

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: 1999-09-10 | Period of Report: 1999-07-31
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FILER

4FRONT TECHNOLOGIES INC

CIK: **91649** | IRS No.: **840675510** | State of Incorporation: **CO** | Fiscal Year End: **0131**
Type: **10-Q** | Act: **34** | File No.: **000-08345** | Film No.: **99708901**
SIC: **7373** Computer integrated systems design

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BLVD
SUITE 107
ENGLEWOOD CO 80111

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STE 107
ENGLEWOOD CO 80111
3037217341

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

MARK ONE [1]

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

For the quarterly period ended July 31, 1999

OR

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

For the transition period from _____ to _____

Commission File Number 0-8345

4FRONT TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE 84-0675510
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

6300 South Syracuse Way, Suite 293
Englewood, Colorado 80111
(Address of principal executive offices)

Registrant's telephone number, including area code: (303) 721-7341

Securities registered pursuant to Section 12(b) of the Act: None

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:
COMMON STOCK, PAR VALUE \$.001 PER SHARE
(TITLE OF CLASS)

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
--- ---

The number of shares outstanding of each of the Registrant's classes of Common Stock at August 28, 1999 was 10,859,093 shares of Common Stock, \$.001 par value.

ITEM 1. FINANCIAL STATEMENTS

4FRONT TECHNOLOGIES, INC. AND SUBSIDIARIES
SIX AND THREE MONTH PERIODS ENDED JULY 31, 1999

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4FRONT TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

<TABLE>
<CAPTION>

	JANUARY 31, 1999	JULY 31, 1999
	----- \$ '000'S	----- \$ '000'S
		(UNAUDITED)
	<C>	<C>
<S>		
CURRENT ASSETS:		
Cash	\$ 26,162	\$ 23,271
Accounts receivable, net of allowance for doubtful accounts of \$642,000 and \$724,000 respectively	54,910	62,309
Deposits	51	51
Inventories	23,840	33,440
Prepaid expenses	4,130	7,087
Income taxes receivable	16	16
Other current assets	487	338
	-----	-----
Total current assets	109,596	126,512
PROPERTY AND EQUIPMENT, net	5,899	9,058
INTANGIBLE ASSETS, net	26,573	28,657
DEFERRED INCOME TAX	3,354	2,219
SOFTWARE DEVELOPMENT COSTS	757	521
OTHER ASSETS	93	7
	-----	-----
TOTAL ASSETS	\$146,272	\$166,974
	-----	-----

</TABLE>

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4FRONT TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

<TABLE>
<CAPTION>

	JANUARY 31, 1999	JULY 31, 1999
	\$ '000'S	\$ '000'S (UNAUDITED)
	<C>	<C>
<S>		
CURRENT LIABILITIES:		
Accounts payable	\$ 37,384	\$ 52,249
Accrued liabilities	16,734	18,167
Stockholder advances	23	23
Lines of credit-bank	5,180	6,785
Notes payable	5,393	5,891
Capital lease obligations, current portion	608	573
Income taxes payable	2,159	4,863
Deferred revenue	19,334	13,675
	-----	-----
Total current liabilities	86,815	102,226
CAPITAL LEASE OBLIGATIONS, less current		
portion	780	860
	-----	-----
TOTAL LIABILITIES	87,595	103,086
	-----	-----
COMMITMENTS AND CONTINGENCIES:		
STOCKHOLDERS' EQUITY:		
Preferred stock, par value \$.001, 5,000,000 shares authorized. No shares issued or outstanding	--	--
Common stock, par value \$.001, 30,000,000 shares authorized 10,628,067 and 10,837,090 shares issued and outstanding, respectively	11	11
Additional paid-in capital	56,123	57,382
Accumulated reserves	2,668	6,703
Cumulative foreign currency translation adjustment	(125)	(208)
	-----	-----
Total stockholders' equity	58,677	63,888
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 146,272	\$ 166,974
	-----	-----

