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ROSS SYSTEMS INC/CA
Form 10-Q
May 15, 2001

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 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

Commission File Number 0-19092

ROSS SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware

94-2170198

(State or other jurisdiction of
incorporation or organization

(IRS Employer
Identification Number

Two Concourse Parkway,
Suite 800, Atlanta, Georgia

30328

(Address of principal executive offices)

(Zip code)

(770) 351-9600

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days. YES NO

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

Class -----	Outstanding March 31, 2001 -----
Common stock, \$0.001 par value	25,647,734

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ROSS SYSTEMS, INC.

QUARTERLY REPORT ON FORM 10-Q
QUARTER ENDED MARCH 31, 2001

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ROSS SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share related data)

	March 31 2001 (unaudited)
ASSETS	-----
Current assets:	
Cash and cash equivalents	\$ 4,172
Accounts receivable, less allowance for doubtful accounts	12,106
Prepays and other current assets	2,777

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Total current assets	19,055
Property and equipment, net	1,744
Computer software costs, net	27,821
Other assets	2,581
Total assets	\$ 51,201
<hr/>	
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Current installments of debt	\$ 5,322
Accounts payable	7,017
Accrued expenses	4,259
Income taxes payable	356
Deferred revenues	11,829
Total current liabilities	28,534
<hr/>	
Long-term debt, less current installments	1,163
<hr/>	
Shareholders' equity:	
Common stock, \$.001 par value; 35,000,000 shares authorized, 25,647,734 and 23,804,191 shares issued and outstanding at March 31, 2001 and June 30, 2000, respectively. Preferred stock, no par value; 5,000,000 shares authorized, 0 outstanding.	26,000
Additional paid-in capital	86,918
Accumulated deficit	(64,275)
Accumulated comprehensive deficit	(1,414)
Total shareholders' equity	21,255
<hr/>	
Total liabilities and shareholders' equity	\$ 51,201
<hr/>	

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

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ROSS SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Three months ended	Ni
	March 31,	
	(unaudited)	
	2001	2000
	-----	-----
Revenues:		

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Software product licenses	\$ 2,407	\$ 4,146	\$
Consulting and other services	3,206	7,402	
Maintenance	5,881	6,929	
	-----	-----	-----
Total revenues	11,494	18,477	
	-----	-----	-----
Operating expenses:			
Costs of software product licenses	352	759	
Costs of consulting, maintenance and other services	3,333	9,760	
Sales and marketing	3,038	4,858	
Product development	2,615	2,524	
General and administrative	1,117	1,914	
Provision for uncollectible accounts	245	770	
Amortization of other assets	158	237	
Non-recurring costs	-	1,145	
	-----	-----	-----
Total operating expenses	10,858	21,967	
	-----	-----	-----
Operating earnings (loss)	636	(3,490)	
Other expenses, net	(219)	(359)	
	-----	-----	-----
Earnings before taxes	417	(3,849)	
Extraordinary item, net of tax effect	2,372		
Income tax expense (benefit)	2	4	
	-----	-----	-----
Net earnings (loss)	\$ 2,787	\$ (3,853)	\$
	=====	=====	=====
Net earnings (loss) per common share - basic	\$ 0.11	\$ (0.16)	\$
	=====	=====	=====
Net earnings (loss) per common share - diluted	\$ 0.11	\$ (0.16)	\$
	=====	=====	=====
Shares used in per share computation - basic	25,648	23,416	
	=====	=====	=====
Shares used in per share computation - diluted	25,648	23,416	
	=====	=====	=====

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

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ROSS SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands) (unaudited)

Nine

2001

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Cash flows from operating activities:

Net earnings (loss)	\$	(3,614)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Extraordinary gain on sale of product line		2,372
Depreciation and amortization of property and equipment		1,282
Amortization of computer software costs		5,810
Amortization of other assets		517
Provision for uncollectable accounts		1,080
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable		8,930
Prepays and other current assets		(286)
Income taxes payable / recoverable		116
Accounts payable		140
Accrued expenses		(317)
Deferred revenues		(8,160)

Net cash provided by operating activities		7,870

 Cash flows from investing activities:		
Purchases of property and equipment		(129)
Computer software costs capitalized		(5,222)
Net assets and liabilities transferred with product line sale		2,362
Other		513

Net cash used for investing activities		(2,476)

 Cash flows from financing activities:		
Net line of credit activity		(2,608)
Capital lease payments		(622)
Proceeds from issuance of common stock		29

Net cash used for financing activities		(3,201)

 Effect of exchange rate changes on cash		(31)

 Net decrease in cash and cash equivalents		2,162
 Cash and cash equivalents at beginning of period		2,010

Cash and cash equivalents at end of period	\$	4,172
		=====
 Non-cash investing and financing activities:		
Conversion of convertible debentures	\$	584
Supplementary disclosure:		
Income taxes paid		-
		=====
Interest paid		864
		=====

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

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ROSS SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1) BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Ross Systems, Inc. (the "Company") reflect all adjustments of a normal recurring nature which are, in the opinion of management, necessary to present a fair statement of its financial position as of March 31, 2001, and the results of its operations and cash flows for the interim periods presented. The Company's results of operations for the three and nine months ended March 31, 2001 are not necessarily indicative of the results to be expected for the full year.

These unaudited condensed consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and, therefore, certain information and footnote disclosures normally contained in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These financial statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Company's Annual Report to Stockholders on Form 10-K for the fiscal year ended June 30, 2000 filed with the Securities and Exchange Commission on October 13, 2000.

