

ELEVON INC
Form 10-Q
May 15, 2003

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, 2003

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

(State or Other Jurisdiction of Incorporation or Organization)

95-2862954

(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)

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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 []

Indicate by check mark X whether the registrant is an accelerated filer (as defined in Ruler 12b-2 of the Exchange Act). (as defined in Ruler 12b-2 of the Exchange Act). YES [] NO [X]

There were 15,600,035 Shares of \$.001 Par Value Common Stock outstanding as of May 12, 2003.

ELEVON, INC.
QUARTERLY REPORT ON FORM 10-Q FOR THE PERIOD ENDED MARCH 31, 2003
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Item 1. Financial Statements See notes to consolidated financial statements

ELEVON, INC.**CONSOLIDATED BALANCE SHEETS***(in thousands)*

| | March 31, 2003 | December 31, 2002 |
|--|---------------------------|------------------------------|
| | ----- | ----- |
| | (unaudited) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents..... | \$10,947 | \$13,060 |
| Short-term investments..... | 9,273 | 7,776 |
| Accounts receivable, net of allowance for doubtful accounts of \$142 - March 31, 2003 and \$146 - December 31, 2002..... | 3,215 | 4,730 |
| Prepaid expenses..... | 455 | 683 |
| Other receivables..... | 755 | 705 |
| | ----- | ----- |
| Total current assets..... | 24,645 | 26,954 |
| Property and equipment, net | 706 | 865 |
| Capitalized software, net of accumulated amortization of \$53,664 - March 31, 2003 and \$53,270 - December 31, 2002..... | 1,275 | 1,650 |
| Long-term accounts receivable..... | 765 | 624 |
| Other assets..... | 372 | 370 |
| | ----- | ----- |
| Total assets..... | \$27,763 | \$30,463 |
| | ===== | ===== |

LIABILITIES AND STOCKHOLDERS' EQUITY

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| | | |
|---|----------|----------|
| Current liabilities: | | |
| Accounts payable..... | \$ 865 | \$ 859 |
| Accrued liabilities..... | 2,344 | 3,171 |
| Deferred revenue..... | 6,589 | 6,851 |
| | ----- | ----- |
| Total current liabilities..... | 9,798 | 10,881 |
| Deferred revenue..... | 1,279 | 1,286 |
| Other long-term obligations..... | 1,208 | 1,313 |
| | ----- | ----- |
| Total liabilities..... | 12,285 | 13,480 |
| | ----- | ----- |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common stock, \$.001 par value: 50,000 shares authorized; issued 15,583 shares - March 31, 2003; 15,517 shares - December 31, 2002..... | 16 | 16 |
| Additional paid-in capital..... | 77,029 | 76,981 |
| Accumulated other comprehensive income..... | 145 | 134 |
| Accumulated deficit..... | (61,712) | (60,148) |
| | ----- | ----- |
| Total stockholders' equity..... | 15,478 | 16,983 |
| | ----- | ----- |
| Total liabilities and stockholders' equity..... | \$27,763 | \$30,463 |
| | ===== | ===== |

See notes to consolidated financial statements

ELEVON, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(in thousands, except per share amounts)

| | Three Months Ended | |
|--|---------------------------|---------|
| | March 31, | |
| | 2003 | 2002 |
| | ----- | ----- |
| REVENUES: | | |
| License and royalty..... | \$ 217 | \$1,224 |
| Maintenance..... | 2,790 | 5,574 |
| Consulting..... | 1,076 | 6,334 |
| | ----- | ----- |
| Total revenues..... | 4,083 | 13,132 |
| OPERATING EXPENSES: | | |
| Costs of revenues: | | |
| Cost of licenses, maintenance and consulting..... | 1,975 | 5,212 |

