

ROSS SYSTEMS INC/CA
Form 10-Q
May 17, 2004

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**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 March 31, 2004,

or

- o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 0-19092

ROSS SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware

94-2170198

(State or other jurisdiction of incorporation or organization)

(IRS Employer Identification Number)

**Two Concourse Parkway,
Suite 800, Atlanta, Georgia**

30328

(Address of principal executive offices)

(Zip code)

(770) 351-9600

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). YES o
NO x

As of May 14, 2004, the Registrant had outstanding 2,880,496 shares of Common Stock, and 500,000 Series A 7.5% convertible preference shares, (convertible preferred stock).

**ROSS SYSTEMS, INC.
QUARTERLY REPORT ON FORM 10-Q
QUARTER ENDED MARCH 31, 2004**

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This Quarterly Report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 2, contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause the results of Ross Systems to differ materially from those expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including any projections of earnings, revenue, synergies, accretion, margins or other financial items; any statement containing the proposed merger with chinadotcom corporation; any statements of the plans, strategies and objectives of management for future operations, including the execution of integration and restructuring plans; any statement concerning proposed new products, services, developments or industry rankings; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing. The risks, uncertainties and assumptions referred to above include the performance of contracts by customers and partners; employee management issues; the challenge of managing asset levels; the difficulty of aligning expense levels with revenue changes; and other risks that are described herein and that are otherwise described from time to time in Ross Systems Securities and Exchange Commission reports. Ross Systems assumes no obligation and does not intend to update these forward-looking statements.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

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

	March 31, 2004	June 30, 2003
	<u> </u>	<u> </u>
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8,751	\$ 8,628
Accounts receivable, less allowance for doubtful accounts of \$1,509 and \$1,532, at March 31, 2004, and June 30, 2003 respectively	14,967	12,880
Prepaid and other current assets	805	731
	<u> </u>	<u> </u>
Total current assets	24,523	22,239
Property and equipment, net	1,208	1,406
Computer software costs, net	12,617	13,573
Other assets	2,993	2,993
	<u> </u>	<u> </u>
Total assets	<u>\$ 41,341</u>	<u>\$ 40,211</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short term debt	\$ 5,049	\$ 2,800
Accounts payable	1,436	2,978
Accrued expenses	5,055	4,940
Income taxes payable	177	261
Deferred revenues	11,944	12,203
	<u> </u>	<u> </u>
Total current liabilities	<u>23,661</u>	<u>23,182</u>
Shareholders' equity:		
Convertible Preferred stock, no par value 5,000,000 shares authorized; 500,000 shares issued and outstanding	2,000	2,000
Common stock, \$0.001 par value; 15,000,000 shares	28	28

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authorized; 2,879,470 and 2,815,603 shares issued and outstanding

Additional paid-in capital	87,275	87,189
Accumulated deficit	(68,669)	(69,094)
Accumulated other comprehensive deficit	(1,834)	(1,749)
Treasury stock at cost, 133,977 and 158,973 shares	<u>(1,120)</u>	<u>(1,345)</u>
 Total shareholders equity	 <u>17,680</u>	 <u>17,029</u>
 Total liabilities and shareholders equity	 <u>\$ 41,341</u>	 <u>\$ 40,211</u>

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

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

	Three months ended March 31, (unaudited)		Nine months ended March 31, (unaudited)	
	2004	2003	2004	2003
Revenues:				
Software product licenses	\$ 4,244	\$ 2,696	\$ 11,594	\$ 9,903
Consulting and other services	4,237	3,489	11,815	9,794
Maintenance	5,191	5,235	15,538	15,323
Total revenues	<u>13,672</u>	<u>11,420</u>	<u>38,947</u>	<u>35,020</u>
Operating expenses:				
Costs of software product licenses (inclusive of amortization of capitalized computer software costs)	1,764	1,660	5,090	4,786
Costs of consulting, maintenance and other services	5,313	4,229	15,491	12,784
Software product license sales and marketing	3,272	2,864	9,021	8,193
Product development net of capitalized computer software costs	778	605	2,417	1,893
General and administrative	812	1,016	2,807	3,420
Litigation settlement			1,896	
Provision for uncollectible accounts	188	197	418	711
Total operating expenses	<u>12,127</u>	<u>10,571</u>	<u>37,140</u>	<u>31,787</u>
Operating profit	1,545	849	1,807	3,233
Other expenses, net	(113)	(29)	(144)	(152)
Proposed merger transaction costs	(139)		(1,133)	
Income tax expense	(22)	(63)	(105)	(217)
Net income	<u>1,271</u>	<u>757</u>	<u>425</u>	<u>2,864</u>
Preferred stock dividend	(38)	(38)	(113)	(113)
Net income available to common shareholders	<u>\$ 1,233</u>	<u>\$ 719</u>	<u>\$ 312</u>	<u>\$ 2,751</u>

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Net income per common share	basic	\$ 0.45	\$ 0.27	\$ 0.12	\$ 1.05
Net income per common share	diluted	\$ 0.36	\$ 0.22	\$ 0.12	\$ 0.87
Shares used in per share computation	basic	2,728	2,638	2,707	2,616
Shares used in per share computation	diluted	3,513	3,387	3,477	3,292

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

Table of Contents**ROSS SYSTEMS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

	Nine months ended March 31, (unaudited)	
	2004	2003
Cash flows from operating activities:		
Net income	\$ 425	\$ 2,864
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	559	556
Amortization of computer software costs	3,707	3,526
Provision for uncollectible accounts	418	711
Changes in operating assets and liabilities:		
Accounts receivable	(2,370)	(1,723)
Prepaid and other current assets	(63)	906
Income taxes recoverable/payable	(84)	235
Accounts payable	(1,510)	(374)
Accrued expenses	267	504
Deferred revenues	(226)	(701)
	<u>1,123</u>	<u>6,504</u>
Cash provided by operating activities		
Purchases of property and equipment, net	(302)	(551)
Computer software costs capitalized	(2,908)	(3,317)
Other	44	44
	<u>(3,210)</u>	<u>(3,824)</u>
Cash used in investing activities		
Cash flows from financing activities:		
Net cash received (paid) on line of credit activity	2,249	(169)
Repurchase of treasury stock	310	(1,426)
Proceeds from issuance of common stock	(113)	262
Preference dividend paid	—	—
	<u>2,446</u>	<u>(1,333)</u>
Cash provided by (used in) financing activities		

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Effect of exchange rate changes on cash	(236)	(198)
	<u> </u>	<u> </u>
Net increase in cash and cash equivalents	123	1,149
Cash and cash equivalents at beginning of fiscal year	8,628	5,438
	<u> </u>	<u> </u>
Cash and cash equivalents at end of fiscal quarter	\$ 8,751	\$ 6,587
	<u> </u>	<u> </u>
Supplemental disclosures of cash flow information:		
Cash paid for interest charges	\$ 67	\$ 75
Cash paid for taxation charges	\$ 79	\$ 104

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

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ROSS SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1) BUSINESS OF THE COMPANY & BASIS OF PRESENTATION

Description of Business and Summary of Significant Accounting Policies

Business of the Company

Ross Systems, Inc. (the Company or Ross ; NASDAQ: ROSS) delivers innovative software solutions that help manufacturers worldwide fulfill their business growth objectives through increased operational efficiencies, improved profitability, strengthened customer relationships and streamlined regulatory compliance. Focused on the food and beverage, life sciences, chemicals, metals and natural products industries and implemented by over 1,000 customer companies worldwide, the company's family of Internet-architected solutions is a comprehensive, modular suite that spans the enterprise, from manufacturing, financials and supply chain management to customer relationship management, performance management and regulatory compliance.

Publicly traded on the Nasdaq National Market since 1991, Ross's global headquarters are based in the U.S. in Atlanta, Georgia, with sales and support operations around the world.

The Company operates in one business segment (software) and no individual customer accounted for more than 10% of total revenues in the quarter ended March 31, 2004. The Company does not have a concentration of credit risk in any one industry. Approximately 66% of the Company's revenues are derived from the North American market.

The accompanying unaudited condensed consolidated financial statements of the Company reflect all adjustments of a normal recurring nature which are, in the opinion of management, necessary to present a fair statement of its financial position as of March 31, 2004, and the results of its operations and cash flows for the interim periods presented. The Company's results of operations for the three months ended March 31, 2004 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 accounting principles generally accepted in the United States of America 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/A for the fiscal year ended June 30, 2003 which was filed with the Securities and Exchange Commission.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation.

