



# **FORM 10-Q**

**AXS ONE INC – AXO**

**Filed: August 14, 2001 (period: June 30, 2001)**

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

# Table of Contents

SIGNATURES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

## Part II

ITEM 1. LEGAL PROCEEDINGS

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

SIGNATURES

EX-1.1 (Underwriting agreement)

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, 2001 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 (I.R.S. Employer Identification No.)
incorporation or organization)

301 ROUTE 17 NORTH 07070
RUTHERFORD, NEW JERSEY (Zip Code)
(Address of principal executive offices)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES [X] NO [ ]

Number of shares outstanding of the issuer's common stock as of August 2, 2001

Table with 2 columns: Class, Number of Shares Outstanding. Row: Common Stock, par value \$0.01 per share, 24,784,742

AXS-ONE INC.

INDEX

Table with 2 columns: Section Name, Page Number. Includes PART I FINANCIAL INFORMATION (Item 1, 2, 3) and PART II OTHER INFORMATION (Item 1, 6), SIGNATURES.

CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	DECEMBER 31, 2000	JUNE 30, 2001
ASSETS	(Unaudited)	
<b>Current assets:</b>		
Cash and cash equivalents .....	\$ 2,207	\$ 766
Restricted cash .....	50	46
Accounts receivable, net of allowance for doubtful accounts of \$1,060 and \$890 at December 31, 2000 and June 30, 2001, respectively .....	7,832	7,058
Prepaid expenses and other current assets .....	691	881
Total current assets .....	10,780	8,751
<b>Equipment and leasehold improvements, at cost:</b>		
Computer and office equipment .....	12,045	10,576
Furniture and fixtures .....	1,198	986
Leasehold improvements .....	1,084	1,025
	14,327	12,587
Less--accumulated depreciation and amortization .....	13,057	11,449
	1,270	1,138
Capitalized software development costs, net of accumulated amortization of \$5,743 and \$6,277 at December 31, 2000 and June 30, 2001, respectively ..	3,030	3,046
Long term investments .....	--	142
Other assets .....	104	73
	\$ 15,184	\$ 13,150
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>Current liabilities:</b>		
Current portion of long-term debt .....	\$ 1,700	\$ 1,800
Short term borrowings .....	--	582
Accounts payable .....	3,107	3,120
Accrued expenses .....	5,467	5,787
Deferred revenue .....	7,496	9,718
Total current liabilities .....	17,770	21,007
Long-term debt, net of current portion .....	1,222	1,749
<b>Commitments and contingencies</b>		
<b>Stockholders' deficit:</b>		
Preferred stock, \$.01 par value, authorized 5,000 shares, no shares issued and outstanding .....	--	--
Common stock, \$.01 par value, authorized 50,000 shares; 24,785 shares issued and outstanding at December 31, 2000 and June 30, 2001 .....	248	248
Additional paid-in capital .....	72,032	72,032
Accumulated deficit .....	(76,038)	(82,071)
Accumulated other comprehensive income (loss) .....	(50)	185
Total stockholders' deficit .....	(3,808)	(9,606)
	\$ 15,184	\$ 13,150

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

CONSOLIDATED STATEMENTS OF OPERATIONS  
(IN THOUSANDS, EXCEPT PER SHARE DATA)  
(UNAUDITED)

	Three Months Ended		Six Months Ended	
	June 30, 2000	June 30, 2001	June 30, 2000	June 30, 2001
Revenues:				
License fees	\$ 1,689	\$ 918	\$ 3,733	\$ 3,241
Services	10,588	8,679	20,453	17,980
Total revenues	12,277	9,597	24,186	21,221
Operating expenses:				
Cost of license fees	259	406	697	741
Cost of services	5,523	4,849	10,940	10,004
Sales and marketing	2,340	3,097	4,488	6,261
Research and development	1,740	1,832	3,523	3,731
General and administrative	2,606	3,018	4,427	5,067
Restructuring and other costs	--	1,103	--	1,103
Total operating expenses	12,468	14,305	24,075	26,907
Operating income (loss)	(191)	(4,708)	111	(5,686)
Other income (expense):				
Interest income	29	74	45	95
Interest expense	(91)	(98)	(199)	(202)
Equity in losses of joint ventures	--	(34)	--	(122)
Other income (expense)	(12)	(95)	20	(118)
Other expense, net	(74)	(153)	(134)	(347)
Net loss	\$ (265)	\$ (4,861)	\$ (23)	\$ (6,033)
Basic and diluted net loss per common share	\$ (0.01)	\$ (0.20)	\$ --	\$ (0.24)
Weighted average basic and diluted common shares outstanding	24,778	24,785	24,462	24,785

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

4

AXS-ONE INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS  
(IN THOUSANDS)  
(UNAUDITED)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2000	2001	2000	2001
Net loss	\$ (265)	\$ (4,861)	\$ (23)	\$ (6,033)
Foreign currency translation adjustment	3	47	16	(5)
Reclassification adjustment for losses included in net loss	--	240	--	240
Comprehensive loss	\$ (262)	\$ (4,574)	\$ (7)	\$ (5,798)

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



CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)  
(UNAUDITED)

