



FORM 10-Q

AXS ONE INC – AXO

Filed: November 10, 1998 (period: September 30, 1998)

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

Table of Contents

SIGNATURES

Part II

Item 1. Legal Proceedings

Item 6. Exhibits and Reports on Form 8-K

SIGNATURE

EX-10.29 (Material contracts)

EX-27

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarter ended September 30, 1998 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 NO

Number of shares outstanding of the issuer's common stock as of November 2, 1998

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

COMPUTRON SOFTWARE, INC.

INDEX

	Page Number -----
PART I	FINANCIAL INFORMATION
Item 1.	Financial Statements
	Consolidated Balance Sheets December 31, 1997 and September 30, 1998 3
	Consolidated Statements of Operations Three and nine months ended September 30, 1997 and 1998 4
	Consolidated Statements of Cash Flows Nine months ended September 30, 1997 and 1998 5
	Notes to Consolidated Interim Financial Statements .. 6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations 10
PART II	OTHER INFORMATION
Item 1.	Legal Proceedings 24
Item 6.	Exhibits and Reports on Form 8-K 24
SIGNATURES	
	Signatures 25

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

	December 31, 1997	September 30, 1998
	-----	-----
ASSETS		
Unaudited		
Current assets:		
Cash and cash equivalents	\$ 6,280	\$ 1,341
Short-term investments	193	--
Restricted cash	6,124	5,449
Accounts receivables, less reserves of \$3,056 at December 31, 1997 and \$2,516 at September 30, 1998	11,420	12,773
Prepaid expenses and other current assets	3,230	3,320
	-----	-----
Total current assets	27,247	22,883
	-----	-----
Equipment and leasehold improvements, at cost:		
Computer and office equipment	11,844	12,870
Furniture and fixtures	1,298	1,502
Leasehold improvements	592	972
	-----	-----
	13,734	15,344
Less--accumulated depreciation and amortization	9,670	11,513
	-----	-----
	4,064	3,831
	-----	-----
Capitalized software development costs, net of accumulated amortization of \$3,734 at December 31, 1997 and \$4,264 at September 30, 1998	1,429	899
Goodwill, net of accumulated amortization of \$1,072 at December 31, 1997 and \$1,456 at September 30, 1998	1,732	1,432
Other assets	1,126	784
	-----	-----
	\$ 35,598	\$ 29,829
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Current portion of long-term debt and capital leases	\$ 71	\$ 1,680
Accounts payable	4,375	4,683
Accrued expenses	10,956	10,081
Deferred revenue	9,078	9,150
	-----	-----
Total current liabilities	24,480	25,594
	-----	-----
Long-term liabilities:		
Long-term debt and capital leases, less current portion	23	2,656
	-----	-----
Common stock subject to repurchase	5,000	5,000
	-----	-----
Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred stock, \$.01 par value, authorized 5,000 shares, no shares issued and outstanding	--	--
Common stock, \$.01 par value, authorized 50,000 shares; 23,777 shares and 23,794 shares issued and outstanding at December 31, 1997 and September 30, 1998, respectively	238	238
Additional paid-in capital	69,373	69,396
Accumulated deficit	(63,016)	(72,402)
Cumulative translation adjustment	(500)	(653)
	-----	-----
Total stockholders' equity (deficit)	6,095	(3,421)
	-----	-----
	\$ 35,598	\$ 29,829
	=====	=====

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 September 30,		Nine Months Ended September 30,	
	1997	1998	1997	1998
Revenues:				
License fees	\$ 3,763	\$ 3,233	\$ 14,275	\$ 10,612
Services	12,336	12,922	35,421	35,386
	16,099	16,155	49,696	45,998
Operating expenses:				
Cost of license fees	534	705	1,421	2,515
Cost of services	7,085	6,695	20,518	20,957
Sales and marketing	3,085	2,959	11,466	11,318
Research and development	2,573	2,205	7,369	7,216
General and administrative	4,005	3,446	11,798	12,014
Restructuring costs	--	--	--	1,311
	17,282	16,010	52,572	55,331
Operating income (loss)	(1,183)	145	(2,876)	(9,333)
Other income (expense):				
Costs related to class action litigation	(6,912)	--	(9,185)	(40)
Other income	166	109	714	372
Other expense	(18)	(202)	(82)	(385)
	(6,764)	(93)	(8,553)	(53)
Net income (loss)	\$ (7,947)	\$ 52	\$ (11,429)	\$ (9,386)
	=====	=====	=====	=====
Basic and diluted income (loss) per common share	\$ (0.38)	\$ --	\$ (0.55)	\$ (0.39)
	=====	=====	=====	=====
Weighted average basic and diluted common shares outstanding	20,819	23,791	20,822	23,788
	=====	=====	=====	=====