Stock Based Compensation.

The company measures compensation cost for its stock incentive and option plans using the intrinsic value-based method of accounting.

Had the company used the fair value-based method of accounting to measure compensation expense for its stock incentive and option plans and charged compensation cost against income over the vesting periods, based on the fair value of options at the date of grant, net income or loss and the related basic and diluted per common share amounts for the three and nine months ended March 31, 2004 and 2003 would have been as follows:

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(In thousands, except per share data)

	Three months ended March 31,		Nine months ended March 31,	
	2004	2003	2004	2003
Net income available to common shareholders:				
As reported	\$ 1,233	\$ 719	\$ 312	\$ 2,751
Deduct: Total stock-based employee compensation expense under fair value-based method, net of tax	(235)	(56)	(763)	(341)
Pro forma net income (loss) available to common shareholders	\$ 998	\$ 663	\$ (451)	\$ 2,410
Basic net earnings (loss) per share:				
As reported	\$ 0.45	\$ 0.27	\$ 0.12	\$ 1.05
Pro forma	0.37	0.25	(0.17)	0.92
Diluted net earnings (loss) per share:				
As reported	0.36	0.22	0.12	0.87
Pro forma	0.29	0.21	(0.17)	0.77

The following weighted average assumptions for the Company's Stock Option Plan were used to determine the pro forma amounts noted above:

	Three months ended March 31,		Nine months ended March 31,	
	2004	2003	2004	2003
Expected life (years)	5	5	5	5
Expected volatility	30.0%	66.2%	30.0%	66.2%
Risk-free interest rate	5.0%	4.3%	5.0%	4.3%
Expected dividend yield	None	None	None	None

Revenue Recognition.

In accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 101 Revenue Recognition in Financial Statements, the Company recognizes revenues from licenses of computer software up-front provided that a non-cancelable license agreement has been signed, the software and related documentation have been shipped, there are no material uncertainties regarding customer acceptance, collection of the resulting receivable is deemed probable, and no significant other vendor obligations exist. The revenue associated with any license agreements containing

cancellation or refund provisions is deferred until such provisions lapse. Where the Company has future obligations, if such obligations are insignificant, related costs are accrued immediately. When the obligations are significant, the software product license revenues are deferred. Future contractual obligations can include software customization, requirements to provide additional products in the future and porting products to new platforms. Contracts which require significant software customization are accounted for on the percentage-of-completion basis. Revenues related to significant obligations to provide future products or to port existing products are deferred until the new products or ports are completed.

The Company's revenue recognition policies are designed to comply with American Institute of Certified Public Accountants Statement of Position (SOP) 97-2, Software Revenue Recognition, and with SEC Staff Accounting Bulletin (SAB) No. 101, Revenue Recognition in Financial Statements. Revenues recognized from multiple-element software license contracts are allocated to each element of the contracts based

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ROSS SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

on the fair values of the elements, such as licenses for software products, maintenance, or professional services. The determination of fair value is based on objective evidence which is specific to the Company. The Company limits its assessment of objective evidence for each element to either the price charged when the same element is sold separately, or the price established by management having the relevant authority to do so, for an element not yet sold separately. If evidence of fair value of all undelivered elements exists but evidence does not exist for one or more delivered elements, then revenue is recognized using the residual method. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is recognized as revenue.

The Company utilizes distributors primarily in geographic areas where the Company does not maintain a physical presence. The Company's revenue recognition policies with respect to sales by distributors complies with SOP 97-2 and SAB 101 in that all the revenue recognition criteria listed above are met. In addition, distributors do not have rights of return, price protection, rotation rights, or other features that would preclude revenue recognition. Generally, the value of software license sales to distributors is based on list selling prices to their customer less a discount at a predetermined rate. Similarly, the Company earns revenue from distributors based on a predetermined percentage of the maintenance fees billed by the distributor to the end customer. The distributor typically retains any fees earned by them for implementation services they perform. Distributorships may or may not be geographically exclusive, and are generally subject to annual renewals by the Company.

Service revenues generated from professional consulting and training services are recognized as the services are performed. Maintenance revenues, including revenues bundled with original software product license revenues, are deferred and recognized over the related contract period, generally 12 months.

Computer Software Costs.

The Company capitalizes computer software product development costs incurred in developing a product once technological feasibility has been established and until the product is available for general release to customers. Technological feasibility is established when the Company either (1) completes a detail program design that encompasses product function, features and technical requirements and is ready for coding, and confirms that the product design is complete, that the necessary skills, hardware and software technology are available to produce the product, that the completeness of the detail program design is consistent with the product design by documenting and tracing the detail program design to the product specifications, that the detail program design has been reviewed for high-risk development issues, and that any related uncertainties have been resolved through coding and testing or (2) completes a product design and working model of the software product, and the completeness of the working model and its consistency with the product design have been confirmed by testing. The Company evaluates the expected future realizability of the capitalized amounts based on expected revenues from the product over the remaining product life. Where future projected revenue streams are not expected to cover remaining amounts to be amortized, the Company either accelerates amortization or expenses the remaining capitalized amounts. Amortization of such costs is computed as the greater of (1) the ratio of current revenues to expected future revenues from the related future product sales or (2) a straight-line basis over the estimated useful life of the product (not to exceed five years). Software costs related to the development of new products incurred prior to establishing technological feasibility or after general release are expensed as incurred.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity date of three months or less to be cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable is comprised of trade receivables that are credit based and do not require collateral. Generally, the Company's credit terms are 30 days but in some instances the Company offers extended payment terms to customers purchasing software licenses. The Company has a history of offering extended payment terms from time to time for competitive reasons. These terms are not offered in connection with any contingencies related to product acceptance, implementation, or any other service obligation or

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ROSS SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

contingencies post-transaction, and the Company has not offered concessions as a result of these terms. Payment arrangements in these circumstances typically require payment of a significant portion of the total contract amount within 30 days of the sale, with two to three subsequent installments typically within six months. The Company has not found collectibility to be compromised as a result of these terms. In no case have payment terms extended beyond 12 months. Based on historical results, the Company believes that its revenue recognition policies comply with all components of SOP 97-2, including that the product has been shipped and that the arrangement is fixed and determinable.

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. On an ongoing basis, the Company evaluates the collectibility of accounts receivable based upon historical collections and assessment of the collectibility of specific accounts. Ross specifically reviews the collectibility of accounts with outstanding balances in excess of 90 days. The Company evaluates the collectibility of specific accounts using a combination of factors, including the age of the outstanding balances, evaluation of the underlying company's financial condition, recent payment history, and discussions with the account executive responsible for the specific customer. Based upon this evaluation, an increase or decrease required in the allowance for doubtful accounts is reflected in the period in which the evaluation indicates that a change is necessary. Any change in the allowance for doubtful accounts could have an impact on the Company's financial condition, results of operation and cash flows.

Property and Equipment

Property and equipment are stated at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the respective assets, generally three to seven years. Leasehold improvements and equipment under capital leases are amortized using the straight-line method over the shorter of the terms of the related leases or the respective useful lives of the assets.

Long-lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and the carrying value of the asset.

Fair Value of Financial Instruments

The carrying amounts reported on the balance sheet for accounts receivable, notes receivable, accounts payable and short term debt approximate their fair values.

Income Taxes

In accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* (SFAS 109), the Company utilizes the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are established to recognize the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Foreign Operations and Currency Translation

The local currencies (typically Euros and Pounds Sterling) of the Company's foreign subsidiaries are the functional currencies. Assets and liabilities of foreign subsidiaries are translated into U.S. dollars at current exchange rates, and the resulting translation gains and losses are included as an adjustment to shareholders' equity as a component of comprehensive income. Transaction gains and losses that relate to U.S. dollar denominated intercompany short-term receivables are recorded in the financial statements of the Company's foreign subsidiaries and are reflected in income. Where related intercompany balances have been designated as long-term, gains and losses are included as an adjustment to shareholders' equity as a component of comprehensive income.

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It is the Company's policy to reclassify prior year amounts to conform with current year financial statement presentation when necessary.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

Advertising Costs

The Company generally expenses advertising costs at the time the advertisement is published, or in the case of direct mail, when mailed. Advertising costs for the three months ended March 31, 2004 and 2003 were approximately \$228,000 and \$125,000 respectively. Advertising costs for the nine months ended March 31, 2004 and 2003 were approximately \$547,000 and \$415,000 respectively.

