



# **FORM 10-Q**

**AXS ONE INC – AXO**

**Filed: August 07, 1997 (period: June 30, 1997)**

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

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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, 1997

COMMISSION FILE NUMBER 0-26358

COMPUTRON SOFTWARE, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

13-2966911

(I.R.S. Employer Identification No.)

301 ROUTE 17 NORTH  
RUTHERFORD, NEW JERSEY  
(Address of principal executive offices)

07070  
(Zip Code)

(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 July 23, 1997

Class	Number of Shares Outstanding
----- Common Stock, par value \$0.01 per share	----- 20,836,780

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

	December 31, 1996	June 30, 1997
	-----	-----
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$19,730	\$16,540
Short-term investments	1,073	1,835
Restricted cash	3,081	1,293
Accounts receivable, less reserves of \$5,084 and \$4,141 at December 31, 1996 and June 30, 1997, respectively	20,340	12,428
Prepaid expenses and other current assets	1,988	2,179
Total current assets	----- 46,212	----- 34,275
Equipment and leasehold improvements, at cost:		
Computer and office equipment	10,249	10,789
Furniture and fixtures	1,436	1,362
Leasehold improvements	300	479
	----- 11,985	----- 12,630
Less - accumulated depreciation and amortization	7,598	8,634
	----- 4,387	----- 3,996
Capitalized software development costs, less amortization of \$3,095 and \$ 3,410 in 1996 and 1997, respectively		
	2,068	1,753
Goodwill, less amortization of \$535 and \$860 in 1996 and 1997, respectively		
	2,580	2,083
Other assets		
	1,446	1,254
	----- \$56,693	----- \$43,361
	=====	=====

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

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

	December 31, 1996 -----	June 30, 1997 -----
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 506	\$ 72
Accounts payable	3,975	4,437
Accrued expenses	17,420	12,837
Note payable	1,402	--
Deferred revenue	18,551	14,774
	-----	-----
Total current liabilities	41,854	32,120
	-----	-----
Long-term liabilities:		
Long-term debt, less current portion	97	59
	-----	-----
Contingencies (Note 3)		
Stockholders' equity:		
Preferred stock, \$.01 par value, authorized 5,000 shares, no shares issued and outstanding	--	--
Common stock, \$.01 par value, authorized 50,000 shares; 20,801 shares issued and outstanding at December 31, 1996, and 20,836 shares at June 30, 1997	208	208
Additional paid-in capital	63,879	63,891
Accumulated deficit	(49,371)	(52,853)
Cumulative translation adjustment	26	(64)
	-----	-----
Total stockholders' equity	14,742	11,182
	-----	-----
	\$ 56,693	\$ 43,361
	=====	=====

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

COMPUTRON SOFTWARE, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands, except per share data)  
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 1996	June 30, 1997	June 30, 1996	June 30, 1997
	-----	-----	-----	-----
Revenues:				
License fees	\$ 4,185	\$ 4,883	\$ 6,535	\$ 10,512
Services	9,042	11,923	14,361	23,085
	-----	-----	-----	-----
Total revenues	13,227	16,806	20,896	33,597
	-----	-----	-----	-----
Operating expenses:				
Cost of license fees	214	606	1,257	887
Cost of services	6,960	6,871	10,863	13,433
Sales and marketing	6,671	3,427	12,427	8,381
Research and development	2,876	2,365	5,818	4,796
General and administrative	3,962	3,964	6,662	7,793
Costs related to class action litigation	166	1,281	166	2,273
	-----	-----	-----	-----
Total operating expenses	20,849	18,514	37,193	37,563
	-----	-----	-----	-----
Operating loss	(7,622)	(1,708)	(16,297)	(3,966)
	-----	-----	-----	-----
Other income (expense):				
Other income	601	255	1,239	548
Other expense	(33)	(32)	(65)	(64)
	-----	-----	-----	-----
Other income (expense), net	568	223	1,174	484
	-----	-----	-----	-----
Loss before income taxes	(7,054)	(1,485)	(15,123)	(3,482)
Income tax provision	32	--	32	--
	-----	-----	-----	-----
Net loss	\$ (7,086)	\$ (1,485)	\$ (15,155)	\$ (3,482)
	=====	=====	=====	=====
Net loss per common and common stock equivalent	\$ (0.34)	\$ (0.07)	\$ (0.73)	\$ (0.17)
	=====	=====	=====	=====
Weighted average number of common and common equivalent shares	20,774	20,818	20,774	20,814
	=====	=====	=====	=====

