

SECURITIES AND EXCHANGE COMMISSION

FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

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FILER

MECON INC

CIK: **1002524** | IRS No.: **942702762** | State of Incorporation: **DE** | Fiscal Year End: **0331**
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SIC: **7371** Computer programming services

Mailing Address
200 PORTER DR
STE 100
SAN RAMON CA 94593

Business Address
200 PORTER DR
STE 100
SAN RAMON CA 94593
5108381700

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

FORM 10-QSB

(MARK ONE)

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

For the quarter ended September 30, 1996

OR

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

Commission File Number: 0-27048

MECON, INC.

(Exact name of registrant as specified in its charter)

Delaware 94-2702762
(State or other jurisdiction (I.R.S. Employer
of incorporation or organization) Identification Number)

200 Porter Drive, Suite 100
San Ramon, California 94583

Registrant's telephone number, including area code: (510) 838-1700

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 has been subject to such
filing requirements for the past 90 days X Yes No

The number of shares outstanding of the registrant's Common Stock on
September 30, 1996 was

5,916,188 shares

MECON, INC.
FORM 10-QSB
SEPTEMBER 30, 1996

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MECON, INC.
 CONSOLIDATED BALANCE SHEETS
 (IN THOUSANDS)

<u><TABLE></u> <u><CAPTION></u>	MARCH 31, 1996	SEPTEMBER 30, 1996 (UNAUDITED)
<u><S></u>	<u><C></u>	<u><C></u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 15,205	\$ 11,631
Short-term investments in marketable debt securities	4,775	4,819
Accounts receivable, net of allowances of \$245 and \$426 at March 31, and September 30, 1996, respectively	2,769	4,534
Unbilled accounts receivable	526	662
Related party receivable	1	12
Prepaid expenses	211	467
Other current assets	125	18
	-----	-----
Total current assets	23,612	22,143
Property and equipment, net	1,009	1,403
Software development costs, net	924	1,221
Other assets	36	36
	-----	-----
	\$ 25,581	\$ 24,803
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 557	\$ 1,136
Accrued salaries and benefits	640	596
Note payable	1,936	-
Interest payable	519	-
Deferred revenue	1,333	1,178
Income taxes payable	-	132
Deferred taxes	-	220
Other accrued liabilities	666	115
	-----	-----
Total current liabilities	5,651	3,377
Long-term obligations, less current portion	29	26
Total liabilities	5,680	3,438
Stockholders' equity:		
Preferred stock, \$.001 par value 5,000,000 shares authorized: none issued and outstanding	6	6
Common stock, \$.001 par value; 50,000,000 shares authorized; 5,876,947 and 5,916,188 issued and outstanding at March 31, and September 30, 1996, respectively	6	6
Additional paid in capital	24,511	24,951
Accumulated deficit	(4,616)	(3,557)
	-----	-----
Total stockholders' equity	19,901	21,400
	-----	-----
	\$ 25,581	\$ 24,803
	-----	-----

</TABLE>

See accompanying notes to financial statements

MECON, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)
UNAUDITED

<TABLE>
<CAPTION>

	THREE MONTHS ENDED SEPTEMBER 30,		SIX MONTHS ENDED SEPTEMBER 30,	
	1995	1996	1995	1996
<S>	<C>	<C>	<C>	<C>
Revenue:				
Subscription and license	\$ 2,173	\$ 3,472	\$ 3,542	\$ 5,974
Services	840	1,138	1,731	2,111
Net revenue	3,013	4,610	5,273	8,085
Cost of revenue	1,126	1,500	2,262	2,711
Gross profit	1,887	3,110	3,011	5,374
Operating costs:				
Research and development	509	455	925	850
Sales and marketing	853	925	1,709	1,771
General and administrative	535	793	1,078	1,404
Merger and acquisition	-	-	-	152
Total operating costs	1,897	2,173	3,712	4,177
Operating income (loss)	(10)	937	(701)	1,197
Interest expense	(74)	-	(138)	-
Interest and other income, net	6	211	16	434
Income (loss) before provision for income taxes	(78)	1,148	(823)	1,631
Provision for income taxes	-	402	-	572
Net income (loss)	\$ (78)	\$ 746	\$ (823)	\$ 1,059
Accretion of redeemable preferred stock	\$ (55)	\$ -	\$ (110)	\$ -
Net income (loss) attributable to common stockholders	\$ (133)	\$ 746	\$ (933)	\$ 1,059
Net income (loss) per share	\$ (0.03)	\$ 0.12	\$ (0.22)	\$ 0.17
Shares used in computing per share data	4,181	6,366	4,260	6,375

</TABLE>

See accompanying notes to financial statements

MECON, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
UNAUDITED

<TABLE>
<CAPTION>

	THREE MONTHS ENDED SEPTEMBER 30,		SIX MONTHS ENDED SEPTEMBER 30,	
	1995	1996	1995	1996
<S>	<C>	<C>	<C>	<C>
Net cash provided by (used in) operating activities	\$ 525	\$ 1,275	\$ (669)	\$ (923)

