

SYSTEMS & COMPUTER TECHNOLOGY CORP

Form 10-Q

May 10, 2001

SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

Form 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2001 or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_.

0-11521

-----  
(Commission File Number)

SYSTEMS & COMPUTER TECHNOLOGY CORPORATION

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

Delaware

-----  
(State or other jurisdiction  
of incorporation)

23-1701520

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

Great Valley Corporate Center  
4 Country View Road  
Malvern, Pennsylvania 19355

-----  
(Address of principal executive offices)

Registrant's telephone number, including area code: (610) 647-5930  
-----

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

32,862,342 Common shares, \$.01 par value, as of May 03, 2001

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SYSTEMS & COMPUTER TECHNOLOGY CORPORATION AND SUBSIDIARIES

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SYSTEMS & COMPUTER TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)

March 31, 2001 (UNAUDITED)	September 30, 2000 (NOTE)
----------------------------------	---------------------------------

ASSETS

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CURRENT ASSETS		
Cash and cash equivalents	\$ 64,183	\$ 49,161
Short-term investments, including accrued interest of \$0 and \$206	10,158	16,787
Receivables, including \$58,146 and \$64,075 of earned revenues in excess of billings, net of allowance for doubtful accounts of \$5,871 and \$5,677	126,918	138,965
Prepaid expenses and other receivables	32,026	25,586
	-----	-----
TOTAL CURRENT ASSETS	233,285	230,499
PROPERTY AND EQUIPMENT--at cost, net of accumulated depreciation		
	60,849	63,335
CAPITALIZED COMPUTER SOFTWARE COSTS, net of accumulated amortization		
	16,679	19,310
COST IN EXCESS OF FAIR VALUE OF NET ASSETS ACQUIRED, net of accumulated amortization		
	14,956	15,738
OTHER ASSETS AND DEFERRED CHARGES		
	34,772	39,241
	-----	-----
TOTAL ASSETS	\$360,541	\$368,123
	=====	=====

Note: The condensed consolidated balance sheet at September 30, 2000 has been derived from the audited financial statements at that date.

See notes to condensed consolidated financial statements.

SYSTEMS & COMPUTER TECHNOLOGY CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS (continued)  
(in thousands, except per share amounts)

	March 31, 2001 (UNAUDITED)	September 30, 2000 (NOTE)
LIABILITIES & STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 10,950	\$ 10,639
Current portion of long-term debt	1,244	712
Income taxes payable	109	1,793
Accrued expenses	40,714	41,105
Deferred revenue	33,993	32,886
	-----	-----
TOTAL CURRENT LIABILITIES	87,010	87,135
LONG-TERM DEBT, less current portion		
	77,113	77,521
OTHER LONG-TERM LIABILITIES	2,066	2,030
STOCKHOLDERS' EQUITY		

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Preferred stock, par value \$.10 per share--authorized 3,000 shares, none issued	--	--
Common stock, par value \$.01 per share--authorized 100,000 shares, issued 37,515 and 37,264 shares	375	372
Capital in excess of par value	117,361	115,247
Retained earnings	102,666	111,879
Accumulated other comprehensive loss	(491)	(540)
	-----	-----
	219,911	226,958
Less		
Held in treasury, 4,653 and 4,642 common shares--at cost	(25,059)	(24,911)
Notes receivable from stockholders	(500)	(610)
	-----	-----
	194,352	201,437
	-----	-----
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$360,541	\$368,123
	=====	=====

Note: The condensed consolidated balance sheet at September 30, 2000 has been derived from the audited financial statements at that date.

See notes to condensed consolidated financial statements.

SYSTEMS & COMPUTER TECHNOLOGY CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)  
 (in thousands, except per share amounts)

	For the Three Months Ended March 31,	
	2001	2000
Revenues:		
Outsourcing services	\$ 32,001	\$ 33,309
Software sales	7,174	19,297
Maintenance and enhancements	25,973	23,681
Software services	37,242	37,704
Interest and other income	1,339	279
	-----	-----
	103,729	114,270
Expenses:		
Cost of outsourcing services	27,141	28,992
Cost of software sales and maintenance and enhancements	23,249	22,812
Cost of software services	25,290	24,166
Selling, general and administrative	33,344	28,810
Asset impairment charge	11,585	--
Equity in losses of affiliates	--	2,220
Interest expense	1,207	1,136
	-----	-----
	121,816	108,136
Income (loss) before income taxes	(18,087)	6,134

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Provision (benefit) for income taxes	(6,873)	2,515
	-----	-----
Net income (loss)	\$ (11,214)	\$ 3,619
	=====	=====
Net income (loss) per common share	\$ (0.34)	\$ 0.11
Net income (loss) per share - assuming dilution	\$ (0.34)	\$ 0.11
Common shares and equivalents outstanding:		
Average common shares	32,811	32,324
Average common shares - assuming dilution	32,811	33,847

See notes to condensed consolidated financial statements.

SYSTEMS & COMPUTER TECHNOLOGY CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)  
(in thousands, except per share amounts)

	For the Six Months Ended March 31,	
	2001	2000
Revenues:		
Outsourcing services	\$ 62,699	\$ 65,451
Software sales	23,303	24,223
Maintenance and enhancements	50,412	45,001
Software services	71,384	75,690
Interest and other income	2,958	584
	-----	-----
	210,756	210,949
Expenses:		
Cost of outsourcing services	52,260	54,986
Cost of software sales and maintenance and enhancements	44,247	42,661
Cost of software services	50,007	52,372
Selling, general and administrative	64,987	56,595
Asset impairment charge	11,585	--
Equity in losses of affiliates	--	4,761
Restructuring charges	--	1,000
Interest expense	2,421	2,292
	-----	-----
	225,507	214,667
Loss before income taxes	(14,751)	(3,718)
Benefit for income taxes	(5,538)	(1,130)
	-----	-----
Net loss	\$ (9,213)	\$ (2,588)
	=====	=====
Net loss per common share	\$ (0.28)	\$ (0.08)
Net loss per share - assuming dilution	\$ (0.28)	\$ (0.08)

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Common shares and equivalents outstanding:		
Average common shares	32,771	32,230
Average common shares - assuming dilution	32,771	32,230

See notes to condensed consolidated financial statements.