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| | | |
|---|-------------------|---------------|
| Amortization of capitalized software..... | 394 | 1,032 |
| Sales and marketing..... | 913 | 3,115 |
| Product development..... | 1,257 | 1,469 |
| General and administrative..... | 1,144 | 2,047 |
| | ----- | ----- |
| Total operating expenses..... | 5,683 | 12,875 |
| | ----- | ----- |
| Operating income (loss)..... | (1,600) | 257 |
| Interest income, net..... | 61 | 21 |
| | ----- | ----- |
| Income (loss) before income taxes..... | (1,539) | 278 |
| Provision for income taxes..... | 25 | 25 |
| | ----- | ----- |
| NET INCOME (LOSS)..... | \$ (1,564) | \$253 |
| | ===== | ===== |
| BASIC NET INCOME (LOSS) PER SHARE..... | \$ (0.10) | \$0.02 |
| | ===== | ===== |
| Shares used to compute basic net income (loss) per share..... | 15,568 | 15,185 |
| | ===== | ===== |
| DILUTED NET INCOME (LOSS) PER SHARE..... | \$ (0.10) | \$0.02 |
| | ===== | ===== |
| Shares used to compute diluted net income (loss) per share..... | 15,568 | 15,580 |
| | ===== | ===== |

See notes to consolidated financial statements

ELEVON, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(in thousands)

| | Three Months Ended March 31, | |
|---|---------------------------------|-------|
| | 2003 | 2002 |
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss)..... | \$(1,564) | \$253 |
| Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation and amortization..... | 537 | 1,298 |
| Provision for doubtful accounts..... | -- | 113 |
| Loss on property retirements..... | 36 | -- |
| Changes in operating assets and liabilities: | | |

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| | | |
|--|-----------------|----------------|
| Accounts receivable..... | 1,464 | 833 |
| Prepays and other assets..... | 228 | (407) |
| Accounts payable and accrued liabilities..... | (905) | (590) |
| Deferred revenue..... | (270) | (64) |
| Other..... | (142) | 59 |
| | ----- | ----- |
| Net cash provided (used) by operating activities | (616) | 1,495 |
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from employee stock purchase plan issuances and stock options exercised..... | 48 | 112 |
| Capital lease payments..... | (20) | (25) |
| | ----- | ----- |
| Net cash provided by financing activities..... | 28 | 87 |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of short-term investments..... | (1,997) | -- |
| Maturities of short-term investments..... | 500 | -- |
| Purchases of property and equipment..... | (20) | (357) |
| Additions to capitalized software..... | (19) | (605) |
| Other..... | 11 | 5 |
| | ----- | ----- |
| Net cash used by investing activities..... | (1,525) | (957) |
| | ----- | ----- |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS..... | (2,113) | 625 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD..... | 13,060 | 4,583 |
| | ----- | ----- |
| CASH AND CASH EQUIVALENTS - END OF PERIOD..... | \$10,947 | \$5,208 |
| | ===== | ===== |
| Supplemental disclosure: | | |
| Cash paid for income taxes..... | \$4 | \$61 |

See notes to consolidated financial statements

ELEVON, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)
(Amounts in thousands, except per share data)

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 Elevon, Inc. Annual Report on Form 10-K for the year ended December 31, 2002.

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. 2,732 and 3,337 common stock equivalents were excluded from the diluted earnings per share computation for the three month periods ending March 31, 2003 and 2002, respectively, because of their antidilutive effect.

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 (loss) to comprehensive income (loss) for the three-months ended March 31, 2003 and 2002 is as follows (in thousands):

| | Three Months Ended March 31, | |
|---------------------------------------|---------------------------------|-------|
| | 2003 | 2002 |
| Net income (loss)..... | \$(1,564) | 253 |
| Other comprehensive income..... | 11 | 53 |
| Total comprehensive income (loss).... | \$(1,553) | \$306 |

4. IMPAIRMENT AND RESTRUCTURING CHARGES

During the quarters ended June 30 and December 31, 2002, the Board of Directors approved restructuring plans to reduce operating costs and strengthen the Company's position to successfully execute its strategy. The Company recorded a pre-tax restructuring charge totaling \$1.1 million, mainly for severance costs related to the involuntary termination of 68 employees in the Company's

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United States and United Kingdom operations, primarily in the sales, professional services, research and development and customer support departments.

The following table shows the restructuring accrual as of December 31, 2002 and the payments made during the three months ended March 31, 2003:

| | Balance at December 31, 2002 | Cash Payments in Q1 2003 | Balance at March 31, 2003 |
|--|------------------------------------|--------------------------------|---------------------------------|
| | ----- | ----- | ----- |
| Employee Severance..... | \$228 | \$ (159) | \$69 |
| Legal, outplacement services and other restructuring costs..... | 50 | (21) | 29 |
| | ----- | ----- | ----- |
| | \$278 | \$ (180) | \$98 |
| | ===== | ===== | ===== |

The remaining cash obligations are expected to be paid during 2003. The remaining liability of \$98 is recorded in Accrued Liabilities on the balance sheet as of March 31, 2003.