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

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

	Six Months Ended June 30, 1996 -----	Six Months Ended June 30, 1997 -----
Cash flows from operating activities:		
Net loss	\$(15,155)	\$ (3,482)
Adjustments to reconcile net loss to net cash flows provided by (used in) operating activities -		
Depreciation and amortization	1,400	1,732
Provision for doubtful accounts	477	0
Changes in current assets and liabilities net of effect of acquisitions:		
Restricted cash	(1,250)	1,788
Accounts receivable	68	7,912
Prepaid expenses and other current assets	(110)	(191)
Accounts payable and accrued expenses	734	(3,367)
Deferred revenue	1,495	(3,777)
	-----	-----
Net cash flows provided by (used in) operating activities	(12,341)	615
	-----	-----
Cash flows from investing activities:		
Other assets	87	192
Capitalized software development costs	(848)	--
Purchase of equipment and leasehold improvements	(1,361)	(762)
Net cash paid for acquisitions in France and Germany	(1,373)	--
Cash paid for acquisition costs	(111)	--
Short-term investments	(4,946)	(762)
	-----	-----
Net cash flows used in investing activities	(8,552)	(1,332)
	-----	-----
Cash flows from financing activities:		
Proceeds from exercise of stock options	72	12
Repayment of notes payable	(507)	(1,402)
Payments of long term debt	(174)	(472)
Decrease in liabilities related to acquisitions	(500)	(754)
	-----	-----
Net cash flows used in financing activities	(1,109)	(2,616)
	-----	-----
Foreign currency exchange rate effects	(209)	143
	-----	-----
Net decrease in cash and cash equivalents	(22,211)	(3,190)
Cash and cash equivalents, beginning of period	45,119	19,730
	-----	-----
Cash and cash equivalents, end of period	\$ 22,908	\$ 16,540
	=====	=====
Supplemental disclosures of cash flow information and noncash financing activities:		
Cash paid during the period for -		
Interest	\$ 78	\$ 12
	=====	=====
Income taxes	\$ 59	\$ 67
	=====	=====

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

COMPUTRON SOFTWARE, INC.  
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(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, Hong Kong, Poland, Singapore, and the United Kingdom (collectively, the "Company"). These 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 financial statements.

These consolidated financial statements should be read in conjunction with the financial statements and related notes included in the Company's 1996 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, 1997, are not necessarily indicative of results to be expected for any future periods.

(a) REVENUE RECOGNITION

The Company recognizes revenue from non-cancelable software licenses upon product shipment, provided collection is probable and no significant vendor and post-contract customer obligations remain at the time of shipment. License fees for contracts which contain uncertainties regarding collection or contain significant vendor obligations are deferred and recognized when collection is deemed probable and/or such obligations have been satisfied. The Company accounts for insignificant vendor obligations by deferring a portion of the revenue and recognizing it when the related services are performed. 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.

COMPUTRON SOFTWARE, INC.  
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## (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.

## (2) RESTATED FINANCIAL RESULTS

The Company has restated its consolidated financial statements for each of the four years ended December 31, 1995, and certain unaudited quarters therein, and for each of the three unaudited quarters ended September 30, 1996. In the opinion of management, all material adjustments necessary to correct the financial statements have been recorded.

A summary of the impact of such restatements on the unaudited financial statements for the three and six month periods ended June 30, 1996, is as follows:

	THREE MONTHS ENDED JUNE 30, 1996		SIX MONTHS ENDED JUNE 30, 1996	
	Previously Reported	As Restated	Previously Reported	As Restated
Total Revenue	\$ 13,875	\$ 13,227	\$ 23,253	\$ 20,896
Loss from operations	(7,254)	(7,622)	(14,278)	(16,297)
Net Loss	(6,718)	(7,086)	(13,136)	(15,155)
Net Loss per share	(.32)	(.34)	(.63)	(.73)

## (3) CONTINGENCIES

During 1996, the Company and certain of its current and former officers and directors were named as defendants in six class action civil suits. 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). A Fourth Amended Consolidated Class Action Complaint was filed on May 28, 1997, on behalf of all purchasers of Computron Common Stock during the period from August 24, 1995, to January 27, 1997. The complaint asserts claims under Sections 11 and 15 of the Securities Act of 1933, Sections 10 (b) and 20 (a) of the Securities Exchange Act of 1934, as amended, Rule 10b-5 of the Securities and Exchange Commission promulgated thereunder, and seeks unspecified compensatory damages, attorneys' fees and costs. The Court has set a discovery cut-off date for all non-expert discovery of November 28, 1997, and for all expert discovery of December 31, 1997. The Court has scheduled trial for February 10, 1998. Additionally, the Court has entered a stipulated order certifying the plaintiff class to include purchasers of Computron Common Stock from August 24, 1995, to January 27, 1997, including certain subclasses therein. The Company intends to vigorously defend itself against the suits.