Segment Information

SFAS No. 131 Disclosures about Segments of an Enterprise and Related Information established standards for the way that public business enterprises report information about operating segments in their financial statements. The standard defines operating segments as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assess performance. Based on these standards the Company has determined that it operates in four geographical segments: Northern Europe, Spain, the United Kingdom and North America.

The Company has no customers that represent ten percent or more of annual revenues.

For management purposes, the results of the Asian operations are included in the North American results since the costs associated with managing the Asian market place are born by the North American entities within the Group. Revenues in the Asian markets comprise less than 5% of total revenues reported for the North American segment. Selected balance sheet and income statement information pertaining to the various significant geographic areas of operation are as follows:

As of and for the quarter ended March 31, 2004 (in thousands):

<u>Total Assets</u>	<u>Revenue</u>	<u>Net Income Available to Common Shareholders</u>	<u>Depreciation and Amortization</u>	<u>Capital Expenditures</u>
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Northern Europe	\$ 7,800	\$ 1,517	\$ 105	\$ 15	\$ 6
Spain	7,524	1,603	(152)	91	
United Kingdom	2,673	1,560	81	14	1
North America	23,344	8,992	1,199	72	91
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	\$41,341	\$13,672	\$1,233	\$ 192	\$ 98
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Table of Contents**ROSS SYSTEMS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As of and for the quarter ended March 31, 2003, (in thousands):

	Total Assets	Revenue	Net Income Available to Common Shareholders	Depreciation and Amortization	Capital Expenditures
Northern Europe	\$ 2,622	\$ 1,041	\$ (34)	\$ 16	\$ 2
Spain	6,399	1,647	225	59	
United Kingdom	3,428	1,559	143	15	
North America	26,184	7,173	385	69	114
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	\$38,633	\$11,420	\$ 719	\$ 159	\$ 116
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

As of and for the nine months ended March 31, 2004 (in thousands):

	Total Assets	Revenue	Net Income Available to Common Shareholders	Depreciation and Amortization	Capital Expenditures
Northern Europe	\$ 7,800	\$ 3,763	\$ 231	\$ 43	\$ 21
Spain	7,524	4,944	43	254	79
United Kingdom	2,673	4,736	509	43	10
North America	23,344	25,504	(471)	219	192
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	\$41,341	\$38,947	\$ 312	\$ 559	\$ 302
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

As of and for the nine months ended March 31, 2003 (in thousands):

	Total Assets	Revenue	Net Income Available to Common Shareholders	Depreciation and Amortization	Capital Expenditures
Northern Europe	\$ 2,622	\$ 3,479	\$ 278	\$ 47	\$ 25
Spain	6,399	4,667	635	208	148
United Kingdom	3,428	4,171	338	40	39
North America	26,184	22,703	1,500	261	339
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$38,633	\$35,020	\$2,751	\$ 556	\$ 551
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

New Accounting Pronouncements

The Financial Accounting Standards Board issued an Exposure Draft to amend SFAS No. 123, which would eliminate the ability to account for share-based compensation transactions using APB Opinion No. 25. The proposed statement provides guidance on accounting for transactions in which an enterprise receives employee services in exchange for equity instruments of the enterprise or liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. Under the Exposure Draft, SFAS No. 123 requires the cost resulting from all share-based payment transactions to be recognized in the financial statements and establishes a fair-value based method of accounting for the transactions. The Company continues to apply the recognition and measurement principles of APB Opinion No. 25, but has complied with the disclosure requirements of SFAS No. 148. Adoption of the requirements in the Exposure Draft may have an impact on the financial results.

2) COMPREHENSIVE INCOME

Comprehensive income represents net income plus the results of certain shareholders' equity changes not reflected in the consolidated statements of operations. The items in comprehensive income relate principally to foreign currency translation adjustments and were as follows for the three and nine months ended March 31, 2004 and 2003 (in thousands):

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	Three months ended March 31,		Nine months ended March 31,	
	2004	2003	2004	2003
Net income	\$ 1,233	\$ 719	\$ 312	\$ 2,751
Foreign currency translation adjustments	74	86	(85)	(152)
Total comprehensive income	<u>\$ 1,307</u>	<u>\$ 805</u>	<u>\$ 227</u>	<u>\$ 2,599</u>

3) NET INCOME PER COMMON SHARE BASIC AND DILUTED

Basic earnings per common share are computed by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per common share is computed in a manner consistent with that of basic earnings per share while giving effect to all potentially dilutive common shares that were outstanding during the period.

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

	Three months ended March 31,		Nine months ended March 31,	
	2004	2003	2004	2003
Net income available to common shareholders basic	\$ 1,233	\$ 719	\$ 312	\$ 2,751
Dividend on convertible securities	38	38	113	113
Net income diluted	<u>\$ 1,271</u>	<u>\$ 757</u>	<u>\$ 425</u>	<u>\$ 2,864</u>

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

Nine months ended

	Three months ended March 31,		March 31,	
	2004	2003	2004	2003
Weighted average shares outstanding basic	2,728	2,638	2,707	2,616
Conversion of preferred stock	500	500	500	500
In the money stock options, warrants and contingently issuable securities	285	249	270	176
	<hr/>	<hr/>	<hr/>	<hr/>
Weighted average shares outstanding diluted	3,513	3,387	3,477	3,292
	<hr/>	<hr/>	<hr/>	<hr/>

In periods when the Company is profitable, the only difference between the denominator for basic and diluted net earnings per share is the effect of potentially dilutive common shares. In periods of a loss, the denominator does not change because this would be antidilutive.

4) CAPITAL STOCK

Mandatorily Convertible Preferred Stock and Private Placement

In fiscal 1991, the Company authorized a new class of no par value preferred stock consisting of 5,000,000 shares. The Board of Directors is authorized to issue the preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions of such stock, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series or the designation of such series, without further vote or action by the shareholders. All preferred stock was issued with a mandatory conversion feature.

On June 29, 2001, the Company issued mandatorily convertible preferred stock to a qualified investor in a private placement transaction. In summary, the investor purchased 500,000 preferred shares at \$4 per share

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yielding \$2,000,000 for the Company. This price represented a premium to the market for the Company's common stock at the time of issuance. The average closing share price of the Company's common stock for the 30 trading days prior to the private placement was approximately \$2.22. The preferred shares can be converted at \$4.00 per share after June 29, 2002 but before June 29, 2006, on a one for one basis. The shares earn dividends at the rate of 7.5%. In conjunction with this transaction, the Company issued warrants to the broker who assisted in securing the investor. These warrants were fairly valued at \$60,000 on the date of issuance.

On July 1, 2003 the Company awarded a total of 25,000 restricted shares to two of its officers. These shares have a ten year vesting period and include certain accelerated vesting rights (as defined) which are conditional upon a change of control of the Company, or the share price closing at or above \$20.00 per share. Related stock compensation of \$9,000, and \$27,000 for the three months and nine months ended March 31, 2003 respectively, are reflected in the statement of operations.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5) PENDING MERGER

In early September 2003, the Company announced that it had signed a definitive agreement whereby chinadotcom Software (CDC) would acquire Ross Systems in a merger. On January 8, 2004, the Company announced changes to the terms of the pending merger. Under the terms of the merger agreement, as amended, for each share of Ross common stock held, stockholders of Ross Systems may elect to receive either (i) \$17.00 in cash or (ii) \$19.00 in a combination of cash and CDC common shares for each share of the Company's common stock (the "Common Shares"). CDC common shares will be valued at the average closing price of such shares for the 10 trading days preceding the second trading day before the closing date. Both companies are listed on NASDAQ stock exchange.

Proposed merger transaction costs consisting of legal and professional services fees of approximately \$139,000 and \$1,133,000 were incurred during the six and nine months ended March 31, 2004 respectively. These costs did not constitute normal operating costs and have therefore been disclosed separately in the consolidated condensed statement of operations.

6) RELATED PARTY TRANSACTION

In November 2003 in connection with the pending merger of the Company and chinadotcom Software ("CDC"), management of Industri-Matematik International ("IMI"), a subsidiary of CDC, requested that the Company assist IMI in performing certain administrative functions. The Company charged IMI, in an arm's length manner, approximately \$90,000 and \$150,000 during the three and nine months ended March 31, 2004, respectively. These fees have been recorded as a reduction of general and administrative expenses.