Certain fiscal 2000 amounts have been reclassified to conform to the fiscal 2001 financial statement presentation.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the liquidation of liabilities in the normal course of business. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

2) PRINCIPLES OF CONSOLIDATION

The accompanying financial statements include accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

3) CAPITALIZED COMPUTER SOFTWARE COSTS AND OTHER ASSETS

It is the Company's policy to follow paragraph 8 of SFAS 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed" in the computation of annual amortization expense of software costs. The straight-line method has historically yielded the greatest annual expense when compared to the ratio of current gross revenues to current and anticipated future gross revenues. Accordingly, the straight-line method is generally used to amortize previously capitalized software costs.

It is the Company's policy to assess all its long-lived assets and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Impairment losses, if applicable, would be calculated as the difference between the carrying value of the asset and the sum of anticipated future undiscounted cash flows. The calculation would be performed on an individual item basis.

4) ACCOUNTS RECEIVABLE

As of the dates shown, accounts receivable consisted of the following (in thousands):

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ROSS SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	March 31, 2001	June 30, 2000
	-----	-----
Trade accounts receivable	\$ 14,446	\$ 25,498
Less allowance for doubtful accounts and returns	(2,340)	(3,571)
	-----	-----
	\$ 12,106	\$ 21,927
	=====	=====

5) PROPERTY AND EQUIPMENT

As of the dates shown, property and equipment consisted of the following (in thousands):

	March 31, 2001	June 30, 2000
	-----	-----
Computer equipment	\$ 9,093	\$ 13,113
Furniture and fixtures	2,009	3,007
Leasehold improvements	1,404	1,705
	-----	-----
	12,506	17,825
Less accumulated depreciation and amortization	(10,762)	(14,816)
	-----	-----
	\$ 1,744	\$ 3,009
	=====	=====

7) CONVERTIBLE DEBT

On February 6, 1998, the Company closed a private placement of up to \$10,000,000 of convertible subordinated debentures to certain institutional investors (the "Investors") pursuant to Regulation D promulgated under the Securities Act of 1933, as amended. The investors invested \$6,000,000 on February 6, 1998 and \$4,000,000 on June 11, 1998. As of March 31, 2001, the remaining balance after conversions and redemptions is \$759,000. The material agreements between the Company and each Investor have been filed as exhibits to the Current Report on Form 8-K filed with the Securities and Exchange Commission by the Company on February 12, 1998. The salient points of the convertible subordinated debenture agreement are as follows:

Interest: The interest rate is four percent per annum for the first six months after the original issuance date of the convertible debenture and six percent per annum thereafter, subject to increases (up to the legal maximum rate) if the Company is in default under the convertible debenture. Accrued interest is due and payable in shares of the Company's Common Stock semi-annually on the last day of June and December of each year. The value for such shares of Common Stock is the average of the two lowest closing bid prices for the Company's Common Stock as reported by the Bloomberg Service for the thirty trading days immediately before the interest payment date.

Conversion Price: The conversion price for the convertible debentures is (P

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+ I) divided by the Conversion Date Market Price where P equals the outstanding principal amount of the convertible debenture submitted for conversion, I equals accrued but unpaid interest as of the conversion date and Conversion Date Market Price equals the lesser of the maximum conversion price (as defined below) or 101% of the average of the two lowest closing bid prices for the Company's Common Stock as reported by the Bloomberg Service for the thirty trading days immediately before the conversion date. The maximum conversion price is 115% of the average closing bid price of the Company's Common Stock as reported by the Bloomberg Service over the 1998 calendar year. The average closing bid price for this period was \$35.718 per post-split share (\$3.5718 per pre-split share), which results in a maximum conversion price of \$41.0757

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ROSS SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

per post-split share (\$4.10757 per pre-split share). A portion of the convertible debentures issued in June 1998 (the "Second Closing Debentures") were redeemed by the Company. See paragraph (H) below and "Part I, Item 2 of this Quarterly Report on Form 10-Q Management's Discussion and Analysis of Financial Condition and Results of Operations" for a description of the company's redemption of a portion of the second closing debentures.

As of October 27, 2000 the Company had issued an aggregate amount of shares equal to 19.99% of the number of common shares outstanding on February 6, 1998, the date of the original transaction. As such, NASDAQ capitalization regulations preclude further issuances without shareholder approval or waiver by the NASDAQ. The Company has been denied waiver by the NASDAQ. Through a properly called special meeting and vote of the shareholders, the Company has also been denied shareholder approval to convert the remaining debentures into equity. The total outstanding debentures are \$759,000. The debenture holder may, at its option, require settlement in cash plus a premium of 15% over the face value of the debentures then outstanding.

7) SOFTWARE REVENUE RECOGNITION

The company recognizes revenue on software transactions in accordance with Statement of Position No. 97-2 "Software Revenue Recognition" ("SOP 97-2). The financial statements contained herein have been prepared in accordance with the requirements of SOP 97-2.

8) COMPREHENSIVE INCOME

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income" as of July 1, 1998. SFAS 130 requires disclosure of total non-stockholder changes in equity in interim periods and additional disclosures of the components of non-stockholder changes on an annual basis. Total non-stockholder changes in equity include all changes in equity during a period except those resulting from investments by and distributions to stockholders. The components of comprehensive income (loss) for the three and nine month periods ended March 31, 2001 and 2000 were as follows (in thousands):

Three months ended March 31,		Nine months ended March 31,	
2001	2000	2001	2000

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Net earnings (loss)	\$ 2,787	\$ (3,853)	\$ (1,241)	\$ (4,5
Foreign currency translation adjustments	213	(191)	466	(4
Total comprehensive income (loss)	\$ 3,000	\$ (4,044)	\$ (775)	\$ (4,9

9) NET EARNINGS (LOSS) PER COMMON AND COMMON EQUIVALENT SHARE

Basic earnings (loss) per common share are computed by dividing net earnings or net loss by the weighted average number of common shares outstanding during the period. Diluted earnings per common and common equivalent share is computed by dividing net earnings by the weighted average number of common and common equivalent shares outstanding during the period. Common stock equivalents are not considered in the calculation of net loss per share when their effect would be antidilutive.