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.

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", now doing business as "Arelon"), located in London, United Kingdom. Under the terms of a share purchase agreement, 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 approximately \$800 was due on or before December 31, 2002 subject to certain conditions under the terms of the agreement. We deferred \$200 of the gain and subsequently recognized it during the fourth quarter of fiscal 2002 following the completion of certain customer requirements. The remaining approximately \$600, plus interest, was received from Arelon on May 1, 2003. In addition to acquiring the Elevon operations

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headquartered in the United Kingdom, Novele acquired the Elevon 5 intellectual property, which Elevon had acquired from the administrative receiver for QSP in November 2001. Novele also became an exclusive distributor of Elevon 2 and Active Financial Planning ("AFP") software in the United Kingdom and certain other territories, pursuant to 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 AFP products.

The Company recognized an after-tax gain in respect of the above transaction of \$19.0 million, or \$1.20 per diluted share, in the consolidated statement of operations for the year ended December 31, 2002. The gain was calculated as follows:

| | |
|--|----------|
| Proceeds received | \$15,900 |
| Proceeds receivable | 800 |
| Deferred gain | (200) |
| Transaction costs | (835) |
| Net book value of Elevon 5 intellectual property | (1,167) |
| Elimination of deficit | 4,458 |
| | ----- |
| | \$18,956 |
| | ===== |

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 March 31, 2002 |
|------------------------------|---|
| Total revenue | \$5,298 |
| Total operating expenses | \$2,007 |
| Net income | \$1,126 |
| Diluted net income per share | \$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 divestiture agreement provided for total consideration of approximately \$2.3 million. The Company received an initial payment of approximately \$425 in December 2000, and, in October 2001, the Company and B-Plan executed a mutual release from any and all claims associated with the divestiture agreement. Under the terms of the mutual release agreement, B-Plan paid the Company approximately \$442, including interest, in November 2001 and is obligated to pay the Company an aggregate of £400 in equal quarterly installments from April 2002 through January 2006. Quarterly payments from B-Plan have aggregated £100 through March 31, 2003 and 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 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 was included as a special credit in the consolidated statement of operations during the year ended December 31, 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 as applicable 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.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock- Based Compensation-Transition and Disclosure." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation ("transition provisions"). In addition, SFAS No. 148 amends the disclosure requirements of Accounting Principals Board ("APB") Opinion No. 28, "Interim Financial Reporting," to require proforma disclosure in interim financial statements by companies that elect to account for stock-based compensation using the intrinsic value method prescribed in APB No. 25, "Disclosure Provisions." The transition methods of SFAS No. 148 are effective for financial statements for fiscal years ending after December 15, 2002. The company continues to use the intrinsic value method of accounting for stock- based compensation. As a result, the transition provisions do not have an effect on the Company's consolidated financial statements. The Company has adopted the disclosure requirements of SFAS No. 148. The following table illustrates the effect on net income (loss) and earnings (loss) per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock Based Compensation", to stock-based employee compensation:

| | Three Months Ended March 31, | |
|---|---------------------------------|-----------|
| | 2003 | 2002 |
| | ----- | ----- |
| Net income (loss) | | |
| As reported..... | \$ (1,564) | \$253 |
| Deduct: Total stock based employee compensation expense determined under fair value based method for all awards, net of related tax effects..... | (134) | (636) |
| | ----- | ----- |
| Pro forma..... | \$ (1,698) | (383) |
| | ===== | ===== |
| Earnings (loss) per share: | | |
| Basic as reported..... | \$ (0.10) | \$0.02 |
| Basic Pro forma..... | \$ (0.11) | \$ (0.03) |
| Diluted as reported..... | \$ (0.10) | \$0.02 |
| Diluted Pro forma..... | \$ (0.11) | \$ (0.03) |

7. SUBSEQUENT EVENT

On May 8, 2003, the Company entered into an agreement and plan of merger with SSA Global Technologies, Inc. ("SSA GT") pursuant to which the Company agreed (1) to sell to a subsidiary of SSA GT all of Elevon's owned intellectual property for a purchase price of \$1,754 in cash, and (2) immediately thereafter, to merge with another subsidiary of SSA GT whereupon each of the outstanding shares of the Company's common stock would be converted into the right to receive

\$1.30 in cash.

