ELEVON INC
Form 10-Q
November 12, 2002

UNITED STATES SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended September 30, 2002

OR

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

For the transition period from ________to _________

Commission file number 0-19872

ELEVON, INC. (Exact name of Registrant as specified in its Charter)

Delaware	**95-2862954**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

303 Second Street
San Francisco, California 94107
(Address of Principal Executive Offices including Zip Code)

(415) 495-8811
(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 reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

There were 15,482,180 Shares of $.001 Par Value Common Stock outstanding as of November 8, 2002.

ELEVON, INC.
QUARTERLY REPORT ON FORM 10-Q FOR THE PERIOD ENDED SEPTEMBER 30, 2002
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Item 1. Financial Statements See notes to consolidated financial statements

ELEVON, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	September 30 2002	December 31, 2001
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$19,615	$4,583
Short-term investments	0	458
Accounts receivable, net of allowance for doubtful accounts of $234 - September 30, 2002 and $476 - December 31, 2001	6,628	11,431
Prepaid expenses	484	904
Other receivables	913	50
Total current assets	27,640	17,426
Property and equipment, net	1,003	1,740
Capitalized software, net of accumulated amortization of $52,935 - September 30, 2002 and $52,865 - December 31, 2001	1,913	4,853
Long-term accounts receivable	624	562
Other assets	368	431
Total assets	$31,548	$25,012
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$1,047	$2,411
Accrued liabilities	3,977	8,660
Deferred revenue	6,732	11,809

Total current liabilities	11,756	22,880
Deferred revenue	1,809	2,901
Other long-term obligations	1,343	2,818
Total liabilities	14,908	28,599
Commitments and contingencies		
Stockholders' equity (deficit):		
Common stock, $.001 par value: 50,000 shares authorized; issued 15,481 shares - September 30, 2002; 14,987 shares - December 31, 2001	15	15
Additional paid-in capital	76,950	76,751
Accumulated other comprehensive income	141	358
Accumulated deficit	(60,466)	(80,711)
Total stockholders' equity (deficit)	16,640	(3,587)
Total liabilities and stockholders' equity (deficit)	$31,548	$25,012

See notes to consolidated financial statements

ELEVON, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	**2001**	**2002**	**2001**
REVENUES:				
License and royalty	$1,032	$822	$3,059	$6,502
Maintenance	5,130	5,565	16,383	16,971
Consulting	4,389	4,304	16,327	12,349
Total revenues	10,551	10,691	35,769	35,822
OPERATING EXPENSES:				
Costs of revenues:				
Cost of licenses, maintenance and consulting	3,838	4,262	14,330	12,914
Amortization of capitalized software	539	763	2,473	2,288
Sales and marketing	1,916	2,838	7,971	8,962
Product development	1,531	1,868	4,672	7,068

General and administrative	1,524	988	5,123	4,346
Restructuring charge	--	--	892	--
Impairment of capitalized software	--	--	365	--
Special credit (Note 5)	--	--	(1,732)	--
Total operating expenses	9,348	10,719	34,094	35,578
Operating income (loss)	1,203	(28)	1,675	244
Interest income, net	44	72	88	300
Gain on sale of United Kingdom operations and e5 intellectual property	18,756	--	18,756	--
Income before income taxes	20,003	44	20,519	544
Provision for income taxes	225	25	275	75
NET INCOME	**$19,778**	**$19**	**$20,244**	**$469**
BASIC NET INCOME PER SHARE	**$1.28**	**$0.00**	**$1.33**	**$0.03**
Shares used to compute basic net income per share	15,462	14,987	15,278	14,893
DILUTED NET INCOME PER SHARE	**$1.27**	**$0.00**	**$1.30**	**$0.03**
Shares used to compute diluted net income per share	15,611	14,988	15,626	14,954

See notes to consolidated financial statements

ELEVON, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Nine Months Ended September 30,	
	2002	**2001**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$20,244	$469
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	3,237	3,249
Provision for doubtful accounts	174	(167)

Loss on property retirements	20	52
Impairment of capitalized software	365	--
Special credit (Note 5)	(1,732)	--
Gain on sale of United Kingdom operations and e5 intellectual property	(18,756)	--
Changes in operating assets and liabilities:		
Accounts receivable	255	1,057
Prepaids and other assets	(536)	(308)
Accounts payable and accrued liabilities	(1,921)	(3,815)
Deferred revenue	(27)	(1,083)
Other	(280)	(92)
Net cash provided (used) by operating activities	1,043	(638)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from employee stock purchase plan issuances and stock options exercised	304	294
Capital lease payments	(107)	(98)
Net cash provided by financing activities	197	196
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of short- and long-term investments	--	(4,490)
Maturities of short-term investments	458	6,149
Proceeds from gain on sale of United Kingdom operations and e5 intellectual property, net of expenses of $835	14,865	--
Purchases of property and equipment	(521)	(670)
Additions to capitalized software	(1,013)	(1,144)
Other	3	29
Net cash provided (used) by investing activities	13,792	(126)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**15,032**	**(568)**
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	**4,583**	**4,219**
CASH AND CASH EQUIVALENTS - END OF PERIOD	**$19,615**	**$3,651**
Supplemental disclosure:		
Cash paid for income taxes	$71	$78

See notes to consolidated financial statements

ELEVON, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include all adjustments (consisting only of normal recurring adjustments) which the Company considers necessary for a fair presentation of the financial position, operating results and cash flows for those periods. Results for the interim periods are not necessarily indicative of the results for the entire year. These consolidated financial statements and any notes thereto should be read in conjunction with the audited consolidated financial statements included in the Walker Interactive Systems, Inc. Annual Report on Form 10-K for the year ended December 31, 2001. Certain reclassifications have been made to prior years' amounts in order to conform to the 2002 consolidated financial statement presentation.

2. EARNINGS PER SHARE

The Company calculates basic earnings per share ("EPS") and diluted EPS in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share." Basic EPS is computed by dividing net income (loss) by the weighted average number of common shares outstanding for that period. Diluted EPS takes into account the effect of dilutive instruments, such as stock options, and uses the average share price for the period in determining the number of common stock equivalents that are to be added to the weighted average number of shares outstanding. Common stock equivalents are excluded from the diluted loss per share calculation if the effect would be antidilutive.

3. COMPREHENSIVE INCOME/(LOSS)

SFAS No. 130 requires disclosure of total non-stockholder changes in equity, which include unrealized gains and losses on securities classified as available- for-sale under SFAS No. 115, foreign currency translation adjustments accounted for under SFAS No. 52, and minimum pension liability adjustments made pursuant to SFAS No. 87.