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ROSS SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following is a reconciliation of the numerators of diluted earnings per share, (in thousands):

	Three months ended March 31,		
	2001	2000	20
Net earnings (loss)	\$ 2,787	\$ (3,853)	\$ (1
Payment in kind interest on convertible debentures	13	-	
Numerator for diluted calculation	\$ 2,800	\$ (3,853)	\$ (1

In periods when the Company is profitable, the only difference between the denominator for basic and diluted net earnings per share is the effect of common stock equivalents. In periods of a loss, the denominator does not change because it would be anti-dilutive.

10) OTHER MATTERS

On September 1, 1998, the Board of Directors of the Company approved a Preferred Shares Rights Agreement dated September 4, 1998, whereby the Board has declared a dividend distribution of one Preferred Shares Purchase Right (the "Rights") on each outstanding share of the Company's Common Stock. Each Right will entitle stockholders to buy 1/1000th of a share of the Company's Series B Participating Preferred Stock at an exercise price of \$21.75. The Rights will become exercisable following the tenth day after a person or group announces the acquisition of 15% or more of the Company's Common Stock or announces commencement of a tender offer the consummation of which would result in ownership by the person or group of 15% or more of the Common Stock. The Company will be entitled to redeem the Rights at \$.01 per Right at any time on or before

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the tenth day following acquisition by a person or group of 15% or more of the Company's Common Stock.

On September 18, 1998 the Board of Directors of the Company approved an adjustment to the exercise price for certain outstanding stock options held by all current employees, which have an exercise price of \$3.00 and above. In consideration for this repricing offer, officers of the Company participating in the option repricing were required to forfeit 10% of the shares subject to each option being repriced, while non-officer employees participating in the option repricing are subject to a one year limitation on the exercising of repriced options subject to certain exceptions. The one year limitation on ability to exercise expired on September 28, 1999. The revised exercise price was established by reference to the closing price of the Company's Common Stock on September 28, 1998, which was approximately \$2.59. Approximately 90 employees participated in the repricing with approximately 1,336,000 options being repriced. Of the stock options repriced, options to purchase approximately 831,000 shares were held by executive officers of the Company.

On January 7, 1999, the Company entered into employment agreements with each of J. Patrick Tinley, the Company's Chairman of the Board and Chief Executive Officer and Dennis V. Vohs, the Company's former Chairman of the Board of Directors and former Chief Executive Officer (the Employment Agreements). In addition to a salary and benefits, Mr. Tinley's employment agreement provides the employee with a continuation of salary and benefits for a twenty-four month period immediately following the employee's termination of employment by the Company "without cause" (as that term is defined in the Employment Agreement). In addition, if within the first nine months following a "change of control" of the Company Mr. Tinley terminates his employment of the surviving corporation for "good reason" or the surviving corporation terminates the employee's employment for any reason other than "cause" or "disability" (as each of these terms in quotes is defined in the Employment Agreements), the employee shall then be entitled to a continuation of then applicable salary for the twenty-four month period immediately following the termination date and all unvested stock options and similar rights shall become vested and exercisable. On

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ROSS SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2000, Mr. Vohs ceased his employment with the Company, but remains on the Board of Directors, and in a consulting capacity. As such, his Employment Agreement terminated on December 31, 2000. Mr. Tinley's and Mr. Vohs Employment Agreements have been filed as Exhibit 10.3 and Exhibit 10.4, respectively to the Company's Annual Report on Form 10-K for the fiscal year 2000, Filed October 13, 2000.

On September 17, 1999, the Company entered into an employment agreement with Robert B. Webster, Executive Vice President and Secretary of the Company. In addition to a salary and benefits, the employment agreement provides the employee with a continuation of salary and benefits for a twelve-month period immediately following the employee's termination of employment by the Company "without cause" (as that term is defined in the Employment Agreement). In addition, if within the first nine months following a "change of control" of the Company the employee terminates his employment of the surviving corporation for "good reason" or the surviving corporation terminates the employee's employment for any reason other than "cause" or "disability" (as each of these terms in quotes is defined in the Employment Agreements), the employee shall then be entitled to a continuation of then applicable salary for the twelve month period immediately following the termination date and all unvested stock options and

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similar rights shall become vested and exercisable. Mr. Webster's Employment Agreement has been filed as Exhibit 10.5 to the Company's Annual Report on Form 10-K for the fiscal year 2000, filed October 13, 2000.

During the third quarter of fiscal year 2000, the Company recorded a \$1,145,000 expense to cover the liability arising from severance costs associated with 19 employees employed in sales, marketing, services, and product development in North America and Europe. The costs were accrued in accordance with EITF Issue 94-3, "Liability Recognition for Certain Employee Terminations, Benefits and Other Costs to Exit an Activity". At December 31, 2000, all of the costs had been paid.

On September 12, 2000, the Company announced a strategic restructuring aimed at reducing costs and improving efficiencies. Under the restructuring, the Company reduced 125 positions across the company as well as accelerated efforts to eliminate unneeded office space, improve productivity through the use of technology and focus on increased revenues through the use of distributors. Cost savings associated with the restructuring were expected to be \$12,000,000 on an annualized basis. As a result of these actions, during the first quarter of fiscal year 2001, the Company recorded a \$790,000 expense to cover the liability arising from associated employee separation costs. The costs were accrued in accordance with EITF Issue 94-3, "Liability Recognition for Certain Employee Terminations, Benefits and Other Costs to Exit an Activity". At March 31, 2001, all of the costs had been paid.

