FORM 10−Q

AXS ONE INC − AXO

Filed: November 14, 2000 (period: September 30, 2000)

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

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Part II

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 September 30, 2000 Commission File Number 1-13591

AXS-ONE INC.

(Exact name of registrant as specified in its charter)

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

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

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

Computron Software, Inc.

(Former name, former address and former fiscal year, if changed since last report)

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 November 2, 2000

Class	Number of Shares Outstanding
Common Stock, par value $0.01 per share	24,784,742

AXS-ONE INC.

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AXS-ONE INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	December 31, 1999	September 30, 2000
ASSETS		(Unaudited)
Current assets:		
Cash and cash equivalents	$ 1,154	$ 751
Restricted cash	301	299
Accounts receivable, net of allowance for doubtful accounts of $1,315 and $971 at December 31, 1999 and September 30, 2000, respectively	11,153	10,391
Prepaid expenses and other current assets	954	555
Total current assets	13,562	11,996
Equipment and leasehold improvements, at cost:		
Computer and office equipment	11,605	12,056
Furniture and fixtures	1,204	1,290
Leasehold improvements	1,087	1,079
	13,896	14,425
Less--accumulated depreciation and amortization	12,052	12,910
	1,844	1,515
Capitalized software development costs, net of accumulated amortization of $4,998 and $5,509 at December 31, 1999 and September 30, 2000, respectively	2,002	2,864
Other assets	93	91
	$ 17,501	$ 16,466
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	$ 1,105	$ 1,200
Accounts payable	3,083	2,446
Accrued expenses	7,202	5,879
Other current liabilities	500	500
Deferred revenue	8,534	7,569
Total current liabilities	20,424	17,594
Long-term liabilities:		
Long-term debt and capital lease obligations, net of current portion	2,425	1,525
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock, $.01 par value, authorized 5,000 shares, no shares issued and outstanding	--	--
Common stock, $.01 par value, authorized 50,000 shares; 23,923 and 24,785 shares issued and outstanding at December 31, 1999 and September 30, 2000, respectively	239	248
Additional paid-in capital	70,141	72,032
Accumulated deficit	(75,739)	(74,869)
Accumulated other comprehensive income (loss)	11	(64)
Total stockholders' deficit	(5,348)	(2,653)
	$ 17,501	$ 16,466

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

AXS-ONE INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1999	2000	1999	2000
Revenues:				
License fees	$ 1,160	$ 3,393	$ 7,009	$ 7,126
Services	11,063	9,921	36,390	30,374
Total revenues	12,223	13,314	43,399	37,500
Operating expenses:				
Cost of license fees	310	324	1,526	1,021
Cost of services	5,793	4,871	19,354	15,812
Sales and marketing	2,547	3,106	8,920	7,595
Research and development ...	1,806	1,652	5,915	5,174
General and administrative .	2,749	2,356	9,618	6,782
Goodwill impairment	573	--	573	--
Total operating expenses .	13,778	12,309	45,906	36,384
Operating income (loss)	(1,555)	1,005	(2,507)	1,116
Other income (expense):				
Loss on sale of subsidiary .	--	--	(261)	--
Interest income	14	12	71	56
Interest expense	(110)	(99)	(326)	(297)
Other expense	(71)	(25)	(142)	(5)
Other expense, net	(167)	(112)	(658)	(246)
Net income (loss)	$ (1,722)	$ 893	$ (3,165)	$ 870
Basic net income (loss) per common share	$ (0.07)	$ 0.04	$ (0.13)	$ 0.04
Diluted net income (loss) per common share	$ (0.07)	$ 0.03	$ (0.13)	$ 0.03
Weighted average basic common shares outstanding ..	23,914	24,785	23,914	24,570
Weighted average diluted common shares outstanding ..	23,914	25,603	23,914	25,995

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

AXS-ONE INC.
CONSOLIDATED STATEMENTS
OF COMPREHENSIVE INCOME (LOSS)
(In thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1999	2000	1999	2000
Net income (loss)	$(1,722)	$ 893	$(3,165)	$ 870
Foreign currency translation adjustment	(110)	(91)	44	(75)
Comprehensive income (loss)	$(1,832)	$ 802	$(3,121)	$ 795

