ROSS SYSTEMS INC/CA
Form 10-Q
February 21, 2001

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

FORM 10 - Q

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2000,

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 jurisdiciton of incorporation or organization	(I.R.S 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 X 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 JANUARY 31, 2001
Common stock, $0.001 par value	25,647,734

ROSS SYSTEMS, INC.

QUARTERLY REPORT ON FORM 10-Q
QUARTER ENDED DECEMBER 31, 2000

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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)

		DECEMBER 3 2000 (unaudite
ASSETS		
Current assets:		
Cash and cash equivalents	$	683
Accounts receivable, less allowance for doubtful accounts		13,427

Prepaids and other current assets		2,354
Total current assets		16,464
Property and equipment, net		2,145
Computer software costs, net		32,139
Other assets		2,749
Total assets	$	53,497
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current installments of debt	$	8,653
Accounts payable		7,718
Accrued expenses		4,242
Income taxes payable		207
Deferred revenues		13,335
Total current liabilities		34,155
Long-term debt, less current installments		1,087
Shareholders' equity:		
Common stock, $.001 par value; 35,000,000 shares authorized, 25,647,734 and 23,804,191 shares issued and outstanding at December 31, 2000 and June 30, 2000, respectively. Preferred stock, no par value; 5,000,000 shares authorized, 0 outstanding.		26
Additional paid-in capital		86,918
Accumulated deficit		(67,062
Accumulated comprehensive deficit		(1,627
Total shareholders' equity		18,255
Total liabilities and shareholders' equity	$	53,497

The accompanying notes are an integral part of these condensed consolidated balance sheets.

ROSS SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED DECEMBER 31, (unaudited)	
	2000	1999
Revenues:		
Software product licenses	$ 1,940	$ 5,077
Consulting and other services	4,162	9,834
Maintenance	6,496	6,931

Total revenues	12,598	21,842
Operating expenses:		
Costs of software product licenses	325	781
Costs of consulting, maintenance and other services	3,596	11,025
Sales and marketing	3,463	5,426
Product development	3,076	2,311
General and administrative	1,215	1,870
Provision for uncollectible accounts	283	835
Amortization of other assets	135	260
Non-recurring costs	0	0
Total operating expenses	12,093	22,508
Operating earnings (loss)	505	(666)
Other expenses, net	(276)	(324)
Earnings before taxes	229	(990)
Income tax expense (benefit)	62	83
Net earnings (loss)	$ 167	$ (1,073)
Net earnings per common share - basic	$ 0.01	$ (0.05)
Net earnings per common share - diluted	$ 0.01	$ (0.05)
Shares used in per share computation - basic	25,690	23,336
Shares used in per share computation - diluted	25,690	23,336

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

ROSS SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS) (UNAUDITED)

	SIX M DE
	2000
Cash flows from operating activities:	
Net earnings (loss)	$ (4,028)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:	
Depreciation and amortization of property and equipment	875

Amortization of computer software costs	3,977
Amortization of other assets	360
Provision for uncollectable accounts	835
Changes in operating assets and liabilities, net of acquisitions:	
Accounts receivable	7,813
Prepaids and other current assets	(885)
Income taxes payable / recoverable	(39)
Accounts payable	814
Accrued expenses	(1,184)
Deferred revenues	(4,606)
Net cash provided by operating activities	3,932
Cash flows from investing activities:	
Purchases of property and equipment	(65)
Computer software costs capitalized	(3,732)
Other	408
Net cash used for investing activities	(3,389)
Cash flows from financing activities:	
Net line of credit activity	(1,491)
Capital lease payments	(434)
Proceeds from issuance of common stock	29
Net cash used for financing activities	(1,896)
Effect of exchange rate changes on cash	26
Net decrease in cash and cash equivalents	(1,327)
Cash and cash equivalents at beginning of period	2,010
Cash and cash equivalents at end of period	$ 683
Non-cash investing and financing activities:	
Conversion of convertible debentures	$ 584
Income taxes paid	(-81)
Interest paid	612

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

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ROSS SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

A) 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 December 31, 2000, and the results of its operations and cash flows for the interim periods presented. The Company's results of operations for the three and six months ended December 31, 2000 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.