	Six Months Ended June 30,	
	2000	2001
Cash flows from operating activities:		
Net loss	\$ (23)	\$(6,033)
Adjustments to reconcile net loss to net cash flows provided by (used in) operating activities		
Depreciation and amortization	1,064	1,036
Net provision for (recovery of) doubtful accounts	63	(106)
Loss on disposal of equipment and leasehold improvements	--	17
Non-cash portion of restructuring and other costs	--	308
Changes in current assets and liabilities		
Accounts receivable	117	640
Prepaid expenses and other current assets	117	(212)
Accounts payable and accrued expenses	(2,423)	414
Deferred revenue	2,010	2,324
	925	(1,612)
Net cash flows provided by (used in) operating activities		
Cash flows from investing activities:		
Change in other assets	6	29
Capitalized software development costs	(923)	(550)
Purchase of equipment and leasehold improvements	(433)	(459)
	(1,350)	(980)
Net cash flows used in investing activities		
Cash flows from financing activities:		
Proceeds from exercise of stock options and warrants	1,900	--
Net borrowings from revolving line of credit	--	582
Proceeds from issuance of long-term debt	--	1,500
Payments of long-term debt and capital lease obligations	(504)	(875)
	1,396	1,207
Net cash flows provided by financing activities		
Foreign currency exchange rate effects on cash and cash equivalents	(80)	(56)
Net increase (decrease) in cash and cash equivalents	891	(1,441)
Cash and cash equivalents, beginning of period	1,154	2,207
Cash and cash equivalents, end of period	\$ 2,045	\$ 766
Supplemental disclosures of cash flow information:		
Cash paid during the period for -		
Interest	\$ 205	\$ 182
Income taxes	\$ 11	\$ 5
Non-cash investing activity -		
Investment in joint ventures	\$ --	\$ 142

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

6

AXS-ONE INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

(1) OPERATIONS, BUSINESS CONDITIONS AND SIGNIFICANT ACCOUNTING POLICIES

The Company designs, markets and supports n-tier, Internet-enabled, client/server, e-commerce, financial, workflow, and desktop data access and storage software solutions. The Company also offers consulting, implementation, training and maintenance 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"). During the first quarter of 2001, the Company's South Africa operations entered into two joint ventures. Ownership is 50% or less in both entities. All significant intercompany transactions and balances have been eliminated. The Company uses the equity

method of accounting for its investments in 20 to 50-percent-owned companies.

The unaudited consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America 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 2000 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

The results of operations for the six months ended June 30, 2001 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." 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. In multiple element arrangements, the Company defers the vendor-specific objective evidence of fair value ("VSOE") related to the undelivered elements and recognizes revenue on the delivered elements using the residual method. The most commonly deferred element is initial post-contract support (maintenance), which is recognized on a straight-line basis over the initial maintenance term. Maintenance fees in subsequent years are recognized on a straight-line basis over the life of the applicable agreement. Other deferred elements include consulting and implementation services. 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 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 that such losses are determined.

AXS-ONE INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

(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, \$77 in year four, \$74 in years five and six 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 restrictive financial 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 remaining available amount under the revolving line of credit at June 30, 2001 is approximately \$0.6 million.

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 (6.75% at June 30, 2001) plus 1.5%, and was repayable in 36 monthly installments beginning May 1, 1998.

Effective December 22, 1999, in connection with the sale of its subsidiary in France, the Company 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, and a third term loan (the "B Term Loan") in the original principal amount of \$750, of which the Company borrowed \$500 on November 3, 2000 and requested the remaining \$250 on December 31, 2000 which was subsequently remitted and recorded on the Company's books on January 2, 2001. Amendment No. 7 also extended the termination date of the credit facility to March 31, 2003, and established restrictive financial covenants for 2000.

The A Term Loan bears interest at the rate of prime as defined (6.75% at June 30, 2001) plus 1.5% and was payable in monthly installments of \$100 through December 31, 2002. The B Term Loan bears interest at the fixed rate of 12.0% and was payable in monthly installments of \$62.5 through December 31, 2001.

Effective March 16, 2001, the Company further amended the Agreement (Amendment No. 9) in order to make available an additional term loan (the "Additional B Term Loan") in the original principal amount of up to \$2.0 million, of which the

Company borrowed \$750 on April 30, 2001 and \$500 on May 30, 2001, to extend the termination date of the credit facility to March 31, 2004 and to establish restrictive financial covenants for 2001.

The Additional B Term Loan provides for not more than three borrowings. Each request for a borrowing under the Additional B Term Loan must specify the amount of the requested Term Loan, which cannot exceed (A) \$750 if such request is made on or after March 16, 2001 but before December 31, 2001, plus (B) an additional \$500 if such request is made on or after April 30, 2001 but before December 31, 2001, plus (C) an additional \$750 if such request is made on or after July 31, 2001 but before December 31, 2001, and which must be in a minimum amount of \$500. The availability of the Additional B Term Loan is subject to the Company's compliance with the 2001 financial covenants.

8

AXS-ONE INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

On June 29, 2001, the Company further amended the Agreement (Amendment No. 10) to reduce the amount of the third borrowing under Amendment No. 9 from \$750 to \$500 and to change the availability date from July 31, 2001 to June 29, 2001 and to modify the financial covenants. The amendment eliminated the financial covenant requirement for June 30, 2001, and set two new monthly covenants for the remainder of 2001 based on EBITDA (earnings before interest, taxes and depreciation and amortization) and based on minimum revenue requirements.

The aggregate outstanding principal amount of the Term Loans will be repaid in monthly installments of \$150 beginning April 1, 2001 over the remaining term of the Loan and Security Agreement, in accordance with Amendment No. 10.