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

AXS-ONE INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30, 1999	Nine Months Ended September 30, 2000
Cash flows from operating activities:		
Net income (loss)	$(3,165)	$ 870
Adjustments to reconcile net income (loss) to net cash flows provided by (used in) operating activities -		
Depreciation and amortization	2,112	1,588
Goodwill impairment	573	--
Provision for doubtful accounts	172	46
Loss on sale of subsidiary	261	--
Changes in current assets and liabilities, net of divestiture		
Restricted cash	4,307	(7)
Accounts receivable	(44)	330
Prepaid expenses and other current assets	629	377
Accounts payable and accrued expenses	(845)	(1,670)
Due to shareholders	(4,404)	--
Deferred revenue	(1,115)	(619)
Net cash flows provided by (used in) operating activities	(1,519)	915
Cash flows from investing activities:		
Change in other assets	15	--
Net proceeds from sale of subsidiary	1,191	--
Capitalized software development costs	(1,050)	(1,373)
Purchase of equipment and leasehold improvements	(634)	(813)
Net cash flows used in investing activities	(478)	(2,186)
Cash flows from financing activities:		
Proceeds from exercise of stock options and warrants	--	1,900
Net borrowings from revolving line of credit	1,304	--
Payments of long term debt and capital lease obligations	(1,268)	(804)
Net cash flows provided by financing activities	36	1,096
Foreign currency exchange rate effects	(543)	(228)
Net decrease in cash and cash equivalents	(2,504)	(403)
Cash and cash equivalents, beginning of period	4,009	1,154
Cash and cash equivalents, end of period	$ 1,505	$ 751
Supplemental disclosures of cash flow information and noncash financing activities:		
Cash paid during the period for -		
Interest	$ 267	$ 300
Income taxes	$ 36	$ 15

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

(1) OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

The Company designs, markets and supports n-tier, Internet-enabled, client/server, e-commerce, financial, workflow, desktop data access and storage, and maintenance and asset management software solutions. The Company also offers consulting, education and support services in support of its customers' use of its software products.

(a) Basis of Presentation

The accompanying consolidated financial statements include the accounts of AXS-One Inc. (formerly known as Computron Software, Inc.) and its wholly owned subsidiaries located in Australia, Canada, Poland, Singapore, South Africa and the United Kingdom (collectively, the "Company" and in 1999 also included subsidiaries in France and Germany) (see Note 5 for discussion of the sales of these subsidiaries in 1999). All significant intercompany transactions and balances have been eliminated.

The unaudited 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 1999 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

The results of operations for the three and nine months ended September 30, 2000 are not necessarily indicative of results to be expected for any future periods.

(b) Revenue Recognition

The Company recognizes revenue in accordance with Statement of Position 97-2 "Software Revenue Recognition" ("SOP 97-2") and Statement of Position 98-9, "Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions." The adoption of SOP 98-9 on January 1, 1999 did not have a material effect on the Company's consolidated financial statements. Revenue from non-cancelable software licenses is recognized when the license agreement has been signed, delivery has occurred, the fee is fixed or determinable and collectibility is probable. Post contract support (maintenance) 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, pursuant to a professional services agreement. When the Company enters into a license agreement requiring development or significant customization of the software products, the Company recognizes revenue relating to the agreement using contract accounting. Anticipated losses, if any, are charged to operations in the period such losses are determined.

(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. The Agreement contained a revolving line of credit and a term loan (the "Initial Term Loan").

Borrowings under the revolving line of credit bear interest at prime rate 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 restrictive covenants. Under the revolving line of credit the Company currently has available the lesser of $5 million or 85% of eligible receivables, as defined. The net available amount under the revolving line of credit at September 30, 2000 is approximately $2.6 million of which no amounts were outstanding. The Company was in compliance with the covenants as of September 30, 2000.

The Initial Term Loan provided for $5 million available in one drawdown which the Company borrowed on the closing date. The Initial Term Loan bears interest at the prime rate as defined (9.5% at September 30, 2000) plus 1.5%, and was repayable in 36 monthly installments beginning May 1, 1998.

Effective March 8, 1999, the Company amended the Agreement ("Amended Agreement") in order to increase amounts available under the term loan portion of the facility by the lesser of $1 million or eligible maintenance revenue, as defined, through September 2001 (the "Additional Term Loan"), to extend the termination date of the credit facility to March 31, 2002, and to establish financial restrictive covenants for 1999. The Company did not draw down on the Additional Term Loan.