Since discovery only recently commenced, the Company is unable to assess the likelihood of an adverse result in the case. There can be no assurances as to the outcome of the case. The inability of the Company to resolve the claims that are the basis for the case or to prevail in any related litigation could result in the Company being required to pay substantial monetary damages for which the Company may not be adequately insured, which could have a material adverse effect on the Company's business, financial condition and results of operations. In any event, the Company's defense of such litigation, even if the outcome is favorable to the Company, has resulted, and will continue to result, in substantial costs to the Company.

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'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 1996 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 Maintenance and Work Management Software.

During 1996, the Company acquired the Financial Services Division of Generale de Service Informatique (GSI) based in Paris, France, and portions of the business and 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 December 31, 1994, audit, the Company received a management letter from its independent public accountants that identified material weaknesses in the Company's internal control environment. During 1995, the Company experienced significant turnover of its senior financial and accounting personnel which management believes delayed the implementation of certain improvements and resulted in material weaknesses in these same areas. Upon completion of the December 31, 1995, audit, the Company again received a management letter from its independent public accountants that identified material weaknesses similar to those included in the 1994 management letter. In addition, the independent public accountants recommended that the Company implement an internal accounting control plan, approved by the Audit Committee of the Board of Directors, which addresses these weaknesses and reorganize and upgrade the contracts administration processes, procedures, controls and personnel to ensure proper revenue recognition and financial reporting.

Upon completion of the December 31, 1996, audit, the Company received a management letter which communicated material weaknesses similar to certain of those included in the 1994 and 1995 management letters along with certain other recommendations. In response to the independent public accountant's concerns and as a result of turnover in its accounting and finance departments, the Company has hired senior executives with software industry experience, including a Chief Executive Officer, a Chief Financial Officer, a Vice President of Finance and Administration, a Corporate Controller, several international Controllers and Corporate Counsel. The Company expects to further strengthen the Company's financial management and internal controls during the remainder of 1997.

The Company has restated its consolidated financial statements for each of the four years in the period ended December 31, 1995, and certain unaudited quarters therein and for each of the three unaudited quarters ended September 30, 1996. The Company incurred net losses of \$2.4 million for 1994, \$8.6 million for 1995, and \$31.8 million for 1996, and reported a net loss of \$ 3.5 million for the six months ended June 30, 1997. As of June 30, 1997, the Company had an accumulated deficit of \$52.9 million. There can be no assurance that the Company will be profitable in the future.

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RESULTS OF OPERATIONS

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30,		JUNE 30,	
	1996	1997	1996	1997
	-----	-----	-----	-----
Revenues:				
License fees .....	31.6%	29.1%	31.3%	31.3%
Services .....	68.4	70.9	68.7	68.7
	-----	-----	-----	-----
Total revenues .....	100.0	100.0	100.0	100.0
Operating expenses:				
Cost of license fees .....	1.6	3.6	6.0	2.6
Cost of services .....	52.6	40.9	52.0	40.0
Sales and marketing .....	50.4	20.4	59.5	24.9
Research and development .....	21.7	14.1	27.8	14.3
General and administrative .....	30.0	23.6	31.9	23.2
Costs related to class action litigation .....	1.3	7.6	0.8	6.8
	-----	-----	-----	-----
Total operating expenses .....	157.6	110.2	178.0	111.8
Operating loss .....	(57.6)	(10.2)	(78.0)	(11.8)
Other income (expense) .....	4.3	1.3	5.6	1.4
	-----	-----	-----	-----
Loss before income taxes .....	(53.3)	(8.9)	(72.4)	(10.4)
Income taxes (benefit) .....	0.3	--	0.1	--
	-----	-----	-----	-----
Net loss .....	(53.6)%	(8.9)%	(72.5)%	(10.4)%
	=====	=====	=====	=====

TOTAL REVENUES

Total revenues increased 27.1% and 60.8% for the three and six months ended June 30, 1997, compared to the corresponding prior year periods. The increase was attributable to an increase in both license fees and services revenue including total revenues of \$4.0 million from one customer which represented 11.9% of total revenues during the six months ended June 30, 1997. Results of operations for the three months ended June 30, 1997 include amounts associated with operations in France and Germany which were acquired during the second and third quarters of 1996, respectively.