The proposed merger is subject to approval by the holders of a majority of the Company's outstanding shares of common stock and other customary closing conditions. Upon closing, the Company will become wholly-owned by SSA GT. The agreement and plan of merger and the voting agreement were filed by the Company on a Form 8-K dated May 9, 2003.

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 19 through 27, among others, should be considered in evaluating the Company's prospects and future financial performance.

RECENT DEVELOPMENTS

On May 8, 2003, the Company entered into an agreement and plan of merger with SSA Global Technologies, Inc. ("SSA GT") pursuant to which the Company agreed (1) to sell to a subsidiary of SSA GT all of Elevon's owned intellectual property for a purchase price of \$1,754,000 in cash, and (2) immediately thereafter, to merge with another subsidiary of SSA GT with the Company as the surviving corporation whereupon each of the outstanding shares of the Company's common stock would be converted into the right to receive \$1.30 in cash.

The proposed merger is subject to approval by the holders of a majority of the Company's outstanding shares of common stock and other customary closing conditions. Upon closing, the Company will become wholly-owned by SSA GT. Holders of approximately 10% of the Company's outstanding shares have agreed to vote in favor of the merger. The agreement and plan of merger and the voting agreement were filed by the Company on a Form 8-K dated May 9, 2003.

MANAGEMENT OVERVIEW

The slowdown in the United States economy during fiscal 2002, which we believe caused our customer base to defer and reduce levels of spending on information technology, has continued into fiscal 2003 and has negatively impacted

our operating results for the quarter ended March 31, 2003.

For the quarter ended March 31, 2003 our North American revenues were \$4.1 million, approximately 47.9% and 33.5% lower, respectively, than the first and fourth quarters of fiscal 2002. While we continue to pursue opportunities for increased revenue, absent a significant change in our customers' actions in response to the current economic conditions, for the near term we believe it is unlikely that our revenues will return to the levels of fiscal 2002.

New license revenue has continued to be below historical levels as customers defer spending on information technology. In addition, a significant portion of our consulting revenue for any given period is generally derived from several individually larger consulting engagements. During the fourth quarter of fiscal 2002 we substantially completed a consulting engagement with a North American customer, which consulting revenue had represented approximately 17.2% of total consolidated revenue in fiscal 2002. While consulting revenue from another North American customer represented approximately 9.9% of total revenue in the first quarter of fiscal 2003, we have so far been unable to fully replace the revenue from the completed consulting engagements with new engagements, which historically have been associated with new license revenues or migrations to current releases of our software. Further, our maintenance revenues have declined as a result of lower new license sales in recent quarters, customers completing migrations to different platforms and customers discontinuing maintenance in an effort to reduce their operating costs.

For the quarter ended March 31, 2003, our North American operating costs were \$5.7 million, approximately 34.6% and 9.5% lower, respectively, than the first and fourth quarters of fiscal 2002 as we continue to reduce our operating costs through reductions in headcount and in discretionary sales and marketing spending. In April 2003 we further reduced our headcount by 16 people, primarily in sales and marketing, professional services and AFP product development and will incur a related restructuring charge of approximately \$400,000 in the second quarter of fiscal 2003. While we continue to focus on reducing our operating costs, significant portions of our employee and infrastructure costs are fixed in the short term. Our San Francisco office lease, which expires in 2007, requires us to maintain significantly more space than we need for our current operations and there continues to be an excess of space in the sublease market.

CRITICAL ACCOUNTING POLICIES

We believe the accounting policies described below to be the most critical in determining and understanding our results of operations:

Revenue recognition.

Our revenues are derived from the sale of software licenses and from providing consulting and support services, generally to our licensees. The amount and timing of our revenues is critical in determining our results of operations, particularly on a quarterly basis. Our revenue also is key in the determination of certain costs that vary with revenue, such as commissions and royalties. Notwithstanding the detailed guidelines we have established in determining periodic revenue, judgments and estimates are required in the application of our revenue recognition policy.

Capitalization and amortization of product development costs.