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

COMPUTRON SOFTWARE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30, 1997	Nine Months Ended September 30, 1998
Cash flows from operating activities:		
Net loss	\$ (11,429)	\$ (9,386)
Adjustments to reconcile net loss to net cash flows used in operating activities -		
Proposed non-cash class action litigation cost	5,000	--
Depreciation and amortization	2,422	2,768
Provision for doubtful accounts	300	--
Loss on sale of equipment and leasehold improvements	27	--
Changes in current assets and liabilities		
Restricted cash	1,939	675
Accounts receivable	9,372	(1,320)
Prepaid expenses and other current assets	(324)	(37)
Accounts payable and accrued expenses	(3,694)	(785)
Deferred revenue	(7,406)	88
	(3,793)	(7,997)
Net cash flows used in operating activities		
Cash flows from investing activities:		
Other assets	143	376
Purchase of equipment and leasehold improvements	(1,248)	(1,610)
Proceeds from sale of equipment and leasehold improvements	75	--
Short-term investments	596	193
	(434)	(1,041)
Net cash flows used in investing activities		
Cash flows from financing activities:		
Proceeds from exercise of stock options	15	23
Proceeds from long term debt	--	5,000
Repayment of notes payable	(1,402)	--
Payments of long term debt and capital lease obligations	(518)	(753)
Decrease in liabilities related to acquisitions	(1,304)	--
	(3,209)	4,270
Net cash flows provided by (used in) financing activities		
Foreign currency exchange rate effects	(41)	(171)
Net decrease in cash and cash equivalents	(7,477)	(4,939)
Cash and cash equivalents, beginning of period	19,730	6,280
Cash and cash equivalents, end of period	\$ 12,253	\$ 1,341
	=====	=====
Supplemental disclosures of cash flow information and noncash financing activities:		
Cash paid during the period for -		
Interest	\$ 27	\$ 262
	=====	=====
Income taxes	\$ 37	\$ 40
	=====	=====

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

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

(1) OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation:

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

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

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

(a) Revenue Recognition

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

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

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

(b) Cash and Cash Equivalents

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

(c) Reclassification

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

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

On March 31, 1998, the Company entered into a Loan and Security Agreement ("Agreement") which provides for maximum borrowings of up to \$10 million. Upon signing, the Company borrowed \$5 million pursuant to a three year term loan. The term loan bears interest at prime plus 1.5%, and is repayable in 36 monthly installments beginning May 1, 1998. The Company currently has available the lesser of \$5 million or 85% of eligible receivables under a revolving line of credit pursuant to the Agreement. Such available amount is reduced further by a \$600 letter of credit outstanding at September 30, 1998. The net available amount under the revolving line of credit at September 30, 1998 is approximately \$2.3 million.

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

(3) CONTINGENCIES

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

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

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

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

The exercise period during which class members may resell these shares to the trust will be December 1, 1998 to December 21, 1998. The resale right will expire at the end of the exercise period, or earlier as to any shares issued in the settlement that are sold by class members prior to the final day of the exercise period. The resale right will also expire earlier than the exercise period if the closing price of the Company's Common Stock is higher than \$5.00 per share for 20 consecutive trading days. The Company recorded a charge to operations of \$9,185 during the nine months ended September 30, 1997 which includes \$6 million for the Company's share of the settlement costs and \$3,185 of legal costs related to the class action litigation.

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

(4) Comprehensive Income (Loss)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1997	1998	1997	1998
	-----	-----	-----	-----
Net Income (loss)	\$ (7,947)	\$ 52	\$(11,429)	\$ (9,386)
Cumulative translation adjustment	(377)	(67)	(467)	(153)
	-----	-----	-----	-----
Comprehensive loss	\$ (8,324)	\$ (15)	\$(11,896)	\$ (9,539)
	=====	=====	=====	=====

(5) Basic and Diluted Net Loss Per Common Share

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

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

Basic income (loss) per common share is based on the weighted average number of shares of common stock outstanding during the period. Diluted income (loss) per common share is the same as basic income (loss) per common share since the effect of stock options, warrants, and contingently issuable shares in connection with the December 1997 private placement of common stock is antidilutive for all periods presented except for the three months ended September 30, 1998, which effect is immaterial.