Amendment No. 10 provides a limitation that if the total outstanding balance of Term Loans exceeds the lessor of (i) 45% of eligible maintenance revenues through December 31, 2001, 40% of eligible maintenance revenues from January 1, 2002 through December 31, 2002, 25% of eligible maintenance revenues from January 1, 2003 through March 31, 2004 and (ii) \$4.5 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 June 30, 2001, eligible maintenance revenues totaled approximately \$11,233.

(3) CONTINGENCIES

The Securities and Exchange Commission (SEC) is currently investigating certain former employees and officers of the Company relating to activities performed through 1996 while they were employees of the Company. The Company is no longer being investigated and the Company issued a Form 8-K with the SEC on February 15, 2001 disclosing this investigation and its disposition with respect to the Company. Under the Company's certificate of incorporation, and Delaware law, the Company is obligated to reimburse legal fees to former employees and officers relating to actions taken against them for work performed while they were employed by the Company. Approximately \$0.7 million and \$0.8 million in such legal fees were recorded during the three and six months ended June 30, 2001, respectively. The Company cannot estimate the total costs it may incur as a result of this continuing investigation. The costs could be material and if so, could have adverse effects on the Company's ability to meet these or other obligations.

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 loss per common share is based on the weighted average number of shares of common stock outstanding during the period. Diluted net loss per common share is the same as basic net loss per common share since the effect of stock options and warrants is anti-dilutive. Diluted net loss per common share for the three and six months ended June 30, 2001 does not include the effects of outstanding options to purchase 4,937 shares of common stock and outstanding warrants to purchase 476 shares of common stock as the effect of their inclusion is anti-dilutive for the periods.

9

AXS-ONE INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

(5) RESTRUCTURING AND OTHER COSTS



	SOLUTIONS -----	SOLUTIONS -----	SOLUTIONS -----	TOTAL -----
THREE MONTHS ENDED JUNE 30, 2000				
Revenues:				
License fees .....	\$ 1,448	\$ 185	\$ 56	\$ 1,689
Services .....	8,586	851	1,151	10,588
	-----	-----	-----	-----
Total Revenues .....	10,034	1,036	1,207	12,277
Operating income (loss) .....	2,253	(6)	349	2,596
Total assets .....	14,625	1,889	1,573	18,087
Capital expenditures .....	242	19	18	279
Depreciation and amortization .....	528	27	25	580
THREE MONTHS ENDED JUNE 30, 2001				
Revenues:				
License fees .....	\$ 555	\$ 214	\$ 149	\$ 918
Services .....	6,993	1,003	683	8,679
	-----	-----	-----	-----
Total Revenues .....	7,548	1,217	832	9,597
Operating loss .....	(954)	(59)	(540)	(1,553)
Total assets .....	11,179	943	1,028	13,150
Capital expenditures .....	140	15	17	172
Depreciation and amortization .....	456	21	35	512
SIX MONTHS ENDED JUNE 30, 2000				
Revenues:				
License fees .....	\$ 2,873	\$ 785	\$ 75	\$ 3,733
Services .....	16,719	1,592	2,142	20,453
	-----	-----	-----	-----
Total Revenues .....	19,592	2,377	2,217	24,186
Operating income .....	4,108	466	339	4,913
Total assets .....	14,625	1,889	1,573	18,087
Capital expenditures .....	374	31	28	433
Depreciation and amortization .....	957	56	51	1,064
SIX MONTHS ENDED JUNE 30, 2001				
Revenues:				
License fees .....	\$ 2,569	\$ 472	\$ 200	\$ 3,241
Services .....	14,196	2,026	1,758	17,980
	-----	-----	-----	-----
Total Revenues .....	16,765	2,498	1,958	21,221
Operating income (loss) .....	315	128	(773)	(330)
Total assets .....	11,179	1,028	943	13,150
Capital expenditures .....	387	35	37	459
Depreciation and amortization .....	931	39	66	1,036

12

AXS-ONE INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

Reconciliation of total segment operating income to consolidated operating income (loss):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	2001	2000	2001
	----	----	----	----
Operating income (loss) from reportable segments	\$ 2,596	\$ (1,553)	\$ 4,913	\$ (330)
Unallocated general and administrative expense	(2,470)	(2,952)	(4,148)	(4,925)
Other corporate unallocated expenses	(317)	(203)	(654)	(431)
	-----	-----	-----	-----
Total consolidated operating income (loss)	\$ (191)	\$ (4,708)	\$ 111	\$ (5,686)
	=====	=====	=====	=====

13

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 27A of the Securities Act of 1933, as amended, and 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 2000 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 a new family of products.

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 Financials and Workflow, the client/server versions of its financial and workflow products. COOL, our on-line data storage product, 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.

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(TM) 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, AXS-One(TM) Enterprise solutions and AXSPoint(TM) solutions. AXS-One Enterprise 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 AXS-One Enterprise solutions and AXSPoint solutions modules were made available throughout 2000 and will continue to be made available in 2001 and beyond. See "Item 1. Business " in the Company's 2000 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. In multiple element arrangements, the Company defers the vendor-specific objective evidence of fair value ("VSOE") related to the undelivered elements and recognizes revenue on the delivered elements using the residual method. The most commonly deferred element is initial post contract support (maintenance), which is recognized on a straight-line basis over the initial maintenance term. Maintenance fees in subsequent years are recognized on a straight-line basis over the life of the applicable agreement. Other deferred elements include consulting and implementation services. 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 and consulting services are generally rendered 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 and cash flows. The Company believes that domestic and international operating results and cash flows 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 that may affect the Company's operating results, see "Business-Risk Factors" in the Company's 2000 Annual Report on Form 10K.