SYSTEMS & COMPUTER TECHNOLOGY CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)  
 (in thousands)

	For the Six Months Ended March 31,	
	2001	2000
<b>OPERATING ACTIVITIES</b>		
Net loss	\$ (9,213)	\$ (2,588)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Asset impairment charge	11,585	--
Depreciation and amortization	13,902	13,369
Provision for doubtful accounts	1,401	1,307
Deferred tax benefit	(3,780)	(120)
Equity in losses of affiliate	--	4,761
Changes in operating assets and liabilities:		
(Increase) decrease in receivables	11,240	(3,376)
Increase in other current assets principally prepaid expenses	(8,273)	(7,205)
(Increase) decrease in accounts payable	311	(4,547)
Decrease in income taxes payable	(1,684)	(1,541)
Increase in deferred revenue	348	1,059
Other, net	(1,008)	920
	14,829	2,039
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(4,695)	(3,028)
Capitalized computer software costs	(471)	(2,557)
Purchase of investments available for sale	(9,100)	(4,254)
Proceeds from sale or maturity of investments available for sale	15,907	4,106
Purchase of subsidiary assets, net of cash acquired	(3,004)	--
	(1,363)	(5,733)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		
<b>FINANCING ACTIVITIES</b>		
Repayment of borrowings	(348)	(17,118)
Proceeds from borrowings, net of issuance costs	--	16,800
Repurchase of Company stock	(148)	--
Decrease in notes receivable from stockholders	110	--
Proceeds from exercise of stock options	1,942	2,920
	1,556	2,602
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>		
<b>INCREASE (DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>	<b>15,022</b>	<b>(1,092)</b>

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CASH & CASH EQUIVALENTS-BEGINNING OF PERIOD	49,161	27,030
	-----	-----
CASH & CASH EQUIVALENTS-END OF PERIOD	\$ 64,183	\$ 25,938
	=====	=====

### SUPPLEMENTAL INFORMATION

#### Noncash investing and financing activities:

Purchase of subsidiary - noncash portion	\$ 500	\$ --
Conversion of subordinated debentures into common stock	27	--

See notes to condensed consolidated financial statements.

### SYSTEMS & COMPUTER TECHNOLOGY CORPORATION AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

#### NOTE A--INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals, the fiscal year 2001 asset impairment charge, and the fiscal year 2000 restructuring charge) considered necessary for a fair presentation have been included. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2000. Operating results for the three and six-month periods ended March 31, 2001, are not necessarily indicative of the results that may be expected for the year ending September 30, 2001.

#### NOTE B--CASH AND SHORT-TERM INVESTMENTS

Cash equivalents are short-term, highly liquid investments with a maturity of three months or less at the date of purchase.

Short-term investments consist of corporate debt securities. Management determines the appropriate classification of the debt securities at the time of purchase. At March 31, 2001 the portfolio of debt securities has been classified as available for sale and, as a result, is stated at fair value. The available-for-sale portfolio is comprised of highly liquid investments available for current operations and general corporate purposes and, accordingly, is classified as current assets.

The contractual maturities of short-term investments held as of March 31, 2001 are:

Due in one year or less	\$ 9,704	
Due after one year through four years	454	
	-----	
	\$10,158	

#### NOTE C--LONG-TERM INVESTMENTS

The Company made investments for strategic business purposes of \$18.5 million in common and preferred stock of various privately-held Internet companies and recorded accounts receivable from these companies of \$2.5 million. The fair values of these investments, which are classified as long-term assets, are not readily determinable; therefore, they are carried at cost. The Company regularly reviews the underlying operating performance, cash flow forecasts, and recent private equity transactions of these privately-held companies in assessing

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impairment. The cost basis would be reduced and earnings would be charged if there were an impairment that was found to be other than temporary at a balance sheet date. In the second quarter of fiscal year 2001, the Company recorded asset impairment charges of \$11.6 million related to these strategic investments. At March 31, 2001, the aggregate investment in privately-held companies is \$8.9 million, included in other assets and deferred charges, and \$0.5 million, included in prepaid expenses and other accounts receivable in the consolidated balance sheet.

Throughout fiscal year 1999, the Company made a series of investments in Campus Pipeline, Inc. As of March 31, 2001 the Company held an approximately 57% interest in the common stock of this affiliate, with a carrying amount of zero. The Company has determined that it does not control Campus Pipeline because

there are fully voting convertible preferred shares outstanding that lower the Company's voting interest to approximately 42%. Therefore, the Company accounts for its investment using the equity method of accounting. The Company will not record any additional future losses of Campus Pipeline and will not record any future earnings until the cumulative, unrecorded losses are offset.

### NOTE D--ACQUISITIONS AND DISPOSITIONS

In November 2000, the Company acquired Omni-Tech Systems, Ltd., the developer of JUROR for Windows, a jury management software solution for the justice market, for consideration of \$3.3 million, in the form of cash and a note payable. JUROR for Windows is a comprehensive jury management solution that presides over all aspects of jury management from the creation of pools of eligible jurors to the calculation of jury payroll, and helps to streamline the jury management process and free court staff from repetitive manual and paper-based tasks.

### NOTE E--EARNINGS PER SHARE

(in thousands, except per share amounts)

A reconciliation of the numerators and the denominators of net income (loss) per common share and net income (loss) per share - assuming dilution follows:

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2001	2000	2001	2000
<b>Numerator:</b>				
Net income (loss) available to common stockholders, used for net income (loss) per common share	\$(11,214)	\$3,619	\$(9,213)	\$(2,588)
Effect of dilutive securities:	--	--	--	--
Net income (loss) available to common stockholders after assumed conversions	\$(11,214)	\$3,619	\$(9,213)	\$(2,588)
	=====	=====	=====	=====
<b>Denominator:</b>				
Denominator for net income (loss) per common share-weighted average shares	32,811	32,324	32,771	32,230
Effect of dilutive securities: Employee stock options	--	1,523	--	--
	-----	-----	-----	-----



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Denominator for net income (loss) per share - assuming dilution	32,811	33,847	32,771	32,230
	=====	=====	=====	=====
Net income (loss) per common share	\$(0.34)	\$0.11	\$(0.28)	\$(0.08)
	=====	=====	=====	=====
Net income (loss) per share - assuming dilution	\$(0.34)	\$0.11	\$(0.28)	\$(0.08)
	=====	=====	=====	=====

Potentially dilutive securities with an anti-dilutive effect (convertible debt in all periods presented above and stock options in the fiscal year 2001 periods and fiscal year 2000 six-month period) are not included in the above calculation.