Product development costs are a significant component of our operating costs. Our policy and its application in determining which costs are currently capitalized and amortized in future periods, or expensed as incurred, can impact our results of operations. Although our policy has definitive guidelines for the capitalization and amortization of software development costs, judgments are required in the estimation of future gross revenues from a product that are dependent upon factors such as market acceptance and the rate of technological change. Generally, we amortize

capitalized software costs over a two-year period and review capitalized software costs on an on-going basis. If appropriate, we revise the amortization rate based on our then current assessment of future gross revenues. We cannot assure you that such future assessments will not differ from our initial estimates, which determine the capitalized amount and rate of amortization.

RESULTS OF OPERATIONS

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

To assist in understanding the effects of the divestiture of our 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 for the three months ended March 31, 2002.

REVENUES.

| | Three Months ended March 31, 2003 | Three Months ended March 31, 2002 | | |
|---------------------|---|-----------------------------------|-------------------|----------|
| | Total | North America | United Kingdom | Total |
| | ----- | ----- | ----- | ----- |
| Revenues: | | | | |
| License and royalty | \$217 | \$264 | \$960 | \$1,224 |
| Maintenance | 2,790 | 3,615 | 1,959 | 5,574 |
| Consulting | 1,076 | 3,955 | 2,379 | 6,334 |
| | ----- | ----- | ----- | ----- |
| Total revenues | \$4,083 | \$7,834 | \$5,298 | \$13,132 |
| | ===== | ===== | ===== | ===== |

Total North America revenues for the three months ended March 31, 2003 were \$4.1 million, a decrease of \$3.8 million, or 47.9%, as compared to the three months ended March 31, 2002. The decrease in total revenues is attributable to lower consulting revenue and lower maintenance revenue.

North America license and royalty revenues for the three months ended March 31, 2003 were \$217,000, a decrease of \$47,000, or 17.8%, as compared to the three months ended March 31, 2002. Our license and royalty revenues continue to be negatively impacted by the general slowdown and reduction in corporate spending for technology in North America.

North America maintenance revenues for the three months ended March 31, 2003 were \$2.8 million, a decrease of \$825,000, or 22.8%, as compared to the three months ended March 31, 2002. North America maintenance revenues for 2002 included revenue from several maintenance agreements that were not renewed due to customers discontinuing maintenance to reduce their operating costs or completing migrations to alternative platforms.

North America consulting revenues for the three months ended March 31, 2003 were \$1.1 million, a decrease of \$2.9 million, or 72.8%, as compared to the three months ended March 31, 2002. The decrease in consulting revenues is mainly attributable to the completion of a major consulting project during the fourth quarter of 2002 without replacement of that revenue with new consulting engagements in 2003.

COSTS OF LICENSES, MAINTENANCE AND CONSULTING.

| | |
|--------------|-----------------------------------|
| Three Months | Three Months ended March 31, 2002 |
|--------------|-----------------------------------|

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| | ended March 31, 2003 | North America | United Kingdom | Total |
|------------------|-------------------------|------------------|-------------------|---------|
| | Total | | | Total |
| | ----- | ----- | ----- | ----- |
| Cost of revenues | \$1,975 | \$3,037 | \$2,175 | \$5,212 |
| | ===== | ===== | ===== | ===== |

North America costs of licenses, maintenance and consulting were \$2.0 million for the three months ended March 31, 2003, representing 48.4% of total revenues, and \$3.0 million for the three months ended March 31, 2002, representing 38.8% of total revenues. The decrease in the costs of licenses, maintenance and consulting is due to the reduced revenue base.

The cost of license revenue, which is mainly related to third-party license costs, was insignificant for both the quarters ended March 31, 2003 and 2002.

The North America cost of maintenance, as a percentage of related revenue, was substantially the same in the three months ended March 31, 2003 as compared to the three months ended March 31, 2002.

The North America costs of consulting, as a percentage of related revenue, increased in the three months ended March 31, 2003 as compared to the three months ended March 31, 2002. The increase in the three months ended March 31, 2003 as compared to the three months ended March 31, 2002 reflects a proportionately higher short term fixed cost element together with lower utilization rates which result from a lower revenue base.

SALES AND MARKETING.

| | Three Months ended March 31, 2003 | Three Months ended March 31, 2002 | | |
|---------------------|---|-----------------------------------|-------------------|---------|
| | Total | North America | United Kingdom | Total |
| | ----- | ----- | ----- | ----- |
| Sales and Marketing | \$913 | \$2,075 | \$1,040 | \$3,115 |
| | ===== | ===== | ===== | ===== |

North America sales and marketing costs for the three months ended March 31, 2003 were \$913,000, a decrease of \$1.2 million, or 56.0%, as compared to the three months ended March 31, 2002. As a percentage of total revenues, sales and marketing expenses were 22.4% and 26.5% in the three months ended March 31, 2003 and 2002, respectively. The decrease is primarily attributable to reduced discretionary spending.