The Company incurred net losses of \$9.0 million, \$3.7 million and \$0.3 million in 1998, 1999 and 2000, respectively and operating losses of \$8.9 million, \$1.2 million and \$0.2 million in 1998, 1999 and 2000, respectively. The Company reported a net loss of \$4.9 million and \$6.0 million for the three and six

months ended June 30, 2001, respectively and operating losses of \$4.7 million and \$5.7 million, respectively for the same periods.

#### 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 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities - an amendment of FASB Statement No. 133." SFAS No. 133 and SFAS No. 138 require 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 are 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, the adoption of SFAS No. 133 and SFAS No. 138 on January 1, 2001 did not have a material effect on the Company's consolidated financial position or results of operations.

In July 2001, the Financial Accounting Standards Board issued FASB Nos. 141 and 142 (SFAS 141 and SFAS 142), "Business Combinations" and "Goodwill and Other Intangible Assets." SFAS 141 replaces APB 16 and eliminates pooling-of-interests accounting prospectively. It also provides guidance on purchase accounting related to the recognition of intangible assets and accounting for negative goodwill. SFAS 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Under SFAS 142, goodwill will be tested annually and whenever events or circumstances occur indicating that goodwill might be impaired. SFAS 141 and SFAS 142 are effective for all business combinations completed after June 30, 2001. Upon adoption of SFAS 142, amortization of goodwill recorded for business combinations consummated prior to July 1, 2001 will cease, and intangible assets acquired prior to July 1, 2001 that do not meet the criteria for recognition under SFAS 141 will be reclassified to goodwill. Companies are required to adopt SFAS 142 for fiscal years beginning after December 15, 2001. In connection with the adoption of SFAS 142, companies will be required to perform a transitional goodwill impairment assessment. The Company believes that the adoption of SFAS 141 and SFAS 142, beginning on January 1, 2002, will have no effect on the Company's consolidated financial position or results of operations.

#### 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

15

local currencies will be withdrawn from circulation by July 1, 2002. The Company derived approximately 35.8% of its total revenues outside the United States for 2000, a significant portion of which is in Europe. The Company derived approximately 36.0% of its total revenues outside the United States for the six months ended June 30, 2001. 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 table sets forth for the periods indicated, certain operating data, and data as a percentage of total revenues:

(In thousands)	Three Months Ended June 30, 2000		Three Months Ended June 30, 2001	
	As Reported	Data as a percent of revenue	As Reported	Data as a percent of revenue
	----- Unaudited		----- Unaudited	
Revenues:				
License fees	\$ 1,689	13.8%	\$ 918	9.6%
Services	10,588	86.2	8,679	90.4
	-----	-----	-----	-----
Total revenues	12,277	100.0	9,597	100.0
	-----	-----	-----	-----
Operating expenses:				
Cost of license fees	259	2.1	406	4.2
Cost of services	5,523	45.0	4,849	50.5
Sales and marketing	2,340	19.1	3,097	32.3
Research and development	1,740	14.2	1,832	19.1
General and administrative	2,606	21.2	3,018	31.4
Restructuring and other costs	--	--	1,103	11.5
	-----	-----	-----	-----

Total operating expenses	12,468	101.6	14,305	149.1
Operating loss	(191)	(1.6)	(4,708)	(49.1)
Other income (expense):				
Interest income	29	0.2	74	0.8
Interest expense	(91)	(0.7)	(98)	(1.0)
Equity in losses of joint ventures	--	--	(34)	(0.4)
Other expense	(12)	(0.1)	(95)	(1.0)
Other expense, net	(74)	(0.6)	(153)	(1.6)
Net loss	\$ (265)	(2.2)%	\$ (4,861)	(50.7)%

16

(In thousands)	Six Months Ended June 30, 2000		Six Months Ended June 30, 2001	
	As Reported	Data as a percent of revenue	As Reported	Data as a percent of revenue
	Unaudited		Unaudited	
Revenues:				
License fees	\$ 3,733	15.4%	\$ 3,241	15.3%
Services	20,453	84.6	17,980	84.7
Total revenues	24,186	100.0	21,221	100.0
Operating expenses:				
Cost of license fees	697	2.9	741	3.5
Cost of services	10,940	45.2	10,004	47.1
Sales and marketing	4,488	18.6	6,261	29.5
Research and development	3,523	14.6	3,731	17.6
General and administrative	4,427	18.3	5,067	23.9
Restructuring and other costs	--	--	1,103	5.2
Total operating expenses	24,075	99.5	26,907	126.8
Operating income (loss)	111	0.5	(5,686)	(26.8)
Other income (expense):				
Interest income	45	0.2	95	0.4
Interest expense	(199)	(0.8)	(202)	(0.9)
Equity in losses of joint ventures	--	--	(122)	(0.6)
Other expense	20	0.1	(118)	(0.5)
Other expense, net	(134)	(0.6)	(347)	(1.6)
Net loss	\$ (23)	(0.1)%	\$ (6,033)	(28.4)%

#### TOTAL REVENUES

Total revenues decreased 21.8% and 12.3% for the three and six months ended June 30, 2001, compared to the corresponding prior year periods. The decrease in 2001 is mainly attributable to a decrease in service and license revenues in the U.S. operation due to the slow down in the economy, the effects of which are being felt throughout the software industry.

The Company derived approximately \$3.8 million and \$7.6 million, or 40.0% and 36.0% of its total revenues, from customers outside of the United States for the three and six months ended June 30, 2001, respectively, compared to \$4.9 million and \$9.7 million, or 39.9% and 39.9%, 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. Future fluctuations in the value of foreign currencies relative to the U.S. dollar could result in fluctuations in the Company's revenue.