### NOTE F--PRODUCT DEVELOPMENT

Product development expenditures, including software maintenance expenditures, for the six months ended March 31, 2001 and 2000, were approximately \$29.4 million and \$27.9 million, respectively. After capitalization, these amounts were approximately \$29.0 million and \$25.3 million, respectively, and were charged to operations as incurred. For the same periods, amortization of capitalized software costs (not included in expenditures above) amounted to \$3.1 million and \$2.9 million, respectively.

### NOTE G--BUSINESS SEGMENTS

(in thousands)

The Company has four reportable segments: Global Education Solutions (GES); Global Government Solutions (GGS); Global Manufacturing & Distribution Solutions (M&DS) and Global Energy, Utilities & Communications Solutions (EUC). Summarized financial information concerning the Company's reportable segments is shown in the following table. The "All Other" column includes corporate-related items, elimination of inter-segment transactions, amortization of intangible assets purchased in business acquisitions, substantially all of the asset impairment charge in fiscal year 2001, and the restructuring charge in fiscal year 2000. Interest and other income is not included in the revenue disclosures below. Certain prior year information has been reclassified to conform with the current-year presentation.

Three months ended March 31, 2001

	GES	GGS	M&DS	EUC	All Other	Total
Outsourcing services	\$ 9,846	\$16,654	\$ 1,281	\$ 4,220	\$ --	\$32,001
Software sales and maintenance and enhancements	21,911	2,712	4,125	4,399	--	33,147
Software services	13,966	2,915	7,347	13,014	--	37,242
	-----	-----	-----	-----	-----	-----
External revenues	45,723	22,281	12,753	21,633	--	102,390
Intersegment revenues	311	13	21	--	(345)	--
Segment profit (loss)	4,338	(2,664)	(5,384)	(1,444)	(12,933)	(18,087)

Three months ended March 31, 2000

	GES	GGS	M&DS	EUC	All Other	Total
--	-----	-----	------	-----	--------------	-------

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Outsourcing services	\$10,245	\$15,566	\$ 3,713	\$ 3,785	\$ --	\$33,309
Software sales and maintenance and enhancements	23,768	6,096	7,364	5,750	--	42,978
Software services	14,290	3,296	7,009	13,109	--	37,704
	-----	-----	-----	-----	-----	-----
External revenues	48,303	24,958	18,086	22,644	--	113,991
Intersegment revenues	246	21	6	--	(273)	--
Segment profit (loss)	8,075	2,831	(806)	1,894	(5,860)	6,134

Six months ended March 31, 2001

	GES	GGS	M&DS	EUC	All Other	Total
Outsourcing services	\$20,028	\$31,724	\$ 2,562	\$ 8,385	\$ --	\$62,699
Software sales and maintenance and enhancements	44,085	5,433	10,228	13,969	--	73,715
Software services	26,377	5,698	13,266	26,043	--	71,384
	-----	-----	-----	-----	-----	-----
External revenues	90,490	42,855	26,056	48,397	--	207,798
Intersegment revenues	643	24	24	--	(691)	--
Segment profit (loss)	9,484	(2,862)	(8,842)	1,976	(14,507)	(14,751)

Six months ended March 31, 2000

	GES	GGS	M&DS	EUC	All Other	Total
Outsourcing services	\$21,183	\$31,643	\$ 5,310	\$ 7,315	\$ --	\$65,451
Software sales and maintenance and enhancements	41,341	8,436	10,331	9,116	--	69,224
Software services	27,321	6,116	16,357	25,896	--	75,690
	-----	-----	-----	-----	-----	-----
External revenues	89,845	46,195	31,998	42,327	--	210,365
Intersegment revenues	592	24	12	--	(628)	--
Segment profit (loss)	10,516	1,678	(4,475)	(520)	(10,917)	(3,718)

NOTE H--LONG-TERM DEBT

The Company has \$74.75 million of convertible subordinated debentures bearing interest at 5% and maturing on October 15, 2004. The debentures are convertible into common stock of the Company at any time prior to redemption or maturity at a conversion price of \$26.375 per share, subject to change as defined in the Trust Indenture. The debentures are redeemable at any time after October 15, 2000, at prices from 102.5% of par decreasing to par on October 15, 2003. In October 2000, \$27,000 of the convertible subordinated debentures were converted into approximately 1,000 shares of common stock of the Company.

NOTE I--COMPREHENSIVE INCOME (LOSS)  
(in thousands)

Total Comprehensive Income (Loss) is comprised of:

Three Months Ended March 31,	Six Months Ended March 31,
------------------------------------	----------------------------------

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	2001	2000	2001	2000
Net income (loss)	\$ (11,214)	\$ 3,619	\$ (9,213)	\$ (2,588)
Other comprehensive income (loss)	(44)	(149)	49	(436)
	-----	-----	-----	-----
Total Comprehensive Income (Loss)	\$ (11,258)	\$ 3,470	\$ (9,164)	\$ (3,024)

Other comprehensive income (loss) relates primarily to currency translation adjustments related to foreign subsidiaries whose functional currencies are their local currencies.

NOTE J--NEW ACCOUNTING STANDARDS

In October 1997, the American Institute of Certified Public Accountants issued Statement of Position (SOP) 97-2, "Software Revenue Recognition," which provides guidance on recognizing revenue from software transactions. In 1998, it issued two amendments to SOP 97-2: SOP 98-4, "Deferral of Certain Provisions of SOP 97-2," and SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions." SOP 97-2 and SOP 98-4 were effective for the Company's fiscal year beginning October 1, 1998, and SOP 98-9 was effective for the fiscal year beginning October 1, 1999. Based on the Company's interpretation of the requirements of SOP 97-2, as amended, the adoption of this statement has not had and is not expected to have a significant impact on the Company's results of operations. However, the accounting profession continues to review certain provisions of SOP 97-2, as amended, with the objective of providing additional guidance on implementing its provisions.