Effective December 22, 1999, in connection with the sale of its subsidiary in France, the Company further amended the Agreement (Amendment No. 7) in order to make available to the Company a second term loan (the "Second Term Loan" and together with the Initial Term Loan, the "A Term Loan") in the original principal amount of $1.3 million, which the Company borrowed on that date, a third term loan (the "B Term Loan") in the original principal amount of $750, which is still available to be borrowed, subject to certain limitations, to extend the termination date of the credit facility to March 31, 2003, and to establish financial restrictive covenants for 2000. The term loans under amendment No. 7 replaced the Additional Term Loan under the March 8, 1999 amendment.

The A Term Loan bears interest at the rate of prime plus 1.5% and is payable in monthly installments of $100 through December 31, 2002. The B Term Loan provides for not more than three borrowings in increments of at least $250 and is available through December 31, 2000.

Amendment No. 7 provides a limitation that if the total outstanding balance of term loans exceeds the lesser of (i) 45% of eligible maintenance revenues through March 31, 2001, 40% of eligible maintenance revenues from April 1, 2001 through March 31, 2002, 30% of eligible maintenance revenues from April 1, 2002 through March 31, 2003 and (ii) $4.0 million, then the Company is required to prepay the principal amount in an amount sufficient to cause the aggregate principal amount of the term loans to be less than or equal to the relevant limits set forth above. As of September 30, 2000, eligible maintenance revenues totaled approximately $10,319. Based on this limitation, the amount available at September 30, 2000 under all of the term loans is $750.

(3) CONTINGENCIES

On March 6, 1998, the District Court issued a final order approving the settlement of the class action securities litigation. The overall settlement included consideration totaling $15 million for the benefit of class members, including $6 million of 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 AXS-One with directors and officers liability insurance. In return for the payments by the insurance companies, the settlement also resolved a separate lawsuit brought by the Company against the insurance companies. As its share of the settlement, the Company paid $1 million in cash, and issued one million shares of Common Stock of the Company ("Settlement Stock"). 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.

(In thousands, except per share data)

The class members received a non-transferable right to resell the Settlement Stock to a business trust formed by the Company at a price of $5.00 per share during a period from December 1, 1998 to December 21, 1998 (the "Put Period"). The trust was capitalized by a contribution of $5 million in cash by the Company in March 1998. During the Put Period, class members exercised the put with respect to 881 shares of Settlement Stock. The right to put the remaining shares of Settlement Stock automatically expired as of midnight on December 21, 1998. Pursuant to the terms of the stipulation of settlement, the Company paid $4,404 during January 1999 in satisfaction of the timely claims made under the puts and, returned to the Company the remaining balance of the trust. Shares of Settlement Stock that were not timely put according to the terms of the settlement remain freely transferable.

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, consolidated financial condition, results of operations or cash flows.

(4) BASIC AND DILUTED NET INCOME (LOSS) PER COMMON SHARE

Basic and diluted net income (loss) per common share is presented in accordance with SFAS No. 128, "Earnings per Share" ("SFAS No. 128").

Basic net income (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 for the three and nine months ended September 30, 1999 since the effect of stock options and warrants is anti-dilutive.

The following represents the calculations of the basic and diluted net income (loss) per common share for the three and nine months ended September 30, 1999 and 2000.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1999	2000	1999	2000
Net income (loss)	$ (1,722)	$ 893	$ (3,165)	$ 870
Weighted average basic common shares outstanding during the periods	23,914	24,785	23,914	24,570
Effect of dilutive securities: Stock options and warrants	--	818	--	1,425
Weighted average diluted common shares outstanding during the periods	23,914	25,603	23,914	25,995

(In thousands, except per share data)

Basic net income (loss) per common share	$ (0.07)	$ 0.04	$ (0.13)	$ 0.04
Diluted net income (loss) per common share	$ (0.07)	$ 0.03	$ (0.13)	$ 0.03

(5) Divestitures

On June 1, 1999 and December 29, 1999, the Company sold its wholly-owned subsidiaries located in Germany and France, respectively. The Company received net proceeds of $1,191 on the sale of its German subsidiary. The Company funded the working capital deficiency for its French subsidiary, during December 1999, in the amount of $1,253. In addition, the Company is required to pay an additional $500 to its former French subsidiary on or prior to October 31, 2000, which is reflected as other current liabilities on the accompanying December 31, 1999 and September 30, 2000 consolidated balance sheets.