7) LEGAL PROCEEDINGS

a) On November 17, 2003, an arbitrator awarded approximately \$2,000,000 against the Company in favor of a former Dutch distributor. The Company paid the award before the end of calendar 2003 by funding the payment out of operating cash flows in the ordinary course of business. As a result, the Company recognized a charge of approximately \$1,896,000 during the quarter ending December 31, 2003 as \$104,000 was previously recorded in accordance with the contract in its normal course.

b) On February 28, 2001, the Company completed the sale of certain assets related to its Human Resource and Payroll product line to Now Solutions, LLC, (NOW), a majority owned subsidiary of Vertical Computer Systems Inc. (Vertical). Raglan Acquisitions (Arglen), was also a party to the transaction and was a holding company used by NOW to complete the transaction. The gross asset sale price was \$6,100,000. The purchase price consisted of cash of \$5,100,000 and a note payable by NOW to Ross of \$1,000,000.

The note was non-interest bearing and was due in two installments; \$250,000 due on February 28, 2002 and \$750,000 due on February 28, 2003. NOW defaulted on the second installment of \$750,000 which remains outstanding and is accruing interest at the rate of 10% per annum, the default interest rate as defined in the note.

On February 27, 2003, the day before the final note installment was due, Vertical filed a derivative suit on behalf of NOW against Ross and others alleging breach of contract, fraud, conspiracy and breach of fiduciary duty. The suit alleges that Ross failed to schedule approximately \$3,600,000 of liabilities related to maintenance agreements assumed by NOW.

The suit also alleges that Ross failed to disclose to NOW a transaction brokerage fee of \$600,000 that Ross was to pay to Arglen, whose CEO signed the fee agreement and who was also the CEO of NOW. The suit also alleges that Ross should be jointly and severally liable for certain alleged frauds committed by other defendants in which Ross allegedly conspired. The suit further seeks a setoff against the remaining note payment based on the above alleged damages, and the recovery of its attorneys' fees and costs. Ross denies and has contested each and every one of Vertical's claims.

On November 18, 2003, the Supreme Court of the State of New York dismissed all of Vertical Computer Systems (Vertical) claims against Ross described above. Vertical has filed an appeal. The Company will continue to defend this matter vigorously. The Company does not believe currently that the outcome of range of outcomes is determinable, nor does it believe that should the outcome be unfavorable that it would be materially detrimental to the Company's liquidity.

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

Basis of Presentation

Our consolidated financial statements include the accounts of Ross and our wholly owned subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation. Our fiscal year ends on June 30. Fiscal 2003, and fiscal 2004 mean our fiscal years ended June 30 of each such year. The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements and the related notes that appear elsewhere in this document. Unless otherwise stated in this document, references to (1) us, our, we and similar terms, (2) the Company or (3) Ross shall mean Ross Systems, Inc., a Delaware corporation, and its subsidiaries.

Critical Accounting Policies

Revenue Recognition. We recognize revenues from licenses of computer software up-front provided that a non-cancelable license agreement has been signed, the software and related documentation have been shipped, there are no material uncertainties regarding customer acceptance, collection of the resulting receivable is deemed probable, and no significant other vendor obligations exist. The revenue associated with any license agreements containing cancellation or refund provisions is deferred until such provisions lapse. Where we have future obligations, if such obligations are insignificant, related costs are accrued immediately. If the obligations are significant, the software product license revenues are deferred. Future contractual obligations can include software customization, requirements to provide additional products in the future and porting products to new platforms. Contracts that require significant software customization are accounted for on the percentage-of-completion basis. Revenues related to significant obligations to provide future products or to port existing products are deferred until the new products or ports are completed.

Our revenue recognition policies are designed to comply with American Institute of Certified Public Accountants Statement of Position (SOP) 97-2, Software Revenue Recognition, and with SEC Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements. Revenues recognized from multiple-element software license contracts are allocated to each element of the contracts based on the fair values of the elements, such as licenses for software products, maintenance, or professional services. The determination of fair value is based on objective evidence which is specific to the Company. We limit our assessment of objective evidence for each element to either the price charged when the same element is sold separately, or the price established by management having the relevant authority to do so, for an element not yet sold separately. If evidence of fair value of all undelivered elements exists but evidence does not exist for one or more delivered elements, then revenue is recognized using the residual method. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is recognized as revenue.

We utilize distributors primarily in those geographic areas where we do not maintain a physical presence. Our revenue recognition policies with respect to sales by distributors comply with SOP 97-2 and SAB 101 in that all the revenue recognition criteria listed above are met. In addition, distributors do not have rights of return, price protections, rotation rights, or other features that would preclude revenue recognition. Generally, the value of software license sales to distributors is based on list selling prices to their customer less a discount at a predetermined rate. Similarly, we receive revenue from distributors based on a predetermined percentage of the maintenance fees billed by the distributor from the end customer. The distributor typically retains any fees earned by them for implementation services. Distributorships may or may not be geographically exclusive, and are generally subject to annual renewals by the Company.

Service revenues generated from professional consulting and training services are recognized as the services are performed. Maintenance revenues, including revenues bundled with original software product license revenues, are deferred and recognized over the related contract period, generally 12 months.

Accounts receivable comprise trade receivables that are credit based and do not require collateral. Generally, our credit terms are 30 days but in some instances we offer extended payment terms to customers purchasing software licenses. We have a history of offering extended payment terms from time to time for competitive reasons. These terms are not offered in connection with any contingencies related to product acceptance, implementation, or any other service or contingency post-transaction, and we have not offered concessions as a result of these terms. Payment arrangements in these circumstances typically require payment of a significant portion of the total contract amount within 30 days of the sale, with two or three subsequent installments making up

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the balance payable within six months. We have not found collectibility to be compromised as a result of these terms. In no case have payment terms extended beyond 12 months. Based on historical results, we believe that all components of SOP 97-2 are met, including that the arrangement is fixed and determinable.

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. On an ongoing basis, we evaluate the collectibility of accounts receivable based upon historical collections and assessment of the collectibility of specific accounts. We specifically review the collectibility of accounts with outstanding balances in excess of 90 days. We evaluate the collectibility of specific accounts using a combination of factors, including the age of the outstanding balance, evaluation of the account's financial condition, recent payment history, and discussions with our account executive responsible for the specific customer and with the customer directly. Based upon this evaluation of the collectibility of accounts receivable, an increase or decrease required in the allowance for doubtful accounts is reflected in the period in which the evaluation indicates that a change is necessary. If actual results differ, this could have an impact on our financial condition, results of operation and cash flows.

Computer Software Costs. We capitalize computer software product development costs incurred in developing a product once technological feasibility has been established and until the product is available for general release to customers. Technological feasibility is established when we either (1) complete a detail program design that encompasses product function, feature and technical requirements and is ready for coding and confirms that the product design is complete, that the necessary skills, hardware and software technology are available to produce the product, that the completeness of the detail program design is consistent with the product design by documenting and tracing the detail program design to the product specifications, that the detail program design has been reviewed for high-risk development issues, and any related uncertainties have been resolved through coding and testing or (2) complete a product design and working model of the software product, and the completeness of the working model and its consistency with the product design have been confirmed by testing.

Capitalized software development costs generally relate to development projects spanning several months. Resources are committed to these projects on a consistent and long-term basis resulting in a generally consistent impact on the financial results. We evaluate the extent to which the capitalized amounts are realizable based on expected revenues from the product over the remaining product life. Where future revenue streams are not expected to cover remaining amounts to be amortized, we either accelerate amortization or expense remaining capitalized amounts.

Amortization of such costs is computed as the greater of (1) the ratio of current revenues to expected revenues from the related product sales or (2) a straight-line basis over the expected economic life of the product (not to exceed five years). Software costs related to the development of new products incurred prior to establishing technological feasibility or after general release are expensed as incurred.

Reserves and Estimates. In the ordinary conduct of our business, we must often use judgment and estimates regarding the recording of certain reserves. For example, we use judgment in order to determine the amount of our reserves for uncollectible accounts receivable. Should our estimates prove to be incorrect, our reserves may be inadequate.

Foreign Currencies

The financial position and the results of operations of our foreign subsidiaries are measured using local currencies as the functional currencies. Assets and liabilities of these subsidiaries are translated into US dollars at the exchange

rate in effect at the end of the period. Income and expense items are translated at the average exchange rate for the period. The resulting translation adjustments are recorded in the foreign currency translation adjustment account. The effects of changes in foreign currency exchange rates have had minimal effect on our financial results reported herein.