</TABLE>

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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4FRONT TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>
<CAPTION>

	FOR THE THREE MONTHS ENDED		FOR THE SIX MONTHS ENDED	
	JULY 31, 1998	JULY 31, 1999	JULY 31, 1998	JULY 31, 1999
	\$ '000'S	\$ '000'S	\$ '000'S	\$ '000'S
	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)
	<C>	<C>	<C>	<C>
<S>				

REVENUES				
Services	\$ 16,677	\$ 39,166	\$ 33,114	\$ 77,595
Products	10,738	19,150	21,005	38,047
	-----	-----	-----	-----
	27,415	58,316	54,119	115,642
	-----	-----	-----	-----
Cost of Services	7,671	18,659	15,300	37,145
Cost of Products	8,920	16,584	17,454	32,826
	-----	-----	-----	-----
	16,591	35,243	32,754	69,971
	-----	-----	-----	-----
GROSS PROFIT				
Services	9,006	20,507	17,814	40,450
Products	1,818	2,566	3,551	5,221
	-----	-----	-----	-----
	10,824	23,073	21,365	45,671
	-----	-----	-----	-----
OPERATING EXPENSES				
Selling, general and administrative expenses	8,074	18,249	16,078	36,273
Depreciation	292	404	586	838
Amortization	428	798	850	1,558
	-----	-----	-----	-----
Total operating expenses	8,794	19,451	17,514	38,669
	-----	-----	-----	-----
INCOME BEFORE INTEREST, INCOME TAXES:	2,030	3,622	3,851	7,002
Interest income	108	220	176	484
Interest expense	(210)	(246)	(419)	(468)
	-----	-----	-----	-----
INCOME BEFORE INCOME TAXES:	1,928	3,596	3,608	7,018
INCOME TAXES	693	1,546	1,281	2,983
	-----	-----	-----	-----
NET INCOME	\$ 1,235	\$ 2,050	\$ 2,327	\$ 4,035
	-----	-----	-----	-----
NET INCOME PER COMMON SHARE (BASIC)	\$ 0.15	\$ 0.19	\$ 0.30	\$ 0.38
NET INCOME PER COMMON SHARE (DILUTED)	\$ 0.12	\$ 0.17	\$ 0.25	\$ 0.34

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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4FRONT TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN
STOCKHOLDERS' EQUITY

	Common Stock		Accumulated Reserves	Accumulated Other Comprehensive Income (Deficit)	Total
	Shares	Amount			
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE, JANUARY 31, 1999	10,628,067	\$ 56,134,228	\$ 2,668,256	\$ (125,070)	\$ 58,677,414
Net income for period (unaudited)	--	--	1,985,092	--	1,985,092
Share options exercised	99,940	404,976	--	--	404,976
Other comprehensive Income (loss)	--	--	--	(20,519)	(20,519)
	-----	-----	-----	-----	-----
Balance, April 30, 1999 (unaudited)	10,728,007	56,539,204	4,653,348	(145,589)	61,046,963
	-----	-----	-----	-----	-----

Net income for period (unaudited)	--	--	2,049,819	--	2,049,819
Share options exercised	49,083	242,263	--	--	242,263
Shares issued to acquire SIL	60,000	611,250	--	--	611,250
Other comprehensive Income (loss)	--	--	--	(62,646)	(62,646)
	-----	-----	-----	-----	-----
BALANCE, JULY 31, 1999 (UNAUDITED)	10,837,090	\$ 57,392,717	\$ 6,703,167	\$ (208,235)	\$ 63,887,649
	-----	-----	-----	-----	-----