#### LICENSE FEES

License fees include revenues from software license agreements entered into between the Company and its customers with respect to both the Company's products and, to a lesser degree, third party products resold by the Company. Total license fees decreased \$0.8 million and \$0.5 million for the three and six months ended June 30, 2001,

17

respectively, as compared to the prior year periods mainly as a result of the slow down in the economy which has resulted in customers delaying their purchases of new software. License fees for the six months ended June 30, 2001 included \$1.2 million or 37.0% of total license fees from one customer. No one customer attributed more than 10% of license fees for the six months ended June 30, 2000.

#### SERVICES REVENUE

Services revenue includes fees from software maintenance agreements, training, installation and consulting services. Maintenance fees, including first year maintenance, are billed separately and are recognized ratably over the period of the maintenance agreement. Training and consulting service revenues are recognized as the services are performed.

Services revenue decreased 18.0% and 12.1% for the three and six months ended June 30, 2001, respectively, as compared to the comparable prior year periods. The majority of the decrease for the three and six month periods relates to lower service revenues in the U.S. operations, due in part to lower license sales and the delay of consulting and implementation projects by our customers due to the slow economy.

#### 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 \$0.1 million for the three months ended June 30, 2001 and remained relatively flat for the six months ended June 30, 2001, as compared to the corresponding prior year periods due to an increase in the amortization of capitalized software development costs partially offset by a decrease in license sales which include third party software.

#### COST OF SERVICES

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

Cost of services decreased 12.2% and 8.6% for the three and six months ended June 30, 2001, 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. As a percentage of services revenue, cost of services was essentially the same for both periods.

#### SALES AND MARKETING

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

Sales and marketing expenses increased 32.4% and 39.5% for the three and six months ended June 30, 2001, respectively, as compared to the comparable prior year periods, mainly as a result of increased headcount and marketing costs incurred in an effort to promote the Company's software in new and existing markets.

18

#### RESEARCH AND DEVELOPMENT

Research and development expenses consist primarily of personnel costs, 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. (SFAS 86), "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed." Such capitalized software development costs are generally amortized over periods not exceeding three years.

Excluding the amount of capitalized software development costs, research and development expenses increased 5.3% and 5.9% for the three and six months ended June 30, 2001, respectively, from the comparable prior year periods mainly due to a decrease in capitalized software development costs. The Company capitalized \$0.5 million in software development costs for the six months ended June 30, 2001 as compared to \$0.9 million for the comparable prior year period. The rate of capitalization of software development costs may fluctuate depending on the

mix and stage of development of the Company's products.

Research and development expenses for the three and six months ended June 30, 2001 decreased 6.2% and 5.4%, respectively, from the comparable prior year periods when including the amount of capitalized software development costs for the two periods.

#### 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 increased 15.8% and 14.5% for the three and six months ended June 30, 2001, as compared to the comparable prior year periods mainly as a result of an increase in legal fees. For the six month period, the increase includes the effects of a reduction of a reserve for sales taxes resulting from conclusion of the related tax audits in the first quarter of 2000 that reduced general and administrative expenses by \$0.5 million for that period.

The legal fees amounted to \$0.7 million and \$0.8 million for the three and six months ended June 30, 2001, respectively. These fees related to the Company's obligation, under its certificate of incorporation and Delaware law, to reimburse legal fees to former employees and officers relating to actions taken against them for work performed while they were employed by the Company. The Securities and Exchange Commission (SEC) is currently investigating certain former employees and officers of the Company relating to activities performed through 1996 while they were employees of the Company. The Company is no longer being investigated and the Company issued a Form 8-K with the SEC on February 15, 2001 disclosing this investigation and its disposition with respect to the Company. The Company expects that costs will continue to be incurred by these individuals and that the Company will continue to be liable to reimburse such fees. The Company cannot estimate when these costs will cease or determine the amount of such future costs. The costs could be material and if so, could have adverse effects on the Company's ability to meet these or other obligations.

#### RESTRUCTURING AND OTHER COSTS

During June 2001, based on weakening economies, especially in the United States, the Company eliminated 45 positions in the United States and eliminated eight positions, wrote-off certain non-performing assets and recorded a charge for remaining leases in its foreign operations. The Company recorded a charge to operations in the second quarter totaling approximately \$1.1 million for these items, reflecting approximately \$0.6 million in termination costs of those personnel as well as \$0.5 million in asset and cumulative foreign currency translation adjustment write-offs and lease costs. The activity related to this restructuring is as follows:

19

(in thousands)	Employee Termination Costs	Asset and Cumulative Foreign Currency Translation Adjustment Write-offs	Lease Costs	Total Costs
Restructuring and other costs recorded in June 2001	\$ 600	\$ 300	\$ 200	\$ 1,100
Cash payments through June 2001	(200)	--	--	(200)
Write-off of assets	--	(300)	--	(300)
Restructuring liability at June 30, 2001	\$ 400	--	\$ 200	\$ 600

These actions taken by the Company will result in annual savings at approximately \$12.0 million. The Company will continue to review its operations throughout the remainder of the year, which may result in additional actions and charges during the last half of 2001.

#### OTHER INCOME (EXPENSE)

Other income (expense) net decreased to \$(153) and \$(347) for the three and six months ended June 30, 2001, respectively, from \$(74) and \$(134) for the three and six months ended June 30, 2000, respectively, primarily due to the equity in losses of joint ventures in the Company's South Africa operations. Interest expense is a result of the interest on a revolving line of credit and term loan (see Note 2 to the Consolidated Interim Financial Statements).