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 December 31, 2001, resulting in a net credit to consolidated equity of $348,000. For purposes of the accompanying statement of operations, revenues and expenses netting to a loss of ($497,000) for the quarter ended September 30, 2000 are included. Management believes that the potential future costs of this action cannot be reasonably estimated at this time but do not anticipate that the resolution of this uncertainty will have a material adverse effect on the financial statements taken as a whole.

B) 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.

C) 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.

D) ACCOUNTS RECEIVABLE

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

	DECEMBER 31, 2000	JUNE 30, 2000
Trade accounts receivable	$ 15,692	$ 25,4
Less allowance for doubtful accounts and returns	(2,265)	(3,5
	$ 13,427	$ 21,9

E) PROPERTY AND EQUIPMENT

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

	DECEMBER 31, 2000	JUNE 30, 2000
Computer equipment	$ 12,675	$ 13,1
Furniture and fixtures	2,881	3,0
Leasehold improvements	1,749	1,7
	17,305	17,8
Less accumulated depreciation and amortization	(15,160)	(14,8
	$ 2,145	$ 3,0

F) 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 December 31, 2000, 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 + 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 (i) until December 31, 1998, $7.00 subject to a downward adjustment if the Company issues shares in a private placement financing transaction at a per share price less than $7.00 and (ii) commencing January 1, 1999, 115% of the average closing bid price of the Common Stock as reported by the Bloomberg Service over the 1998 calendar year. 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 and may be required to pursue shareholder approval. However, at the debenture holders option, if shareholder approval is not secured, the total outstanding debentures totaling $759,000 may be redeemable in cash at a premium of 115% of the face value outstanding.

G) 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.

H) 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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 six month periods ended December 31, 2000 and 1999 were as follows (in thousands):

	THREE MONTHS ENDED DECEMBER 31,		SIX MONTHS E DECEMBER 3	
	2000	1999	2000	
Net earnings (loss)	$ 167	$ (1,073)	$ (4,028)	$
Foreign currency translation adjustments	(524)	(152)	253	
Total comprehensive income (loss)	$ (357)	$ (1,225)	$ (3,775)	$

H) 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.

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

	THREE MONTHS ENDED DECEMBER 31,	
	2000	1999
Net earnings (loss)	$ 167	$ (1,073)
Payment in kind interest on convertible debentures	13	0
Numerator for diluted calculation	$ 180	$ (1,073)

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.

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

ROSS SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 former President and Chief Operating Officer and member of the Board of Directors, and Dennis V. Vohs, the Company's 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 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 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 December 31, 2000, $25,000 of the liability remained and will be paid in fiscal 2001.

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 December 31, 2001, resulting in a net credit to consolidated equity of $348,000. For purposes of the accompanying statement of operations, revenues and expenses netting to a loss of ($497,000) for the quarter ended September 30, 2000 are included. 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.

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) for a period of thirty consecutive trading days and that the Company would be delisted if it failed to regain compliance. As of the date of this filing, the company has not regained compliance but on February 2, 2001, filed a petition explaining its strategy to cure this requirement, and will appear before the Listing Qualifications Panel on March 9, 2001. Apart from its minimum bid price deficiency, the Company meets the other quantitative maintenance criteria for the National Market. In the event the panel determines to delist the Company's common stock, the Company will then seek to have its common stock traded on the NASD OTC Bulletin Board.

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 February 28, 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. In addition, management believes that the closure of the HR/PR product line asset sale described within the subsequent event section of this report will help to facilitate obtaining additional financing beyond that transaction. The Company cannot be assured that additional funding will be available on favorable terms or that the HR/PR product line asset sale will close. 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, or to consummate a sale of certain assets of the Company, may harm its business and operating results. See note 1 to the consolidated financial statements, "Basis of Presentation".

J) SUBSEQUENT EVENT

On February 5, 2001, the Company reported the signing of a definitive sale agreement for certain assets related to its Human Resource and Payroll product line to NOW SOLUTIONS, LLC, a private company. ROSS at the same time executed a distribution agreement with NOW to continue to sell the product under license from NOW 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 company expects the transaction to generate a non-recurring gain on the sale of approximately $4.0 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.