During the Company's fiscal year 2000, the Staff of the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) 101, "Revenue Recognition." The SAB provides examples of how the Staff applies the criteria to specific fact patterns, such as bill-and-hold transactions, up-front fees when the seller has significant continuing involvement, long-term service transactions, refundable membership fees, retail layaway sales, and contingent rental income. The SAB also addresses whether revenue should be presented on a gross or net basis for certain transactions, such as sales on the Internet. In addition, the SAB provides guidance on the disclosures that registrants should make about their revenue-recognition policies and the impact of events and trends on revenue. The Company is required to adopt the provisions of SAB 101 by the fourth quarter of fiscal year 2001. The Company is currently evaluating the impact of SAB 101, but at this time does not expect its adoption to have a significant impact on reported results of operations.

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

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The purpose of this section is to give interpretive guidance to the reader of the financial statements.

### RESULTS OF OPERATIONS

The following table sets forth: (i) income statement items as a percentage of total revenues and (ii) the percentage change for each item from the prior-year comparative period.

	% of Total Revenues				% Change from Prior Year	
	Three Mos. Ended		Six Mos. Ended		Three Mos. Ended	Six Mos. Ended
	March 31, 2001	March 31, 2000	March 31, 2001	March 31, 2000	March 31	March 31
<b>Revenues:</b>						
Outsourcing services	31%	29%	30%	31%	(4%)	(4%)
Software sales	7%	17%	11%	12%	(63%)	(4%)
Maintenance and enhancements	25%	21%	24%	21%	10%	12%
Software services	36%	33%	34%	36%	(1%)	(6%)
Other	1%	--	1%	--	380%	407%
	----	----	----	----		
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>(9%)</b>	<b>(1%)</b>
<b>Expenses:</b>						
Cost of services, sales and maintenance and enhancements	73%	67%	70%	71%	--	(2%)
Selling, general and administrative	32%	25%	31%	27%	16%	15%
Asset impairment charge	11%	--	5%	--	--	--
Equity in losses of affiliates	--	2%	--	2%	(100%)	(100%)
Restructuring charges	--	--	--	1%	--	(100%)
Interest expense	1%	1%	1%	1%	6%	6%
Income (loss) before income taxes	(17%)	5%	(7%)	(2%)	(395%)	(297%)

The following table sets forth the gross profit for each of the following revenue categories as a percentage of revenue for each such category and the total gross profit as a percentage of total revenue (excluding interest and other income). The Company does not separately present the cost of maintenance and enhancements revenue as it is impracticable to separate such cost from the cost of software sales.

	Three Months Ended		Six Months Ended	
	March 31, 2001	March 31, 2000	March 31, 2001	March 31, 2000
<b>Gross Profit:</b>				
Outsourcing services	15%	13%	17%	16%
Software sales and maintenance and enhancements	30%	47%	40%	38%
Software services	32%	36%	30%	31%
	---	---	---	---
<b>Total</b>	<b>26%</b>	<b>33%</b>	<b>29%</b>	<b>29%</b>

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### Revenues:

Outsourcing services revenue decreased 4% in the second quarter and first six months of fiscal year 2001 compared with the comparable prior-year periods. These decreases are primarily the result of (i) significant pass-through revenue related to expenses recorded for a client in the process manufacturing and distribution market in the second quarter of fiscal year 2000 and (ii) the termination of several small contracts in the government and higher education markets and decreased services provided under several other contracts in the fiscal year 2001 periods. These decreases were partially offset by increases resulting from a first quarter fiscal year 2001 agreement with the City of Memphis, Tennessee and a fourth quarter 2000 agreement with the Chicago Department of Water.

Software sales decreased 63% in the second quarter of fiscal year 2001 compared to the prior-year period due to significantly decreased licenses in each of the Company's markets. The Company believes this decrease is primarily the result of growing caution in the general business climate, which has been particularly felt in the technology sector. The 4% decrease in software sales for the six-month period reflects the above mentioned decreases offset by a revenue increase of 227% in the first quarter of 2001 compared with the first quarter of fiscal year 2000. This first quarter increase is the result of unusually low revenue in the year 2000 period because of the year 2000 slowdown in enterprise application software licensing.

The 10% and 12% increases in maintenance and enhancements revenue in the second quarter and first six months of fiscal year 2001 were the result of the growing installed base of clients in all of the Company's markets. The Company continues to experience a high annual renewal rate on existing maintenance contracts in these marketplaces, although there can be no assurances that this will continue.

Software services revenue decreased 1% and 6% in the second quarter and first six months of fiscal year 2001 compared to the prior-year periods, respectively. These decreases were primarily the result of decreased implementation and integration services performed in the process manufacturing and distribution and higher education markets. These decreases were primarily the result of (i) a decline in license fee revenue upon which services revenue is dependent, and (ii) a change in the sales mix in the process manufacturing and distribution market toward a greater percentage of supply chain sales. Supply chain sales generally require less revenue generating services than ERP sales, since the implementation of the supply chain product generally requires less effort than an ERP implementation.

The increase in interest and other income in the first six months of fiscal year 2001 is primarily attributable to interest income earned on the Company's increased cash and short-term investments balances and the amortization of the WebCT noncompete agreement signed in the Company's third quarter of fiscal year 2000.

### Gross Profit:

Gross profit decreased as a percentage of total revenue (excluding interest and other income) from 33% for the second quarter of fiscal year 2000 to 26% for the second quarter of fiscal year 2001. The total gross profit percentage decreased primarily because of a decrease in software sales during the quarter, without a commensurate decrease in fixed expenses. This decrease was the result of significantly decreased software licenses in all of the Company's markets, primarily, the Company believes, as a result of a growing caution in the general business climate, which has been particularly felt in the technology sector. The

software sales and maintenance and enhancements cost levels are based in part on the Company's future revenue expectations. Due to lower than expected revenue

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for the second quarter of fiscal year 2001, the Company did not reduce these costs enough during the period to sustain the prior-year period gross profit levels. Additionally the Company incurred increased development expenses during the quarter primarily in the higher education business related to a new product initiative. The software services gross margin also decreased in the second quarter of fiscal year 2001 compared with the prior-year period. This decrease was primarily the result of decreased utilization. These decreases were partially offset by increases in the outsourcing services' gross profit, which increased primarily as a result of new agreements signed at the end of fiscal year 2000 and the first quarter of fiscal year 2001, coupled with the impact of the significant pass through revenue related to expenses recorded for a client in the process manufacturing and distribution market in the second quarter of fiscal year 2000.