#### 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 six months ended June 30, 2001 the AXS-One Enterprise Solutions segment had license fee revenues of \$0.6 million and \$2.6 million, respectively, compared to \$1.4 million and \$2.9 million, respectively, for the comparable prior year period; services revenue of \$7.0 million and \$14.2

million, respectively, compared to \$8.6 million and \$16.7 million, respectively, for the comparable prior year period; and operating income (loss) of \$(1.0) million and \$0.3 million, respectively, compared to \$2.3 million and \$4.1 million, respectively, for the comparable prior year period. The decline in revenue and operating income (loss) is mainly a result of a decrease in license and services revenue as customers have delayed implementation and upgrade requests during the first half of the year due to the slow down in the economy and until the next version of the software is available at the end of the third quarter.

The AXSPoint Solutions segment had license fee revenues of \$0.2 million and \$0.5 million, respectively, for the three and six months ended June 30, 2001, compared to \$0.2 million and \$0.8 million, respectively for the comparable prior year period; services revenue of \$1.0 million and \$2.0 million, respectively, compared to \$0.9 million and \$1.6 million, respectively; and operating income (loss) of breakeven and \$0.1 million, respectively, as compared to breakeven and \$0.5 million, respectively. The decrease in license revenue and operating income for the six months ended June 30, 2001 is due to the slow down in the economy. The increase in services revenue is mainly attributable to an increase in maintenance fees from the installed base and an increase in consulting revenue in the foreign operations.

Tivity Solutions had license revenue of \$0.1 million and \$0.2 million, respectively, for the three and six months ended June 30, 2001, as compared to none for the comparable prior year periods; services revenue of \$0.7 million and \$1.8 million, respectively, as compared to \$1.2 million and \$2.1 million, respectively, and operating income (loss) of \$(0.5) million and \$(0.8) million, respectively, as compared to \$0.3 million for both prior periods. The decrease in services revenue and operating income (loss) for both periods is due to a decline in consulting services as projects that began in 2000 for two customers ended in early 2001. The increase in license revenue is due to the sale of the Team product by the United Kingdom operation.

20

#### LIQUIDITY AND CAPITAL RESOURCES

The net remaining available amount under the revolving line of credit at June 30, 2001 was approximately \$0.6 million. The available amount under all Term Loans at June 30, 2001 was approximately \$0.5 million. (See Note 2 to the Consolidated Interim Financial Statements).

The Company is required to comply with monthly 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 throughout 2001 will result in compliance under the Agreement, although there can be no assurances that such operating results will be achieved and that the Company will continue to be in compliance under the Agreement.

The Company's operating activities provided (used) cash of \$0.9 million and \$1.6 million for the six months ended June 30, 2000 and 2001, respectively. Net cash provided by operations during the six months ended June 30, 2000 was comprised primarily of depreciation and amortization and an increase in deferred revenue partially offset by a decrease in accounts payable and accrued expenses. Net cash used by operations during the six months ended June 30, 2001 was comprised primarily of the net loss offset by depreciation and amortization expense, a decrease in accounts receivable and an increase in deferred revenue and accounts payable and accrued expenses.

The Company's investing activities used cash of \$1.3 million and \$1.0 million for the six months ended June 30, 2000 and 2001, respectively. The principal uses during 2000 and 2001 were for equipment purchases and capitalized software development costs.

Cash provided by financing activities was \$1.4 million and \$1.2 million for the six months ended June 30, 2000 and 2001, respectively, and related mainly to proceeds from the issuance of debt in 2001 and repayments of debt in 2000 and 2001. In addition, the Company received \$1.9 million in proceeds from the exercise of stock options and warrants for the six months ended June 30, 2000.

The Company has no significant capital commitments. Planned capital expenditures for 2001 total approximately \$0.7 million of which \$0.5 million has been expended to date, exclusive of any software development costs that may qualify for capitalization under SFAS 86. The Company's aggregate minimum operating lease payments for 2001 will be approximately \$2.0 million. The Company has experienced recurring net losses of \$9.0 million, \$3.7 million and \$0.3 million during the years ended December 31, 1998, 1999 and 2000, respectively. Additionally, as a result of intense competition and rapid technological change, together with a slowing of the economy, the Company has also experienced declining license and service revenues. In response to these conditions, management restructured the Company in June 2001 to reduce future costs (see Note 5 to the Consolidated Interim Financial Statements) and is pursuing several initiatives intended to improve operating results and liquidity and better position the Company to compete under current market conditions. The Company expects that its operating cash flow and available financial resources will be sufficient to fund the Company's working capital requirements through 2001 and to repay its outstanding debt in accordance with the payment terms. However, the

Company's ability to achieve the anticipated results 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 or future accommodations from its existing lender. No assurance can be given that management's initiatives will be successful or that any such additional sources of financing or lender accommodations will be available.

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

21

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 variable rate debt obligation as of June 30, 2001. Fair value included herein has been estimated taking into consideration the nature and term of the debt instruments 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 June 30, 2001. Changes in the prime interest rate during fiscal 2001 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 \$17,000, based on the debt outstanding as of June 30, 2001. Further information specific to the Company's debt is presented in Note 2 to the Consolidated Interim Financial Statements.