K) 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 Company does not anticipate that Statement 133 will have a significant impact on its financial statements or financial statement disclosures.

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 is currently reviewing its revenue recognition policy and does not expect the adoption of SAB No. 101 to have a material impact on its consolidated results of operations, financial position, or cash flows.

L) 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 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 December 31, 2000:

	GROSS ASSETS	REVENUE	NET INCOME (LOSS)	DE AND A
Belgium................................	$ 562	$ 495	$ 160	
Netherlands............................	1,052	581	57	

ROSS SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	GROSS ASSETS	REVENUE	NET INCOME (LOSS)	DE AND A
Germany................................	232	174	46	
Spain..................................	3,337	1,063	27	
United Kingdom.........................	2,496	1,039	(193)	
North America..........................	46,025	9,246	70	
Total..................................	$ 53,704	$ 12,598	$ 167	

As of and for the quarter ended December 31, 1999:

	GROSS ASSETS	REVENUE	NET INCOME (LOSS)	DE AND
Belgium	322	318	(137)	
Netherlands	1,522	880	135	
France	3,666	1,275	(610)	
Germany	435	440	103	
Spain	4,417	1,487	140	
United Kingdom	3,110	2,306	(80)	
North America	59,530	15,136	(624)	
Total	$ 73,002	$ 21,842	$ (1,073)	

ROSS SYSTEMS, INC. AND SUBSIDIARIES

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 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 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 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 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, thereby tightly linking 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

RESULTS OF OPERATIONS

REVENUES

Total revenues for the second quarter and three month period ended December 31, 2000 decreased 42% to $12,598,000 from $21,842,000, in fiscal 2000. Software product license revenues decreased 62%, consulting and other services revenues decreased 58%, and maintenance revenues decreased 6% from the comparable period in the prior year, respectively.

For the six-month period ended December 31, 2000, total revenues decreased 41% to $26,750,000 from $45,105,000 in fiscal 2000. Software product license revenues decreased 61%, consulting and other services revenues decreased 54%, and maintenance revenues decreased 5% from the comparable period in the prior year, respectively.

For the three month period ended December 31, 2000 revenues have decreased by $1,718,000 in North America and by $1,419,000 in Europe and the Pacific Rim (International). The largest decreases in Europe were recorded in the UK of $996,000, Spain of $345,000 and France of $342,000. The decrease in revenues in France, 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 six-month period ended December 31, 2000 was $6,691,000 or 60%, 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 December 31, 2000 decreased 58% to $4,162,000 from $9,834,000 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 $4,239,000, or 61%, and International services revenues decreased $1,433,000, or 50% respectively. These decreases in consulting and other service revenues are attributable to lower software product licensing activity during the previous quarters.

The total decrease in consulting and other services revenues for the six-month period is $10,905,000, or 54%. Declining software revenues and associated reduction in service revenues are the primary causes of this decrease.

Maintenance revenues for the three month period ended December 31, 2000 decreased by $435,000, or 6% from the same quarter in fiscal 2000. This change is essentially made up of a decrease in Europe and Asia of $582,000 and a marginal increase of $ 147,000 in North America. 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.

For the six-month period ended 31 December, 2000, the decline of $758,000 in maintenance revenues, is mainly attributable to International operations which decreased by 24%, with North America remaining virtually unchanged.

For the three and the six month period ended December 31, 2000, North American revenues constituted 73% 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 six-month period of fiscal 2001 decreased by 58%, consistent with the decrease in software license sales. As a percentage of software product license revenue, the costs of software product licenses increased to 17% in the second quarter of fiscal 2001 compared to 15% in the same quarter of fiscal 2000. The increase in costs for software product licenses for the quarter was primarily due to the greater mix of third party products sold in 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 67% to $3,596,000 in the second quarter of fiscal 2001, as compared to $11,025,000 in the second 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 in the second quarter, 2001 as compared to the prior year consists of $2,534,000 attributable to third party consulting, and $3,694,000 is a reduction in employee expenses. The Company's gross margin resulting from consulting, maintenance and other services revenues for the second quarter of fiscal 2001 was 66%, up from 34% 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 six-month period ended December 31, 2000, the gross profit percentage on consulting, maintenance and other revenue is 55%, up from 36% 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.