</TABLE>

CONDENSED CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME

<TABLE>
<CAPTION>

	FOR THE THREE MONTHS ENDED		FOR THE SIX MONTHS ENDED	
	JULY 31, 1998	JULY 31, 1999	JULY 31, 1998	JULY 31, 1999
	\$ '000'S	\$ '000'S	\$ '000'S	\$ '000'S
<S>	<C>	<C>	<C>	<C>
Net income	\$ 1,092	\$ 2,050	\$ 2,327	\$ 4,035
Foreign currency translation adjustment	(78)	(63)	(136)	(83)
	-----	-----	-----	-----
Comprehensive income	\$ 1,014	\$ 1,987	\$ 2,191	\$ 3,952
	-----	-----	-----	-----

</TABLE>

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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4FRONT TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	FOR THE THREE MONTHS ENDED		FOR THE SIX MONTHS ENDED	
	JULY 31, 1998	JULY 31, 1999	JULY 31, 1998	JULY 31, 1999
	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)
<S>	<C>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	\$ 1,235	\$ 2,050	\$ 2,327	\$ 4,035
Adjustments to reconcile net income to net cash provided (used) by operating activities				
Depreciation	292	404	586	838
Amortization	428	798	850	1,558
Loss (gain) on disposal of fixed assets	28	(72)	20	(93)
Decrease in deferred income tax	374	572	697	1,135
(Increase) decrease in accounts receivable	1,443	(4,349)	(650)	(3,161)
(Increase) in inventories	(1,017)	(3,254)	(2,235)	(8,803)
(Increase) in prepaid expenses	(156)	(1,561)	(307)	(1,880)
Increase in income taxes	353	1,090	595	2,136
(Increase) decrease in other current assets	17	(41)	(123)	149
(Decrease) increase in accounts payable	(797)	8,989	(294)	9,997
(Decrease) in accrued liabilities	(487)	(351)	(211)	(25)
(Decrease) in deferred revenue	(1,196)	(2,745)	(1,651)	(5,659)
	-----	-----	-----	-----
Net cash provided (used) by operating activities	517	1,530	(396)	227
	-----	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of equipment	(230)	(604)	(631)	(1,965)
Proceeds from disposal of equipment	40	76	48	107
Acquisition of subsidiaries	(367)	(2,772)	(936)	(3,247)
Capitalization of software development costs	--	(30)	--	(135)
(Increase) decrease in other assets	2	--	16	86
	-----	-----	-----	-----
Net cash used by investing activities	(555)	(3,330)	(1,503)	(5,154)
	-----	-----	-----	-----

CASH FLOWS FROM FINANCING ACTIVITIES:				
(Decrease) increase in lines of credit-bank	(3,762)	1,070	(2,309)	1,605
Increase in notes payable	--	953	--	953
Repayment of notes payable	(374)	--	(379)	(455)
Payments of capital lease obligations	(175)	(322)	(317)	(632)
Net proceeds from issuance of common stock	29,232	--	29,232	--
Net proceeds from exercise of warrants/options	2,062	243	2,462	648
	-----	-----	-----	-----
Net cash from financing activities	26,983	1,944	28,689	2,119
	-----	-----	-----	-----
Effect of exchange rate changes on cash	(58)	(63)	(136)	(83)
	-----	-----	-----	-----
NET (DECREASE) INCREASE IN CASH	26,887	81	26,654	(2,891)
Cash at beginning of period	4,353	23,190	4,586	26,162
	-----	-----	-----	-----
Cash at end of period	\$ 31,240	\$ 23,271	\$ 31,240	\$ 23,271
	-----	-----	-----	-----
Cash paid for interest expense	\$ 210	\$ 220	\$ 419	\$ 484
	-----	-----	-----	-----

</TABLE>

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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4FRONT TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF BUSINESS

4Front Technologies, Inc. and subsidiaries (the "Company" or "4 Front") is a leading provider of information technology solutions, which consist of specialized computer services and complementary products, primarily to blue chip corporations and government authorities in the United Kingdom and in Continental Europe. The Company's solutions include hardware maintenance, help desk support, network servers, specialized software services and products and the supply of high-end storage systems.