On October 24, 2000 the Company entered into a plan to cease all direct sales, service and support activities in France as a result of a pattern of significant and sustained losses. As such, for purposes of the accompanying consolidated financial statements, the balance sheet of the French subsidiary has been eliminated as of October 31, 2001. For purposes of the accompanying statement of operations, the French subsidiary had revenues and expenses netting to a loss of \$497,000 for the quarter ended September 30, 2000 which have been included in these consolidated results. Management believes that potential future costs of this action cannot be reasonably estimated at this time but does not anticipate that the resolution of this uncertainty will have a material adverse effect on the financial statements taken as a whole.

11) NASDAQ Listing and Subsequent Event

On October 31, 2000, the Company was informed by Nasdaq staff that the closing bid price of its common stock had fallen below the \$1 minimum bid level required by Nasdaq Marketplace Rule 4450(a)(5)

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ROSS SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for a period of thirty consecutive trading days, and that the Company would be delisted if it failed to regain compliance. On March 9, 2001, the Company met with the Nasdaq listings qualifications panel (the panel) and presented a plan to effect a reverse stock split in order to cure the non-compliance regarding minimum bid price. The panel accepted this plan, and on April 26, 2001, the Company held a properly called special meeting of its shareholders and received shareholder vote approval for a one for ten (1 for 10) reverse stock split. The reverse stock split became effective on April 27, 2001, and the condition of non-compliance on minimum bid price, has been cured. The Company meets the other quantitative maintenance criteria for the National Market.

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12) Extraordinary Item

Effective February 28, 2001, the Company closed the sale of certain assets related to its Human Resource and Payroll product line to Now Solutions, LLC, a private company. At the same time the Company executed a distribution agreement with Now Solutions to continue to sell the product under license from Now Solutions as a complement to its enterprise systems for process manufacturing companies. The gross asset sale price is \$6.1 million excluding incentives. After fees and expenses the transaction generated an extraordinary gain on the sale of approximately \$2.4 million before incentives. The twofold purpose of the transaction is to strengthen the Company's balance sheet and to enable the Company to focus on its core competencies in the process manufacturing sector. Sales, services and maintenance revenues related to this product line for the eight months ended February 28, 2001 were approximately \$4,806,000. The product lines total revenues for years ended June 30, 2000 and 1999 were \$8,052,000 and \$8,882,000, respectively. The net book value of the intellectual property transferred in this sale was \$3,936,000, \$4,134,000, and \$3,749,000 at February 28, 2001, June 30, 2000 and June 30, 1999, respectively.

13) NEW ACCOUNTING PRONOUNCEMENTS

In June, 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("Statement 133"). Statement 133 establishes accounting and reporting standards for derivative instruments including certain derivative instruments embedded in other contracts, (collectively referred to as derivatives) and for hedging activities. The adoption of Statement 133 is required for the Company's fiscal year 2001. The adoption of Statement 133 has not had a material impact on the Company's financial statements.

In 1999, the staff of the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." SAB No. 101 summarizes the SEC staff's views in applying generally accepted accounting principles to the recognition of revenues. The Company's adoption of SAB No. 101 has not had a material impact on its consolidated results of operations, financial position, or cash flows.

14) GEOGRAPHIC SEGMENT INFORMATION

The Company has adopted the Financial Accounting Standards Board's statement of Financial Accounting Standards No. 131, or SFAS 131, "Disclosures about Segments of an Enterprise and Related Information," effective for fiscal years beginning after December 15, 1997. SFAS 131 supersedes Statement of Financial Accounting standards No. 14, or SFAS 14, Financial Reporting for Segments of a Business

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Enterprise. SFAS 131 changes current practice under SFAS 14 by establishing a new framework on which to base segment reporting and also requires interim reporting of segment information.

The Company markets its products and related services primarily in North America, Europe and Asia and primarily measures its business performance based upon geographic results of operations. Selected balance sheet and income statement information pertaining to the various significant geographic areas of operation are as follows:

As of and for the quarter ended March 31, 2001:

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	Gross Assets	Revenue	Net Income (Loss)	De and
	-----	-----	-----	-----
Belgium.....	\$ 267	\$ 155	\$ (16)	\$
Netherlands.....	1,109	682	65	
Germany.....	252	237	71	
Spain.....	3,861	1,221	212	
United Kingdom.....	3,579	1,630	42	
North America.....	42,133	7,569	2,413	
	-----	-----	-----	
Total.....	\$ 51,201	\$ 11,494	\$ 2,787	\$
	=====	=====	=====	

As of and for the quarter ended March 31, 2000:

	Gross Assets	Revenue	Net Income (Loss)	De and
	-----	-----	-----	-----
Belgium.....	\$ 359	\$ 293	\$ (160)	
Netherlands.....	920	602	(120)	
France.....	2,948	646	(1,338)	
Germany.....	478	515	61	
Spain.....	4,617	1,289	(89)	
United Kingdom.....	3,378	1,834	(380)	
North America.....	57,638	13,298	(1,827)	
	-----	-----	-----	
Total.....	\$ 70,338	\$ 18,477	\$ (3,853)	
	=====	=====	=====	

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ROSS SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Variability of Quarterly Results

The Company's software product license revenues can fluctuate from quarter to quarter depending upon, among other things, such factors as overall trends in the United States and international economies, new product introductions by the Company, hardware vendors and other software vendors, and customer buying patterns. Because the Company typically ships software products within a short period after orders are received, and therefore maintains a relatively small backlog, any weakening in customer demand can have an almost immediate adverse impact on revenues and operating results. Moreover, a substantial portion of the revenues for each quarter is attributable to a limited number of sales and tends

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to be realized in the latter part of the quarter. Thus, even short delays or deferrals of sales near the end of a quarter can cause substantial fluctuations in quarterly revenues and operating results. Finally, certain agreements signed during a quarter may not meet the Company's revenue recognition criteria resulting in deferral of such revenue to future periods. Because the Company's operating expenses are based on anticipated revenue levels and a high percentage of the Company's expenses are relatively fixed, a small variation in the timing of the recognition of specific revenues can cause significant variation in operating results from quarter to quarter.