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

Overview

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

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

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

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

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

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

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

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

The Company incurred net losses of \$8.6 million for 1995, \$31.8 million for 1996, and \$13.6 million for 1997, and reported a net loss of \$9.4 million for the nine months ended September 30, 1998. As of September 30, 1998, the Company had an accumulated deficit of \$72.4 million. There can be no assurance that the Company will be profitable in the future.

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

On January 1, 1999, certain countries of the European Union are scheduled to establish fixed conversion rates between their existing currencies and one common currency, the euro. The euro will then trade on currency exchanges and may be used in business transactions. Beginning in January 2002, new euro-denominated currencies will be issued and the existing local currencies will be withdrawn from circulation by July 1, 2002. The Company is in the process of arranging euro bank accounts for the conversion to the euro currency, and is evaluating other systems and business issues raised by the euro conversion. These issues include the need to adapt computer and other business systems and equipment and the long-term competitive implications of conversion. During the nine months ended September 30, 1998, the Company derived approximately 46.2% of its total revenues outside the United States, a significant portion of which is in Europe. The Company has not completed its assessment of the potential impact of the euro conversion. However, at present the Company believes the euro conversion will not have a material effect on the Company's consolidated financial position or results of operations.

Year 2000 Compliance

The efficient operation of the Company's business is dependent in part on its information technology ("IT") systems (which includes computer software programs and operating systems) and its non-IT systems (process control and other systems which include embedded technologies), collectively the "Internal Programs and Systems." The Company has been evaluating its Internal Programs and Systems to identify potential Year 2000 compliance problems, and has primarily conducted these evaluations and assessments using the Company's information technology personnel (Phase 1). These actions are necessary to ensure that the Internal Programs and Systems will be year 2000 compliant.

It is anticipated that modification or replacement of some of the Internal Programs and Systems may be necessary to make such Programs and Systems Year 2000 compliant (Phase 2). The Company is also communicating with its suppliers domestically and abroad and others to coordinate Year 2000 conversion. Based on present information, the Company believes that it will be able to achieve such Year 2000 compliance through a combination of modification of some existing Internal Programs and Systems and the replacement of other Internal Programs and Systems with new programs and systems that are already Year 2000 compliant by June 30, 1999. However, there can be no assurance that these efforts will be successful or that the systems of other companies on which the Company's business relies will be timely converted.

To date, costs incurred in evaluating its Internal Programs and Systems have not been material, and anticipated costs necessary to complete such evaluations, modifications and /or replacements are not expected to be material.

The Company has not, to date, developed a Year 2000 contingency plan but plans to commence development of such a plan in the first quarter of 1999.

With respect to software programs which the Company licenses externally to customers (collectively, the "External Programs"), the Company's most recent External Programs have been Year 2000 certified. The Company has notified its customer base that the older versions of the External Programs may not be Year 2000 compliant, and the Company encouraged these customers to upgrade to its most recent version of the External Programs. Costs incurred to date to evaluate and identify potential Year 2000 compliance problems contained in the Company's External Programs have not been material, and the Company expects that future expenses and capital expenditures associated with achieving Year 2000 compliance will not have a material effect on the consolidated financial results in 1999 and 2000.

Results of Operations

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

	Three Months Ended September 30		Nine Months Ended September 30	
	1997	1998	1997	1998
Revenues				
License fees	23.4%	20.0%	28.7%	23.1%
Services	76.6	80.0	71.3	76.9
Total Revenues	100.0	100.0	100.0	100.0
Operating Expenses:				
Cost of license fees	3.3	4.4	2.9	5.5
Cost of services	44.0	41.4	41.3	45.5
Sales and marketing	19.2	18.3	23.1	24.6
Research and development	16.0	13.7	14.8	15.7
General and administrative	24.9	21.3	23.7	26.1