Sales and marketing expenses for the three month period ended December 31, 2000 are $1,963,000, or 36% 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 20% for the six month period, as compared to the same period in the prior year. This decrease was due to cost saving measures implemented over the period.

Net product development (research and development) expenses increased by 33%, to $3,076,000 in the second quarter , 2001 from $2,311,000 in the prior year . However, actual gross research and development expenditure declined by 35% due to a lower headcount in research and development. The increase in the total expense 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. The savings in actual expenditure have been realized in a reduction of $973,000 in employee expenses in second quarter , 2001 from the same quarter , 2000. The following table summarizes product development expenditures (in thousands):

	THREE MONTHS ENDED DECEEMBER 31,		
	2000	1999	
Gross Expenditure for Product Development	$ 2,360	$ 3,642	$
Less: Expenses capitalized	(1,509)	(2,963)	
Plus: Amortization of previously capitalized amounts	2,225	1,632	
Total Product Development Expenses	$ 3,076	$ 2,311	$

Measured as a percentage of total revenues, product development expenditure for the second quarter, 2001 was 19% of total revenues, compared to 17% for the second 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 The Company did not experience additional expenditures related to the Y2K compliance of its products after December 1999.

General and administrative expenses for the second quarter, 2001 decreased by 35%, to $1,215,000 from $1,870,000 for the second 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 expenses of $797,000. 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.

For the six month period, general and administrative expenses have improved by 29% over the prior six month period.

In the second quarter, 2001, the Company recorded a provision for doubtful accounts of $283,000, as compared to $835,000 recorded in the second 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 $135,000 in the second quarter of fiscal 2001 from $260,000 in the same quarter of the prior year. This amortization relates to the purchase of the Company in 1988 and its subsequent 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 in for the second quarter, 2001. The non-recurring costs shown in the six month period 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 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 December 31, 2000, $25,000 of the liability remained and will be paid in fiscal 2001.

SUBSEQUENT EVENT

On 5 February, 2001, the Company reported the signing of a definitive sale agreement for certain assets related to its Human Resource and Payroll product line to NOW SOLUTIONS, LLC, a private company. ROSS at the same time executed a distribution agreement with NOW to continue to sell the product under license from NOW 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 company expects the transaction to generate a non-recurring gain on the sale of approximately $3.7 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.

OTHER EXPENSE, NET

Other expense for Q2, 2001 was $276,000, as compared to $324,000 in Q2, 2000. These amounts primarily consisted of interest expense related to borrowings under the Company's existing line of credit facility. The comparison of the six month period ended December 31, 2001 shows little change from the prior year for the same period.

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. This compares with an income tax expense of $83,000 recorded during the same quarter in fiscal 2000. 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.

LIQUIDITY AND CAPITAL RESOURCES

In the first six months of fiscal 2001, net cash provided by operating activities decreased $502,000 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 $437,000, an aggregate decrease in the combined cash effect of prepaid and other current assets, taxes payable, accrued expenses and deferred revenues of $2,253,000 and decreased Company earnings of $3,300,000 were offset by cash provided by decreased accounts receivable and increased accounts payable totaling $5,489,000. The decreased receivable portfolio and deferred revenue balance was a result of slowed software and services volumes and continued focus on maximizing collection efforts.

In the first six months of fiscal 2001, the Company required $3,389,000 for investing activities versus $6,212,000 over the same period of the prior year, a decrease of $2,823,000. Investment in property and equipment decreased by $168,000 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 $2,233,000 due to lower development headcount during fiscal 2001 as compared to the year earlier period. Other investment items increased by $422,000 primarily attributable to changes in thr cumulative translation adjustment related to capitalized software costs in foreign subsidiaries.