Variability of Quarterly Results

Our 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, our new product

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introductions, and customer buying patterns. Because we typically ship software products within a short period after orders are received, and therefore maintain 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 revenue for each quarter is attributable to a limited number of sales and therefore tends to be realized in the latter part of the quarter. Thus, even short delays in or deferrals of sales near the end of a period can cause substantial fluctuations in quarterly revenues and operating results. Finally, certain agreements signed during a quarter may not meet our revenue recognition criteria resulting in deferral of such revenue to future periods. Because our operating expenses are based on anticipated revenue levels and a high percentage of our expenses are relatively fixed, a small variation in the timing of the recognition of specific revenues can cause significant variations in the operating results from quarter to quarter.

Business Summary

General

The following description of our business is qualified in its entirety by, and should be read in conjunction with the more detailed information and financial data, including the financial statements and notes thereto, appearing elsewhere in this Report.

Ross delivers innovative software solutions that help manufacturers worldwide fulfill their business objectives through increased operational efficiencies, improved profitability, strengthened customer relationships, consistent quality and streamlined regulatory compliance. Focused on the food and beverage, life sciences, chemicals, metals and natural products industries and implemented by over 1,000 customer companies worldwide, our family of Internet-architected solutions is a comprehensive, modular suite that spans a customer's enterprise, from manufacturing, financials and supply chain management to customer relationship management, performance management and regulatory compliance.

Publicly traded on the NASDAQ under the symbol ROSS since 1991, our global headquarters are based in the U.S. in Atlanta, Georgia, with sales and support operations around the world.

Our internet address is www.rossinc.com. We make available free of charge on or through our Internet website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, in each case as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

Information provided on our website is not part of this quarterly report on Form 10-Q.

We license our products to customers through a direct sales force in North America and Western Europe as well as independent distributors in dozens of other markets worldwide. We also provide professional consulting services for implementation, related custom application development and education. We offer ongoing maintenance and support services for our products via Internet and telephone help desks.

Merger Proposal

In early September 2003, we announced that we had entered into a definitive agreement whereby chinadotcom Software (CDC) would acquire Ross Systems in a merger. On January 8, 2004, we announced changes to the terms of the pending merger. Under the terms of the merger agreement, as amended, for each share of Ross common stock held, stockholders of Ross Systems may elect to receive either (i) \$17.00 in cash or (ii) \$19.00 in a combination of

cash and CDC common shares for each share of the Company's common stock (the Common Shares). CDC common shares will be valued at the average closing price of such shares for the 10 trading days preceding the second trading day before the closing date. Both companies are listed on NASDAQ.

We have not yet determined to what extent the proposed merger will affect our financial performance. However, we believe that CDC's Asian operations offer greater opportunities for doing business in that region, while at the same time, we believe our operations in North America and Europe will offer many new opportunities to CDC in our markets. CDC is a licensed master distributor of our products in Greater China and CDC and Ross believes the combination represents a unique opportunity to rapidly scale the introduction of our manufacturing products into Greater China. Both companies will be able to benefit from numerous cross-selling opportunities as a result of the merger. In addition, we believe we will have greater access to capital to pursue business combinations with selected,

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strategic software and services companies. The proposed merger is to be the subject of a shareholders' vote at our forthcoming Annual Meeting.

Products

Ross offers the award-winning **iRenaissance** family of software solutions which is an integrated suite of enterprise resource planning (ERP II), financials, materials management, manufacturing and distribution, supply chain management (SCM), advanced planning and scheduling, customer relationship management (CRM), electronic commerce, business intelligence and analytical applications.

iRenaissance applications are known for their deep and rich functional fit to process industry requirements, as well as their short implementation times and cost-effective returns on investment.

Technology

We leverage contemporary Internet technologies to enable significant benefits for our customers. Many of our customers have benefited from technology obsolescence protection as they have moved from older computing technology to current technology by upgrading to new releases. Built on a highly flexible technology platform, iRenaissance applications not only cost-effectively support mid-size companies but also scale effectively to support large, global, multi-lingual organizations with thousands of users processing hundreds of thousands of transactions daily. Our customers also benefit from the low cost of deployment and centralized maintenance afforded by browser-based PC clients that provide secure access from any PC with Internet access, to the system infrastructure at central locations where the software and data resides. End-user satisfaction is enhanced by highly configurable and personalizable applications that provide follow-me profiles for each user, regardless of physical location. Utilizing contemporary standards such as XML, SOAP, Microsoft .NET and others, iRenaissance applications can be effectively connected to any other applications or devices via the Internet. Robust security features that leverage Internet standards protect applications and data with both user-based and application-based function profiles. The security facilities further enable companies in their effort to achieve greater regulatory compliance by providing detailed audit trails for every action taken by every user.

Because our iRenaissance applications were developed with the GEMBASE development environment, we believe that 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 most popular database management systems. GEMBASE itself is written in the C programming language to facilitate portability across multiple hardware and database management system platforms. Because the iRenaissance products were developed in GEMBASE, customers often find it easy to customize their own applications.

Ongoing Development

To meet the increasingly sophisticated needs of our customers and broaden our product offerings for targeted vertical markets, we continually strive to enhance our existing product functionality. We survey our customers through on-line, industry-specific discussion forums and polling at our global user conferences, and incorporate many of their recommendations into our products. We also conduct a variety of forms of market research with industry analyst groups and targeted industry associations to determine strategies for new features and entirely new products for targeted vertical industries. While maintaining focus on the requirements of targeted vertical markets, we are expanding our potential geographic markets by developing new product functionality to address the needs of additional prospective customers in key international markets. These enhancements are related to local languages and

dialects, currency, accounting customs and procedures, and regulatory requirements. As an example, through the partnership established with CDC Software Corporation during the fourth quarter of fiscal 2003, we are well advanced with preparations for releasing additional local language versions of our software for the Chinese markets. These enhancements enable the Company to leverage its iRenaissance ERP products to capitalize on the growing and largely untapped process manufacturing markets in China.

We are also committed to achieving technology advances by leveraging new Internet-based capabilities enabled by XML and Web Services. During the 3rd quarter of fiscal 2003, we released the Internet Application Framework which enables the iRenaissance ERP foundation with full Internet deployment capabilities. Through the Internet Application Framework, application users have full access to the iRenaissance ERP applications from any computer with an Internet connection and the Microsoft Internet Explorer browser. Because no iRenaissance

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ERP application software needs to be deployed or maintained on user workstations, our customers have reported significant savings resulting from the use of the Internet Application Framework.

Third-Party Products

We resell complementary software products licensed from third parties, including applications for custom reporting of information maintained by our programs such as Business Objects for executive information, and FRx for financial reporting and budgeting, as well as certain middle-ware products. We resell other privately labeled software products licensed from third parties including Prescient Systems (rebranded as iRenaissance SCM) and Selligent (rebranded as iRenaissance CRM). Additionally, we have entered into agreements which enable us to resell database products and other products that are sublicensed to end users in conjunction with certain of our open systems products. License revenues from the products described in this paragraph constitute approximately 17% of total software product license revenues in the third quarter of fiscal 2004.

Services

Our worldwide consulting services operation complements our enterprise software sales organization. by offering a broad selection of services to plan, install and optimize each available software product. In addition we offer customization services to develop unique custom features and functions into our customers' business capabilities to help create competitive advantages. These services fall into two broad categories: Professional Services and Client Support. Income from these activities consist of services and maintenance revenues which comprise approximately 30% and 40% of total revenues respectively.

Professional Services

Our Professional Services organization provides business application experience, technical expertise and product knowledge to complement our products and to provide solutions to clients' business requirements. The major types of services provided include the following:

Application Consulting involves in-depth analysis of the client's specific needs and the preparation of detailed plans that list step-by-step actions and procedures necessary to achieve a timely and successful implementation of our software products. These services are generally offered on a time and expense reimbursement basis. Services are offered on a worldwide basis and customization projects are often delivered locally but developed in lower cost supply areas of the world.

Technical Consulting involves evaluating and managing the client's needs by supplying custom application systems, custom interfaces, data conversions, and system conversions. Consultants participate in a wide range of activities, including requirements definition, and software design, development and implementation. We also provide advanced technology services focused on networking, database administration and tuning. These services are generally offered on a time and expense reimbursement basis. We also provide remote systems management, and remote applications management.