The reconciliation of net income to comprehensive income for the three-month and nine-month periods ended September 30, 2002 and 2001 is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Net income..........................	$19,778	$19	$20,244	$469
Other comprehensive loss............	(230)	(247)	(217)	(91)
Total comprehensive income / (loss)..	$19,548	($228)	$20,027	$378

4. IMPAIRMENT AND RESTRUCTURING CHARGES

During the quarter ended June 30, 2002, the Board of Directors approved a strategic restructuring plan designed to reduce costs and strengthen the Company's position to successfully execute its strategy. The Company recorded a pre-tax restructuring charge totaling $892,000 for severance costs related to the involuntary termination of employees in the Company's United States and United Kingdom operations.

The cash outlay from the restructuring charge is estimated to be approximately $890,000, of which approximately $35,000 was paid in the quarter ended June 30, 2002, $650,000 was paid in the quarter ended September 30, 2002, and $130,000 will be paid in the fourth quarter of 2002 and $30,000 in the first quarter of 2003. The remaining balance of approximately $45,000 was transferred to Novele, as an acquired liability (see Note 5, "Acquisition and Divestitures"). In addition the cash paid for accrued vacation related to the restructuring activities was approximately $175,000, which had been accrued as it was earned prior to the restructuring.

In accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed", the Company periodically evaluates capitalized software carrying amounts against the related estimated net realizable values of the assets. During the second quarter of 2002, this evaluation indicated that the estimated net realizable values of certain assets were not sufficient to recover the associated carrying values and resulted in an impairment charge of $365,000.

5. ***ACQUISITION AND DIVESTITURES***

Fiscal 2001 and 2002 Acquisition and Divestiture

On November 1, 2001, the Company acquired from the administrative receiver of QSP Group PLC ("QSP"), QSP's intellectual property and a consulting contract. QSP, headquartered in Newcastle, United Kingdom, was a global provider of financial systems on mainframe and UNIX platforms to Global 2000 companies and was placed in administrative receivership on October 17, 2001. The acquisition cost of $2.0 million was allocated to the intellectual property and was being amortized on a straight line-basis over a two-year period from the date of acquisition. Subsequent to November 1, 2001, the Company hired certain former QSP employees, provided consulting services under the acquired contract, and engaged with the former QSP customer base to establish new relationships. Revenues and costs related to these activities have been included in the Company's consolidated financial statements from November 1, 2001 through September 6, 2002.

On September 6, 2002, the Company sold its United Kingdom operations and its Elevon 5 intellectual property to Novele Limited ("Novele"), located in London, United Kingdom. Under the terms of a Sale Purchase Agreement ("Agreement") dated September 6, 2002, Elevon sold the stock of its wholly owned subsidiary, Elevon International Limited, to Novele for consideration of $16.5 million. Approximately $15.7 million cash was received at closing. The remaining balance of $800,000 is due on or before December 31, 2002 subject to certain conditions under the terms of the Agreement. In addition to acquiring the Elevon operations headquartered in the United Kingdom, Novele acquired the Elevon 5 intellectual property, which Elevon had acquired from the administrative receiver for the QSP Group PLC in November 2001. We have deferred $200,000 of the gain as recovery is dependent upon our completion of certain customer requirements during the fourth quarter of fiscal 2002. Novele will also become an exclusive distributor of Elevon software, including Elevon 2 and Active Financial Planning, in the United Kingdom and certain other territories, as defined in a Software Distribution Agreement. Under the terms of the Distribution Agreement, for the specified territories the Company will receive a royalty based on a percentage applied to actual maintenance revenues and new license sales of the Elevon 2 and Active Financial Planning products.

The Company recognized an after-tax gain in respect of the above transaction of $18.6 million (net of $200,000 of taxes), or $1.19 per diluted share, in the consolidated statement of operations for the three months ended September 30, 2002. The gain before taxes was calculated as follows (amounts in thousands):

Proceeds received	$15,700
Proceeds receivable	$800
Deferred gain	($200)
Transaction costs	($835)
Net book value of Elevon 5 intellectual property	($1,167)
Elimination of deficit	$4,458
	$18,756

The operations and related intellectual property sold had revenues, operating expenses (including amortization) and net income as follows (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Month September	
	2002	2001	2002	2001
Total revenue	$3,011	$2,057	$12,916	$7,456
Total operating expenses	$2,668	$2,052	$11,206	$6,467
Net income	$343	$5	$1,710	$989
Diluted net income per share	$0.02	$0.00	$0.11	$0.07

Fiscal 2000 Divestitures

In October 2000, the Company sold the net assets of its Aptos product line to B-Plan Information Systems Limited ("B-Plan"). The Aptos product line was an integrated suite of client/server financial applications for medium-sized companies and was marketed primarily in the United Kingdom. The divesture agreement provided for total consideration of approximately $2.3 million. The Company received an initial payment of approximately $425,000 in December 2000, and, in October 2001, the Company and B-Plan executed a mutual release from any and all claims associated with the divesture agreement. Under the terms of the mutual release agreement, B-Plan paid the Company approximately $442,000, including interest, in November 2001 and is obligated to pay the Company an aggregate of approximately $575,000 in quarterly installments from April 2002 through January 2006. The first quarterly payment from B-Plan was received in April 2002 and subsequent payments have been recognized in the financial statements as received.

In April 2000, the Company sold its stock ownership in Revere Inc. ("Revere") to Gores Technology Group ("GTG"). Revere's main product comprised the IMMPOWER asset management application. The divestiture agreement provided that GTG pay the Company $500,000 at closing, and, dependent upon the parties reaching mutual agreement on a final determination of Revere's net assets as defined in the divestiture agreement, an additional amount may be due to or from GTG. Management believes no additional amounts are due to or from GTG.

During the period that the Company owned and operated the divested product lines, reserves were established in the normal course of business to provide for contractual and other obligations. The Company retained certain of those reserves when the product lines were divested to cover certain existing obligations and those that were expected to arise from the change in ownership. During the approximately two-year period since the divestitures, the Company believes that it has discharged substantially all obligations associated with the divestitures through cash payments and negotiation. The residual amount of $1.7 million has been included as a special credit in the consolidated statement of operations during the nine months ended September 30, 2002.

6. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations" and SFAS No.142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method and addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination. SFAS No. 142 addresses the initial recognition and measurement of intangible assets acquired outside of a business combination and the accounting for goodwill and other intangible assets subsequent to their acquisition. SFAS No. 142 provides that intangible assets with finite useful lives be amortized and that goodwill and intangible assets with indefinite lives will not be amortized, but will rather be tested at least annually for impairment. The Company has adopted SFAS No. 142 for its fiscal year beginning January 1, 2002. As the Company does not have any goodwill recorded in its consolidated financial statements as of January 1, 2002 the adoption SFAS No. 142 did not have an impact on the financial position, results of operations or cash flows of the Company.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment of Long-Lived Assets", which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", but retains the fundamental provisions for recognizing and measuring impairment of long-lived assets to be held and used or disposed of by sale. The Statement also supercedes the accounting and reporting provisions for the disposal of a segment of a business, and eliminates the exception to consolidation for a subsidiary for which control is likely to be temporary. SFAS No. 144 eliminates the conflict between accounting models for treating the dispositions of long-lived assets that existed between SFAS No.121 and the guidance for a segment of a business accounted for as a discontinued operation by adopting the methodology established in SFAS No. 121, and also resolves implementation issues to SFAS No. 121. This Statement is effective for fiscal years beginning after December 15, 2001. The Company has adopted SFAS No. 144 for its fiscal year beginning January 1, 2002. The adoption of SFAS No. 144 did not have an impact on the financial position, results of operations or cash flows of the Company.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", which addresses accounting for restructuring and similar costs. SFAS No. 146 supersedes previous accounting guidance, principally Emerging Issues Task Force Issue No. 94-3. The Company will adopt the provisions of SFAS No. 146 for restructuring activities initiated after December 31, 2002. SFAS No. 146 requires that the liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost was recognized at the date of the Company's commitment to an exit plan. SFAS No. 146 also establishes that the liability should initially be measured and recorded at fair value. Accordingly, SFAS No. 146 may affect the timing of recognizing future restructuring costs as well as the amounts recognized.

ELEVON, INC.

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

The following discussion of results of operations and financial condition of the Company should be read in conjunction with the Company's unaudited financial statements and notes thereto included elsewhere in this Form 10-Q. The report on this Form 10-Q contains forward-looking statements, including statements related to industry trends and demand for mainframe and other software products, cash commitments and working capital requirements. Discussions containing such forward-looking statements may be found in the material set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations," generally and specifically therein under the captions "Recent Developments," "Liquidity and Capital Resources," and "Additional Risk Factors." You can identify forward-looking statements by the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," "seeks," "approximately," "intends," "plans," "pro forma," "estimates," or "anticipates," or the negative of these words and phrases or similar words or phrases. You can also identify forward- looking statements by discussions of strategy, plans or intentions. Forward- looking statements involve numerous risks and uncertainties and you should not rely upon them as predictions of future events. There is no assurance that the events or circumstances reflected in forward-looking statements will occur or be achieved. Forward-looking statements are necessarily dependent on assumptions, data, or methods that may be imprecise and we may not be able to realize them. The risk factors on pages 20 through 27, among others, should be considered in evaluating the Company's prospects and future financial performance.

The Company designs its software products specifically for the Internet architecture and business to business ("B2B") e-business models. The Company believes that its architecture is among the most scalable and adaptable for the enterprise-level business software. The Company's strategy is to offer enterprise financial, operational and analytical e-business solutions to a variety of industries. The Company's e-business solutions support and enhance enterprise-wide financial, operational and analytic processes, including procurement, revenue management, financial management and insight, business planning, budgeting, forecasting and financial consolidation. The Company's software products utilize the Microsoft Windows operating systems on the desktop, NT, UNIX and S/390 operating systems on the server and industry-leading On Line Analytical Processing ("OLAP"), Relational Database Management Systems ("RDBMS") including IBM's DB2 and DB2 OLAP server, Hyperion Solutions' Essbase and Microsoft SQL/Server. The Company's e-business solutions utilize the latest-generation IBM eServer zSeries Web Application Server. In addition, the Company utilizes iSeries, pSeries and xSeries servers as an integral part of its e-business strategy for analytic solutions.

RECENT DEVELOPMENTS

On September 6, 2002, we sold our United Kingdom operations and our Elevon 5 intellectual property to Novele Limited ("Novele"), located in London, United Kingdom. Under the terms of a Sale Purchase Agreement ("Agreement") dated September 6, 2002, we sold the stock of our wholly owned subsidiary, Elevon International Limited, to Novele for consideration of $16.5 million. Approximately $15.7 million cash was received at closing. The remaining balance of $800,000 is due on or before December 31, 2002 subject to certain conditions under the terms of the Agreement. We have deferred $200,000 of the gain as recovery is dependent upon our completion of certain customer requirements during the fourth quarter of fiscal 2002. In addition to acquiring the Elevon operations headquartered in the United Kingdom, Novele acquired the QSP ("Elevon 5") intellectual property, which we had previously acquired from the administrative receiver for the QSP Group PLC in November 2001 for $2.0 million in cash. Novele will also become an exclusive distributor of of Elevon software, including Elevon 2 and Active Financial Planning, in the United Kingdom and certain other territories, as defined in a Software Distribution Agreement.

We recognized an after-tax gain in respect of the sale of our United Kingdom operations and e5 intellectual property of $18.6 million, or $1.19 per diluted share, in the consolidated statement of operations for the three months ended September 30, 2002.

On June 18, 2002, we announced that we were undertaking a strategic restructuring designed to reduce operating costs and strengthen our position to successfully execute our strategy. We recorded pretax restructuring charges totaling $892,000 for severance costs related to the involuntary termination of employees in our United States and United Kingdom operations. During the second quarter of 2002, our evaluation of capitalized software carrying amounts against the related estimated net realizable values of the assets indicated that the estimated net realizable values of certain assets were not sufficient to recover the associated carrying values and resulted in an impairment charge of $365,000. In addition, we recorded a benefit of $1.7 million during the quarter ended June 30, 2002 related to a reduction in estimated liabilities associated with divested product lines. The combined effect of the charges and the special credit described above was a net reduction in operating expenses of $475,000 in the consolidated statement of operations for the three months ended June 30, 2002. Had these transactions not occurred, we would have experienced a net loss of $263,000, or $0.02 per diluted share, for the second quarter.

On February 4, 2002, we announced we would start doing business as Elevon, Inc. On May 23, 2002, the stockholders approved an amendment to our Restated Certificate of Incorporation to formally change the Company's name to Elevon, Inc. The certificate was filed with the Secretary of State of the State of Delaware on May 31, 2002. On July 15, 2002, our ticker symbol on the Over the Counter Bulletin Board was changed to "ELVN".

In the second quarter of 2000, we formed a wholly owned subsidiary, RareVision, Inc., to further the development and market testing of a business- to-business internet model for a web-based, knowledge management analytical application for smaller businesses. During fiscal 2000 and 2001, product development and marketing expenses totaling $6.6 million were incurred and charged to operations. During 2001, further development of the RareVision product line on a standalone basis was suspended and the remaining components of the development effort were integrated into our analytics product line.

RESULTS OF OPERATIONS

As more fully described in Note 5 to the interim consolidated financial statements and in "Recent Developments" in Management's Discussion and Analysis of Financial Condition and Results of Operations, in November 2001 we acquired the QSP intellectual property and in September 2002 we sold our United Kingdom operations and the previously acquired QSP intellectual property to Novele Limited.