NOTE 2 - BASIS OF PRESENTATION

The accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, the accompanying interim unaudited condensed consolidated financial statements contain all material adjustments consisting only of normal recurring adjustments necessary to present fairly the financial condition, the results of operations, the changes in stockholders' equity and cash flows of 4Front Technologies, Inc. for the interim periods presented.

The results of the six months ended July 31, 1999 are not necessarily indicative of the results of operations for the full year. These interim unaudited condensed consolidated financial statements and related footnotes should be read in conjunction with the financial statements and footnotes thereto included in the Company's Form 10-K for the year ended January 31, 1999.

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4FRONT TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - EARNINGS PER SHARE

<TABLE>

<CAPTION>	FOR THE THREE MONTHS ENDED		FOR THE SIX MONTHS ENDED	
	JULY 31, 1998	JULY 31, 1999	JULY 31, 1998	JULY 31, 1999
<S>	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)
	<C>	<C>	<C>	<C>
BASIC EARNINGS PER SHARE				
Net income	\$ 1,235,273	\$ 2,049,819	\$ 2,327,391	\$ 4,034,911
Weighted Average Number of Common Shares outstanding	8,248,129	10,781,746	7,650,276	10,723,744
Net income per Common Share Basic	\$ 0.15	\$ 0.19	\$ 0.30	\$ 0.38
DILUTED EARNINGS PER SHARE				
Net income	\$ 1,235,273	\$ 2,049,819	\$ 2,327,391	\$ 4,034,911
Weighted Average Number of Common Shares outstanding	8,248,129	10,781,746	7,650,276	10,723,744
Additional Shares to be Issued upon Assumed Exercise of Options and Warrants	3,113,305	3,207,682	3,113,305	3,207,682
Shares Hypothetically Repurchased at the Average Market Price with the Proceeds of Exercise	(1,451,099)	(1,970,098)	(1,561,427)	(1,988,781)
Adjusted Shares for Dilution	9,910,335	12,019,330	9,202,154	11,942,645
Net income per Common Share Diluted	\$ 0.12	\$ 0.17	\$ 0.25	\$ 0.34

</TABLE>

NOTE 4 - INVENTORIES

<TABLE>

<CAPTION>

Inventories consist of the following:	JANUARY 31, 1999	JULY 31, 1999
<S>	(UNAUDITED)	(UNAUDITED)
	<C>	<C>
Computer hardware	\$23,678	\$33,269
Computer software	7	10
Work in progress	155	161
	-----	-----
	\$23,840	\$33,440
	-----	-----

</TABLE>

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4FRONT TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - INCOME TAXES

The Company files a separate U.S. federal income tax return for its domestic operations and a local income tax return for its foreign operations. The foreign subsidiaries compute taxes at rates in effect in that country and become payable when assessed by the Inland Revenue. Deferred federal income taxes are not provided on the undistributed earnings of its foreign subsidiaries to the extent the Company intends to permanently reinvest such earnings in the United Kingdom.

The Company has provided income tax for the six months ended July 31, 1999 of \$2.98 million on the profits of its operations, and for the six months to July 31, 1998 \$1.28 million.

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

OVERVIEW

The Company is a leading provider of information technology solutions, which consist of specialized computer services and complementary products primarily to blue chip corporations and government authorities in the United Kingdom and, to a growing extent, in Continental Europe. The Company's solution include hardware maintenance, help desk support, network services, specialized software services and products and the supply of high-end storage systems.

The Company has grown rapidly due, in large part, to acquisitions. Compass Computer Group ("Compass") was acquired in fiscal 1996, Hammer Distribution Limited ("Hammer") and Datapro Computers Group Limited ("Datapro") were acquired in fiscal 1997 and Firstpoint Limited ("Firstpoint") and Eurosystems France S.A. ("Eurosystems") were acquired in fiscal 1998. Decision Systems ("DS"), Memorex Telex Italia ("Memorex"), Penagen Training Ltd ("Penagen") and I-NEA S.A. ("I-NEA") were acquired in fiscal 1999. On July 28, 1999, the Company entered into an agreement to acquire the SIL ("SIL") group of companies. These acquisitions have been accounted for under the purchase method of accounting and on a consolidated basis in the Company's financial statements for periods ending after the effective date of such acquisitions. As used herein, references to a "fiscal year" refer to January 31 of such year. For example, fiscal 1999 refers to the year ended January 31, 1999.