Education Services are offered to clients either at our education facilities or at the client's location, as either standard or customized classes.

Established relationships with third party consulting partners are utilized in specific instances, to take advantage of specialized industry expertise and to support our implementation demands.

Client Support

Our Client Support functions include web-based support, telephone support, technical publications and product support guides, which are provided under maintenance agreements. The annual maintenance fee for these services is generally 20% of the price for the licensed software. The standard maintenance agreement also entitles clients to certain new product releases and product enhancements.

Marketing and Sales

We sell our products and services in the US and Western Europe primarily through our direct sales force. In other areas of the world, we sell our products through distributors. In support of our sales force and distributors, we conduct comprehensive marketing programs which include telemarketing, direct mailings, advertising, promotional material, seminars, trade shows, public relations and on-going customer communication.

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We are based in Atlanta, Georgia, with a regional direct sales force covering all major US business locations. We have subsidiaries in Belgium, Canada, Germany; the Netherlands; Spain; United Kingdom as well as Hong Kong.

We have distribution arrangements with distributors in the following countries: Argentina, Australia, Brazil, Chile, China, Colombia, Czech Republic, Denmark, Finland, Greece, Hong Kong, Hungary, Indonesia, Ireland, Italy, Japan, Jordan, Latvia, Lebanon, Lithuania, Malaysia, Mexico, Morocco, New Zealand, Norway, Pakistan, Peru, Poland, Portugal, Rumania, Russia, Saudi Arabia, Singapore, Slovak Republic, Slovenia, South Africa, Sweden, Taiwan, Thailand, Ukraine, Uruguay and Venezuela. These distributors pay us royalties on the sales of our products and maintenance services.

Product Development and Acquisitions

To meet the increasingly sophisticated needs of its customers and address potential new markets, we continually strive to enhance our existing product functionality. We survey the needs of our customers annually through ballots and direct discussions at our annual user conferences, and incorporate many of their recommendations into our products. We also conduct a variety of forms of market research with industry analyst groups and targeted industries to determine strategies for new features and functions. We are committed to achieving advances in the use of computer systems technology and to expanding the breadth of our product line.

Results of Operations

Revenues

Total revenues for the fiscal 2004 quarter ended March 31, 2004 of \$13,672,000 increased 20% from \$11,420,000 in the same quarter of fiscal 2003.

Total international revenues as a percentage of total revenues for the third quarter of fiscal 2004 were 34% for the third quarter of fiscal 2004 compared to 37% for the same quarter in fiscal 2003. Total international revenues for the third quarter of fiscal 2004 increased by 10% over the same quarter in the prior year; however in local currencies, revenues actually decreased by approximately 6%, as a result of the strengthening of the Pound and the Euro against the US dollar. Software sales and maintenance revenues are the main contributors to the slight decrease in revenues when measured in local currency terms.

For the quarter and the nine months ending March 31, 2004, North American revenues comprised 66% and 66% respectively of total revenues, compared to 63% and 65% respectively for the same periods of the prior year. North American revenues increased 25% over the same quarter of the previous fiscal year. This increase was due to mainly to improving software license revenues for the quarter.

Software product license revenues were \$4,244,000 during the quarter ended March 31, 2004, an increase of \$1,548,000 or 57%, from the same quarter in fiscal 2003. North America experienced an increase of 88% while Internationally the increase was 20%. For the nine month period ending March 31, 2004, software product license revenues increased by 17% over the same period in the prior fiscal year, which demonstrates that license revenues have been increasing consistently during fiscal 2004 and not only in the third quarter. The increases are the result of increasing demand arising from improving market awareness from consistent sales and marketing activity, improving market confidence from consistently strong financial results, and an improving trend in market perception of the economic outlook for the future. Demand increase in Europe is building at a slower pace to that of North America.

Consulting and other services revenues for the third quarter of fiscal 2004 increased 21% to \$4,237,000 from \$3,489,000 in the same quarter of fiscal 2003. For the nine months ended March 31, 2004, consulting and other services revenues increased 21% over the same period in fiscal 2003. Revenues from consulting and other services (which are typically recognized as performed) are generally correlated with software product license revenues (which are typically recognized upon delivery); therefore, service revenues fluctuate on a delayed tracking basis according to fluctuations in software product revenue. For the quarter ended March 31, 2004, North American services revenues increased 27% at \$2,678,000 compared to \$2,112,000 over the same quarter in the prior fiscal year. North American services revenue growth for both the third quarter and the nine months ended March 31, 2004, continues to benefit from the recent strong growth in software sales. International services revenues increased by \$189,000, or 18% over the same quarter in the prior year but this increase and the 21% increase for the nine months ending March 31, 2004 is due mainly to the foreign exchange effect of the stronger European currencies and the weaker US dollar in comparison to the currency conversion rates for the same periods in fiscal 2003. In local currencies, international services revenues are almost unchanged between the nine month periods and third quarters of fiscal 2003 and fiscal 2004 respectively.

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Maintenance revenues were almost unchanged in the third quarter of fiscal 2004 versus the same quarter in the prior year, and had increased slightly by 1% for the comparative nine month periods ended March 31, for fiscal years 2003 and 2004. The increase is attributable mainly to new maintenance contracts added during the prior year, partially offset by the normal incidence of cancellations by existing customers. This is true for both North America and international maintenance revenues. Maintenance contracts sold by third party distributors are included in software product license revenues because we do not support the maintenance obligations of any of our distributors' customers.

Operating Expenses

Costs of software product licenses (inclusive of amortization of capitalized computer software costs). Costs of software product licenses include expenses related to royalties paid to third parties, and the amortization of previously capitalized software costs. Third party royalty expenses will vary from quarter to quarter based on the number of third party products being sold. Costs of software product licenses for the third quarter of fiscal 2004 increased by 6% to \$1,764,000 from \$1,660,000 in the third quarter of fiscal 2003. A similar increase of 6% is reflected in the comparison of the nine months ended March 31, 2004 as compared to the same period in the prior fiscal year. This increase is due to the third party content of the overall increase in sales of software licenses. The capitalized software amortization amount included in costs of software product licenses was virtually unchanged at \$1,228,000 in the third quarter of fiscal 2004 as compared to \$1,211,000 for the same quarter in fiscal 2003. As a percentage of software product license revenue, the costs of software product licenses decreased to 13% in the third quarter of fiscal 2004 compared to 17% in the same quarter of fiscal 2003. The decrease in costs for software product licenses for the quarter was due to a decrease in the proportional mix of third party products in total software sales sold in the fiscal 2004 compared to the prior fiscal year. The third party content in software license sales is subject to customers needs and is therefore not a constant proportion.

Costs of consulting, maintenance and other services. Costs of consulting and other services include expenses related to consulting and training personnel, personnel providing customer support pursuant to maintenance agreements, and other related costs of sales. We also use outside consultants to supplement our personnel resources in order to meet peak customer consulting demands.

Costs of consulting and other services increased by 26% to \$5,313,000 in the third quarter of fiscal 2004, as compared to \$4,229,000 in the third quarter of fiscal 2003. Costs of consulting and other services increased by 21% to \$15,491,000 in the nine months ended March 31, 2004, as compared to \$12,784,000 in the same period in fiscal 2003. The increase in these costs for the quarter and the nine months reflects higher levels of customer software implementation activity. Our headcount at the end of the third quarter of fiscal 2004 is fifteen more than at the end of the same quarter in the prior year. This increase has occurred gradually over the last 12 months in order to meet the increasing demand for services. In addition, as is our normal practice, we have used third party subcontracted resources to supplement our consulting capacity when required. In North America the cost of third party consultants increased by \$162,000 to \$390,000 in the third quarter of fiscal 2004, from \$228,000 for the comparable period in prior year.

Software product license sales and marketing expenses. Sales and marketing expenses of \$3,272,000 for the quarter ended March 31, 2004 reflected an increase of 14% when compared to \$2,864,000 in the third quarter of fiscal 2003. For the nine months ended March 31, sales and marketing expenses had increased by 10% in fiscal 2004 as compared to fiscal 2003. The increase is primarily due to four additional headcount in our marketing department. Certain positions which were open in the third quarter of fiscal 2003 were filled in fiscal 2004. In addition the higher volume of software license sales in the fiscal 2004 third quarter as compared to the prior year, generated sales commissions of \$561,000, 70% higher than the \$331,000 in the prior year's same quarter.