To assist in the understanding of the effects of the divestiture of the United Kingdom operations and the previously acquired QSP intellectual property, the historical results for the operations remaining after the divestiture ("North America") and the divested operations ("United Kingdom"), where relevant, have been shown separately.

Variations in the United Kingdom results for the three and nine month periods ended September 30, 2002 and 2001 relate primarily to the incremental revenues and costs associated with reestablishment of the former QSP operations. The incremental QSP revenues and costs were partially offset by the absence of one month of United Kingdom legacy revenues and costs following the divestiture, together with a decline in United Kingdom core license and maintenance revenues for the nine months ended September 30, 2002.

Quarters ended September 30, 2002 and September 30, 2001

REVENUES

	North America	United Kingdom	2002 Total	North America	United Kingdom	2001 Total
Revenues:						
License and royalty	$850	$182	$1,032	$661	$161	$822
Maintenance	3,403	1,727	5,130	4,328	1,237	5,565
Consulting	3,287	1,102	4,389	3,645	659	4,304

Total revenues	$7,540	$3,011	$10,551	$8,634	$2,057	$10,691

Total North America revenues for the three months ended September 30, 2002 were $7.5 million, a decrease of $1.1 million, or 12.7%, as compared to the three months ended September 30, 2001. The decrease in total revenues is attributable to lower maintenance and consulting revenue, partially offset by higher license revenue.

Revenue for the three month periods ended September 30, 2002 and 2001 from a single customer represented 16.1% and 18.8% of total revenue, respectively.

North America license revenues for the three months ended September 30, 2002 were $850,000, an increase of $189,000, or 28.6%, as compared to the three months ended September 30, 2001. Our license revenues for the three months ended September 30, 2001 were negatively impacted by the aftermath of the events of September 11, because license agreements are traditionally executed in the last several weeks of a quarter.

North America maintenance revenues for the three months ended September 30, 2002 were $3.4 million, a decrease of $925,000, or 21.4%, as compared to the three months ended September 30, 2001. North America maintenance revenues for the three months ended September 30, 2001 included revenue from several maintenance agreements which were not renewed and incremental revenue arising from the early termination of one customer agreement.

North America consulting revenues for the three months ended September 30, 2002 were $3.3 million, a decrease of $358,000, or 9.8%, as compared to the three months ended September 30, 2001. The decrease relates primarily to the decline in consulting revenues from the legacy analytics product line.

COSTS OF LICENSES, MAINTENANCE AND CONSULTING.

	North America	United Kingdom	2002 Total	North America	United Kingdom	2001 Total
Cost of revenues	$2,494	$1,344	$3,838	$3,208	$1,054	$4,262

North America costs of licenses, maintenance and consulting were $2.5 million for the three months ended September 30, 2002, representing 33.1% of total North America revenues, and $3.2 million for the three months ended September 30, 2001, representing 37.2% of total North America revenues.

The cost of North America license revenue, which is mainly related to third party license costs, was not significant in the three month periods ended September 30, 2002 and 2001.

The cost of North America maintenance, as a percentage of related revenue, decreased in the three months ended September 30, 2002 as compared to the three months ended September 30, 2001. The decrease is primarily due to the savings in employee compensation costs that we achieved as a result of the restructuring actions taken in June 2002.

The costs of North America consulting, as a percentage of related revenue, decreased in the three months ended September 30, 2002 as compared to the three months ended September 30, 2001. The decrease reflects the effect of the restructuring actions taken in the second quarter of 2002, together with a relative reduction in the use of subcontractors in the three months ended September 30, 2002.

SALES AND MARKETING.

	North America	United Kingdom	2002 Total	North America	United Kingdom	2001 Total

Sales and marketing	$1,174	$742	$1,916	$2,071	$767	$2,838

North America sales and marketing costs for the three months ended September 30, 2002 were $1.2 million, a decrease of $897,000, or 43.3%, as compared to the three months ended September 30, 2001. As a percentage of North America revenues, sales and marketing expenses were 15.6% and 24.0% in the three months ended September 30, 2002 and 2001, respectively. The decrease is attributable to reduced discretionary spending and reduced sales and marketing employee related costs.

PRODUCT DEVELOPMENT.

Product development related expenses, excluding amortization of capitalized software, were as follows (in thousands):

	Three Months Ended September 30,	
	2002	2001
Product development expenditures.....	$1,695	$2,298
Less:		
Additions to capitalized software.	(164)	(430)
Product development expense..........	$1,531	$1,868

Net product development expense decreased $337,000, or 18.0%, in the three months ended September 30, 2002 as compared to the three months ended September 30, 2001 and was 14.5% and 17.5% of total revenues, respectively. For the three months ended September 30, 2002, total product development expenditures decreased $603,000, primarily reflecting the absence of RareVision costs, which were approximately $500,000 for the quarter ended September 30, 2001. Product development expenses for the three months ended September 30, 2002 include $89,000 relating to the divested Elevon 5 product line. Additions to capitalized software decreased $266,000, or 61.9%, in the third quarter of fiscal 2002 as compared to the third quarter of fiscal 2001 and were 9.7% and 18.7% of product development expenditures, respectively. The decrease in software costs capitalized in the three months ended September 30, 2002 is primarily attributable to a larger proportion of our product development resources being allocated to projects that do not meet our capitalization criteria.

AMORTIZATION OF CAPITALIZED SOFTWARE.

Capitalized software amortization in the three months ended September 30, 2002 was $539,000, a decrease of $224,000, or 29.4%, as compared to the three months ended September 30, 2001. The decrease is mainly due to several projects becoming fully amortized during the quarter, partially offset by incremental amortization of the Elevon 5 intellectual property during the three months ended September 30, 2002 of $173,000.

GENERAL AND ADMINISTRATIVE.

	North America	United Kingdom	2002 Total	North America	United Kingdom	2001 Total
General and administrative	$1,230	$294	$1,524	$775	$213	$988

North America general and administrative expenses in the three months ended September 30, 2002 were $1.2 million, an increase of $455,000, or 58.7%, as compared to the three months ended September 30, 2001. As a percentage of total revenues, general and administrative expenses were 16.3% and 9.0% in the three months ended September 30, 2002 and 2001, respectively. The increase in the three months ended September 30, 2002 is primarily due to the effect of a $300,000 benefit resulting from a favorable sales tax determination during the third quarter of 2001, combined with a provision of $100,000 to increase the allowance for doubtful accounts in the three months ended September 30, 2002.

GAIN ON SALE OF UNITED KINGDOM OPERATIONS AND e5 INTELLECTUAL PROPERTY.