DESCRIPTION	VARIABLE INTEREST RATE	(IN THOUSANDS)		YEAR OF MATURITY	
		ESTIMATED FAIR VALUE	CARRYING AMOUNT	2001	2002
A Term loan	8.25%	\$1,672	\$1,672	\$900	\$772

CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS AND FINANCIAL CONDITION AND THE MARKET PRICE OF SECURITIES

See the Company's 2000 Annual Report on Form 10K for a discussion of risk factors.

22

AXS-ONE INC.

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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Company's Annual Meeting of Stockholders on June 13, 2001, the Stockholders voted to approve an amendment to the Company's 1998 Stock Option Plan increasing the number of shares of Common Stock subject to options granted under such plan by 1,500,000 shares, for a total of 3,000,000 shares (22,089,970 votes for, 1,074,388 votes against, 16,167 votes abstained). Further, at the Annual Meeting of Stockholders held on June 13, 2001, the following directors were nominated and elected by the votes indicated:

	VOTES FOR -----	VOTES WITHHELD -----
Elias Typaldos	22,449,668	730,857
John A. Rade	22,469,355	771,170
Gennaro Vendome	22,491,971	688,554
Daniel H. Burch	22,726,271	454,254
Robert Migliorino	22,726,471	454,054
William E. Vogel	22,726,271	454,254
Edwin T. Brondo	22,601,171	579,354
Allan Weingarten	22,726,271	454,254

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Exhibits

Exhibit 1.1 Amendment No. 10 to the Loan and Security Agreement.

Reports on Form 8-K - No Reports on Form 8-K were filed by the Company during the quarter ended June 30, 2001.

23

AXS-ONE INC.

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: August 13, 2001

By: /s/ John A. Rade

-----  
John A. Rade  
Chief Executive Officer,  
President and Director

By: /s/ William G. Levering III

-----  
William G. Levering III  
Vice President, Chief Financial Officer,  
and Treasurer  
(Duly Authorized Officer and  
Principal Financial Officer)

24

</TEXT>  
</DOCUMENT>

AMENDMENT NO. 10 TO  
LOAN AND SECURITY AGREEMENT

AMENDMENT NO. 10, dated as of June 29, 2001, to the LOAN AND SECURITY AGREEMENT, dated as of March 31, 1998, (the "LOAN AND SECURITY AGREEMENT"), between FOOTHILL CAPITAL CORPORATION, a California corporation, with a place of business located at 2450 Colorado Avenue, Suite 3000W, Santa Monica, California 90404 ("FOOTHILL"), and AXS-ONE INC. (formerly known as COMPUTRON SOFTWARE, INC.), a Delaware corporation, with its chief executive offices located at 301 Route 17 North, Rutherford, New Jersey 07070 (the "BORROWER").

PREAMBLE

The Borrower has requested Foothill to amend the Loan and Security Agreement to (i) increase the amount of the Term Loan and (ii) revise the financial covenants. Accordingly, the Borrower and Foothill hereby agree as follows:

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

2. TERM LOAN. Section 2.3 of the Loan and Security Agreement is hereby amended in its entirety to read as follows:

"2.3 TERM LOAN. (a) On the Closing Date, Foothill made a term loan (the "Initial A Term Loan") to the Borrower in the original principal amount of \$5,000,000. On December 22, 1999, Foothill made available a second term loan (the "Additional A Term Loan" and together with the Initial A Term Loan, the "A Term Loan") to the Borrower in the original principal amount of \$1,300,000. The outstanding principal amount of the A Term Loan on June 28, 2001 is \$1,672,222. On December 22, 1999, Foothill made available a new term loan (the "Initial B Term Loan") to the Borrower in the original principal amount of \$750,000. On March 16, 2001, Foothill made available an additional term loan (the "Additional B Term Loan" and together with the Initial B Term Loan, the "B Term Loan"; the B Term Loan together with the A Term Loan each a "Term Loan" and collectively, the "Term Loans") to the Borrower in the original principal amount of up to \$2,000,000. \$1,875,000 is outstanding on the B Term Loan on June 28, 2001.

(b) On or after June 29, 2001 but before December 31, 2001, Foothill will make available an Additional B Term Loan in the original principal amount of up to \$500,000, provided that the financial covenants in Section 7.20 have been met and there is no Event of Default.

(c) Each B Term Loan shall be made upon the Borrower's request (pursuant to the terms of SECTION 2.9), at any time on or after June 29, 2001 but before December 31, 2001. The Additional B Term Loan will be made in not more than two borrowings. Each request for a borrowing under the Additional B Term

Loan must specify (i) the amount of the requested Additional B Term Loan, which must be in a minimum amount of \$250,000 and (ii) the requested funding date of the Term Loan.

(d) The aggregate outstanding principal amount of the Term Loans shall be repaid in monthly installments of \$150,000 over the remaining term of the Loan and Security Agreement. Each such installment shall be due and payable on the first day of each month commencing on July 1, 2001 and continuing on the first day of each succeeding month until and including the date on which the aggregate unpaid balance of the Term Loans are paid in full. The installments shall be applied first to the full repayment of the aggregate unpaid principal balance of the A Term Loan and then to the full repayment of the aggregate unpaid principal balance of the B Term Loan. The outstanding principal balance and all accrued and unpaid interest under the Term Loans shall be due and payable upon the termination of this Agreement, whether by its terms on March 31, 2004, by prepayment, by acceleration, or otherwise. Except upon the termination of this Agreement and as provided in paragraph (e) below, the unpaid principal balance of the Term Loans may not be prepaid in whole or in part. All amounts outstanding under the Term Loans shall constitute Obligations.