Restructuring costs	--	--	--	2.9
	-----	-----	-----	-----
Total operating expenses	107.4	99.1	105.8	120.3
	-----	-----	-----	-----
Operating income (loss)	(7.4)	0.9	(5.8)	(20.3)
Other income (expenses):				
Costs related to class action litigation	(42.9)	--	(18.5)	(0.1)
Other income	1.0	0.7	1.4	0.8
Other expense	(0.1)	(1.3)	(0.1)	(0.8)
	-----	-----	-----	-----
Total other expense, net	(42.0)	(0.6)	(17.2)	(0.1)
	-----	-----	-----	-----
Net income (loss)	(49.4)%	0.3 %	(23.0)%	(20.4)%
	=====	=====	=====	=====

Total Revenues

Total revenues increased 0.3% for the three months ended September 30, 1998, and decreased 7.4% for the nine months ended September 30, 1998 compared to the corresponding prior year periods. The decrease for the nine month period was primarily attributable to a decrease in license fees offset by an increase in services revenue.

The Company derived approximately \$6.8 million and \$21.2 million, or 42.0% and 46.2% of its total revenues, from customers outside of the United States for the three and nine months ended September 30, 1998, respectively, compared to \$6.7 million and \$21.9 million, or 41.4% and 44.1%, respectively, for the corresponding prior year periods. The Company expects that revenues from customers outside the United States will continue to represent a significant percentage of its total revenues in the future. Most of the Company's international license fees and services revenue are denominated in foreign currencies. With respect to the Company's sales that are US dollar-denominated, decreases in the value of foreign currencies relative to the US dollar could make the Company's products less price competitive.

License Fees

License fees include revenues from software license agreements entered into between the Company and its customers with respect to both the Company's products and third party products resold by the Company. License fees decreased 14.1% and 25.7% for the three and nine months ended September 30, 1998, respectively, as compared to the prior year periods. The decreases for the three and nine month periods were attributed to two significant license contracts from two separate customers in 1997, which represented 35.9% and 24.5% of total license revenues during the three and nine months ended September 30, 1997, respectively. Two separate customers accounted for 21.3% of total license revenues for the three months ended September 30, 1998. No customer accounted for greater than 10% of total license revenues for the nine months ended September 30, 1998.

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 4.7% or \$0.6 million and remained flat for the three and nine months ended September 30, 1998, respectively compared to the corresponding 1997 periods. The increase is due to higher demand for implementation

services for the Company's core product offset by declines in legacy product service revenues in the Company's France operations, as compared to the corresponding previous periods.

Cost of License Fees

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

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

Cost of Services

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

For the nine months ended September 30, 1998 there was no significant change in cost of services as a percentage of services revenue compared to the nine months ended September 30, 1997. Cost of services for the three months ended September 30, 1998 decreased as a percentage of services revenue compared to the prior period due primarily to 1) an increase in the utilization rate of the Company's internal consultants as demand for services increased and 2) a decrease in low margin outsourcing revenue as a percentage of total service revenue.

Sales and Marketing

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

Sales and marketing expenses decreased for the three and nine months ended September 30, 1998 as compared to the prior year periods, primarily due to decreased marketing program costs and personnel costs.

Research and Development

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

Research and development expenses decreased 14.3% and 2.1%, respectively during the three and nine months ended September 30, 1998, as compared to the prior year periods primarily as a result of utilizing fewer third party consultants. In addition, the Company's personnel costs have

increased for its financial, workflow and COOL products offset by reductions in personnel costs for its Yorvik product. The Company has not capitalized software development costs in either 1997 or 1998. The rate of capitalization of software development costs may fluctuate depending on the mix and stage of development of the Company's product development and engineering projects.

General and Administrative

General and administrative expenses consist primarily of administrative, executive and financial personnel costs, and outside professional fees. General and administrative expenses decreased 14.0% for the three months ended September 30, 1998, and increased 1.8% for the nine months ended September 30, 1998, as compared to prior year periods, primarily due to cost containment measures begun in May 1998, and decreases in bad debt expense, depreciation and insurance offset by increases in rent and payroll related costs attributed to an increase in finance and general management personnel, as part of a plan to increase financial and management controls throughout the Company.