Because of the effect upon the Company's results of operations for the year ended January 31, 1999 of acquisitions made during that period, direct comparison of the Company's results of operations for the periods ended July 31, 1998 and July 31, 1999 will not, in the view of management of the Company, prove meaningful. Instead, a summary of the elements which management of the Company believes essential to an analysis of the results of operations for such periods is presented below.

RESULTS OF OPERATIONS

THREE MONTHS ENDED JULY 31, 1999 COMPARED WITH THE THREE MONTHS ENDED JULY 31, 1998

REVENUES

Revenues for the three months ended July 31, 1999 were \$58.3 million, an increase of \$30.9 million, or approximately 112.8% compared to \$27.4 million for the three months ended July 31, 1998. This growth arose principally from the acquisitions of Decision Systems, Memorex, Penagen and I-NEA and from organic growth of the services business. Revenues from services were \$39.2 million, or 67.2% of the total revenue, with revenues from the supply of products at \$19.2 million, or 32.8% of the total revenues. In the comparable period of the prior year, Service revenues were 60.8% of the total revenues and Products revenues were 39.2% of total revenues.

GROSS PROFIT

Gross profit for the three months ended July 31, 1999 was \$23.1 million, an increase of \$12.3 million, or 113.9% compared to \$10.8 million for the three months ended July 31, 1998. This growth arose principally from the acquisitions of Decision Systems, Memorex, Penagen and I-NEA and from organic growth of the services business. Gross margin increased from 39.5% for the three months ended July 31, 1998 to 39.6% for the three months ended July 31, 1999. Gross profit for services increased 127.7% from \$9.0 million for the three months ended July 31, 1998 to \$20.5 million for the three months ended July 31, 1999. Gross profit for products increased 41.1% from \$1.8 million for the three months ended July 31, 1998 to \$2.6 million for the three months to July 31, 1999.

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SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses were \$18.2 million, an increase of \$10.1 million, or 124.7% compared to \$8.1 million for the three months ended July 31, 1998. As a percentage of revenues, selling, general and administrative expenses increased to 31.3% from 29.5% in the three months ended July 31, 1999. Selling general and administrative expenses increased primarily as a result of a growth in infrastructure necessary to support the expansion of the Company's businesses.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense for the three months ended July 31, 1999 was \$1.2 million, an increase of \$482,000, or 66.9% compared to \$720,000 for the three months ended July 31, 1998. This increase arose principally from the acquisitions of Decision Systems, Memorex, Penagen and I-NEA in fiscal 1999. Depreciation was \$404,000, an increase of \$112,000 or 38.4%, from \$292,000 for the prior period. Amortization of goodwill from acquisitions was \$798,000, an increase of \$370,000, or 86.5%, from \$428,000 for the prior period. An amortization period of between ten and fifteen years is utilized with respect to acquisitions.

EARNINGS BEFORE INTEREST AND INCOME TAXES

Earnings before interest and income taxes ("EBIT") for the three months ended July 31, 1999 was \$3.6 million, an increase of \$1.6 million, or 78.4%, as compared to \$2.0 million for the three months ended July 31, 1998. As a percentage of revenues, income before interest expense and income taxes decreased to 6.2% in the three months ended July 31, 1999 as compared to 7.4% for the three months ended July 31, 1998.

EBIT before depreciation and amortization ("EBITDA") increased for the three months ended July 31, 1999 to \$4.82 million from \$2.75 million for the three months ended July 31, 1998, an increase of \$2.07 million or 75.3%. As a percentage of revenues, EBITDA decreased to 8.3% for the three month period ended July 31, 1999 from 10.0% for the comparable period ended July 31, 1998.