(e) Notwithstanding anything herein to the contrary, if the aggregate outstanding principal amount of the Term Loans exceeds the lesser of (i) (A) from and after June 29, 2001 until and including December 31, 2001, an amount equal to 45% of Eligible Recurring Maintenance Revenues at such time, (B) from and after January 1,

2002 until and including December 31, 2002, an amount equal to 40% of Eligible Recurring Maintenance Revenue at such time, and (C) from and after January 1, 2003 until and including March 31, 2004, an amount equal to 25% of Eligible Recurring Maintenance Revenue at such time and (ii) \$4,500,000, then the Borrower shall prepay the principal amount of the Term Loans in an amount sufficient to cause the aggregate principal amount of the Term Loans to be less than or equal to the relevant amounts set forth in clauses (i) and (ii) above. All such prepaid amounts shall be applied to the installments due on the Term Loan in the inverse order of their maturity; PROVIDED that (A) all such prepaid amounts shall be applied pro rata to the A Term Loan and to the B Term Loan and (B) if the aggregate principal amount of the Term Loan outstanding prior to giving effect to such prepayment is less than \$4,500,000 then such prepaid amounts shall be applied to the installments due on the Term Loan in the order of their maturity."

3. FEE. Section 2.11 of the Loan and Security Agreement is hereby amended by adding the following new paragraphs (h) and (i):

"(h) ADDITIONAL B TERM LOAN DRAWING FEE. On each drawing date on or after June 29, 2001, of the Additional B Term Loan, a fee in an amount equal to 2% of the amount drawn on such drawing date shall be charged to the Borrower.

2

(i) AMENDMENT FEE. An amendment fee in an amount equal to \$10,000 shall be charged to the Borrower upon execution of Amendment No. 10 to this Agreement."

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

"(a) EBITDA. Failure to maintain EBITDA of at least the following amounts, measured on a cumulative basis for the period from July 1, 2001 to each month end set forth below:

MONTH END -----	EBITDA -----
6/30/01	No Covenant
7/31/01	(\$352,937)
8/31/01	(\$614,776)
9/30/01	\$501,143
10/31/01	\$362,766
11/30/01	\$215,481
12/31/01	\$1,329,041

provided that, thereafter, upon receipt of the financial projections required to be delivered to Foothill pursuant to Section 6.3 (fourth paragraph) hereof for each fiscal year, the Borrower and Foothill shall negotiate in good faith to determine the minimum EBITDA as of the end of each month covered by such financial projections and, in the event that the Borrower and Foothill are unable to agree upon the amounts of such EBITDA, the cumulative EBITDA at the end of each month of the fiscal year covered by such financial projections for the rolling three-month period ending on the applicable month shall be equal to or greater than \$950,000.

(b) MINIMUM REVENUE. Failure to maintain minimum revenue of at least the following amounts, measured on a cumulative basis for the period from the beginning of the relevant calendar quarter to each month end set forth below:

MONTH END -----	MINIMUM REVENUE -----
6/30/01	No Covenant
7/31/01	\$2,512,565
8/31/01	\$5,075,345
9/30/01	\$9,173,137
10/31/01	\$2,680,620
11/30/01	\$5,354,786
12/31/01	\$9,507,524

3

provided that, thereafter, upon receipt of the financial projections

required to be delivered to Foothill pursuant to Section 6.3 (fourth paragraph) hereof for each fiscal year, the Borrower and Foothill shall negotiate in good faith to determine the minimum revenue as of the end of each month covered by such financial projections and, in the event that the Borrower and Foothill are unable to agree upon the amounts of such minimum revenue, the cumulative minimum revenue at the end of each month of the fiscal year covered by such financial projections for the rolling three-month period ending on the applicable month shall be equal to or greater than the applicable amount set forth below:

MONTH END -----	MINIMUM REVENUE -----
1/31/02	\$10,458,275
2/28/02	\$10,458,275
3/31/02	\$10,458,275
4/30/02	\$11,504,102
5/31/02	\$11,504,102
6/30/02	\$11,504,102
7/31/02	\$12,654,512
8/31/02	\$12,654,512
9/30/02	\$12,654,512
10/31/02	\$13,919,964
11/30/02	\$13,919,964
12/31/02	\$13,919,964

(c) The covenants set forth in Sections 7.20 (a) and (b) shall be measured monthly not later than thirty (30) days after the last day of the applicable month."

5. CONDITIONS PRECEDENT. This Amendment shall become effective (and the covenants set forth in Section 4 above will be applicable as of the date of this Amendment) only upon satisfaction in full of the following conditions precedent (the date upon which all such conditions have been satisfied being herein called the "Effective Date"):

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

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

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

4

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

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

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

(c) This Amendment and the Loan and Security Agreement, as amended hereby, constitute the legal, valid and binding obligations of the Borrower, enforceable against the Borrower in accordance with its terms, except as enforcement may be limited by equitable principles or by bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or limiting creditors' rights generally.

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

(e) The representations and warranties contained in Section 5

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

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

5

8. MISCELLANEOUS.

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

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

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

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

AXS-ONE INC.,  
a Delaware corporation

By: /s/ Michael R. Jorgensen

-----  
Name: Michael R. Jorgensen  
Title: Chief Administrative Officer,  
EVP

FOOTHILL CAPITAL CORPORATION,  
a California corporation

By: /s/ David J. Sanchez, Sr.

-----  
Name: David J. Sanchez, Sr.  
Title: Vice President

6

</TEXT>  
</DOCUMENT>