The Company recognized an after-tax gain in respect of the sale of its United Kingdom operations and e5 intellectual property of $18.6 million, or $1.19 per diluted share, in the consolidated statement of operations for the three months ended September 30, 2002 (see Note 5, "Acquisition and Divestitures").

PROVISION FOR INCOME TAXES.

In the three months ended September 30, 2002, the Company provided $225,000 for state, federal and foreign income taxes that could not be offset against net operating loss carryforwards, including $200,000 for the alternative minimum tax liability in relation to the disposal of the Elevon 5 intellectual property (see Note 5, "Acquisition and Divestitures"). In the three months ended September 30, 2001, the Company recorded an income tax expense of $25,000 associated with state and foreign taxes.

Nine months ended September 30, 2002 and September 30, 2001

REVENUES

	North America	United Kingdom	2002 Total	North America	United Kingdom	2001 Total
Revenues:						
License and royalty	1,367	1,692	3,059	5,089	1,413	6,502
Maintenance	10,516	5,867	16,383	13,043	3,928	16,971
Consulting	10,970	5,357	16,327	10,234	2,115	12,349
Total revenues	$22,853	$12,916	$35,769	$28,366	$7,456	$35,822

Total North America revenues for the nine months ended September 30, 2002 were $22.9 million, a decrease of $5.5 million, or 19.4%, as compared to the nine months ended September 30, 2001. The decrease in total revenues is attributable to lower license and maintenance revenue, partially offset by higher consulting revenue.

Revenue for the nine month periods ended September 30, 2002 and 2001 from a single customer represented 18.1% and 17.5% of total revenue, respectively.

North America license revenues for the nine months ended September 30, 2002 were $1.4 million, a decrease of $3.7 million, or 73.0%, as compared to the nine months ended September 30, 2001. Our license revenues for the nine months ended September 30, 2002, in common with many other software companies, were negatively impacted by the general economic slowdown and reduction in corporate spending for technology. We also signed several individually larger license agreements during the first nine months of 2001, which contributed to the decrease in license revenues in the first nine months of 2002 when compared to the first nine months of 2001.

North America maintenance revenues for the nine months ended September 30, 2002 were $10.5 million, a decrease of $2.5 million, or 19.4%, as compared to the nine months ended September 30, 2001. North America maintenance revenues for the nine months ended September 30, 2001 included revenue from several maintenance agreements which were not renewed, due to customer acquisitions or the completion of migrations to alternative platforms. In 2001 we also provided short-term extended support to several customers who were migrating to current releases, and derived incremental revenue from the early termination of one customer agreement.

North America consulting revenues for the nine months ended September 30, 2002 were $11.0 million, an increase of $736,000, or 7.2%, as compared to the nine months ended September 30, 2001. The increase is primarily due to continuing strong revenues in our North American Elevon 2 consulting business, partially offset by a decline in legacy analytics consulting revenue.

COSTS OF LICENSES, MAINTENANCE AND CONSULTING.

	North America	United Kingdom	2002 Total	North America	United Kingdom	2001 Total
Cost of revenues	$8,694	$5,636	$14,330	$9,731	$3,183	$12,914

North America costs of licenses, maintenance and consulting were $8.7 million for the nine months ended September 30, 2002, representing 38.0% of total North America revenues, and $9.7 million for the nine months ended September 30, 2001, representing 34.3% of total North America revenues. The total North America cost of revenues is lower for the nine months ended September 30, 2001 because proportionately more license revenue was recognized in this period than in the nine months ended September 30, 2002, and the cost of license revenue, which is mainly related to third-party license costs, was insignificant for both these periods.

The cost of North America maintenance, as a percentage of related revenue, decreased in the nine months ended September 30, 2002 as compared to the nine months ended September 30, 2000. The decrease was mainly the result of lower employee compensation costs.

The costs of North America consulting, as a percentage of related revenue, were substantially the same in the nine months ended September 30, 2002 as in the nine months ended September 30, 2001. Lower employee-related costs were offset by an increase in subcontractor costs.

SALES AND MARKETING.

	North America	United Kingdom	2002 Total	North America	United Kingdom	2001 Total
Sales and marketing	$5,035	$2,936	$7,971	$6,481	$2,481	$8,962

North America sales and marketing costs for the nine months ended September 30, 2002 were $5.0 million, a decrease of $1.4 million, or 22.3%, as compared to the nine months ended September 30, 2001. As a percentage of North America revenues, sales and marketing expenses were 22.0% and 22.9% in the nine months ended September 30, 2002 and 2001, respectively. The decrease is attributable to reduced discretionary spending and reduced sales and marketing employee related costs.

PRODUCT DEVELOPMENT.

Product development related expenses, excluding amortization of capitalized software, were as follows (in thousands):

Nine Months Ended

	September 30, 2002	September 30, 2001
Product development expenditures.....	$5,685	$8,208
Less:		
Additions to capitalized software.	(1,013)	(1,140)
Product development expense..........	$4,672	$7,068

Net product development expense decreased $2.4 million, or 33.9%, in the nine months ended September 30, 2002 as compared to the nine months ended September 30, 2001 and was 13.1% and 19.7% of total revenues, respectively. For the nine months ended September 30, 2002, total product development expenditures decreased $2.5 million, mainly reflecting the effect of RareVision costs of $2.9 million for the nine months ended September 30, 2001, partially offset by increased spending on the "Active Financial Planning" product. Product development expenses for the nine months ended September 30, 2002 include $339,000 relating to the divested Elevon 5 product line. Additions to capitalized software decreased $127,000, or 11.1%, in the nine months ended September 30, 2002 as compared to the nine months ended September 30, 2001 and were 17.8% and 13.9% of product development expenditures, respectively. The decrease in software costs capitalized in the nine months ended September 30, 2002 is primarily attributable to a larger portion of product development resources being allocated to projects that do not meet the Company's capitalization criteria.

AMORTIZATION OF CAPITALIZED SOFTWARE.

Capitalized software amortization in the nine months ended September 30, 2002 was $2.5 million, an increase of $185,000, or 8.1%, as compared to the nine months ended September 30, 2001. The increase is due to incremental amortization of the Elevon 5 intellectual property during the nine months ended September 30, 2002 of $672,000, partially offset by a decrease of fully amortized legacy analytics products.

GENERAL AND ADMINISTRATIVE.

	North America	United Kingdom	2002 Total	North America	United Kingdom	2001 Total
General and administrative	$3,782	$1,341	$5,123	$3,601	$745	$4,346

North America general and administrative expenses in the nine months ended September 30, 2002 were $3.8 million, an increase of $181,000, or 5.0%, as compared to the nine months ended September 30, 2001. As a percentage of North America revenues, general and administrative expenses were 16.5% and 12.7% in the nine months ended September 30, 2002 and 2001, respectively. The increase in general and administrative expenses in the nine months ended September 30, 2002 as compared to the nine months ended September 30, 2001 relates to the inclusion of a $450,000 benefit from the termination of a lease and a $300,000 reversal of an accrual resulting from a favorable sales tax determination in the nine months ended September 30, 2001, whereas no such benefits were recorded in the nine months ended September 30, 2002. This was offset by savings in employee-related costs in the nine months ended September 30, 2002.