INTEREST

Interest expense for the three months ended July 31, 1999 was \$246,000, an increase of \$36,000 or 17% compared to \$210,000 for the three months ended July 31, 1998, arising from higher utilization of bank lines of credit during the period. Interest income increased from \$108,000 for the three months ended July 31, 1998 to \$220,000 an increase of \$112,000, arising from higher cash balances on hand during the quarter.

SIX MONTHS ENDED JULY 31, 1999 COMPARED WITH THE SIX MONTHS ENDED JULY 31, 1998

REVENUES

Revenues for the six months ended July 31, 1999 were \$115.6 million, an increase of \$61.5 million, or approximately 113.7% compared to \$54.1 million for the six months ended July 31, 1998. This increase arose principally from the acquisitions of Decision Systems, Memorex, Penagen and I-NEA in 1998. Revenues from services were \$77.6 million, or 67.1% of the total revenue, with revenues from the supply of products at \$38.0 million, or 32.9% of the total revenues. In the comparable period of the prior year, Service revenues were 61.1% of the total revenues and supply of products were 38.9% of the total revenues.

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GROSS PROFIT

Gross profit for the six months ended July 31, 1999 was \$45.7 million, an increase of \$24.3 million, or 113.7% compared to \$21.4 million for the six months ended July 31, 1998. This increase arose principally from the acquisitions of Decision Systems, Memorex, Penagen and I-NEA in fiscal 1999. Gross margin remained unchanged at 39.5% for the six months ended July 31, 1999 and 1998. Gross profit for services increased 127.5% from \$17.8 million for the six months ended July 31, 1998 to \$40.5 million for the six months to July 31, 1999. Gross profit for products increased 47.0% from \$3.6 million for the six months ended July 31, 1998 to \$5.2 million for the six months ended July 31, 1999.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses were \$36.2 million, an increase of \$20.1 million, or 124.8% compared to \$16.1 million for the six months ended July 31, 1998. As a percentage of revenues, selling, general and administrative expenses increased to 31.4% from 29.7% in the six months ended July 31, 1998. Selling general and administrative expenses increased primarily as a result of the acquisitions of Decision Systems, Memorex, Penagen and I-NEA in 1998.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense for the six months ended July 31,

1999 was \$2.4 million, an increase of \$1.0 million or 71.4% compared to \$1.4 million for the six months ended July 31, 1998. This increase arose principally from the acquisitions of Decision Systems, Memorex, Penagen and I-NEA in fiscal 1999. Depreciation was \$838,000, an increase of \$252,000 or 43.0%, from \$586,000 for the prior period. Amortization of goodwill from acquisitions was \$1,558,000, an increase of \$708,000, or 83.3%, from \$850,000 for the comparable period. An amortization period of between five and fifteen years is utilized with respect to acquisitions.

EARNINGS BEFORE INTEREST EXPENSE AND INCOME TAXES

Earnings before interest expense and income taxes ("EBIT") for the six months ended July 31, 1999 was \$7.0 million, a increase of \$3.2 million, or 81.8%, as compared to \$3.9 million for the six months ended July 31, 1998. This increase arose principally from the acquisitions of Decision Systems, Memorex, Penagen and I-NEA in fiscal 1999. As a percentage of revenues, EBIT decreased to 6.1% in the six months ended July 31, 1999 as compared to 7.1% for the six months ended July 31, 1998.

EBIT before depreciation and amortization increased for the six months ended July 31, 1999 to \$9.4 million from \$5.3 million for the six months ended July 31, 1998 an increase of \$4.1 million or 77.4%. This increase arose principally from the acquisitions of Decision Systems, Memorex, Penagen and I-NEA in 1998. As a percentage of revenues, EBITDA decreased to 8.1% for the six month period ended July 31, 1999 from 9.8% for the comparable period ended July 31, 1998.