The Company derived approximately \$8.0 million and \$15.2 million, or 47.5 % and 45.2 % of its total revenues, from customers outside of the United States for the three and six months ended June 30, 1997, respectively, compared to \$5.3 million, and \$7.1 million, or 40.2% and 34.0%, 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. The Company does not currently hedge its foreign exchange exposure. 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 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 increased 16.7 % and 60.9 % for the three and six months ended June 30, 1997, respectively, as compared to the prior year periods. The increases were attributable to increased demand for licenses, including license revenues of \$3.5 million from one customer which represented 10.4% of total 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 increased 31.9 % and 60.7% for the three and six months ended June 30, 1997, as compared to prior year periods. The increases were attributable to increased training, consulting and maintenance services which resulted from a larger installed base of the Company's products and acquired operations in France and Germany which represented \$2.8 million and \$5.7 million of service revenues during the three and six months ended June 30, 1997, compared to \$2.0 million and \$2.1 million for the comparable 1996 periods. Absent the acquisition of operations in France and Germany, growth in service revenue would have been 29.6% and 41.0% for the three and six months ending June 30, 1997, respectively, over the comparable prior year 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 months ended June 30, 1997, as compared to the corresponding prior year period, however, such costs decreased during the six month period ended June 30, 1997. Cost of license fees for the six months ended June 30, 1996, included amounts associated with third party software resold to customers and for costs recorded on contracts, while the associated license revenues were deferred due to uncertainties with respect to collections. Cost of license fees for the three months ended June 30, 1997, included increased costs associated with sales of third party software.

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COST OF SERVICES

Cost of services consists primarily of personnel costs for training, implementation, consulting and customer support. These costs include training third party service and support organizations for the Company's products. The following table sets forth, for the periods indicated, the relationship of cost of services and services revenue:

	Three Months Ended June 30,		Six Months Ended June 30,	
	1996	1997	1996	1997
	(In thousands, except percentage data)			
Services revenue .....	\$ 9,042	\$11,923	\$14,361	\$23,085
Cost of services .....	6,960	6,871	10,863	13,433
Cost of services as a percentage of services revenue .....	77.0%	57.6%	75.6%	58.2%

For the three and six months ended June 30, 1997, cost of services as a percentage of services revenue decreased compared to the three and six months ended June 30, 1996, primarily as a result of efficiencies obtained through the outsourcing of training services and a significant increase in maintenance revenue for which there are lower associated customer support costs as compared to implementation, consulting activities.

SALES AND MARKETING

Sales and marketing expenses consist primarily of salaries and commissions as well as travel and promotional expenses. The following table sets forth, for the periods indicated, the relationship of sales and marketing expenses to total license fee revenues:

	Three Months Ended June 30,		Six Months Ended June 30,	
	1996	1997	1996	1997
	(In thousands, except percentage data)			
Sales and marketing expense .....	\$ 6,671	\$ 3,427	\$ 12,427	\$ 8,381
Percentage increase (decrease) over the comparable period in the prior year .....	25.4%	(48.6)%	38.8%	(32.6)%
Sales and marketing expense as a percentage of total license fee revenue .....	159.4%	70.2%	190.2%	79.7%

Sales and marketing expenses decreased as a percentage of total license fee revenue for the three and six months ended June 30, 1997, as compared to the prior year periods, primarily due to a decrease in personnel of approximately 44% as of June 30, 1997, as compared to June 30, 1996, sales and marketing programs initiated during the 1996 periods which were not repeated in 1997 and an increase in license fee revenues during the 1997 periods.