RESTRUCTURING CHARGE, IMPAIRMENT OF CAPITALIZED SOFTWARE AND SPECIAL CREDIT

During the quarter ended June 30, 2002, we recorded pretax restructuring charges totaling $892,000 comprised of severance costs related to the involuntary termination of employees in our United States and United Kingdom operations, an impairment charge of $365,000 for capitalized software, and a benefit of $1.7 million related to a reduction in estimated liabilities associated with divested product lines.

GAIN ON SALE OF UNITED KINGDOM OPERATIONS AND e5 INTELLECTUAL PROPERTY.

The Company recognized an after-tax gain in respect of the sale of its United Kingdom operations and e5 intellectual property of $18.6 million, or $1.19 per diluted share, in the consolidated statement of operations for the three months ended September 30, 2002 (see Note 5, "Acquisition and Divestitures").

PROVISION FOR INCOME TAXES.

In the nine months ended September 30, 2002, the Company provided $275,000 for state, federal and foreign income taxes that could not be offset against net operating loss carryforwards, including $200,000 for the alternative minimum tax liability in relation to the disposal of the Elevon 5 intellectual property (see Note 5, "Acquisition and Divestitures"). In the nine months ended September 30, 2001, the Company recorded an income tax expense of $75,000 associated with state and foreign taxes.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2002, the Company's principal sources of liquidity included cash and cash equivalents aggregating $19.6 million. In addition, we have a line of credit, secured by accounts receivable, whereby we may borrow up to $4.0 million, dependent upon the amount of eligible accounts receivable as defined in the agreement. The agreement is renewable annually in the first quarter. We have never borrowed under this line of credit. As of September 30, 2002, we have future operating lease obligations of approximately $9.6 million through 2007, of which approximately $2.0 million is payable during the twelve month period from September 30, 2002.

The Company's operating activities, which included the Company's United Kingdom operations through September 6, 2002, provided cash of $1.0 million and used cash of $638,000 in the nine months ended September 30, 2002 and September 30, 2001, respectively. This increase was primarily driven by an improvement in operating income, partially offset by spending on restructuring activities in the nine months ending September 30, 2002.

Financing activities provided $197,000 and $196,000 in cash during the nine months ended September 30, 2002 and September 30, 2001, respectively, consisting of proceeds from the issuance of stock under the Company's employee stock purchase plan and proceeds from stock options exercised, less payments made on capital leases.

Investing activities provided cash of $13.8 million in the nine months ended September 30, 2002 and used $126,000 in cash during the nine months ended September 30, 2001. In the nine months ended September 30, 2002, we received net proceeds from the divesture of our United Kingdom operations of $14.9 million, and short-term investments totaling $458,000 matured. These inflows were offset by additions to capitalized software of $1.0 million and fixed asset purchases of $521,000. The major cash flows in the nine months ended September 30, 2001 comprised net investment activity totaling $1.7 million, offset by additions to capitalized software of $1.1 million and fixed asset purchases of $670,000.

We believe that our principal sources of liquidity, which include cash and cash equivalents of $19.6 million as of September 30, 2002 and funds expected from operations will satisfy our currently anticipated working capital and capital expenditure requirements for at least the next twelve months. While there can be no assurance, we believe the non-cash charges in our statement of operations for depreciation and amortization of capitalized software will continue to exceed our cash requirements for capital expenditures and our additions to capitalized software, thereby providing cash flow to fund our working capital requirements. In addition, we expect that the restructuring actions taken in the three months ended June 30, 2002 will continue to have a positive effect on future cash flow, primarily as a result of reductions in employee compensation and related costs. Variations in our working capital requirements are dependent primarily on the rate of growth in our revenues, the timing and mix of our revenues, and the timing of collections of accounts receivable associated with our revenues. In addition, we have a credit facility that provides for up to $4.0 million of borrowings, dependent upon the amount of eligible accounts receivable, as defined in the agreement. However, the following factors, among others, could affect our liquidity and capital resources:

- ◊ Our ability to successfully transition our product offerings to collaborative commerce solutions and to gain market acceptance for our new products, including the Active Financial Planning product released during the second quarter of 2002.
- ◊ Our performance is sensitive to general economic conditions. A sustained recession, in which customers delay or cancel discretionary software purchases, would be damaging to our operational results and cashflows.
- ◊ Our ability to successfully win new consulting business to replace existing projects as they are completed.
- ◊ Our ability to renew customer maintenance agreements.

We cannot assure you that we will not need to raise additional capital to fund operations within the next twelve months. We cannot assure you that additional financing can be obtained on acceptable terms, or at all. If additional funds are raised by issuing equity securities, dilution to stockholders may result. If adequate funds are not available, our financial condition, our results from operations and the market price of our stock could be adversely affected.

ADDITIONAL RISK FACTORS

We operate in a rapidly changing environment that involves numerous risks and uncertainties that could have a material adverse effect on us. The following discussion details some, but not all, of these risks and uncertainties.

Our operating results may fluctuate, which may adversely affect the trading price of our stock.

Our operating results fluctuate as a result of a variety of factors including:

- · the execution of new license agreements;
- · the shipment of software products;
- · customer acceptance criteria for services performed;
- · completion of milestone or other significant development requirements pursuant to our license agreements;
- · the financial terms of consulting agreements and the inclusion of fixed as opposed to variable pricing;
- · third-party royalty payments for licensed software;
- · the demand for our products and services;
- · changes in our product and services mix;
- · the development and launch of new products and services, and the life cycles of our existing products and services;
- · product development expenditures required to update and expand our product portfolio and related third-party consulting costs;
- · sales and marketing expenses generally related to the entry into new markets with new or existing products and maintenance of market share in existing markets;
- · acquisitions and the integration and development of acquired entities or products;
- · competitive conditions in the industry; and
- · general economic conditions.

As a result, we believe that period-to-period comparisons of our operating results are not necessarily meaningful and should not be relied upon as indications of our future performance.