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Product development net of capitalized computer software costs. Product development (research and development) expenses of \$778,000 in the third quarter of fiscal 2004 were up 29% from \$605,000 in the same quarter of the prior year. Product development expenditures is a commonly used measure in the software industry to describe the quantum of cost relating to software development excluding the effects of any capitalization of these costs and amortization of capitalized costs. This amount is derived by adjusting the figures shown in the Consolidated Statements of Operations as follows: (in thousands):

	Three months ended March 31,		Nine months ended March 31,	
	2004	2003	2004	2003
Gross Expenditures for Product Development	\$ 1,863	\$ 1,714	\$ 5,325	\$ 5,210
Less: Expenses capitalized	(1,085)	(1,109)	(2,908)	(3,317)
	<u>\$ 778</u>	<u>\$ 605</u>	<u>\$ 2,417</u>	<u>\$ 1,893</u>

As a percentage of total revenues, product development expenses for the three-month period ended March 31, 2004 was 6% compared to 5% for the same period of the prior year. Product development expenditures increased by 9% to \$1,863,000 in the quarter ended March 31, 2004 from \$1,714,000 in the same quarter in the prior year. This increase was primarily due to a combination of slightly higher expenses and slightly lower software capitalization as shown in the above table. The nine month period ended March 31, 2004 reflected expenditures which were almost flat when compared to the same period in fiscal 2003. We expect development of new products and enhancements to existing products to continue at historical levels.

General and administrative expenses. General and administrative expenses for the quarter ended March 31, 2004 decreased by 20%, to \$812,000 from \$1,016,000 in the same quarter of the prior year. The decrease arises from a lower level of legal costs in the fiscal 2004 quarter compared to the fiscal 2003 quarter, and the aggregate of minor declines in several other cost items which are not significant on their own. The decrease in legal costs reflects a decline in customer and employee related litigation. These expenses for the nine month period ended March 31, 2004 decreased by 18% over the prior fiscal year's same period, benefiting mainly from reduced legal costs.

Provision for uncollectible accounts. In the quarter ended March 31, 2004, provision for doubtful accounts were almost unchanged at \$188,000 as compared to \$197,000 recorded in the third quarter of fiscal 2003. The third quarter 2004 and 2003 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. The improving trend in the provision for doubtful accounts has been made possible by tighter and more effective processes over accounts receivable collections. In general, a customer's ability to access certain of our maintenance services is contingent on maintaining their account in good standing, and this has encouraged customers to be current on their accounts and resolve any outstanding issues promptly. In Europe, where the accounts receivable collections performance has been somewhat weaker than that in North America, we made changes to managers' compensation terms, providing incentives on improvements in receivables collections performance. In addition, a distributor policy change in Europe is slowly taking effect, whereby upon renewal of a distributor's contract, we assume the billing of the

distributor's customers, and thereby are able to better control the receivable balances due by the distributor and its customers.

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ROSS SYSTEMS, INC. AND SUBSIDIARIES

Proposed Merger Transaction Costs

Pursuant to the proposed merger with chinadotcom, legal and other professional costs amounting to \$139,000 have been incurred in the three months ended March 31, 2004, and \$1,133,000 for the nine months ended March 31, 2004. We expect to incur additional legal and professional fees of approximately \$100,000 during the fourth quarter of fiscal 2004.

Other Income (Expense), Net

Other expenses for the quarter ended March 31, 2004 was \$113,000 compared to \$30,000 in the same quarter of fiscal 2003. In the fiscal 2004 quarter, this amount consists of approximately \$30,000 in interest expense related to borrowings under our existing line of credit facility, and approximately \$84,000 of foreign exchange losses on current period transactions. For the prior year same quarter, this expense was interest.

Income Tax Expense

During the third quarter of fiscal 2004, we recorded an income tax expense of \$22,000 compared to \$63,000 recorded during the same quarter in fiscal 2003. The tax expense relates primarily to withholding taxes in certain foreign jurisdictions where we had either no available net operating loss carryforwards or had to pay treaty-based taxes.

Liquidity and Capital Resources

In the first nine months of fiscal 2004, net cash provided by operating activities decreased \$5,381,000 compared to the increase of \$4,306,000 in net cash provided by operating activities for the same period of the prior year. The decrease in cash provided by operating activities is mainly due to the increase in cash used of \$2,439,000 caused by the decrease in net income from \$2,864,000 in the nine months ended March 31, 2003, to a net income of \$425,000 for the nine months ended March 31, 2004. During the first nine months of fiscal 2004, compared to the same period in fiscal 2003, non cash changes for depreciation and amortization were comparable, while provisions for doubtful accounts decreased from \$711,000 in the prior nine month period to \$188,000 in the current nine month period. Our provision for uncollectible accounts has decreased in fiscal 2004 due to a smaller number of uncollectible receivables, while in the prior fiscal year's first nine months this reserve was greater to provide for receivables believed uncollectible at that time. In addition, there was an aggregate increase of cash used of \$1,217,000 in deferred revenues, accrued expenses, accounts payable and income taxes payable. For the nine months ended March 31, 2004, deferred revenues increased by \$226,000, resulting in a decrease in cash used. The prior year's trend for the comparable period was similar. The net earnings in the nine months ended March 31, 2004 were adversely affected in total by \$3,029,000 made up of merger transaction costs of \$1,133,000 and the settlement of a legal dispute under arbitration of \$1,896,000. Accounts payable and accrued expenses increased the use of cash by an aggregate \$1,373,000 reflecting faster payment of vendors and accrued liabilities in fiscal 2004 when compared to the same period in fiscal 2003.

In the first nine months of fiscal 2004, we utilized \$3,210,000 for investing activities versus \$3,824,000 over the same period of the prior year, a decrease of \$614,000. Investment in property and equipment was down \$249,000 to \$302,000 in the first nine months of fiscal 2004, from \$551,000 in same period in the prior year. Investments in capitalized computer software costs decreased by \$409,000 in the nine months ended March 31, 2004 as compared to the same period in the prior year. The lower investment in capitalized software for the current quarter reflected the lower amount of capitalized costs incurred in the first nine months of fiscal 2004 as described in the comments on

development expenditures on page 22 above.

Net cash flows provided by financing activities increased by \$3,779,000 for the nine months ended March 31, 2004, versus the same nine month period of the prior fiscal year. Cash increased during the nine months ended March 31, 2004 by drawing an additional \$2,249,000 on our lines of credit, a net \$2,156,000 increase compared to the net \$93,000 paid on lines of credit in the same period of the prior year. Proceeds from the issue of shares to employees under the Employee Stock Purchase Plan, and the exercise of options by employees, amounted to \$310,000 in the nine months ended March 31, 2004, an increase of \$48,000 over the same period in the prior year.

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ROSS SYSTEMS, INC. AND SUBSIDIARIES

At March 31, 2004 we had \$8,751,000 of cash and cash equivalents. We have a revolving credit facility with an asset-based lender. This facility, with a maturity date of September 23, 2004, incorporates a maximum credit line of \$5,000,000, and an interest rate of prime plus 2% (approximately 6.75% at March 31, 2004). Borrowings under the credit facility are collateralized by substantially all assets of the Company. At March 31, 2004, we had approximately \$4,229,000 outstanding against the \$5,000,000 revolving credit facility, and based on the eligible accounts receivable at March 31, 2004, our cash plus our remaining borrowing capacity of \$771,000 totaled approximately \$9,522,000. This represents a increase in total availability of cash at March 31, 2004 of \$2,935,000 from March 31, 2003. The increase in total availability is mainly as a result of the increase in cash generated through operations. At this time we believe that our current cash reserves, credit lines, and cash generated from operations are adequate to finance our activities.

Risk Factors

Our proposed merger with chinadotcom Corporation could have an adverse effect on our business because preparations for closing will consume our management's time and will result in material costs and expenses.

On September 4, we 2003, we entered into a merger agreement with chinadotcom Corporation. Preparations for the merger will be a material expense, will consume much of executive management's time and may result in potential customers deferring purchasing decisions until they understand the form of and reasons for the merger, any of which could have an adverse effect on our business model and results of financial operations. These adverse effects will be intensified if the merger is not completed.