RESEARCH AND DEVELOPMENT

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

Research and development expenses (net of capitalized software development costs) decreased 17.8% and 17.6%, respectively during the three and six months ended June 30, 1997, as compared to the prior year periods. The Company capitalized software development costs of \$0.4 million and \$0.8 million in the three and six months ended June 30, 1996 and none in the 1997 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 administrative, executive and financial personnel costs, and outside professional fees. General and administrative expenses represented 23.6% and 23.2% of total revenues for the three and six months ended June 30, 1997, compared to 30.0% and 31.9% of total revenues for the three and six months ended June 30, 1996. General and administrative expenses increased 17.0% for the six months ended June 30, 1997, as compared to prior year period ended June 30, primarily due to acquired infrastructure in France and Germany. General and administrative expenses for the three and six months ended June 30, 1997, include \$1.5 million and \$2.6 million associated with the acquired operations in France and Germany, compared to \$0.4 million and \$0.4 million for the comparable 1996 periods. Absent the acquisition of operations in France and Germany, general and administrative expenses would have decreased \$1.1 million in both the three and six month periods ended June 30, 1997, as compared to the corresponding prior year periods.

#### COSTS RELATED TO CLASS ACTION LITIGATION

Litigation costs associated with the class action civil suits increased substantially during the three and six month periods ended June 30, 1997, as compared to the corresponding prior year periods due to the recent commencement of discovery (see Note 3).

#### OTHER INCOME (EXPENSE)

Other income, decreased to \$0.2 million and \$0.5 million for the three and six months ended June 30, 1997, respectively, compared to \$0.6 million and \$1.2 million for the comparable prior year periods due to lower invested balances of cash, cash equivalents and short-term investments.

#### LIQUIDITY AND CAPITAL RESOURCES

At June 30, 1997, the Company had cash, cash equivalents, restricted cash and short-term investments of \$19.7 million and working capital of \$2.2 million. As of June 30, 1997, the Company maintained a \$10 million line of credit with a bank, secured by the pledge of \$10 million in certificates of deposit. At June 30, 1997, the Company had no borrowings under the line of credit and there were \$1.3 million of outstanding letters of credit under this facility. The Company was advised by the bank in March 1997 that it was in technical default of the line of credit reporting covenants and cured these technical defaults in June 1997. In July 1997, the Company entered into a fully secured \$5 million line of credit agreement with another bank,

replacing its existing line. The line of credit expires in December 1998 and may be used for borrowings or to secure letters of credit.

The Company's operating activities provided (used) cash of (\$12.3) million and \$0.6 million for the six months ended June 30, 1996 and 1997, respectively. Net cash used by operations in the six months ended June 30, 1996 was comprised primarily of the net loss offset by an increase in deferred revenue and depreciation and amortization. Net cash provided by operations during the six months ended June 30, 1997 was comprised of decreases in accounts receivable offset by the net loss, decreases in accounts payable, accrued expenses and deferred revenue.

The Company's investing activities used cash of \$8.6 million and \$1.3 million for the six months ended June 30, 1996 and 1997, respectively. The principal uses of cash during 1996 were increases in short-term investments, capitalized software costs and equipment purchases. The principal uses of cash during 1997 were increases in short-term investments, and equipment purchases.

Cash used by financing activities was \$1.1 million and \$2.6 million during the six months ended June 30, 1996 and 1997, respectively and related mainly to the repayment of debt.

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 1 of Part II. Legal Proceedings." Since discovery only recently commenced, the Company is unable to assess the likelihood of an adverse result in the case. There can be no assurances as to the outcome of the case. The inability of the Company to resolve the claims that are the basis for the case or to prevail in any related litigation could result in the Company being required to pay substantial monetary damages for which the Company may not be adequately insured, which could have a material adverse effect on the Company's business, financial condition and results of operations. In any event, the Company's defense of such litigation, even if the outcome is favorable to the Company, has resulted, and will continue to result, in substantial costs to the Company.

The Company has no significant capital commitments. The Company's aggregate minimum operating lease payments for the remainder of 1997 and 1998 are expected to be approximately \$3.8 million. The Company believes that its available cash and cash equivalents, together with investment income and cash flows from operations, will be sufficient to meet its cash requirements at least through 1997.

#### QUARTERLY RESULTS

The Company has experienced, and may in the future continue to experience, significant quarter to quarter fluctuations in results of operations and revenues. 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 lengthy sales cycle for the Company's products, the proportion of revenue attributable to license fees versus 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, 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 relatively 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, and 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 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, it is likely that in some future quarter the Company's operating results will be below the expectations of public market analysts and investors. Such an event would have a material adverse effect on the price of the Company's Common Stock.