Our quarterly operating results are particularly dependent on the number of license agreement bookings we execute in each quarter. The amount of quarterly bookings has varied substantially from quarter to quarter due to a variety of reasons including:

- a high proportion of license agreements are negotiated during the latter part of each quarter and these negotiations may not be completed before the quarter end;
- the sales cycles for some of our products are relatively long due to our focus on "enterprise solutions" as opposed to individual products, which adds complexity to the customer's selection, negotiation and approval process;
- our longer sales cycle resulting from our transition to e-business, as the transition to collaborative commerce involves coordination with multiple vendors that can delay the sales process;
- the amount related to each booking may vary significantly due to the need for different solutions for different customers;
- procurement procedures may vary from customer to customer, which may affect the timing of the bookings;
- the period for a customer to complete product evaluations and to complete any subsequent purchase approval may be delayed due to resource limitations; and
- economic, political and industrial conditions can adversely affect business opportunities without notice.

In addition, bookings that we execute during a particular quarter may not be recognized as revenue during such quarter because such bookings may not have met our revenue recognition criteria. We cannot assure you that we will be able to effect new bookings in accordance with historical results or management's expectations, and our inability to do so could have a material adverse effect on our operating results, financial condition and the market price of our stock.

While we typically sell our software under a standard license agreement, license agreements associated with large enterprise solutions often require the negotiation of terms and conditions that differ substantially from our standard license agreement terms. The negotiation of these agreements may extend the sales cycle. We may not always obtain terms and conditions that permit the recognition of revenue upon shipment of the licensed product or under the percentage of completion method of contract accounting rules. Accordingly, revenue may not be recognized after shipment of a product because specified milestones have not been met or because applicable services have not been completed.

We have and expect to enter into fixed-price consulting agreements, particularly in response to increased competition in the industry. We have recognized lower profit margins on certain fixed-price service agreements when compared to variable agreements. No assurance can be given that we will be able to conclude fixed-price agreements on terms that will allow us to achieve acceptable operating margins, and the failure to do so could have a material adverse effect on our operating results, financial condition and the market price of our stock.

We historically have generated a majority of our consulting revenue from pre- and post-implementation services. We have provided services that include, but are not limited to, Year 2000 readiness engagements, best practice solution engagements and other hardware and software solutions. We intend to continue to pursue consulting engagements for which we believe we are qualified. We cannot assure you that these engagements will result in profit margins equal to or greater than those engagements that are specific to a customer's product implementation. Further, we cannot assure you that consulting revenue generated from non-implementation related projects will continue in the future. Our inability to obtain consulting engagements and derive adequate profit margins from such engagements could have a material adverse effect on our operating results, financial condition and the market price of our stock.

Many customers who have bought our mainframe financial applications have the source code. Accordingly, customers may choose to maintain their own systems or outsource the maintenance to a provider of their choosing. We cannot assure you that we will be successful in all cases in persuading customers to sign maintenance contracts with us. The failure to do so would have an adverse effect on our maintenance revenue stream.

Employee and facility related expenditures comprise a significant portion of our operating costs and expenses, and are therefore relatively fixed over the short term. In addition, our expense levels are based, in significant part, on our forecasted revenue. If revenue levels fall below our expectations, operating results are likely to be adversely affected. There can be no assurance that we will be able to achieve profitability on a quarterly or annual basis in the future. Any of the foregoing factors could cause our future operating results to fall below the expectations of public securities market analysts, which could have an adverse effect on the trading price of our common stock.

We were delisted from the Nasdaq National Market, which may adversely affect the trading price of our stock.

Since March 6, 2001 our stock has traded on the Over the Counter Bulletin Board. This is generally considered a less efficient market, and our stock price, as well as the liquidity of our common stock, may be adversely affected as a result. Further, we cannot assure you that our stock will be relisted on the Nasdaq National Market, or any other exchange, in the future.

The market price of our stock may experience volatility, which may cause the value of your investment in our common stock to decline.

Technology companies, including ourselves, frequently experience volatility in their common stock prices. Factors such as quarterly fluctuations in results of operations, announcements of technological innovations by us or our competitors, the introduction of new products by us or our competitors, and macroeconomic conditions in the computer hardware and software industries generally may have a material adverse impact on the market price of our stock. If revenues or earnings in any quarter fail to meet the expectations of the investment community, our stock price could be impacted immediately. In addition, we have issued shares and stock options, which, if sold directly or exercised and sold on the open market in large concentrations, could cause our stock price to decline in the short term. Furthermore, the stock market has from time to time experienced extreme price and volume fluctuations that have particularly affected the market price for many technology companies, in some cases unrelated to the operating performance of those companies. These broad market fluctuations may materially adversely affect the market price of our stock.

If we are unable to renew our existing third party license agreements or obtain new agreements, we may not be able to successfully develop our technology and our business, operating results and financial condition may be adversely affected.

We generate revenue from internally developed software products, some of which utilize technology licensed from third parties. We expect to continue utilizing third party technology and may enter into agreements with additional business partners. If sales of software utilizing third party technology increase disproportionately, gross margins may be below historical levels due to third party royalty obligations. We cannot assure you that the third parties will renew existing agreements with us or will not require financial conditions that are unfavorable to us. In addition, we cannot assure you that existing third party agreements will not be terminated. If we are unable to continue utilizing third party technology, we may not be able to successfully develop certain of our current and new products and our business, operating results and financial condition could be adversely affected.

If there is a further downturn in the technology industry or in general economic conditions, our business, operating results and financial condition may be adversely affected.

Certain software companies, including ourselves, have experienced significant economic downturns as a result of technological shifts and competitive pressures. These downturns are characterized by decreased product demand, price erosion, work slowdowns and layoffs. Our operations may, in the future, experience substantial fluctuations from period to period because of such industry patterns and general economic and political conditions which could affect the timing of orders from customers. We cannot assure you that such factors will not have a materially adverse effect on our business, operating results, financial condition, or market price of our stock.

Our royalty revenue stream is dependent on the success of Novele in selling the Elevon 2 and Active Financial Planning products.

Following the disposal of our United Kingdom operations, Novele Limited has become the exclusive distributor for the Elevon 2 and Active Financial Planning products in the United Kingdom and certain other territories. Our revenues, operating results and financial condition are likely to be adversely affected if Novele is unsuccessful in marketing and selling these products.

If we are unable to compete successfully in our market it will harm our business.

The business and financial applications software market for large, complex organizations is intensely competitive. Our principal competitors with e-business solutions are SAP AG, Oracle Corporation and PeopleSoft, Inc. With our analytical applications, we principally compete with Hyperion Solutions Corporation, Adaytum Software Inc. and Comshare, Inc.

We also compete to a lesser extent with other independent software application vendors. Some of our current and potential competitors have substantially greater financial, technical, marketing and sales resources than us. Some of these competitors also offer business application products not offered by us, primarily in the areas of human resources and manufacturing. However, we remain one of the few companies committed to providing and enhancing applications for the mainframe environment. Most of the competitors listed above compete with us by offering UNIX-based applications.

We encounter competition from a broad range of firms in the professional services market, including the current and former consulting divisions of the major accounting firms, which possess greater resources than we do, and small independent firms that compete primarily on the basis of price.