Gross profit as a percentage of total revenue (excluding interest and other income) was 29% for the first six months of fiscal year 2000 and 2001; however, the components of the gross profit percentage changed from the fiscal year 2000 period to the fiscal year 2001 period. The software sales and maintenance and enhancement gross profit improved slightly because of increased maintenance and enhancement revenue in the fiscal year 2001 period. The outsourcing services gross profit also improved slightly in the first six months of fiscal year 2001 compared with the prior year period primarily as a result of new agreements and the impact of the fiscal year 2000 pass through revenue discussed above. These increases were offset by decreases in the software services gross margin, which is primarily the result of decreased utilization in the process manufacturing and distribution market.

### Selling, General and Administrative Expenses:

Selling, general and administrative expenses increased in the second quarter and first six months of fiscal year 2001 compared with the prior year periods primarily as a result of (i) the addition of sales personnel and marketing expenses, primarily in the process manufacturing and distribution and higher education markets, in an effort to increase sales volume and (ii) severance costs, of approximately \$0.5 million, incurred in the second quarter of fiscal year 2001.

During the second quarter of fiscal year 2001, the Company announced that it plans to implement initiatives during the third quarter of 2001 that will reduce operating costs by approximately 5% on an annual basis. While the restructuring plan has not yet been formalized, the Company is planning to eliminate some programs and reduce related staff levels as well as make some management changes in an effort to improve the Company's performance. As a result of the cost reduction, the Company anticipates incurring a restructuring charge primarily for severance and other employee-related costs in the third quarter of fiscal year 2001.

During the quarter ended December 31, 1999, the Company implemented a restructuring plan, which included the termination of employees and discontinuation of noncritical programs. The restructuring was considered necessary in light of significantly decreased license fees in the quarter. The Company accrued \$1 million related to severance and termination benefits based on a termination plan developed by management, in consultation with the Board of Directors, in December 1999. In January 2000, the Company terminated approximately 100 employees engaged in marketing, administrative, special-programs, and development functions. The Company began to experience cost savings related to the restructuring in the second quarter of fiscal year 2000.

The Company made investments for strategic business purposes of \$18.5 million in common and preferred stock of various privately-held Internet companies and recorded accounts receivable from these companies of \$2.5 million. The fair

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values of these investments, which are classified as long-term assets, are not readily determinable; therefore, they are carried at cost. The Company regularly reviews the underlying operating performance, cash flow forecasts, and recent private equity transactions of these privately-held companies in assessing impairment. The cost basis has been reduced as of March 31, 2001 and earnings have been charged as a result of an impairment that is other than temporary at the balance sheet date. Future earnings would also be reduced and earnings would be charged if there were an impairment that was found to be other than temporary at a future balance sheet date. The Company's future results of operations could be materially affected by a future write down in the carrying amount of these investments to recognize an impairment loss due to an other than temporary decline in the value of these investments. In the second quarter of fiscal year 2001, the Company recorded an asset impairment charge of \$11.6 million related to these strategic investments. At March 31, 2001, the aggregate investment in privately-held companies is \$8.9 million, included in other assets and deferred charges, and \$0.5 million, included in prepaid expenses and other accounts receivable in the consolidated balance sheet. The Company believes that the impairment in these investments is the result of changes in the business models of these companies. The Company believes this change will result in lower future earnings achieved by these remaining companies than those projected when the Company invested; however this does not reflect a deterioration in these companies' viability.

### Acquisitions and Dispositions:

In November 2000, the Company acquired Omni-Tech Systems, Ltd., the developer of JUROR for Windows, a leading, jury management software solution for the justice market, for consideration of \$3.3 million in the form of cash and a note payable. JUROR for Windows is a comprehensive jury management solution that presides over all aspects of jury management from the creation of pools of eligible jurors to the calculation of jury payroll, and helps to streamline the jury management process and free court staff from repetitive manual and paper-based tasks. The Company has begun to integrate the JUROR product with the Company's case and financial management system so that the products share key case, scheduling and disposition information.

### Investment in Campus Pipeline, Inc.:

Throughout fiscal year 1999, the Company made a series of investments in Campus Pipeline, Inc. As of March 31, 2001, the Company held an approximately 57% interest in the common stock of this affiliate, with a carrying amount of zero. The Company has determined that it does not control Campus Pipeline because there are fully voting convertible preferred shares outstanding that lower the Company's voting interest to approximately 42%. Therefore, the Company accounts for its investment using the equity method of accounting. The Company will not record any additional future losses of Campus Pipeline and will not record any future earnings until the cumulative, unrecorded losses are offset.

### Contingency:

The Company has been involved in litigation relating to a software implementation in Broward County, Florida. The Company believed that it had meritorious defenses and the probability of an unfavorable outcome against the Company was unlikely. However, on October 31, 2000, an adverse decision was rendered against the Company in this litigation. The Company's claim for approximately \$3.1 million -- which was included in the Company's accounts

receivable balances -- for software licensed, services rendered, and expenses incurred was denied. In addition, the Company was ordered to pay damages in the amount of approximately \$3.2 million plus prejudgment interest on a portion of that amount. On post-trial motions, the amount of the judgment was reduced by approximately \$0.6 million. The Company has appealed the decision and believes that insurance proceeds may be available to cover a portion of the damages

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awarded against it. As a result of the court's decision and the inability to predict the possibility of overturning the judgment on appeal, the Company recorded a pretax charge of \$5.8 million for damages and other costs associated with the action in the fourth quarter of fiscal year 2000. In the opinion of management, this amount, plus amounts previously accrued should be adequate to cover the ultimate loss resulting from this matter in the event that the appellate court affirms the lower court's decision.

The Company is also involved in other legal proceedings and litigation arising in the ordinary course of business. In the opinion of management, the outcome of such proceedings and litigation currently pending will not materially affect the Company's consolidated financial statements.

