of this Amendment and the performance by the Borrower of the Loan and Security Agreement as amended hereby.

(e) The representations and warranties contained in Section 5 of the Loan and Security Agreement and each other Loan Document are correct on and as of the Effective Date as though made on and as of the Effective Date (except to the extent such representations and warranties expressly relate to an earlier date in which case such representations and warranties shall be true and correct as of such earlier date), and no Default or Event of Default has occurred and is continuing on and as of the Effective Date or will result from this Amendment becoming effective in accordance with its terms.

5. CONTINUED EFFECTIVENESS OF THE LOAN AND SECURITY AGREEMENT AND LOAN DOCUMENTS. The Borrower hereby (i) confirms and agrees that each Loan Document to which it is a party is, and shall continue to be, in full force and effect and is hereby ratified and confirmed in all respects except that on and after the Effective Date of this Amendment all references in any such Loan Document to "the Loan and Security Agreement", the "Agreement", "thereto", "thereof", "thereunder", or words of like import referring to the Loan and Security Agreement shall mean the Loan and Security Agreement as amended by this Amendment; and (ii) confirms and agrees that to the extent that any such Loan Document purports to assign or pledge to Foothill or to grant a security interest in or Lien on, any collateral as security for the obligations of the Borrower from time to time existing in respect of the Loan and Security Agreement and the Loan Documents, such pledge, assignment and/or grant of the security interest or Lien is hereby ratified and confirmed in all respects.

6. MISCELLANEOUS.

(a) This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which shall be deemed to be an original but all of which taken together shall constitute one and the same agreement.

(b) Section and paragraph headings herein are included for convenience of reference only and shall not constitute a part of this Amendment for any other purpose.

(c) This Amendment shall be governed by, and construed in accordance with, the laws of the State of California.

(d) The Borrower will pay on demand all reasonable fees, costs and expenses of Foothill in connection with the preparation, execution and delivery of this Amendment including, without limitation, reasonable fees disbursements and other charges of Schulte Roth & Zabel LLP, counsel to Foothill.

COMPUTRON SOFTWARE, INC.  
a Delaware corporation

By: /s/ John A. Rade

-----  
Name: John A Rade  
Title: President

FOOTHILL CAPITAL CORPORATION,  
a California corporation

By: /s/ Erik R. Sawyer

-----  
Name: Erik R. Sawyer  
Title: Assistant Vice President

<ARTICLE> 5  
<MULTIPLIER> 1,000  
<CURRENCY> U.S. DOLLARS

|                              |          |             |
|------------------------------|----------|-------------|
| <PERIOD-TYPE>                | 6-MOS    |             |
| <FISCAL-YEAR-END>            |          | DEC-31-1998 |
| <PERIOD-START>               |          | JAN-01-1998 |
| <PERIOD-END>                 |          | JUN-30-1998 |
| <EXCHANGE-RATE>              |          | 1           |
| <CASH>                       |          | 8,400       |
| <SECURITIES>                 |          | 188         |
| <RECEIVABLES>                |          | 15,033      |
| <ALLOWANCES>                 |          | 2,579       |
| <INVENTORY>                  |          | 0           |
| <CURRENT-ASSETS>             |          | 24,113      |
| <PP                          | 15,122   |             |
| <DEPRECIATION>               |          | 10,948      |
| <TOTAL-ASSETS>               |          | 31,703      |
| <CURRENT-LIABILITIES>        |          | 27,034      |
| <BONDS>                      |          | 0           |
| <PREFERRED-MANDATORY>        |          | 0           |
| <PREFERRED>                  |          | 0           |
| <COMMON>                     |          | 69,634      |
| <OTHER-SE>                   | (73,040) |             |
| <TOTAL-LIABILITY-AND-EQUITY> |          | 31,703      |
| <SALES>                      |          | 7,379       |
| <TOTAL-REVENUES>             |          | 29,843      |
| <CGS>                        |          | 1,810       |
| <TOTAL-COSTS>                |          | 22,622      |
| <OTHER-EXPENSES>             |          | 14,890      |
| <LOSS-PROVISION>             |          | 0           |
| <INTEREST-EXPENSE>           |          | 157         |
| <INCOME-PRETAX>              | (9,438)  |             |
| <INCOME-TAX>                 |          | 0           |
| <INCOME-CONTINUING>          | (9,438)  |             |
| <DISCONTINUED>               |          | 0           |
| <EXTRAORDINARY>              |          | 0           |
| <CHANGES>                    |          | 0           |
| <NET-INCOME>                 | (9,438)  |             |
| <EPS-PRIMARY>                | (0.40)   |             |
| <EPS-DILUTED>                | (0.40)   |             |

</TEXT>  
</DOCUMENT>