#### 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 \$8.6 million for 1995, \$31.8 million for 1996 and reported a net loss for the six months ended June 30, 1997 of \$3.5 million. The Company also incurred a net loss for each of the five years in the period ended December 31, 1994. As of June 30, 1997, the Company had an accumulated deficit of \$52.9 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 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 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 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, and planned expenditures, such as continued expansion of the Company's sales force, 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 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, it is likely that in some future quarter the Company's operating results will be below the expectations of public market analysts and investors. Such an event would have a material adverse effect on the price of the Company's Common Stock.

Delisting from Nasdaq and Market Illiquidity; No Assurance of Relisting on Nasdaq

In January 1997, the Company announced that information had come to the attention of the Board of Directors that may impact previously issued financial statements and the Company's independent auditors withdrew their reports on the Company's previously reported financial statements. The Nasdaq Stock Market subsequently delisted the Company's Common Stock from quotation on the Nasdaq National Market System ("Nasdaq"). Trading in the Common Stock of the Company is now being conducted on the over-the-counter market in the "pink sheets" and on the NASD's "Electronic Bulletin Board." Consequently, the liquidity of the Company's Common Stock has been seriously impaired

which may result in lower prices for the Company's Common Stock than might otherwise be obtained and could also result in a larger spread between the bid and asked prices for the Company's Common Stock.

In addition, since the Common Stock is delisted from trading on Nasdaq and the trading price of the Common Stock is less than \$5.00 per share, trading in the Common Stock is also subject to the requirements of Rule 15c-9 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Under such rule, broker/dealers who recommend such low-priced securities to persons other than established customers and accredited investors must satisfy special sale practice requirements, including a requirement that they make an individualized written suitability determination for the purchaser and receive the purchaser's written consent prior to the transaction. The Securities Enforcement Remedies and Penny Stock Reform Act of 1990 also requires additional disclosure in connection with any trades involving a stock defined as a penny stock (generally, according to recent regulations adopted by the Securities and Exchange Commission, any equity security not traded on an exchange or quoted on Nasdaq that has a market price of less than \$5.00 per share, subject to certain exceptions), including the delivery, prior to any penny stock transaction, of a disclosure schedule explaining the penny stock market and the risks associated therewith. Such requirement could severely limit the liquidity of the Company's Common Stock.

The Company has restated its previously reported financial statements and the independent auditors have reissued their reports. The Listing and Hearing Review Committee of the Nasdaq Stock Market denied the Company's appeal of the decision to delist the Company's stock from Nasdaq. The Company will continue its efforts towards having its stock traded on a national market but there can be no assurance that such efforts will be successful.

#### Litigation

During 1996, the Company and certain of its current and former officers and directors were named as defendants in six class action civil suits. 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). A Fourth Amended Consolidated Class Action Complaint was filed on May 28, 1997, on behalf of all purchasers of Computron Common Stock during the period from August 24, 1995, to January 27, 1997. See Note 3 and "Item I of Part II, Legal Proceedings" for further discussion.

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

During the past three years, the Company has experienced significant growth. This growth has placed a significant strain on the Company's management, administrative and operational resources and financial control systems. Simultaneously, the Company has experienced significant turnover of executive management. The Company has recently added a number of key officers, including its President and Chief Executive Officer, Executive Vice President and Chief Financial Officer and Vice President, Finance and Administration, in February 1997. The Company's future results of operations will depend in part on its ability to strengthen its senior management group,

and on the ability of its officers and key employees to improve its management, administrative, operational and financial reporting systems and to expand, train, manage and retain its employee base. The Company's inability to manage these issues effectively could have a material adverse effect on the quality of the Company's products, the Company's ability to retain key personnel and the Company's business and financial condition and results of operations.

#### Reporting, Operating and Control Environment

Following the audits of the Company's consolidated financial statements for 1994 and 1995, the Company received management letters from its independent public accountants which enumerated material weaknesses in the Company's financial and accounting processes, controls, reporting systems and procedures. The Company's independent public accountants highlighted the Company's need for additional financial and accounting personnel with software industry experience. In addition, the Company's independent public accountants noted (i) the need for uniformity in the language of its contracts and recommended that the Company standardize the terms of its license agreements and expand its internal contract review and approval procedures, (ii) deficiencies in the organization of customer and contract files and recommended that the Company improve and standardize record keeping, (iii) the need for expanded and formalized accounts receivable collection procedures, (iv) the need for improved documentation and record keeping relating to consulting service projects, and (v) the need to develop policies and procedures to accurately identify the date when technological feasibility of developed software has been attained and to improve the documentation and record keeping for capitalized software development costs and to do so on a timely basis. In addition, the 1995 letter, recommended that the Company implement improved internal accounting control procedures approved by the Audit Committee of the Board of Directors and reorganize and upgrade the contracts administration processes, procedures and personnel to ensure proper revenue recognition and financial reporting.