Restructuring Costs

During the nine months ended September 30, 1998, the Company committed itself to a plan whereby it eliminated 32 positions in the United States rendered redundant through a reengineering process, and eliminated 20 positions outside the United States servicing legacy products. Accordingly, the Company recorded a charge to operations in the second quarter totaling approximately \$1.3 million, reflecting the termination costs of those personnel. As of September 30, 1998, the Company has \$0.6 million included in accrued expenses related to such terminations.

Other Income (Expense)

Other income (expense) net increased to (\$93) thousand and \$(53) thousand for the three and nine months ended September 30, 1998, respectively, compared to (\$6.8) million and (\$8.6) million for the comparable prior year periods primarily due to the settlement of the class action litigation in 1997 (Note 3), offset by interest expense on Company borrowings and lower invested balances of cash, cash equivalents and short term investments in 1998.

Liquidity and Capital Resources

At September 30, 1998, the Company had cash, cash equivalents and restricted cash of \$6.8 million and a working capital deficit of \$2.7 million. On March 31, 1998, the Company signed a \$10 million credit facility pursuant to which it borrowed \$5 million under a three year term loan (Note 2). Borrowings under the Agreement are secured by substantially all domestic assets of the Company including a pledge of 65% of the stock of the Company's foreign subsidiaries. The Company is required to comply with quarterly and annual financial statement reporting requirements, as well as certain financial covenants, which were amended as of September 30, 1998. The ability to continue to borrow under the Agreement is dependent upon future compliance with such covenants. Management believes that the Company's projected operating results over the next twelve months will result in compliance under the Agreement, although there can be no assurance that such operating results will be achieved.

The Company's operating activities used cash of \$3.8 million and \$8.0 million for the nine months ended September 30, 1997 and 1998, respectively. Net cash used by operations in the nine months ended September 30, 1998 was comprised primarily of the net loss and an increase in accounts receivable and a decrease in accounts payable and accrued expenses offset by depreciation and amortization, and a decrease in restricted cash. Net cash used in operations during the nine months ended September 30, 1997 was comprised of the net loss and decreases in accounts payable and accrued expenses and deferred revenue offset by depreciation and amortization expense, decreases in accounts receivable and restricted cash, and the proposed non-cash class action litigation costs.

The Company's investing activities used cash of \$0.4 million and \$1.0 million for the nine months ended September 30, 1997 and 1998, respectively. The principal uses during 1998 have been leasehold improvements and equipment purchases.

Cash provided (used) by financing activities was (\$3.2) million and \$4.3 million during the nine months ended September 30, 1997 and 1998, respectively and related mainly to the issuance of long-term debt in 1998 and repayment of debt in 1997.

During the nine months ended September 30, 1998, the Company executed a cost reduction plan which included eliminating 32 positions in the United States rendered redundant through a reengineering process, as well as eliminating 20 positions servicing legacy products outside the United States; bringing previously outsourced training and documentation activities back in-house; and refocusing its sales and marketing efforts on those industries where management believes it maintains a competitive advantage. Management believes that the result of these actions in addition to the seasonality of the Company's business, reduction in expenses going forward are expected to follow the results achieved in the third quarter of 1998

The Company has no significant capital commitments. The Company's aggregate minimum operating lease payments for the remainder of 1998 and 1999 are expected to be approximately \$2.8 million. During December 1998, the Company expects to utilize \$5.0 million of its restricted cash to fund the common stock subject to repurchase. The Company expects that its operating cash flow will be sufficient to fund the Company's working capital requirements through 1999. However, the Company's ability to achieve this result is affected by the extent of cash generated from operations and the pace at which the Company utilizes its available resources. Accordingly, the Company may in the future be required to seek additional sources of financing including the issuance of debt and/or sale of equity securities. No assurance can be given that any such additional sources of financing or guarantees will be available on acceptable terms or at all.

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

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

History of Operating and Net Losses

The Company generated a net loss of \$31.8 million for 1996, \$13.6 million for 1997 and reported a net loss for the nine months ended September 30, 1998 of \$9.4 million. The Company also incurred a net loss for each of the five years in the period ended December 31, 1995. As of September 30, 1998, the Company had an accumulated deficit of \$72.4 million. There can be no assurance that the Company will be profitable in the future.