The following table sets forth significant financial data of the French and German subsidiaries for the three and nine months ended September 30, 1999.

	Three Months Ended September 30, 1999	Nine Months Ended September 30, 1999
Revenues:		
License fees	$ 11	$ 496
Services	756	4,377
	767	4,873
Total operating expenses	1,825	7,193
Operating loss	(1,058)	(2,320)
Other loss, net	(35)	(332)
Net loss	$(1,093)	$(2,652)

(6) OPERATING SEGMENTS

As of December 31, 1999 the Company's operations were conducted in one business segment which was the licensing of software and related services. Beginning on January 1, 2000, the Company was reorganized into three separate business segments based on products as part of its strategy to focus on high-profile market opportunities. The three business segments are as follows:

a) The Business Process Solutions segment is focused on marketing TransAXS Solutions to emerging dot.com organizations or traditional organizations making the transition to becoming dot.com businesses. Business Process Solutions is also responsible for servicing and managing the Company's extensive installed base of high-profile customers. TransAXS Solutions enable organizations to achieve process transparency throughout their value chain.

b) The AXSPoint Solutions segment is focused on identifying markets that need to rapidly leverage the Internet in communicating, exchanging or reconciling large volumes of knowledge with their customers, suppliers and partners. The AXSPoint Solutions segment targets large information-centric organizations that can utilize self-service information systems to improve communications with their customers and improve access to business intelligence.

c) The Professional Services Automation segment has been chartered with delivering a full suite of business solutions and services to organizations that primarily sell professionals' time.

The accounting policies of the reportable segments are the same as those described in Note 1 of Notes to Consolidated Financial Statements included in the 1999 Annual Report on Form 10K. The Company evaluates the performance of its operating segments based on revenues and operating income (loss). Intersegment sales and transfers are not significant.

Summarized financial information concerning the Company's reportable segments is shown in the following table. The Chief Executive Officer uses the information below in this format while making decisions about allocating resources to each segment and assessing its performance. Segment information for the 1999 periods are not shown as it is not practical to do so.

	Business Process Solutions	AXS Point Solutions	Professional Services Automation	Total
Three Months Ended September 30, 2000				
Revenues:				
License fees	$ 2,277	$ 928	$ 188	$ 3,393
Services	8,004	972	945	9,921
Total revenues	10,281	1,900	1,133	13,314
Operating income	2,472	926	137	3,535
Total assets	13,075	1,506	1,885	16,466
Capital expenditures	327	25	28	380
Depreciation and amortization	465	22	37	524
Nine Months Ended September 30, 2000				
Revenues:				
License fees	$ 5,150	$ 1,713	$ 263	$ 7,126
Services	24,723	2,564	3,087	30,374
Total revenues	29,873	4,277	3,350	37,500
Operating income	6,580	1,392	476	8,448
Total assets	13,075	1,506	1,885	16,466
Capital expenditures	701	56	56	813
Depreciation and amortization	1,422	78	88	1,588

Reconciliation of segment operating income to consolidated operating income:

	Three Months Ended September 30, 2000	Nine Months Ended September 30, 2000
Operating income from reportable segments	$ 3,535	$ 8,448
Unallocated general and administrative expense	(2,252)	(6,400)
Other corporate unallocated expenses	(278)	(932)
Total consolidated operating income	$ 1,005	$ 1,116

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the Consolidated Interim Financial Statements and Notes thereto and is qualified in its entirety by reference thereto.

This Report contains statements of a forward-looking nature within the meaning of the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended, 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 which could cause actual results to differ materially from those indicated by such forward-looking statements, including the matters set forth in "Business--Risk Factors" in the Company's 1999 Annual Report on Form 10K.

Overview

In November 2000, the Company changed its name to AXS-One Inc. from Computron Software, Inc., in order to better reflect the direction of the Company to the new family of products outlined 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 products, 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.

In April and June 1996, respectively, the Company acquired the Financial Services Division of Generale de Service Informatique (GSI) based in Paris, France, and a portion of the business and assets of AT&T Istel and Co., GMBH, in Essen, Germany. These operations primarily provided software products and services in their respective countries. Both of these entities were sold during 1999. See below for the impact of these divestitures.