Business Summary

Description of Business

The Company is a supplier of enterprise-wide business systems and related services to companies installing internet-enabled e-business software products, in particular in the process manufacturing markets. Customers are primarily medium-sized companies (with annual sales of \$50 million to \$2 billion) upgrading internal systems to improve profitability through the availability of timely and accurate information, or to modernize their management information systems operations in order to reduce costs and provide business-to-business (B2B) linkage with suppliers and customers. The Company licenses its products to customers through a direct sales force in North America and Western Europe as well as independent distributors in 24 other markets worldwide. Since the Company's inception in 1988, the Company has licensed software products to an installed base of over 3,400 customers worldwide.

The Company has developed a series of products designed for the Internet environment which allow users to access and manipulate data from their personal computers using a portal for functional personalization of the user's desktop. These products incorporate an integrated, modular, feature-rich and user-friendly operating environment. The integration of these products allows the sharing of data between application products with a common user interface while integrating frequently visited Web sites and other software tools. The Company's open systems applications function in a relational database management system ("RDBMS") environment that provides for a high degree of data availability and integrity. Additionally, because the Company's iRenaissance financial, manufacturing and distribution applications were developed with the GEMBASE fourth generation language ("4GL"), the Company believes they are easily modified and expanded. GEMBASE is a programming environment that delivers a central data dictionary, complete screen painting, editing and debugging capabilities, and links to several popular RDBMSs. GEMBASE itself is written in the C programming language to facilitate portability across multiple

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ROSS SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

hardware and RDBMS platforms. Because the iRenaissance financial, manufacturing and distribution products were developed in GEMBASE, customers often find it easy to customize their own applications.

The Company offers a comprehensive Enterprise Resource Planning ("ERP") solution with functionality specifically tailored to the unique formula and specifications-based requirements of process manufacturers, including food and beverage, consumer packaged goods, pharmaceutical and biotechnology, chemical, primary metals, and pulp and paper companies. The Company believes that this native functionality is superior to the alternative presented by many of the

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Company's competitors, which is to adapt systems designed primarily for the discrete manufacturing sector. The product may be deployed in a thin client mode to permit the greatest performance advantage for companies using remote communications over the internet.

In fiscal 2000, the Company introduced its Resynt suite of internet applications and services which include a wide range of e-commerce, business-to-business (B2B) features and technology to connect traditional ERP (enterprise resource planning) systems over the internet to customers and suppliers. This enables tight linkages in trading partner supply chains to achieve sustainable competitive advantage. These applications are designed to allow companies the ability to leverage the technology of the Internet in order to automate business processes and effectively manage business resources

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ROSS SYSTEMS, INC. AND SUBSIDIARIES

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Results of Operations

Revenues

Total revenues for the third quarter and three month period ended March 31, 2001 decreased 38% to \$11,494,000 from \$18,477,000, in fiscal 2000. Software product license revenues decreased 42%, consulting and other services revenues decreased 57%, and maintenance revenues decreased 15% from the comparable period in the prior year, respectively.

For the nine month period ended March 31, 2001, total revenues decreased 40% to \$38,244,000 from \$63,582,000 in fiscal 2000. Software product license revenues decreased 55%, consulting and other services revenues decreased 55%, and maintenance revenues decreased 10% from the comparable period in the prior year, respectively.

For the three month period ended March 31, 2001 revenues have decreased by \$5,646,000 in North America and by \$1,337,000 in Europe and the Pacific Rim (International). The largest decrease in Europe was \$647,000 in respect of France, which reflects the closure of the Paris office. New arrangements for sales through a local French distributor have been concluded. The company believes that global decreases in software product licenses is principally a result of an industry-wide slowdown in customer's willingness to purchase fully integrated ERP software in favor of similar but modular internet enabled enterprise systems and business to business internet applications.

The decrease in software revenues for the nine month period ended March 31, 2001 was \$8,165,000 or 55%, from the same period in fiscal 2000 and is attributable to the industry-wide slowdown, as explained above.

Consulting and other service revenues for the three month period ended March 31, 2001 decreased 57% to \$3,206,000 from \$7,402,000 in fiscal 2000. Revenues from consulting and other services (which are recognized as performed) are generally correlated with software product license revenues (which are recognized upon delivery), therefore, service revenues fluctuate based upon related fluctuations in software product revenue. For this period, North American services revenues decreased by \$3,689,000, or 63%, and International services revenues decreased \$507,000, or 26% respectively. These decreases in consulting and other service revenues are attributable to lower software product licensing activity during the previous quarters.

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The total decrease in consulting and other services revenues for the nine month period is \$15,100,000, or 55%. Declining software revenues and associated reduction in service revenues are the primary causes of this decrease.