Potential for Significant Fluctuations in Quarterly Operating Results; Seasonality

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

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

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

Litigation

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

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

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

Management Changes

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

Intense Competition

The financial applications and business software market is intensely competitive and rapidly changing. A number of companies offer products similar to the Company's products and target the same customers as the Company. The Company believes its ability to compete depends upon many factors within and outside its control, including the timing and market acceptance of new products and enhancements developed by the Company and its competitors, product functionality, performance, price, reliability, customer service and support, sales and marketing efforts and product distribution. The primary competition for Computron Financials is the financial applications software offered by Oracle Corporation, PeopleSoft, Inc. and SAP AG. The principal competitors for the Company's Computron Workflow and Computron COOL(TM) software are Eastman Kodak Company ("Kodak"), which acquired the software division of Wang Laboratories, Inc. ("Wang"), and FileNet Corporation. The principal competitors for the Company's Computron Yorvik(TM) software are Project Software Development, Inc. (PSDI), Indus International, Inc. (Indus) and others. The Company has an agreement with Kodak pursuant to which Kodak has the right to license Computron COOL software to third parties under its own private label and modify such software. Most of the Company's competitors are substantially larger than the Company and have significantly greater financial, technical, and marketing resources, and extensive direct and indirect channels of distribution. As a result, they may be able to respond more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the development, promotion and sale of their

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

Dependence on Principal Products

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

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

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

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

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

Dependence on Proprietary Rights; Risks of Infringement

The Company's success is heavily dependent upon its proprietary technology. The Company regards its software as proprietary, and relies primarily on a combination of contractual provisions and trade secrets, copyright and trademark law to protect its proprietary rights. The Company has no patents or patent applications pending, and existing trade secrets and copyright laws afford only limited protection. Despite the Company's efforts to protect its proprietary rights, unauthorized parties may attempt to copy aspects of the Company's products or to obtain and use information that the Company regards as proprietary. Policing unauthorized use of the Company's products is difficult, and while the Company is unable to determine the extent to which piracy of its software products exists, software piracy can be expected to be a persistent problem. The Company makes source code available to certain of its customers which may increase the likelihood of misappropriation or other misuse of the Company's software. In addition, the laws of some foreign countries do not protect the Company's proprietary rights to the same extent as do the laws of the United States. There can be no assurance that the steps taken by the Company to protect its proprietary rights will be adequate or that the Company's

competitors will not independently develop technologies that are substantially equivalent or superior to the Company's technologies.

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

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

Security Risks

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

Risks Associated with International Operations

The Company derived approximately \$14.2 million, \$21.3 million and \$29.4 million or 26.9%, 39.2% and 43.4% of its total revenues, from customers outside of the United States in 1995, 1996, and 1997, respectively. The Company derived approximately \$21.9 million and \$21.2 million or 44.1% and 46.2% of its total revenues from customers outside the United States for the nine months ended September 30, 1997 and 1998, respectively. The Company expects that such revenues will continue to represent a significant percentage of its total revenues in the future. The Company believes that its continued growth and profitability will require expansion of its sales in international markets. There can be no assurance, however, that the Company will be able to maintain or increase international market demand for its products and services. Most of the Company's international license fees and services revenue are denominated in foreign currencies. The Company does not currently hedge its foreign exchange exposure. With respect

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

Reliance on Certain Relationships

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

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

Control by Existing Stockholders

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

Reliance on Key Personnel

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

Possible Volatility of Stock Price

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

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

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

Part II
Other Information

Item 1. Legal Proceedings

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

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

Class members will receive a non-transferable right to resell the stock received in the settlement to a business trust formed by the Company at a price of \$5.00 per share. The trust was capitalized by a contribution of \$5 million by the Company in March of 1998, which will be used to pay the claims of any class members who receive stock in the settlement and exercise their right to resell such stock to the trust according to the terms of the Stipulation of Settlement. The exercise period during which class members may resell these shares to the trust will be December 1, 1998 to December 21, 1998. The resale right will expire at the end of the exercise period, or earlier, as to any shares issued in the settlement that are sold by class members prior to the final day of the exercise period. The resale right will also expire earlier than the exercise period if the closing price of Computron's Common Stock is higher than \$5.00 per share for 20 consecutive trading days. The Company recorded a charge to operations of \$6 million during the quarter ended September 30, 1997, reflecting the Company's share of the settlement costs, excluding legal fees.