INTEREST

Interest expense for the six months ended July 31, 1999 was \$468,000, an increase of \$49,000 or 1.7% compared to \$419,000 for the six months ended July 31, 1998, arising from higher utilization of bank lines of credit during the period. Interest income increased from \$176,000 for the six months ended July 31, 1998 to \$484,000 arising from higher cash balances on hand during the period.

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LIQUIDITY AND CAPITAL RESOURCES

From inception until June 1996, the Company's sources of capital had been cash flows from operations, private placements of securities, primarily from its controlling stockholders and related parties, and borrowings from banks. On June 19, 1996, the Company completed a public offering (the "Offering") of 3,000,000 shares of the Company's Common Stock at a price of \$5.75 per share. On July 2, 1998, the Company completed a secondary public offering through a further sale of 2.9 million shares of Common Stock. As a result of this offering, the Company raised net proceeds of \$31.0 million.

As of July 31, 1999, the Company had lines of credit with UK, French, Italian and Belgian banks in the aggregate amount of L15 million (\$24 million). As of July 31, 1999 \$6.8 million was outstanding.

The outstanding credit facilities are secured by the assets of the Company and are periodically reviewed by the issuing institution. Management expects to be able to maintain these credit arrangements for the foreseeable future, although no assurance can be given.

The Company maintains a facility with a UK factoring company, pursuant to which it borrows against eligible trade receivables. The Company pays the factoring company an administrative fee of 0.075% of eligible trade receivables and interest of 9% per annum. At July 31, 1999, \$5.9 million under this agreement was outstanding.

Outstanding advances from stockholders are shown on the Company's balance sheet as stockholder advances. Outstanding advances as of July 31, 1999 were \$23,000. These outstanding advances do not bear interest, and are payable on demand.

The Company's working capital increased from \$22.8 million surplus at January 31, 1999 to a surplus of \$24.3 million at July 31, 1999.

Net cash provided by operating activities during the six months ended July 31, 1999 was \$0.2 million, which reflected the net effect of an increase in net accounts payable, accounts receivable, and inventories and a decrease in deferred revenues. Net cash used by investing activities was \$5.1 million, for the three months ended July 31, 1999, primarily reflecting cash used for the purchase of equipment and the acquisition of SIL. Net cash provided by financing activities was \$2.1 million for the six months ended July 31, 1999, resulting primarily from increase of bank lines of credit and payments of outstanding

obligations and the receipts from stock options which were exercised during the period.

The Company believes that the net cash flows from operations and borrowing availability under its credit facilities, will satisfy the Company's anticipated working capital requirements through at least the next twelve months. To the extent the Company raises additional capital by issuing equity or convertible debt securities, ownership dilution to the Company's stockholders will result. In the event that adequate funds are not available, the Company's business may be adversely affected.

INFLATION

Inflation has not had a material effect upon the Company's results of operations to date. In the event the rate of inflation should accelerate in the future, it is expected that costs in connection with the provision by the Company of its services and products will increase, and, to the extent such increased costs are not offset by increased revenues, the operations of the Company may be adversely affected.

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PART II - OTHER INFORMATION

- | | |
|---------|---|
| Item 1. | Legal Proceedings
Not Applicable |
| Item 2. | Change In Securities
Not Applicable |
| Item 3. | Defaults Upon Senior Securities
Not Applicable |
| Item 4. | Submission of Matters to a Vote of Security Holders
Not Applicable |
| Item 5. | Other Information
Not Applicable |
| Item 6. | Exhibits and Reports on Form 8-K

(a) Exhibit 27

(b) Reports on Form 8-K
Not Applicable |

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4FRONT TECHNOLOGIES, INC. AND SUBSIDIARIES

SIGNATURES

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

September 2, 1999

4FRONT TECHNOLOGIES, INC.

By: /s/ Stephen McDonnell

Stephen McDonnell
Chief Financial Officer

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE COMPANYS FORM 10Q FOR THE QUARTER ENDED JULY 31, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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