The principal competitive factors in the market for business and financial applications software and services include product functionality, flexibility, portability, integration, reliability, performance, product availability, speed of implementation, quality of customer support and user documentation, vendor reputation, experience, financial stability, cost effectiveness and price. We believe that we compete favorably with respect to these factors. There can be no assurance, however, that we will be able to compete successfully in the future, and the failure to do so could have a material adverse effect on our operating results, financial condition and the market price of our stock.

If we are unable to stay current with the rapid technological change that characterizes the software industry, our products may not gain marketplace acceptance and our business, operating results and financial condition could suffer.

The software industry is characterized by rapid technological change. The pace of change has accelerated due to advances in mainframe and client/server technology and the growth in Internet, intranet and extranet utilization. We expect to evaluate potential opportunities and may invest in those that are compatible with our strategic direction. However, there can be no assurance that any such investments will be profitable. Our legacy products are also designed primarily for use with certain mainframe and client/server systems. The introduction of products embodying new technologies and the emergence of new industry standards can render existing products obsolete. Accordingly, our future success depends in part upon our ability to continue to enhance our 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.

We cannot assure you that:

- we 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;
- we will not experience difficulties that could delay or prevent the successful development, introduction and marketing of such products and enhancements; or
- any new products or enhancements that we may introduce will achieve market acceptance.

The failure to do any of the above could have a material adverse effect on our operating results, financial condition and the market price of our stock.

If we are unable to introduce, develop and market new and enhanced versions of our software products, we may be put at a competitive disadvantage.

Our success depends on our continued ability to introduce, develop and market new and enhanced versions of our software products. However, we cannot assure you that this process can be maintained. We plan to continue our investment in product development in future periods. However, we cannot assure you that revenues will be sufficient to support the future product development that is required for us to be competitive. Although we may be able to release new products in addition to enhancements to existing products, we cannot assure you that our new or upgraded products will be accepted by the market, will not be delayed or canceled, or will not contain errors or "bugs" that could affect the performance of the product or cause damage to users' data.

If we are unable to effectively protect our intellectual property, we may be put at a competitive disadvantage; and if we are involved in an intellectual property rights dispute, we may not prevail and may be subject to significant liabilities or required to license rights from a third party.

We regard our products as proprietary. Through our license agreements with customers and our internal security systems, confidentiality procedures and employee agreements, we have taken steps to maintain the trade secrecy of our products. However, we cannot assure you that misappropriation will not occur. In addition, the laws of some countries do not protect our proprietary rights to the same extent as do the laws of the United States. We cannot assure you that the confidentiality of any proprietary information will provide any meaningful competitive advantage. We have no patents relating to our products. We believe that, because of the rapid pace of technological change in the computer software industry, that patents and copyrights are less significant than factors such as the knowledge, ability and experience of our employees, frequent product enhancements and the timeliness and quality of support services. We cannot assure you that our current efforts to retain our products as proprietary will be adequate. The failure to do so could have a material adverse effect on our operating results, financial condition and the market price of our stock.

Although we believe that our products do not infringe upon the proprietary rights of third parties, we cannot assure you that third parties will not assert infringement claims against us in the future with respect to current or future products, or that any such assertions will not require us to enter into royalty arrangements or result in costly litigation, or result in us being unable to use the intellectual property.

We may be subject to product liability claims if our software fails in mission critical applications, and limitation of liability provided in our license agreements may not protect us.

The license and support of our software for use in mission critical applications creates the risk of product liability claims against us. Our license agreements with our customers contain provisions designed to limit our exposure to potential product liability claims. It is possible, however, that the limitation of liability provisions contained in such license agreements may not be enforced as a result of international, federal, state and local laws or ordinances or unfavorable judicial decisions. Damage liability or injunctive relief resulting from such claims could have a materially adverse impact on our business, operating results and financial condition.

Our business depends on certain key executives, the loss of whom could weaken our management team, and on attracting and retaining qualified personnel.

We believe that our continued success depends in large part upon our ability to attract, train and retain highly skilled technical, sales, marketing and managerial personnel. Because of the high level of demand, competition for such personnel is intense and we sometimes experience difficulty in locating candidates with appropriate qualifications or within desired geographic locations. The success of our business is dependent on our ability to attract, train, retain and productively manage such personnel.

We have excess capacity in our San Francisco headquarters.

Our headquarters are located in San Francisco under a lease that expires in 2007. Although historical commercial building vacancy rates have been low in San Francisco, recent changes in the economy have resulted in a significant increase in available office space. Our San Francisco headquarters office space exceeds our current needs, and while we are seeking to reduce this excess office space we cannot assure you that this can be achieved at economic terms acceptable to us.

The difficulties inherent in integrating acquired businesses, products or technology could have an adverse effect on our results of operations, business and financial condition.

We have acquired and may continue to acquire complimentary businesses, products or technology. The process of integrating an acquired company's business into our operations may result in unforeseen operating difficulties and expenditures and may require significant management attention that would otherwise be available for the ongoing development of our business. Acquisitions involve numerous risks, including difficulties in the assimilation of operations, technologies and products of the acquired company, risks associated with entering markets in which we have no or limited direct prior experience and the potential loss of key employees of the acquired company. We cannot assure you that we will successfully integrate any new acquisition or realize any anticipated benefits of an acquisition. Further, future acquisitions by us could result in potentially dilutive issuances of equity securities, the incurrence of debt and contingent liabilities and amortization related to goodwill and other intangible assets, which could materially affect our operating results and financial condition.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Following the disposal of our United Kingdom operations on September 6, 2002 (see Note 5, "Acquisition and Divestures"), our market risk with regard to exchange rate exposure has been reduced to a negligible amount. No adverse changes with regard to interest rate risk have been experienced.

Item 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Within 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect the internal controls subsequent to the date the Company completed its evaluation.

PART II. OTHER INFORMATION

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits

None

a. Reports on Form 8-K

Elevon, Inc. filed a Current Report on Form 8-K on September 20, 2002 in connection with its divestiture of the United Kingdom operations and the sale of the Elevon 5 intellectual property.

ELEVON, INC.

FORM 10-Q

SIGNATURES

ELEVON SYSTEMS, INC.

FORM 10Q

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.

ELEVON, INC.

(Registrant)

Date: November 12, 2002

By: /s/ Stanley V. Vogler

Stanley V. Vogler
Chief Financial Officer
(Principal Financial and Accounting Officer)

Certification of the Chief Executive Officer

I, Frank M. Richardson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Elevon, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors:

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Frank M. Richardson

Frank M. Richardson

November 12, 2002

Certification of the Chief Financial Officer

I, Stanley V. Vogler, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Elevon, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors:

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Stanley V. Vogler

Stanley V. Vogler

November 12, 2002