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

Item 6. Exhibits and Reports on Form 8-K

- a) Exhibits
 - Exhibit 10.29 - Amendment Number 2 to the Loan and Security Agreement with Foothill Capital Corporation.
 - Exhibit 27 - Financial Data Schedule (Edgar filing only).
- b) Reports on Form 8-K - None

COMPUTRON SOFTWARE, INC.

SIGNATURE

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

COMPUTRON SOFTWARE, INC.

Date: November 10, 1998

By: /s/ Michael R. Jorgensen

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

</TEXT>

</DOCUMENT>

AMENDMENT NO. 2 TO
LOAN AND SECURITY AGREEMENT

AMENDMENT NO. 2, dated as of September 30, 1998, to the LOAN AND SECURITY AGREEMENT, DATED AS OF March 31, 1998 (the "Loan and Security Agreement") between FOOTHILL CAPITAL CORPORATION, a California corporation, with a place of business located at 11111 Santa Monica Boulevard, Suite 1500, Los Angeles, California 90025-3333 ("Foothill"), and COMPUTRON SOFTWARE, INC., a Delaware corporation, with its chief executive offices located at 301 Route 17 North, Rutherford, New Jersey 07070 (the "Borrower")

Presemble

The Borrower has requested Foothill to amend the Loan and Security Agreement to change the amount set forth in the Loan and Security Agreement as a limitation on loans and advances permitted to be made by Borrower to its wholly-owned Subsidiaries. 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. Investments. Section 7.13 of the Loan and Security Agreement is hereby amended to change the amount of \$3,000,000 set forth in the tenth line of such Section to \$4,250,000.

3. Conditions. This Amendment shall become effective (and the covenants set forth in Section 2 above 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 in Section 5 of the Loan and Security Agreement and each other Loan Document shall be correct on and as of the Effective Date as though made on and as 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 (assuming Section 7.13 is amended as set forth above) and be continuing on the Effective Date or result from this Amendment becoming effective in accordance with its terms.

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

(c) The Borrower shall have provided to Foothill projections with respect to the anticipated amount of the Borrowing Base (as defined in Section 2.1(a) of the Loan and Security Agreement) for the next 90 days, in form and substance reasonably acceptable to Foothill.

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

4. Representations and Warranties. The Borrower hereby represents and warrants to Foothill me follows:

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

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

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

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

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

5. Continued Effectiveness of the Loan and Security Agreement and Loan Documents. The Borrower hereby (i) confirms and agrees that each Loan Document to which it

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

6. Miscellaneous.

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

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

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

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

COMPUTRON SOFTWARE, INC.,
a Delaware corporation

By: /s/ Michael Jorgensen

Name: Michael Jorgensen
Title: CFO

FOOTHILL CAPITAL CORPORATION,
a California corporation

By: /s/ Erik R. Sawyer

Name: Erik R. Sawyer
Title: Assistant Vice President

<ARTICLE>	5	
<MULTIPLIER>	1,000	
<PERIOD-TYPE>	9-MOS	
<FISCAL-YEAR-END>		DEC-31-1998
<PERIOD-START>		JAN-01-1998
<PERIOD-END>		SEP-30-1998
<CASH>		6,790
<SECURITIES>		0
<RECEIVABLES>		15,289
<ALLOWANCES>		2,516
<INVENTORY>		0
<CURRENT-ASSETS>		22,883
<PP	15,344	
<DEPRECIATION>		11,513
<TOTAL-ASSETS>		29,829
<CURRENT-LIABILITIES>		25,594
<BONDS>		0
<PREFERRED-MANDATORY>		0
<PREFERRED>		0
<COMMON>		69,634
<OTHER-SE>		73,055
<TOTAL-LIABILITY-AND-EQUITY>		29,829
<SALES>		10,612
<TOTAL-REVENUES>		45,998
<CGS>		2,515
<TOTAL-COSTS>		32,275
<OTHER-EXPENSES>		20,541
<LOSS-PROVISION>		0
<INTEREST-EXPENSE>		307
<INCOME-PRETAX>		(9,386)
<INCOME-TAX>		0
<INCOME-CONTINUING>		(9,386)
<DISCONTINUED>		0
<EXTRAORDINARY>		0
<CHANGES>		0
<NET-INCOME>		(9,386)
<EPS-PRIMARY>		(0.39)
<EPS-DILUTED>		(0.39)

</TEXT>
</DOCUMENT>