PRODUCT DEVELOPMENT.

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

| | Three Months Ended March 31, | |
|---------------------------------------|---------------------------------|---------|
| | 2003 | 2002 |
| | ----- | ----- |
| Product development expenditures..... | \$1,276 | \$2,074 |
| Less: | | |
| Additions to capitalized software. | (19) | (605) |
| Product development expense..... | \$1,257 | \$1,469 |
| | ===== | ===== |

Net product development expense decreased \$212,000, or 14.4%, in the three months ended March 31, 2003 as compared to the three months ended March 31, 2002 and was 30.8% and 18.8% of total revenues, respectively. For the three months ended March 31, 2003, total product development expenditures decreased \$798,000, mainly reflecting the results of reduced discretionary spending and lower employee related costs.

Additions to capitalized software decreased \$586,000, or 96.8%, in the three month period ended March 31, 2003 as compared to the same period in 2002 and were 1.5% and 29.2% of product development expenditures for the three month period ending March 31, 2003 and 2002, respectively. The decrease in product development expenditures capitalized in the three months ended March 31, 2003 is primarily attributable to product development resources being allocated to projects that did not meet the criteria for capitalization and reduced capitalization of costs associated with our Active Financial Planning product which was released in June 2002.

AMORTIZATION OF CAPITALIZED SOFTWARE.

Amortization of capitalized software in the three months ended March 31, 2003 was \$394,000, a decrease of \$638,000, or 61.8%, as compared to the three months ended March 31, 2002. Several capitalized projects, primarily those relating to our legacy e2 and analytics products, became fully amortized during 2002.

GENERAL AND ADMINISTRATIVE.

| | Three Months ended March 31, 2003 Total ----- | Three Months ended March 31, 2002 | | |
|----------------------------|---|-----------------------------------|----------------------------|------------------|
| | | North America ----- | United Kingdom ----- | Total ----- |
| General and administrative | \$1,144 ===== | \$1,464 ===== | \$583 ===== | \$2,047 ===== |

North America general and administrative expenses in the three months ended March 31, 2003 were \$1.1 million, a decrease of \$320,000, or 21.9%, as compared to the three months ended March 31, 2002. As a percentage of total revenues, general and administrative expenses were 28.0% and 18.7% in the three months ended March 31, 2003 and 2002, respectively. The decrease in general and administrative expenses resulted mainly from lower employee costs.

INTEREST AND OTHER INCOME

In the three months ended March 31, 2003, we earned \$61,000 in interest income compared to \$21,000 for the same period in 2002, an increase of \$40,000 or 190.5%. The increase was due to higher average cash balances available for investment.

PROVISION FOR INCOME TAXES.

In the three months ended March 31, 2003 and 2002, the Company provided \$25,000 for state and foreign income taxes that could not be offset against net operating loss carryforwards.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2003, our principal sources of liquidity included cash, cash equivalents and short-term investments aggregating \$20.2 million, and funds from operations. In the first quarter of fiscal 2003, we cancelled our \$4.0 million line of credit. We never borrowed under this line of credit. We have future operating lease obligations of approximately \$8.9 million through 2007 and capital lease obligations of approximately \$59,000 through October 2003.

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| | Facilities | Equipment and Software | Capital Leases | Total |
|-----------|------------|------------------------------|-------------------|---------|
| 2003..... | \$1,437 | \$358 | \$59 | \$1,854 |
| 2004..... | 1,923 | 4 | -- | 1,927 |
| 2005..... | 2,048 | 1 | -- | 2,049 |
| 2006..... | 1,849 | 1 | -- | 1,850 |
| 2007..... | 1,312 | -- | -- | 1,312 |
| | ----- | ----- | ----- | ----- |
| | \$8,569 | \$364 | \$59 | \$8,992 |
| | ===== | ===== | ===== | ===== |

Our operating activities used cash of \$616,000 for the three months ended March 31, 2003 and provided cash of \$1.5 million in the three months ended March 31, 2002.