The Company financed its continuing operations for the six months ended December 31, 2000 through cash generated from operations and available credit facilities. Cash flows from financing activities increased by $502,000 versus the same six-month period of the prior fiscal year. Repayments of amounts previously borrowed under the Company's line of credit resulted in a decrease in cash of $2,181,000. Capital lease payments utilized an incremental $1,571,000 of cash versus the same quarter of the prior year. 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 $100,000 from the prior year period.

At December 31, 2000 the Company had $683,000 of cash and cash equivalents. The Company also has a revolving credit facility with an asset-based lender with a maximum credit line of $15,000,000, a maturity date of February 28, 2000, 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. At December 31, 2000, the Company had $7,635,000 outstanding against the $15,000,000 revolving credit facility, and based on eligible accounts receivable at December 31, 2000, the Company's cash and remaining borrowing capacity under the revolving credit facility totaled approximately $697,000.

The Company's ability to meet its cash requirements for operations and recurring capital expenditures will depend upon funds expected to be generated from operations and amounts available under its line of credit facility. However, the Company will be required to seek additional financing to replace its asset based credit line which expires February 28, 2001. The Company is currently negotiating alternatives to raise additional funds through public or private financing arrangements. In addition, management believes closure and funding of the HR/PR product line asset sale described within the subsequent event section of this report will facilitate obtaining additional financing. The Company cannot assure you that additional funding will be available on favorable terms or that the HR/PR product line asset sale will close. Furthermore, any additional equity financing may be dilutive to stockholders, and debt financing, if available, may involve restrictive covenants. The Company's failure to raise capital when needed, or to consummate a sale of certain assets of the Company, may harm its business and operating results. See note 1 to the consolidated financial statements, "Basis of Presentation".

YEAR 2000 IMPLICATIONS

The Year 2000 issue arises because certain electronic data processing systems use two digits rather than four to define the applicable year which may preclude proper date recognition after December 31, 1999.

The Company expended approximately $350,000 related to year 2000 preparedness of its internal systems. Management of the Company believes that the preparations were adequate, and there have been no year 2000 related problems in the Company's internal systems between December 31, 1999 and the date of filing of this Report on Form 10-Q. Further, management believes that the more recent versions of its product were developed as year 2000 compliant while older versions of its product were brought into year

2000 compliance through updates provided in conjunction with customer's ongoing maintenance contracts. Management believes that its product design was adequate, and management has not been made aware of any year 2000 processing problems in the Company's products between December 31, 1999 and the date of the filing of this Report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company's Annual Meeting of Shareholders was held on November 17, 2000. The following table shows voting information for each item voted upon:

	FOR	AGAINST
NOMINEES FOR ELECTION AS DIRECTORS		
Dennis V. Vohs	19,573,390	1,342,538
Mario M. Rosati	19,604,423	1,311,325
Bruce J. Ryan	19,657,623	1,258,125
J. Patrick Tinley	19,649,403	1,266,345
J. William Goodhew	19,642,073	1,273,675
TO INCREASE THE NUMBER OF OPTIONS AVAILABLE UNDER THE 1998 STOCK OPTION PLAN	18,683,998	2,109,005
RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS	20,670,334	184,593

ROSS SYSTEMS, INC. AND SUBSIDIARIES

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 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)

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)

(1) Incorporated by reference to the exhibit filed with the Registrant's Current Report on Form 8-K filed July 24, 1998.

(2) Incorporated by reference to the exhibit filed with the Registrant's Registration Statement on Form 8-A filed September 4, 1998.

(3) Incorporated by reference to the exhibit filed with the Registrant's Current Report on form 8-K filed February 12, 1998.

(4) Incorporated by reference to the exhibit filed with the Registrant's Registration Statement on Form 10-K/A filed April 30, 1998.

(5) Incorporated by reference to the exhibit filed with the Registrant's Current Report on Form 10-Q filed May 17,. 1999.

(6) 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

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

ROSS SYSTEMS, INC. AND SUBSIDIARIES

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: February 20, 2001

/S/ VEROME M. JOHNSTON

Verome M. Johnston
Vice President, Chief Financial Officer

(Principal Financial and Accounting
Officer and Duly Authorized Officer)