### LIQUIDITY, CAPITAL RESOURCES, AND FINANCIAL POSITION

The Company's cash and short-term investments balance was \$74.3 million and \$65.9 million as of March 31, 2001, and September 30, 2000, respectively, as a result of cash provided by operations discussed below.

Cash provided by operating activities was \$14.8 million for the first six months of fiscal year 2001, compared with \$2.0 million for the prior-year period. The primary source of cash in the fiscal year 2001 period was a decrease in accounts receivable. The decrease in accounts receivable is due to improved collections and decreased revenue in the second quarter of fiscal year 2001.

The Company provides outsourcing services and software-related services, including systems implementation and integration services. Contract fees from outsourcing services are typically based on multi-year contracts ranging from three to 10 years in length, and provide a recurring revenue stream throughout the term of the contract. Software services contracts, including systems implementation and integration services, usually have shorter terms than outsourcing services contracts, and billings are sometimes milestone-based. During the beginning of a typical outsourcing services contract, the Company performs services and incurs expenses more quickly than during the later part of the contract. Billings usually remain constant during the term of the contract. In some cases when a contract term is extended, the billing period is also extended over the new life of the contract. In certain software services contracts, the Company performs services but cannot bill for them before attaining a milestone. Revenue is usually recognized as work is performed, resulting in an excess of revenues over billings in such periods. The Company's Consolidated Balance Sheet reflects this excess as unbilled accounts receivable. As an outsourcing services contract proceeds, the Company performs services and incurs expenses at a lesser rate. This results in billings that exceed revenue recognized in such periods, which causes a decrease in the unbilled accounts receivable. Likewise, billings related to the achievement of a milestone in a software services contract causes a decrease in the unbilled accounts receivable. In both cases, additional unbilled accounts receivable will continue to be recorded based on the terms of the contracts. The remaining unbilled accounts receivable balance is comprised of software sales for which the Company has shipped product and recognized revenue, but has not billed amounts due to the contractual payment terms. The Company usually bills these unbilled balances within one year.

Cash used in investing activities was \$1.4 million for the first six months of fiscal year 2001 compared with \$5.8 million for the fiscal year 2000 six-month period. In the fiscal year 2001 period, cash was used in the purchase of investments, property and equipment, and subsidiary assets offset by cash provided by the sale and maturity of available-for-sale investments. The primary use of cash in the six months ended March 31, 2000 was the purchase of property and equipment and the capitalization of software development costs.



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The \$1.6 million and \$2.6 million in cash provided by financing activities for the first six months of fiscal year 2001 and 2000, respectively consists primarily of proceeds from the exercises of stock options.

The Company has a \$30 million senior revolving credit facility available for general corporate purposes. The credit facility agreement expires in June 2002 and includes optional annual renewals. There were no borrowings outstanding at March 31, 2001, or September 30, 2000. As long as borrowings are outstanding, and as a condition precedent to new borrowings, the Company must comply with certain covenants established in the agreement. Under the covenants, the Company is required to maintain certain financial ratios and other financial conditions. The Company may not pay dividends (other than dividends payable in common stock) or acquire any of its capital stock outstanding without a written waiver from its lender.

The Company has convertible debentures outstanding, which bear interest at 5% and mature on October 15, 2004. In October 2000, \$27,000 of the convertible subordinated debentures were converted into approximately 1,000 shares of common stock of the Company. The remaining balance of convertible debentures at March 31, 2001, is \$74.75 million. If these remaining debentures outstanding were converted, 2.8 million additional shares would be added to common shares outstanding. These debentures were antidilutive for the fiscal year 2001 and 2000 periods and therefore are not included in the denominators for net income per share - assuming dilution.

The Company believes that its cash and cash equivalents, short-term investments, cash provided by operations, and borrowing arrangements should satisfy its financing needs for the foreseeable future.

### New Accounting Standards:

In October 1997, the American Institute of Certified Public Accountants issued Statement of Position (SOP) 97-2, "Software Revenue Recognition," which provides guidance on recognizing revenue from software transactions. In 1998, it issued two amendments to SOP 97-2: SOP 98-4, "Deferral of Certain Provisions of SOP 97-2," and SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions." SOP 97-2 and SOP 98-4 were effective for the Company's fiscal year beginning October 1, 1998, and SOP 98-9 was effective for the fiscal year beginning October 1, 1999. Based on the Company's interpretation of the requirements of SOP 97-2, as amended, the adoption of this statement has not had and is not expected to have a significant impact on the Company's results of operations. However, the accounting profession continues to review certain provisions of SOP 97-2, as amended, with the objective of providing additional guidance on implementing its provisions.

During the Company's fiscal year 2000, the Staff of the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) 101, "Revenue Recognition." The SAB provides examples of how the Staff applies the criteria to specific fact

patterns, such as bill-and-hold transactions, up-front fees when the seller has significant continuing involvement, long-term service transactions, refundable membership fees, retail layaway sales, and contingent rental income. The SAB also addresses whether revenue should be presented on a gross or net basis for certain transactions, such as sales on the Internet. In addition, the SAB provides guidance on the disclosures that registrants should make about their revenue-recognition policies and the impact of events and trends on revenue. The Company is required to adopt the provisions of SAB 101 by the fourth quarter of fiscal year 2001. The Company is currently evaluating the impact of SAB 101, but at this time does not expect its adoption to have a significant impact on reported results of operations.

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### Factors That May Affect Future Results and Market Price of Stock:

The forward-looking statements discussed herein and elsewhere -- including statements concerning the Company's or management's forecasts, estimates, intentions, beliefs, anticipations, plans, expectations, or predictions for the future -- are based on current management expectations that involve risks and uncertainties that could cause actual results to differ materially from those anticipated. The following discussion highlights some, but not all, of the risks and uncertainties that may have a material adverse effect on the Company's business, results of operations, and/or financial condition.