Maintenance revenues for the three month period ended March 31, 2001 decreased by \$1,048,000, or 15% from the same quarter in fiscal 2000. This change is essentially made up of a decrease in Europe and Asia of \$594,000 and a decrease of \$454,000 in North America. Within North America, the Company estimates that \$335,000 of this \$454,000 decrease is due to the sale of the Human Resource and Payroll product line on February 28, 2001. Other decreases are principally attributable to lower software licensing activity during fiscal 2000. Maintenance contracts sold by third party distributors are included by the Company in software product license revenues because the Company has no support obligations to any of the distributors' customers.

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For the nine month period ended 31 December, 2000, the decline of \$2,073,000 in maintenance revenues, is attributable to a decrease in International operations of \$1,446,000 or 26%, and a decrease in North America of \$627,000 or 4% (of which an estimated \$335,000 is related to the sale of the Human Resource and Payroll product line).

For the three and the nine month period ended March 31, 2001, North American revenues constituted 70% of the total revenue of the Company.

Operating Expenses

Costs of software product licenses include expenses related to royalties paid to third parties and product documentation and packaging. Third party royalty expenses will vary from quarter to quarter based on the number of third party products being sold by the Company. Major third party products sold by the Company include Oracle databases and other optional software including implementation, reporting, and productivity tools. Costs of software product licenses for the second quarter and the nine month period of fiscal 2001 decreased by 54% and 57% respectively, consistent with the decrease in software license sales. As a percentage of software product license revenue, the costs of software product licenses in the third quarter decreased from 18% in fiscal year 2000 to 15% in fiscal 2001. This change reflects the proportionately lesser mix of third party products sold in this quarter of fiscal 2001, when compared to the prior year.

Costs of consulting, maintenance and other services include expenses related to consulting and training personnel, personnel providing customer support pursuant to maintenance agreements, and other costs of sales. The Company also uses outside consultants to supplement Company personnel in meeting peak customer consulting demands. Costs of consulting, maintenance and other services decreased by 66% to \$3,333,000 in the third quarter of fiscal 2001, as compared to \$9,760,000 in the third quarter of fiscal 2000. This reflects the reduction in headcount in the consulting organization, which has effectively matched the resources to the decreased demand resulting from slowed software sales activity mentioned earlier. The decrease of \$6,427,000 in the third quarter of fiscal year 2001, as compared to the prior year, consists of \$943,000 attributable to third party consulting, and \$5,484,000 is a reduction in

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employee expenses. The Company's gross margin resulting from consulting, maintenance and other services revenues for the third quarter of fiscal 2001 was 63%, up from 32% in the same quarter of fiscal 2000. The improvement in the gross profit margin for the three month period was due largely to decreased use of third party consultants, lower spending across the services organization, and a reflection of the higher proportion that maintenance revenue has in the total profitability of consulting and maintenance.

For the nine month period ended March 31, 2001, the gross profit percentage on consulting, maintenance and other revenue is 57%, up from 35% in the prior year period. This improvement in gross profit margin is due to the improved utilization of consulting resources, as a result of matching the staff levels to the demand for consulting services, and is a reflection of the higher proportion that maintenance revenue has in the total profitability of consulting and maintenance.

Sales and marketing expenses for the three month period ended March 31, 2001 are \$1,820,000, or 37% lower than the prior year. This reflects significant savings in employee costs in the second quarter, due to reduced headcount, and an associated reduction in employee-related expenses. Stringent cost-cutting measures have also realized savings in marketing costs.

Sales and marketing costs have decreased by 26% for the nine month period, as compared to the same period in the prior year. This decrease was due to cost saving measures implemented over the period.

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ROSS SYSTEMS, INC. AND SUBSIDIARIES

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Measured as a percentage of total revenues, net product development (research and development) expenditure for the third quarter, 2001 increased to 23% of total revenues, compared to 14% for the third quarter, 2000. Product development expenditures during fiscal 2001 have focused on new internet enabled modules and continued enhancements to the underlying technology of released products and developing new web enabled products.

Net product development expenditure for the quarter ended March 31, 2001 was virtually unchanged as compared to the same quarter in the prior year. However, actual gross research and development expenditure has declined due to a closer matching of the Company's research and development activities with current levels of business activity, and the termination of development of the Human Resource and Payroll product line. The decline in research and development was 56% for the third quarter of fiscal 2001 as compared to the third quarter of fiscal 2000. The increase in net product development expense for the nine month period in comparison to the prior year is due to decreased capitalization as a percent of expenditure, while amortization of previously capitalized amounts continues to add to the current expense level. This is true for both the quarter and six-month period.

General and administrative expenses for the third quarter, 2001 decreased by 42%, to \$1,117,000 from \$1,914,000 for the third quarter, 2000. The major reason for the decrease in these expenses from the same period in the prior year was the decreased spending on employee and recruitment. These cost savings are a result of headcount reduction and cost control measures. The Company's administrative infrastructure is now more productive, and more closely matched to current levels of revenue generating activity.

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For the nine month period, general and administrative expenses have decreased by 33% over the prior nine month period.

In the third quarter, 2001, the Company recorded a provision for doubtful accounts of \$245,000, as compared to \$770,000 recorded in the third quarter, 2000. The fiscal 2001 and 2000 provisions consisted primarily of specific customer accounts identified as being potentially uncollectible. These provisions represent management's best estimate of the doubtful accounts for each period. Reduced provisions reflect the steadily improving quality of the Company's accounts receivable.

Amortization of other assets decreased to \$158,000 in the third quarter of fiscal 2001 from \$237,000 in the same quarter of the prior year. This amortization relates various acquisitions of other products and companies. The decrease is attributable to previously purchased products and companies becoming fully amortized.