In 1999 the Company started a major development effort to build a suite of electronic commerce solutions based upon its next generation n-tier Internet-architecture. This new family of products, e-Cellerator products, is designed to meet the needs of organizations that wish to conduct business across the Internet. E-Cellerator products are used to build two families of solutions, TransAXS solutions and AXSPoint solutions. TransAXS solutions are designed to enable businesses to conduct business transactions across the Internet. AXSPoint solutions are designed to enable organizations to exchange information and knowledge across the Internet. These two families of solutions were announced in the fourth quarter of 1999, and TransAXS solutions and AXSPoint solutions modules will become available throughout 2000 and beyond. See "Item 1. Business" in the Company's 1999 Annual Report on Form 10K.

The Company's revenues are derived from license fees and services. Revenue from non-cancelable software licenses is recognized when the license agreement has been signed, delivery has occurred, the fee is fixed or determinable and collectibility is probable. Post contract support (maintenance) fees are typically billed separately and are recognized on a straight line basis over the life of the applicable agreement. Revenues for consulting, maintenance and implementation services, including training, are recognized upon performance of the services. When the Company enters into a license agreement requiring development or significant customization of the software products, the Company recognizes revenue relating to the agreement using contract accounting. 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. For a description of certain factors which may affect the Company's operating results, see "Potential for Significant Fluctuations in Operating Results; Seasonality" in the Company's 1999 Annual Report on Form 10K.

The Company incurred net losses of $13.6 million, $9.0 million and $3.7 million in 1997, 1998 and 1999, respectively and operating losses of $4.8 million, $8.9 million and $1.2 million in 1997, 1998 and 1999, respectively. Operating losses incurred by the Company's French and German subsidiaries, which were sold in 1999, totaled $4.3 million, $3.7 million and $2.4 million for 1997, 1998 and 1999, respectively. The Company reported net income of $870 thousand for the nine months ended September 30, 2000 and operating income of $1.1 million for the same period.

New Accounting Standards

In the second quarter of 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." In June 1999, the FASB issued SFAS No. 137 which defers the effective date of SFAS No. 133. SFAS No. 133 requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The Company currently does not use derivative instruments and as such believes the adoption of SFAS No. 133, beginning January 1, 2001, will have no effect on the consolidated financial statements.

In December 1999, the United States Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements." SAB 101 provides guidance on applying generally accepted accounting principles to revenue recognition issues in financial statements. The effective date of this pronouncement is the fourth quarter of the fiscal year beginning after December 15, 1999. The Company believes that adopting SAB 101 will not have a material impact on its consolidated financial position and results of operations.

In March 2000, the FASB issued FASB Interpretation No. 44, or FIN 44, "Accounting for Certain Transactions involving Stock Compensation," an interpretation of APB Opinion No. 25. FIN 44 clarifies the application of Opinion 25 for (a) the definition of employee for purposes of applying Opinion 25, (b) the criteria for determining whether a plan qualifies as a non-compensatory plan, (c) the accounting consequence for various modifications to the terms of a previously fixed stock option or award and (d) the accounting for an exchange of stock compensation awards in a business combination. FIN 44 is effective July 1, 2000, but certain provisions cover specific events that occurred after either December 15, 1998 or January 12, 2000. The adoption of FIN 44 did not have a material effect on our consolidated financial statements.

Euro Currency

On January 1, 1999, certain countries of the European Union established fixed conversion rates between their existing currencies and one common currency, the euro. The euro then began to trade on currency exchanges and to be used in business transactions. Beginning in January 2002, new euro-denominated currencies will be issued and the existing local currencies will be withdrawn from circulation by July 1, 2002. The Company derived approximately 37.9% of its total revenues outside the United States for 1999, a significant portion of which is in Europe. The Company derived approximately 37.4% of its total revenues outside the United States for the nine months ended September 30, 2000. The Company has not completed its assessment of the potential impact of the euro conversion. However, at present, the Company believes the euro conversion will not have a material effect on the Company's consolidated financial position or results of operations.