The Company's revenues and operating results can vary substantially from quarter to quarter, owing to a number of factors. Software sales revenues in any quarter depend on the execution of license agreements and the shipment of product. The execution of license agreements is difficult to predict for a variety of reasons, including the following: a significant portion of the Company's license agreements is typically signed in the last month of each quarter; the Company's sales cycle is relatively long; the size of transactions can vary widely; client projects may be postponed or cancelled due to changes in the client's management, budgetary constraints, or strategic priorities; and clients often exhibit a seasonal pattern of capital spending. The Company has historically generated a greater portion of license fees and total revenue in the last two fiscal quarters, although there is no assurance that this will continue.

Because a significant part of the Company's business results from software licensing, it is characterized by a high degree of operating leverage. The Company bases its expense levels, in significant part, on its expectations of future revenues. Therefore, these expense levels are relatively fixed in the short term. If software licensing revenues do not meet expectations, net income is likely to be disproportionately adversely affected. There can be no assurance that the Company will be able to increase profitability or return to its historical level of profitability on a quarterly or annual basis in the future. It is, therefore, possible that in one or more future quarters, the Company's operating results will be below expectations. This would likely have an adverse effect on the price of the Company's common stock.

The success of the Company's business depends upon certain key management, sales, and technical personnel. In addition, the Company believes that to succeed in the future, it must continue to attract, retain, and motivate talented and qualified management, sales, and technical personnel. Competition for such personnel in the information technology industry is intense. The Company sometimes has difficulty locating qualified candidates. There can be no assurance that the Company will be able to retain its key employees or that it will be able to continue to attract, assimilate, and retain other skilled management, sales, and technical personnel. The loss of certain key personnel or the inability to attract and retain qualified employees in the future could have a material adverse effect on the Company's business, results of operations, and/or financial condition.

The application software industry is characterized by intense competition, rapid technological advances, changes in client requirements, product introductions, and evolving industry standards. The Company believes that its future success will depend on its ability to compete successfully, and to continue to develop and market new products and enhancements cost-effectively. This necessitates continued investment in research and development and sales and marketing. There can be no assurance that new industry standards or changing technology will not render the Company's products obsolete or non-competitive, that the Company will be able to develop and market new products successfully, or that the Company's markets will accept its new product offerings. Furthermore, software programs as complex as those the Company offers may contain undetected errors or bugs when they are first introduced or as new versions are released. Despite Company and

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third-party testing, there can be no assurance that errors will not be found in new product offerings. Such errors can cause unanticipated costs and delays in market acceptance of these products and could have a material adverse effect on the Company's business, financial condition or cash flows. In addition, new distribution methods, such as the Internet and other electronic channels, have removed many of the barriers to entry that small and start-up software companies faced in the past. Therefore, the Company expects competition to increase in its markets.

If the Company were to experience delays in the commercialization and introduction of new or enhanced products, if customers were to experience significant problems with the implementation and installation of products, or if customers were dissatisfied with product functionality or performance, this could have a material adverse effect on the Company's business, results of operations, financial condition, or cash flows.

There can be no assurance that the Company's new products will achieve significant market acceptance or will generate significant revenue. Additional products that the Company plans to directly or indirectly market in the future are in various stages of development.

Intense competition in the various markets in which the Company competes may put pressure on the Company to reduce prices on certain products, particularly in the markets where certain vendors offer deep discounts in an effort to recapture or gain market share or to sell other software or hardware products. The bundling of software products for promotional purposes or as a long-term pricing strategy or guarantees of product implementations by certain of the Company's competitors could have the effect over time of significantly reducing the prices that the Company can charge for its products. Additionally, while the distribution of applications through application service providers may provide a new market for the Company's products, these new distribution methods could also reduce the price paid for the Company's products or adversely affect other sales of its products. Any such price reductions and resulting lower license revenues could have a material adverse effect on the Company's business, results of operations, financial condition, or cash flows.

The Company uses a common industry practice to forecast sales and trends in its business. The Company's sales personnel monitor the status of prospective sales, such as the date when they estimate that a customer will make a purchase decision and the potential dollar amount of the sale. The Company regularly aggregates these estimates to generate a sales pipeline. The Company compares the pipeline at various points in time to look for trends in its business. While this pipeline analysis may provide the Company with some guidance in business

planning and budgeting, these pipeline estimates are necessarily speculative and may not consistently correlate to revenues in a particular quarter or over a longer period of time. A variation in the conversion of the pipeline into contracts or in the pipeline itself could cause the Company to improperly plan or budget and thereby adversely affect its business or results of operations. In particular, a slowdown in the economy may cause purchasing decisions to be delayed, reduced in amount or cancelled which will therefore reduce the overall license pipeline conversion rates in a particular period of time.

Building upon its original investment, the Company continues to strengthen its strategic alliance with Campus Pipeline, Inc. The Company has enhanced the integration of its higher education information systems with the Campus Pipeline product to provide 24-hour access to campus and Internet resources and allow students to enroll, register for classes, view grades, request transcripts and loan status, obtain reading lists, buy books, access email, and participate in interactive chat sessions. While some of these features have been included in a product released by Campus Pipeline, other features are scheduled for future

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releases.

During fiscal year 2000, the Company made an investment in WebCT and entered into a strategic alliance with WebCT to exclusively market the WebCT e-learning tools and e-learning hub to the Company's higher education client base. The alliance builds upon the Company's existing relationship with Campus Pipeline, Inc. and the Company's self-service Web for Students and Web for Faculty products to offer a unified, on-line, connected e-learning solution. This integrated solution will enable clients to access information systems, learning tools, online services, campus communication, and community resources through a single point of access. The Company intends to provide the real-time, bi-directional exchange of data between the Company's student information system and the WebCT course environment, eliminating manual synchronization of like information.

During fiscal year 2000, the Company sold its eFile Management middleware to CourtLink, an e-filing leader, for cash and a small equity investment in CourtLink. The Company also entered into a strategic alliance with CourtLink to market the product in connection with the Company's products. The middleware complements CourtLink's e-filing and access solution for the government market by integrating e-filing and Web access with a court's case and document management applications. Through this alliance, the Company and CourtLink bring together the essential components of electronic filing, creating a comprehensive e-filing solution.

The success of these investments and strategic alliances depends upon: (i) the ability of the Company and its alliance partners to meet development and implementation schedules for products and to enhance the products over time, (ii) the market acceptance of the products, (iii) the Company's ability to integrate the alliance partners' products with the Company's products cost-effectively and on a timely basis, and (iv) the ability of the Company's alliance partners to achieve their financial goals.