There are no non-recurring costs reported for the third quarter, fiscal 2001. The non-recurring costs shown in the nine month period ended March 31, 2001, relate to a strategic restructuring announced by the Company on September 12, 2000. Under the restructuring, the Company reduced 125 positions across the company as well as accelerated efforts to eliminate unneeded office space, improve productivity through the

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

use of technology and focus on increased revenues through the use of distributors. As a result of these actions, during the first quarter of fiscal year 2001, the Company recorded a \$790,000 expense to cover the liability arising from associated employee separation costs. At March 31, 2001, \$11,050 of the liability remained, of which \$2,550 will be paid in fiscal 2001 and the balance in fiscal 2002. In the third quarter of the prior year, the \$1,145,000 non recurring costs related to a reduction in force occurring primarily in North America, Spain and France, and aimed at refocusing the Company towards the then, newly announced Resynt suite of products.

Other Expenses, Net

Other expenses for the third quarter, fiscal 2001 was \$219,000, as compared to \$359,000 for the same period, 2000. These amounts primarily consisted of interest expense related to borrowings under the Company's existing line of credit facility. The comparison of the nine month period ended March 31, 2001 shows little change from the prior year for the same period.

Extraordinary Item

Effective February 28, 2001, the Company closed the sale of certain assets related to its Human Resource and Payroll product line to Now Solutions, LLC, a private company. At the same time the Company executed a distribution agreement with Now Solutions to continue to sell the product under license from Now Solutions as a complement to its enterprise systems for process manufacturing companies. The gross asset sale price is \$6.1 million excluding incentives. After fees and expenses the transaction generated an extraordinary gain on the sale of approximately \$2.4 million before incentives. The twofold purpose of the transaction is to strengthen the Company's balance sheet and to enable the

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Company to focus on its core competencies in the process manufacturing sector. Sales, services and maintenance revenues related to this product line for the eight months ended February 28, 2001 were approximately \$4,806,000. The product lines total revenues for years ended June 30, 2000 and 1999 were \$8,052,000 and \$8,882,000, respectively. The net book value of the intellectual property transferred in this sale was \$3,936,000, \$4,134,000, and \$3,749,000 at February 28, 2001, June 30, 2000 and June 30, 1999, respectively.

Income Tax Expense

The income tax benefit of \$183,000 recorded in the first quarter of fiscal 2001 has been offset by an income tax expense in the second quarter of \$62,000. For the three month periods ended March 31, 2001, and March 31, 2000, the income tax expense in nominal. The net tax benefit recorded in the first quarter of fiscal 2001 relates to certain tax refunds that have been approved by associated tax jurisdictions. Income tax expense relates to withholding taxes in certain foreign jurisdictions where the Company had either no available net operating losses or had to pay treaty-based taxes.

As at June 30, 2000 the Company had a net operating loss for North American Federal Tax purposes of \$36,003,000. The extraordinary gain of \$2,372,000 related to the sale of the Human Resource and Payroll product line has caused a small reduction in this net operating loss.

Liquidity and Capital Resources

In the first nine months of fiscal 2001, net cash provided by operating activities decreased \$134,000 compared to the same period of the prior year. An aggregate net decrease in non-cash charges for depreciation, amortization and provisions for bad debt of \$1,005,000, an aggregate decrease in the combined

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

cash effect of prepaid and other current assets, taxes payable, accrued expenses and deferred revenues of \$6,030,000 and were offset by cash provided by increased Company earnings of \$967,000, the extraordinary gain of \$2,372,000 from the sale of assets and decreased accounts receivable and increased accounts payable totaling \$3,563,000. The decreased receivable portfolio and deferred revenue balance was a result of slowed software and services volumes and the disposal of deferred revenues relating to the sale of assets.

In the first nine months of fiscal 2001, the Company required \$2,476,000 for investing activities versus \$9,686,000 over the same period of the prior year, a decrease of \$7,210,000. Investment in property and equipment decreased by \$177,000 over the same period of the prior year as a result of the Company's cash conservation efforts and declining headcount. Investments in capitalized computer software costs decreased by \$4,133,000 due to lower development headcount, and the disposal of the Human Resource and Payroll product line during fiscal 2001 as compared to the year earlier period. In addition, the cash used for investing purposes was augmented by the proceeds of \$2,632,000 received for the disposal of the net assets and liabilities relating to the sale of the Human Resource and Payroll product line. Other investment items increased by \$538,000 primarily attributable to changes in the cumulative translation adjustment related to capitalized software costs in foreign subsidiaries.

The Company financed its continuing operations for the nine months ended

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March 31, 2001 through cash generated from operations and the sale of certain assets. Repayments of amounts previously borrowed under the Company's line of credit resulted in a decrease in cash of \$2,608,000. \$622,000 was applied in ongoing capital lease payments. Proceeds from issuance of common stock pursuant to the Company's Employee Stock Purchase Program as well as issuance pursuant to interest in kind payments on convertible debt decreased by \$23,000 from the prior year period.

At March 31, 2001 the Company had \$4,172,000 of cash and cash equivalents. During the third quarter, fiscal 2001, the Company's revolving credit facility with an asset-based lender was amended, reducing the credit line from a maximum of \$15,000,000, to a maximum of \$5,000,000, with a maturity date of June, 30 2001, and an interest rate equal to the Prime Rate plus 2%. Borrowings under the credit facility are collateralized by substantially all assets of the Company.