Financing activities comprise proceeds from employee stock purchase plan issuances and the proceeds from the exercise of employee stock options, offset by capital lease payments. These activities provided cash of \$28,000 for the three months ended March 31, 2003 and \$87,000 for the three months ended March 31, 2002.

Excluding the movements between categories of cash and cash equivalents, investing activities include the purchase of fixed assets and additions to capitalized software. These activities used cash of \$39,000 in the three months ended March 31, 2003 and \$962,000 in the three months ended March 31, 2002.

For the three months ended March 31, 2003, our capital expenditures were \$20,000, and for the three months ended March 31, 2002 were \$357,000. Our capital expenditures are primarily computer equipment to support and maintain our infrastructure and during the three months ended March 31, 2002 included capital expenditures required to support the personnel added following the reestablishment of the Elevon 5 business after our acquisition of the QSP intellectual property in the fourth quarter of 2001. For the three months ended March 31, 2003, and 2002, cash used for capitalized software development costs was \$19,000 and \$605,000, respectively. Our AFP product was in development from mid 2001 through fiscal 2002 and represents the majority of software development costs capitalized in the three months ended March 31, 2002.

We believe that our principal sources of liquidity, which include cash, cash equivalents and short term investments of \$20.2 million as of March 31, 2003 and funds expected from operations will satisfy our currently anticipated working capital and capital expenditure requirements for at least the next twelve months. 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. However, the following factors could affect liquidity and capital resources:

- 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 transition our product offerings to collaborative commerce solutions and to gain market acceptance for our new products.
- Our ability to align our operating costs with our revenue base, especially in relation to license and consulting revenues where the revenue streams are inconsistent.
- Our operating results and cashflow would be significantly enhanced if we were to be successful in subletting our San Francisco office space.

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.

There can be no assurances that the proposed merger will be consummated, and failure to complete the merger could have substantial consequences to us.

On May 8, 2003, we executed an agreement and plan of merger with SSA GT pursuant to which we agreed (1) to sell to a subsidiary of SSA GT all of Eleven's owned intellectual property for a purchase price of \$1,754,000 in cash, and (2) immediately thereafter, to merge with another subsidiary of SSA GT with Eleven as the surviving corporation whereupon each of the outstanding shares of our common stock would be converted into the right to receive \$1.30 in cash. This merger can only be completed, though, if we and SSA GT meet all the closing conditions set forth in the definitive merger documents, including, but not limited to, approval by a majority of our stockholders. Regardless of whether an actual merger is consummated, we have incurred and will continue to incur significant expenses negotiating and executing the agreement and plan of merger and attempting to comply with all the closing conditions. In addition, if the merger is not consummated, we may be required, under certain circumstances, to pay up to \$250,000 of SSA GT expenses and a termination fee of \$500,000. Failure to consummate the merger may also negatively impact our customers and the market price of our stock.

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. 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 implementation and migration 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. We cannot assure you that we will be able to obtain large consulting engagements to replace those that are concluded. 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.

Our maintenance revenues are sensitive to a reduction in new license sales, customers completing migrations to different platforms, and customers discontinuing maintenance in an effort to reduce their operating costs.

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, it is unlikely 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. Our maintenance fees are in part based on royalties that we have to pay to third parties. To the extent that we have third party royalty costs that we are unable to pass on to our customers, the profitability of our maintenance business will be adversely affected. 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 downturn in the industry or in general economic conditions, our business, operating results and financial condition may be adversely affected.

Certain software companies, including us, 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 have experienced and may continue to experience substantial fluctuations from period to period because of such industry patterns and general economic and political conditions which affect the timing of orders from customers. We have suffered from the postponement or cancellation of information technology spending at several customers or prospective customers, even when the spending in question has already been budgeted. 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 product.

Following the disposal of our United Kingdom operations, Novele Limited has become the exclusive distributor for the Elevon 2 product 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 this product or in maintaining their existing customer base.

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, Cognos, 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:

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- 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. 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

There were no material changes in the market risks as discussed in Part II, Item 7A of our 2002 Annual Report on Form 10-K.

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.

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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 May 9, 2003 in connection with its agreement to be acquired by SSA Global Technologies, Inc.

ELEVON, INC.

FORM 10-Q

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: May 15, 2003

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 (or persons performing the equivalent functions):
 - 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

May 15, 2003

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 (or persons performing the equivalent functions):
 - 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

May 15, 2003