Results of Operations

The following tables set forth certain operating data (for the periods indicated) including and excluding the French and German subsidiaries sold during 1999. The operating data excluding French and German subsidiaries sold during 1999 is also shown as a percentage of total revenues:

(In thousands)	Three Months Ended September 30, 1999				Three Months Ended September 30, 2000	
	As Reported	France & Germany	Excluding France & Germany	Data as a percent of revenue	As Reported	Data as a percent of revenue
	Unaudited				Unaudited	
Revenues:						
License fees	$ 1,160	$ 11	$ 1,149	10.0%	$ 3,393	25.5%
Services	11,063	756	10,307	90.0	9,921	74.5
Total revenues	12,223	767	11,456	100.0	13,314	100.0
Operating expenses:						
Cost of license fees	310	--	310	2.7	324	2.4
Cost of services	5,793	624	5,169	45.1	4,871	36.6
Sales and marketing	2,547	238	2,309	20.1	3,106	23.4
Research and development ..	1,806	11	1,795	15.7	1,652	12.4
General and administrative	2,749	379	2,370	20.7	2,356	17.7
Goodwill impairment	573	573	--	--	--	--
Total operating expenses	13,778	1,825	11,953	104.3	12,309	92.5
Operating income (loss)	(1,555)	(1,058)	(497)	(4.3)	1,005	7.5
Other income (expense):						
Loss on sale of subsidiary	--	--	--	--	--	--
Interest income	14	--	14	0.1	12	0.1
Interest expense	(110)	(3)	(107)	(0.9)	(99)	(0.7)
Other expense	(71)	(32)	(39)	(0.4)	(25)	(0.2)
Other expense, net	(167)	(35)	(132)	(1.2)	(112)	(0.8)
Net income (loss)	$ (1,722)	$ (1,093)	$ (629)	(5.5)%	$ 893	6.7%

(In thousands)	Nine Months Ended September 30, 1999				Nine Months Ended September 30, 2000	
	As Reported	France & Germany	Excluding France & Germany	Data as a percent of revenue	As Reported	Data as a percent of revenue
	Unaudited				Unaudited	
Revenues:						
License fees	$ 7,009	$ 496	$ 6,513	16.9%	$ 7,126	19.0%
Services	36,390	4,377	32,013	83.1	30,374	81.0
Total revenues	43,399	4,873	38,526	100.0	37,500	100.0
Operating expenses:						
Cost of license fees	1,526	191	1,335	3.5	1,021	2.7
Cost of services	19,354	2,926	16,428	42.6	15,812	42.2
Sales and marketing	8,920	895	8,025	20.8	7,595	20.2
Research and development ..	5,915	414	5,501	14.3	5,174	13.8
General and administrative	9,618	2,194	7,424	19.3	6,782	18.1
Goodwill impairment	573	573	--	--	--	--
Total operating expenses	45,906	7,193	38,713	100.5	36,384	97.0
Operating income (loss)	(2,507)	(2,320)	(187)	(0.5)	1,116	3.0
Other income (expense):						
Loss on sale of subsidiary	(261)	(261)	--	--	--	--
Interest income	71	3	68	0.2	56	0.1
Interest expense	(326)	(10)	(316)	(0.8)	(297)	(0.8)
Other expense	(142)	(64)	(78)	(0.2)	(5)	--
Other expense, net	(658)	(332)	(326)	(0.8)	(246)	(0.7)
Net income (loss)	$ (3,165)	$(2,652)	$ (513)	(1.3)%	$ 870	2.3%

Note: The following discussions relate to changes in the results of operations, excluding France and Germany for the periods presented.

Total Revenues

Total revenues increased 16.2% for the three months ended September 30, 2000 and decreased 2.7% for the nine months ended September 30, 2000, as compared to the corresponding prior year periods. The increase for the three months ended September 30, 2000 resulted from an almost 200% increase in license revenue due to sales of its new e-Cellerator products. The decrease for the nine months ended September 30, 2000 is mainly attributable to a decrease in service revenues in the U.S. operations from the high service revenues in 1999 due to customer preparation for the Year 2000.

The Company derived approximately $4.4 million and $14.0 million, or 32.7% and 37.4% of its total revenues, from customers outside of the United States for the three and nine months ended September 30, 2000, respectively, compared to $3.6 million and $12.1 million, or 31.1% and 31.3%, 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 international 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 and hardware sales entered into between the Company and its customers with respect to both the Company's products and, to a lesser degree, third party products resold by the Company. License fees increased $2.2 million or 195% and $0.6 million or 9.4% for the three and nine months ended September 30, 2000, respectively, as compared to the prior year periods. As the Company expected sales of back office financial products to decline after entities upgraded to Year 2000 compliant versions, the Company began developing and selling, in 2000, new Internet-enabled products and solutions. The increase in license fees in 2000 is mainly a result of the sale of these new product lines, including the sale of $1.4 million to one customer and an additional sale of $0.5 million to another customer during the third quarter of 2000. License fees for the nine months ended September 30, 1999 included sales to a significant number of installed base customers who upgraded to a Year 2000 certified version of the Company's software.