Upon completion of the December 31, 1996, audit, the Company received a management letter which communicated material weaknesses similar to certain of those included in the 1994 and 1995 management letters along with other recommendations. In response to the independent public accountant's concerns and as a result of turnover in its accounting and finance departments, the Company has hired senior executives with software industry experience, including a Chief Executive Officer, a Chief Financial Officer, a Vice President of Finance and Administration, a Corporate Controller, several international Controllers, and Corporate Counsel. The Company expects to further strengthen the Company's financial management and internal controls during the remainder of 1997.

#### 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 are 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 software are

products offered by Eastman Software (formerly Wang Software) and FileNet Corporation. The Company has entered into an agreement with Eastman pursuant to which Eastman 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 established, 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.

## Dependence on Principal Products

Substantially all of the Company's revenues are derived from the licensing of Computron Financials, Computron Workflow, Computron COOL, Maintenance and Work Management 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 business, results of operations and financial condition.

## 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. 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. 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.

#### 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 contract, copyright and trademark law, trade secrets, confidentiality agreements and contractual provisions 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 under limited circumstances 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" in the United States. In addition, the Company has certain common law rights in relation to its other trademarks, service marks and product names. Although the Company believes that its trademarks and service marks are distinct, there can be no assurances that the Company will be able to protect its trademarks and service marks.

The Company is not aware 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.

#### Risks Associated with International Operations

The Company derived approximately \$9.1 million, \$14.2 million, and \$21.3 million or 28.0%, 26.9%, and 39.2% of its total revenues, from customers outside of the United States in 1994, 1995, and 1996, respectively. The company derived approximately \$7.1 million and \$15.2 million or 34.0% and 45.2% of its total revenues, from customers outside of the United States for the six months ended June 30, 1996, and 1997, 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. The Company intends to continue to expand its operations outside of the United States and enter additional international markets, which will require significant management

attention and financial resources. During 1996, the Company acquired certain operations, customers and products of AT&T ISTEEL, in Essen, Germany, and the Financial Software Service Division of Generale de Service Informatique, in Paris, France. 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 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.

#### 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 retain 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.

#### 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, 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, the Company may be forced to expend significant time and development resources 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.

#### Control by Existing Stockholders

At December 31, 1996, the Company's senior management, directors and affiliates together beneficially owned approximately 65.6 % of the outstanding shares of Common Stock. 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 earning estimates 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 of the securities of 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.

## Part II

## Other Information

## ITEM 1. LEGAL PROCEEDINGS

During 1996, the Company and certain of its current and former officers and directors were named as defendants in six class action civil suits. 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). A Fourth Amended Consolidated Class Action Complaint was filed on May 28, 1997, on behalf of all purchasers of Computron Common Stock during the period from August 24, 1995, to January 27, 1997. The complaint asserts claims under Sections 11 and 15 of the Securities Act of 1933, Sections 10 (b) and 20 (a) of the Securities Exchange Act of 1934, as amended, Rule 10b-5 of the Securities and Exchange Commission promulgated thereunder, and seeks unspecified compensatory damages, attorneys' fees and costs. The Court has set a discovery cut-off date for all non-expert discovery of November 28, 1997, and for all expert discovery of December 31, 1997. The Court has scheduled trial for February 10, 1998. Additionally, the Court has entered a stipulated order certifying the plaintiff class to include purchasers of Computron Common Stock from August 24, 1995, to January 27, 1997, including certain subclasses therein. The Company intends to vigorously defend itself against the suits.

Since discovery only recently commenced, the Company is unable to assess the likelihood of an adverse result in the case. There can be no assurances as to the outcome of the case. The inability of the Company to resolve the claims that are the basis for the case or to prevail in any related litigation could result in the Company being required to pay substantial monetary damages for which the Company may not be adequately insured, which could have material adverse effect on the Company's business, financial condition and results of operations. In any event, the Company's defense of such litigation, even if the outcome is favorable to the Company, has resulted, and will continue to result, in substantial costs to the Company.

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 6. EXHIBITS AND REPORTS ON FORM 8-K

- a) Exhibits - None
- b) Reports on Form 8-K - None

## 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 7, 1997

By: /s/ Michael R. Jorgensen

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

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