Our software license revenues can be almost immediately adversely affected by decreases in customer demand and even relatively minor delays in customer purchasing decisions

Our software product license revenues can fluctuate depending upon such factors as overall trends in the United States and International economies, new product introductions, as well as customer buying patterns. Because we typically ship software products within a short period after orders are received, and therefore maintain a relatively small backlog, any weakening in customer demand could 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.

Because our operating expenses are based in large part on anticipated revenues, even small variations in the time at which we recognize revenues can cause significant variation in our operating results from quarter to quarter.

Our operating expenses are based in large part on anticipated revenue levels, including revenue from software sales agreements that we expect to sign. We sometimes defer our recognition of revenue from software sales agreements that we sign during a quarter to future periods, based on our revenue recognition criteria. Because a high percentage of our 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.

The recent economic slow-down may cause customer demand to decrease and price competition among our competitors to intensify, either of which would adversely affect our operating results.

Our business may be adversely impacted by the worldwide economic slowdown and related uncertainties. Weak economic conditions worldwide have contributed to the current technology industry slow-down. This may impact our business resulting in reduced demand and increased price competition, which may result in higher overhead costs, as a percentage of revenues. Additionally, this uncertainty may make it difficult for our customers to forecast future business activities. This could create challenges to our ability to profitably grow our business. If the economic or market conditions further deteriorate, this could have a material adverse impact on the results of operations and cash flow.

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ROSS SYSTEMS, INC. AND SUBSIDIARIES

The rapid development and maturation of technology in our industry and the strengthening our competitors in light of industry consolidation may make it difficult for us to compete effectively, which would harm our operating results and financial condition.

We may face increased competition and our financial performance and future growth depend upon sustaining a leadership position in our product functionality. Competitive challenges faced by Ross are likely to arise from a number of factors, including: industry volatility resulting from rapid development and maturation of technologies; industry consolidation and increasing price competition in the face of worsening economic conditions. Although there are fewer competitors in our target markets than previously, failure to compete successfully against those remaining could harm our business operating results and financial condition.

Our stock price is subject to significant volatility due to changes in economic conditions and announcements of new products or significant fluctuations in quarterly results of our company or our competitors.

Our stock price, like that of other technology companies, is subject to volatility because of factors such as announcement of new products, services or technological innovations by us or by our competitors, quarterly variations in our operating results, and speculation in the press or investment community. In addition our stock price is affected by general economic and market conditions and may be negatively affected by unfavorable global economic conditions.

We may not be able to adequately protect our intellectual property against unauthorized third party copying or use, in part because the laws of other countries do not offer the same protection as the laws of the U.S., and any such inability could significantly reduce our revenues and profitability.

Our business may suffer if we cannot protect our intellectual property. We generally rely upon copyright, trademark and trade secret laws and contract rights in the United States and in other countries to establish and maintain proprietary rights in our technology and products. However, there can be no assurance that any of our proprietary rights will not be challenged, invalidated or circumvented. In addition, the laws of certain countries do not protect proprietary rights to the same extent as do the laws of the United States. Therefore, there can be no assurance that we will be able to adequately protect our proprietary technology against unauthorized third-party copying or use, which could adversely affect our competitive position and could significantly reduce our revenues and profitability. Further, there can be no assurance that we will be able to obtain licenses to any technology that may be required to conduct our business or that, if obtainable, such technology could be licensed at a reasonable cost.

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ROSS SYSTEMS, INC. AND SUBSIDIARIES

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The risks described below are not the only ones that we face. Additional risks and uncertainties not presently known to us may also impair our business operations. Our business, operating results or financial condition could be materially adversely affected by, and the trading price of our common stock could decline due to any of these risks. You should also refer to the other information included in this quarterly report on Form 10-Q and our financial statements and the related notes included or incorporated by reference into our annual report on Form 10-K which we have filed with the SEC.

Foreign Operations: We have a world-wide presence and as such maintain offices and derive revenues from sources overseas. For the third quarter of fiscal 2004, international revenues as a percentage of total revenues were approximately 34%. Our 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, our future results could be materially adversely impacted by changes in these or other factors. During the third quarter of fiscal 2004, our European business units contributed approximately \$34,000 in net earnings. In this close to breakeven position for European operations, the effect of the foreign currency volatility on net income is insignificant.

Interest Rates: Our exposure to interest rates relates primarily to our 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 our statement of operations. Because of the short maturity of our investments, a near-term change in interest rates would not materially affect our financial position, results of operations, or cash flows. Certain of our debt obligations include a variable rate of interest. We did not engage in any derivative/hedging transactions in the third quarter of fiscal 2004.

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ROSS SYSTEMS, INC. AND SUBSIDIARIES

Item 4. Controls and Procedures

As of March 31, 2004, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's CEO and CFO have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-14 and 15d-14 of the Exchange Act) are effective. There have been no significant changes in the Company's disclosure controls or in other factors that could significantly affect these disclosure controls subsequent to the completion of their evaluation.

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ROSS SYSTEMS, INC. AND SUBSIDIARIES

PART II. OTHER INFORMATION

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.

- 2.1 Asset Sale Agreement between Registrant and Now Solutions LLC dated March 5, 2001 (2)
- 3.1 Certificate of Incorporation of the Registrant, as amended (3)
- 3.2 Bylaws of the Registrant (3)
- 3.3 Amendment to the Certificate of Incorporation of the Registrant, dated April 26, 2001, for the 1 for 10 Reverse Stock Split (8)
- 4.1 Certificate of Designation of Rights, Preferences and Privileges of Series B Preferred Stock of the Registrant (1)
- 10.1 Preferred Shares Rights Agreement, dated as of September 4, 1998 between the Registrant and Registrar and Transfer Company (2)
- 10.2 Loan and Security Agreement dated September 24, 2002 between Registrant and Silicon Valley Bank (8)
- 10.2A Series A Convertible Preferred Stock Agreement dated 29 June, 2001 between Registrant and Benjamin W. Griffith III (6)
- 10.3 Employment Agreement, dated as of January 7, 1999, modified March 24, 2003, between Mr. Patrick Tinley and the Registrant (4)
- 10.4 Employment Agreement, dated as of September 17, 1999, modified March 24, 2003, between Mr. Robert Webster and the Registrant (5)
- 10.5 Amendment to the Registration Statement on Form 8-A originally filed on October 3, 2001 (9)
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2

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Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- (1) Incorporated by reference to the exhibit filed with the Registrant's Current Report on Form 10-Q filed May 6, 1996.
- (2) Incorporated by reference to the exhibit filed with the Registrant's Registration Statement on Form 8-A filed September 4, 1998.

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ROSS SYSTEMS, INC. AND SUBSIDIARIES

- (3) Incorporated by reference to the exhibit filed with the Registrant's Current Report on Form 8-K filed July 24, 1998.
- (4) Incorporated by reference to the exhibit filed with the Registrant's Current Report on Form 10-Q filed May 17, 1999.
- (5) Incorporated by reference to the exhibit filed with the Registrant's Current Report on Form 10-K filed September 28, 1999.
- (6) Incorporated by reference to the exhibit filed with the Registrant's Current Report on Form 10-K filed September 27, 2001.
- (7) Incorporated by reference to the exhibit filed with the Registrant's Registration Statement on Form 8-A/A filed October 3, 2001.
- (8) Incorporated by reference to the exhibit filed with the Registrant's Current Report on Form 10-K/A filed October 2, 2002.
- (9) Incorporated by reference to the exhibit filed with the Registrant's Current Report on Form 8-A/A filed September 4, 2003.
- (10) Incorporated by reference to the exhibit filed with the Registrant's Current Report on Form 10-K/A filed May 7, 2004.

(b) Reports on Form 8-K

On February 13, 2004 Ross Systems filed a Current Report on Form 8-K reporting that the Company had issued a press release dated February 11, 2004 containing information about the Company's financial condition or results of operations for the quarterly and six month period ended December 31, 2003.

On April 29, 2004 Ross Systems filed a Current Report on Form 8-K reporting that on April 29, 2004, the Ross Systems and chinadotcom executed a third amendment to the Merger Agreement whereby Ross made the election to receive for every Ross share, \$19 in a combination of shares and cash or \$17 in cash.

On May 11, 2004 Ross Systems filed a Current Report on Form 8-K reporting that the Company had issued a press release dated May 5, 2004 containing information about the Company's financial condition or results of operations for the quarterly and nine month period ended March 31, 2004.

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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.

May 14, 2004

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

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