Certain of the Company's contracts are subject to "fiscal funding" clauses, which entitle the client, in the event of budgetary constraints, to reduce the level of services to be provided by the Company, with a corresponding reduction in the fee the client must pay. In certain circumstances, the client may terminate the services altogether. While the Company has not been impacted materially by early terminations or reductions in service from the use of fiscal funding provisions in the past, there can be no assurance that such provisions

will not give rise to early terminations or reductions of service in the future. If clients that represent a substantial portion of the Company's revenues were to invoke the fiscal funding provisions of their outsourcing services contracts, the Company's results of operations could be adversely affected.

Certain of the Company's outsourcing contracts may be terminated by the client for convenience. If clients that represent a substantial portion of the Company's revenues terminate for convenience, the Company's results of operations could be adversely affected.

The Company provides software-related services, including systems implementation and integration services. Services are generally provided under time and materials contracts, and revenue is recognized as the services are provided. In some circumstances, services are provided under fixed-price arrangements in which revenue is recognized on the percentage-of-completion method. Revisions in estimates of costs to complete are reflected in operations during the period in which the Company learns of facts requiring those revisions.

The impact on the Company of areas such as the Internet, online services, and electronic commerce is uncertain. There can be no assurance that the Company

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will be able to provide a product that will satisfy new client demands in these areas. In addition, standards for network protocols and other industry standards for the Internet are evolving rapidly. There can be no assurance that standards the Company chooses will position its products to compete effectively for business opportunities as they arise on the Internet and in other emerging areas.

The Company relies on a combination of copyright, trademark, trade secrets, confidentiality procedures, and contractual procedures to protect its intellectual property rights. Despite the Company's efforts to protect its intellectual property rights, it may be possible for unauthorized third parties to copy certain portions of the Company's products, or to reverse engineer or obtain and use technology or other Company-proprietary information. There can also be no assurances that the Company's intellectual property rights would survive a legal challenge to their validity or provide significant protection to the Company. In addition, the laws of certain countries do not protect the Company's proprietary rights to the same extent as do the laws of the United States. Accordingly, there can be no assurance that the Company will be able to protect its proprietary technology against unauthorized third-party copying or use, which could adversely affect the Company's competitive position.

Other factors that could affect the Company's future operating results include the effect of publicity on demand for the Company's products and services; general economic and political conditions; continued market acceptance of the Company's products and services; the timing of services contracts and renewals; continued competitive and pricing pressures in the marketplace; new product introductions by the Company's competitors; the Company's ability to complete fixed-price contracts profitably; and the Company's ability to generate capital gains sufficient to offset the capital losses that are expected to be realized upon the disposition of the investments held by the Company for which the carrying value has been reduced for financial reporting purposes.

### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

There have been no material changes in quantitative or qualitative disclosures for fiscal year 2001. Reference is made to Item 7A in the Annual Report on Form 10-K for the year ended September 30, 2000.

SYSTEMS & COMPUTER TECHNOLOGY CORPORATION AND SUBSIDIARIES

PART II

Item 1. Legal Proceedings

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The Company has been involved in litigation relating to a software implementation in Broward County, Florida. The Company believed that it had meritorious defenses and the probability of an unfavorable outcome against the Company was unlikely. However, on October 31, 2000, an adverse decision was rendered against the Company in this litigation. The Company's claim for approximately \$3.1 million -- which was included in the Company's accounts receivable balances -- for software licensed, services rendered, and expenses incurred was denied. In addition, the Company was ordered to pay damages in the amount of approximately \$3.2 million plus prejudgment interest on a portion of that amount. On post-trial motions, the amount of the judgment was reduced by approximately \$0.6 million. The Company has appealed the decision and believes that insurance proceeds may be available to cover a portion of the damages awarded against it. As a result of the court's decision and the inability to predict the possibility of overturning the judgment on appeal, the Company recorded a pretax charge of \$5.8 million for damages and other costs associated with the action in the fourth quarter of fiscal year 2000. In the opinion of management, this amount, plus amounts previously accrued should be adequate to cover the ultimate loss resulting from this matter in the event that the appellate court affirms the lower court's decision.

The Company is also involved in other legal proceedings and litigation arising in the ordinary course of business. In the opinion of management, the outcome of such proceedings and litigation currently pending will not materially affect the Company's consolidated financial statements.

### Item 4. Submission of Matters to a Vote of Security Holders

At the Company's Annual Meeting of Shareholders held on February 23, 2001, Thomas I. Unterberg and Michael D. Chamberlain were reelected as directors of the Company for a term expiring at the Company's 2004 Annual Meeting of Shareholders. There were 24,605,893 votes cast in favor of the election of Mr. Unterberg and 1,812,586 votes were withheld, and there were 25,639,784 votes cast in favor of the election of Mr. Chamberlain and 778,695 votes were withheld.

The amendment to the Company's 1994 Long-term Incentive Plan increasing the number of shares of the Company's Common Stock reserved for issuance thereunder from 5,500,000 to 7,500,000 shares was approved. The amendment is filed as exhibit 10.1 of this Form 10Q. There were 15,725,547 votes cast in favor of approval of the amendment, 4,983,841 votes against, and 56,858 abstained.

The adoption of the Company's 2000 Employee Stock Purchase Plan was approved. The Plan is filed as exhibit 4 to the Company's Form S-8 filed February 26, 2001. There were 19,025,619 votes cast in favor of approval of the Plan, 1,686,883 votes against, and 53,744 abstained.

### Item 6 (a). Exhibits

Exhibit 10.1 Amendment to the Systems & Computer Technology Corporation 1994 Long-Term Incentive Plan, as previously amended.

### Item 6 (b). Reports on Form 8-K

The registrant did not file any current reports on Form 8-K during the three months ended March 31, 2001.

SYSTEMS & COMPUTER TECHNOLOGY CORPORATION AND SUBSIDIARIES

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.

SYSTEMS & COMPUTER TECHNOLOGY CORPORATION  
(Registrant)

Date: 05/10/01

/s/ Eric Haskell

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Eric Haskell  
Senior Vice President, Finance & Administration,  
Treasurer, and Chief Financial Officer