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 decreased 3.8% and 5.1% for the three and nine months ended September 30, 2000, respectively, as compared to the corresponding prior year periods. The majority of the decrease for the period relates to lower service revenues in the U.S. operations, due in part to lower license sales for the first half of 2000 and a year 2000 lockdown earlier in the year.

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 documentation. The elements can vary substantially from period to period as a percentage of license fees.

Cost of license fees increased slightly for the three months ended September 30, 2000, and decreased $0.3 million for the nine month period ended September 30, 2000, as compared to the corresponding prior year period, due to a decrease in documentation costs and license sales that include third party software.

Cost of Services

Cost of services consists primarily of personnel and third party costs for product quality assurance, training, installation, consulting and customer support.

Cost of services decreased 5.8% and 3.7% for the three and nine months ended September 30, 2000, respectively as compared to the corresponding prior year periods. The decrease is primarily due to a decrease in services revenue and a related decrease in third party service costs.

Sales and Marketing

Sales and marketing expenses consist primarily of salaries, commissions, bonuses paid to sales and marketing personnel, as well as travel and promotional expenses.

Sales and marketing expenses increased 34.5% for the three months ended September 30, 2000, and decreased 5.4% for the nine months ended September 30, 2000, as compared to the corresponding prior year periods. The increase for the three month period is primarily due to increased commissions resulting from the increased license revenue and an increase in marketing expense related to changing of the company name.

Research and Development

Research and development expenses consist primarily of personnel costs, and costs of equipment facilities and third party software development costs. 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 over periods not exceeding three years.

Research and development expenses decreased to $1.7 million and $5.2 million, for the three and nine months ended September 30, 2000, respectively, from $1.8 million and $5.5 million for the comparable prior year periods mainly due to a decrease in research and development expenses for the Yorvik product, as well as an increase in capitalized software development costs and a decrease in cost of third party services. The Company capitalized $0.5 million and $1.4 million in software development costs during the three and nine months ended September 30, 2000, respectively, as compared to $0.4 million and $1.1 million, respectively for the corresponding prior year periods. 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 salaries for administrative, executive and financial personnel, and outside professional fees. General and administrative expenses remained level for the three months ended September 30, 2000 and decreased 8.7% for the nine months ended September 30, 2000, as compared to the prior year periods. The decrease for the nine month period is mainly due to a reduction of headcount in the Canadian operations and a reduction of a reserve for sales taxes resulting from conclusion of the related tax audits, partially offset by an increase in legal fees in the U.S. operations.

Other Income (Expense)

Other income (expense) net decreased to ($112) thousand and ($246) thousand for the three and nine months ended September 30, 2000, respectively, from ($132) thousand and ($326) thousand for the comparable prior year periods primarily due to lower interest expense on the revolving line of credit and term loan (See Note 2 to the Consolidated Interim Financial Statements), due to less borrowing.

Segment Information

Beginning on January 1, 2000, the Company was reorganized into three separate business segments. (See Note 6 to the Consolidated Interim Financial Statements). For the three and nine months ended September 30, 2000 the Business Process Solutions segment had license fee revenues of $2.3 million and $5.2 million, respectively, services revenue of $8.0 million and $24.7 million, respectively, and operating income of $2.5 million and $6.6 million, respectively, relating mainly to license fees from sales of its TransAXS products and service and maintenance revenues earned from the installed base. The AXSPoint Solutions segment had license fee revenues of $0.9 million and $1.7 million, respectively, services revenue of $1.0 million and $2.6 million, respectively, and operating income of $0.9 million and $1.4 million, respectively, which represented new license fee revenue relating to sales of its new AXSPoint Solutions products as well as maintenance revenue from its installed base. The Professional Services

Automation segment had services revenue of $0.9 million and $3.1 million, respectively, for the three and nine months ended September 30, 2000 and operating income of $0.1 million and $0.5 million, respectively, relating mainly to maintenance revenue from its installed base as well as implementation fees to install its products.