The Company's ability to meet its cash requirements for operations will depend upon funds to be generated from operations and amounts available under its line of credit facility. The Company may be required to seek additional financing to replace its asset based credit line which expires June 30, 2001 if not extended further beyond that date. The Company is currently negotiating alternatives to raise additional funds through public and/or private financing arrangements. The Company cannot be assured that additional funding will be available on favorable terms. Furthermore, additional equity financing will be dilutive to stockholders, and debt financing, if available, may involve restrictive covenants. The Company's failure to raise capital when needed may harm its business and operating results. See note 1 to the consolidated financial statements, "Basis of Presentation".

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Subsequent Events

Change in Members of Board Directors

Effective April 27, 2001, Mr. Mario Rosati stepped down as a member of the Board of Directors. Mr. J. Patrick Tinley was elected Chairman of the Board, replacing Mr. Dennis Vohs, who remains on the Board.

Special Meeting of Shareholders

A Special Meeting of Shareholders was held April 26, 2001. The purpose of the meeting was to:

Proposal 1 - to approve an amendment to the certificate of incorporation effecting a 1-for-10 ten reverse stock split and

Proposal 2 - to comply with the capitalization regulation of NASDAQ by authorizing the Board of Directors to make further issues of Common Stock to holders of convertible debentures.

Proposal 1, to approve the reverse stock split was carried by a majority of the Company's stock holders. Proposal 2, to authorize further share issues to debenture holders was not carried, and the proposal was denied.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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Foreign Exchange: The company has a world-wide presence and as such maintains offices and derives revenues from sources overseas. For the first quarter of fiscal 2001,. International revenues as a percentage of total revenues was approximately 27%. The company's international business is subject to typical risks of an international business, including, but not limited to: differing economic conditions, changes in political climates, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility. Accordingly, the Company's future results could be materially adversely impacted by changes in these or other factors. The effect of foreign exchange rate fluctuations on the Company in the first three months of fiscal 2001 was not material.

Interest Rates: The Company's exposure to interest rates relates primarily to the Company's cash equivalents and certain debt obligations. The company invests in financial instruments with original maturities of three months or less. Any interest earned on these investments is recorded as interest income on the Company's statement of operations. Because of the short maturity of our investments, a near-term change in interest rates would not materially effect our financial position, results of operations, or cash flows. Certain of the Company's debt obligations include a variable rate of interest. A significant, near term change in interest rates could materially effect our financial position, results of operations or cash flows.

PART II. OTHER INFORMATION

Item 2. Changes in Securities

During the first quarter of fiscal 2001, the Investors converted an aggregate principal amount of \$600,000 plus accrued interest through the date of conversion into 629,925 shares of the Company's Common

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ROSS SYSTEMS, INC. AND SUBSIDIARIES

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Stock through several transactions which were priced and executed in accordance with the convertible debenture agreement.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

The Exhibits listed on the accompanying Index to Exhibits are filed as part of, or incorporated by reference into, this Report.

- 3.1 Certificate of Incorporation of the Registrant, as amended (1)
- 3.2 Bylaws of the Registrant (1)
- 4.3 Form of the subordinated debenture agreement due February 6, 2003 issued by the Registrant to each Investor (3)
- 4.4 Registration rights agreement between the Registrant and each Investor (3)
- 10.1 Preferred Shares Rights Agreement, dated as of September 4, 1998 between the Registrant and BankBoston, N.A. (2)

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- 10.2A Extension Agreement and Amendment to Loan Documents dated March 21, 1997 between Registrant and Coast Business Credit, a division of Southern Pacific Thrift and Loan Association (4)
- 10.2B Extension Agreement and Amendment to Loan Documents dated August 18, 1995 between Registrant and CoastFed Business Credit Corporation ("Coast") (4)
- 10.2C First Amendment to Loan and Security Agreement dated June 30, 1995 between Registrant and Coast (4)
- 10.2D Loan and Security Agreement dated October 11, 1994 between Registrant and Coast (4)
- 10.3 Employment Agreement, dated as of January 7, 1999, between Mr. Patrick Tinley and the Registrant (5)
- 10.4 Employment Agreement, dated as of January 7, 1999, between Mr. Dennis Vohs and the Registrant (5)
- 10.5 Employment Agreement, dated as of September 17, 1999, between Mr. Robert Webster and the Registrant (6)
- 27.1 Financial Data Schedule
 - (1) Incorporated by reference to the exhibit filed with the Registrant's Registration Statement on Form 8-A filed September 4, 1998.

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ROSS SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

- (1) Incorporated by reference to the exhibit filed with the Registrant's Registration Statement on Form 10-K/A filed April 30, 1998.
 - (2) Incorporated by reference to the exhibit filed with the Registrant's Current Report on Form 10-Q filed May 17, 1999.
 - (3) Incorporated by reference to the exhibit filed with the Registrant's Current Report on Form 10-K filed September 28, 1999.
- (b) Reports on Form 8-K
- (1) Incorporated by reference to the exhibit filed with the Registrant's Current Report on Form 8-K filed February 12, 1998.
 - (2) Incorporated by reference to the exhibit filed with the Registrant's Current Report on form 8-K filed July 24, 1998.
 - (3) Incorporated by reference to the exhibit filed with the Registrant's Current Report on Form 8-K filed March 16, 2001.
 - (4) Incorporated by reference to the exhibit filed with the

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Registrant's Current Report on Form 8-K/A filed May 15, 2001.

ITEMS 1, 4 AND 5 HAVE BEEN OMITTED, AS THEY ARE NOT APPLICABLE.

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ROSS SYSTEMS, INC. AND SUBSIDIARIES

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SIGNATURE

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

ROSS SYSTEMS, INC.

Date: May 15, 2001

/s/ VEROME M. JOHNSTON

Verome M. Johnston
Vice President, Chief Financial Officer
(Principal Financial and Accounting
Officer and Duly Authorized Officer)

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