Liquidity and Capital Resources

The available amount under the revolving line of credit at September 30, 2000 was approximately $2.6 million. The available amount under all term loans at September 30, 2000 was approximately $750 thousand. (See Note 2 to the Consolidated Interim Financial Statements).

The Company is required to comply with quarterly and annual financial statement reporting requirements, as well as certain restrictive financial covenants. The ability to continue to borrow under the Agreement is dependent upon future compliance with such covenants and available collateral. 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 assurances that such operating results will be achieved.

The Company's operating activities provided (used) cash of ($1.5) million and $0.9 million for the nine months ended September 30, 1999 and 2000, respectively. Net cash provided by operations during the nine months ended September 30, 2000 was comprised primarily of the net income and depreciation and amortization expense, offset by a decrease in accounts payable and accrued expenses. Net cash used by operations during the nine months ended September 30, 1999 was comprised primarily of the net loss and a decrease in deferred revenue offset by depreciation and amortization expense and the goodwill impairment write-off.

The Company's investing activities used cash of $0.5 million and $2.2 million for the nine months ended September 30, 1999 and 2000, respectively. The principal uses of cash during 2000 were for equipment purchases and leasehold improvements, and for capitalized software development costs. Cash used for the nine months ended September 30, 1999 was comprised of capitalized software development costs and the purchase of equipment and leasehold improvements offset by proceeds from the sale of the German subsidiary of $1.2 million.

Cash provided by financing activities was $36 thousand and $1.1 million during the nine months ended September 30, 1999 and 2000, respectively and related mainly to short term borrowings offset by repayments of debt in 1999, and proceeds for the exercise of stock options and warrants in 2000 offset by repayments of debt.

The Company has no significant capital commitments. Planned capital expenditures for the remainder of 2000 total approximately $0.1 million. Included in capitalized software development costs are several products that have not been generally released as of September 30, 2000. The Company expects to spend approximately $0.5 million to complete such products. These products are expected to be completed prior to March 31, 2001. The Company's aggregate minimum operating lease payments for 2000 will be approximately $2.0 million. The Company expects that its operating cash flow and/or available borrowings under the line of credit will be sufficient to fund the Company's working capital requirements through 2000. 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 will be available on acceptable terms or at all.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

In the normal course of business, the Company is exposed to fluctuations in interest rates and equity market risks as the Company seeks debt and equity capital to sustain its operations. The Company is also exposed to fluctuations in foreign currency exchange rates as the financial results of its foreign subsidiaries are translated into U.S. dollars in consolidation. The Company does not use derivative instruments or hedging to manage its exposures and does not currently hold any market risk sensitive instruments for trading purposes.

The information below summarizes the Company's market risk associated with its debt obligation as of September 30, 2000. Fair value included herein has been estimated taking into consideration the nature and term of the debt instrument and the prevailing economic and market conditions at the balance sheet date. The table below presents principal cash flows by year of maturity based on the terms of the debt. The variable interest rate disclosed represents the rate at September 30, 2000. Changes in the prime interest rate during fiscal 2000 will have a positive or negative effect on the Company's interest expense. Each 1% fluctuation in the prime interest rate will increase or decrease annual interest expense for the Company by approximately $27 thousand, based on the debt outstanding as of September 30, 2000. Further information specific to the Company's debt is presented in Note 2 to the Consolidated Interim Financial Statements.

(In thousands)

				Year of Maturity		
Description	Variable Interest Rate	Estimated Fair Value	Carrying Amount	2000	2001	2002
Term loan	11.00%	$2,722	$2,722	$300	$1,200	$1,222

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

See the Company's 1999 Annual Report on Form 10K for a discussion of risk factors.

Part II
Other Information

Item 1. Legal Proceedings

Historically, the Company has been involved in 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 6. Exhibits and Reports on Form 8-K

Exhibits

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

Reports on Form 8-K - No Reports on Form 8-K were filed by the Company during the quarter ended September 30, 2000.

SIGNATURES

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

AXS-ONE INC.

Date: November 14, 2000

By: /s/ Michael R. Jorgensen

Michael R. Jorgensen
Executive Vice President,
Chief Financial Officer
and Treasurer

By: /s/ William G. Levering III

William G. Levering III
Vice President, Corporate Controller,
Chief Accounting Officer

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