Cash flows from investing activities				
Purchase of short term investments		(1,275)	-	(43)
Acquisition of property and equipment	(128)	(308)	(205)	(571)
Computer software development costs	(157)	(178)	(256)	(346)
Net cash (used in) investing activities	(285)	(1,761)	(461)	(960)
Cash flows from financing activities:				
Borrowings from bank	-	-	500	-
Repayment of bank borrowings	-	-	-	(1,936)
Proceeds from issuance of common stock, net of issuance costs	-	71	-	245
Repurchase of common stock	-	-	(34)	-
Redemption of Series A preferred stock	(195)	-	(195)	-
Net cash provided by (used in) financing activities	(195)	71	271	(1,691)
Net increase (decrease) in cash and cash equivalents	45	(415)	(859)	(3,574)
Cash and cash equivalents at beginning of period	286	12,046	1,190	15,205
Cash and cash equivalents at end of period	\$ 331	\$ 11,631	\$ 331	\$ 11,631

</TABLE>

See accompanying notes to financial statements

MECON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 1996

UNAUDITED

(1) INTERIM FINANCIAL INFORMATION

The consolidated interim financial statements of the Company presented herein have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and notes required by generally accepted accounting principles have been condensed or omitted. In the opinion of management, these statements include all adjustments (all of which consist of normal recurring adjustments except as otherwise noted herein) necessary to present fairly the Company's financial position and results of operations for the interim periods presented. These statements should be read in conjunction with the audited financial statements and notes thereto for the fiscal year ended March 31, 1996 contained in the Company's Annual Report on Form 10-KSB which was filed with the Securities and Exchange Commission on July 1, 1996. The results of operations for the six months ended September 30, 1996 are not necessarily indicative of the results of operations that may be expected for the year ended March 31, 1997.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary Managed Care Information Systems, Inc. All intercompany balances and transactions have been eliminated.

ACQUISITION COSTS

Transaction costs and other expenses related to a specific acquisition are capitalized as incurred. Such capitalized costs are either allocated to the acquired entity's purchase price or charged to earnings in the period the acquisition is aborted. As of September 30, 1996, approximately \$87,000 of such costs had been deferred.

INCOME TAXES

Income tax expense for the quarter ended September 30, 1996 is based on an estimated annual effective tax rate.

NET INCOME (LOSS) PER SHARE

Net income (loss) per share is computed using the weighted average number of common shares and common equivalent shares, if dilutive, outstanding during the period. Common equivalent shares include convertible preferred shares, warrants and the exercise of stock options using the treasury stock method. A conversion of convertible preferred shares into 479,634 common shares and a cashless exercise of warrants into 57,013 common shares are included in the

computation for the period ended September 30, 1995. These shares have been included in the computation for this loss period when such shares would otherwise not be included as the impact would be antidilutive because the preferred stock and warrants converted into common stock on the closing of the Company's initial public stock offering. In accordance with Securities and Exchange Commission Staff Accounting Bulletins and staff policy, net income (loss) per share included all common and common equivalent shares granted or issued within 12 months of the offering date as if they were outstanding for all periods that began prior to the Company's initial public stock offering, even if antidilutive, using the treasury stock method.

For the purposes of the net income (loss) attributable to common stockholders per share computation, net (loss) was increased by the amount of the periodic accretion for redeemable preferred shares.

(3) MERGER OF MANAGED CARE INFORMATION SYSTEMS, INC.

On March 29, 1996, the Company merged with Managed Care Information Systems, Inc. ("MCIS") in a pooling of interests transaction. In connection with the merger, the Company exchanged 338,155 shares of its common stock for all of the outstanding shares of MCIS, assumed 33,052 common stock options, and assumed a note payable and accrued interest to a third party in the amount of \$2.5 million which was repaid during the first fiscal quarter of 1997. In addition, the Company recorded merger related charges during the first fiscal quarter of 1997 totaling \$152,000. Accordingly, all prior period financial information has been restated.

(4) RECLASSIFICATIONS

Certain reclassifications have been made to the 1996 Consolidated Financial Statements to conform to the 1997 presentation. Such reclassifications had no effect on previously reported results of operations.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

The discussion and analysis below contains trend analysis and other forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The Company may from time to time make additional written and oral forward-looking statements, including statements contained in the Company's filings with the Securities and Exchange Commission and in its reports to stockholders. Such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed below under "certain factors bearing on future results" and elsewhere in this report. The Company does not undertake to update any forward-looking statement that may be made from time to time by or on behalf of the Company. Readers should carefully review the risk factors described in other documents the Company files from time to time with the Securities and Exchange Commission.

OVERVIEW

MECON is a leading provider of operations benchmarking data, information products, design support software and consulting services to the hospital industry. The Company's product line is based upon a proprietary operations benchmarking database containing cost and key performance information from over 640 hospitals nationwide. From its incorporation until 1989, MECON's revenue was primarily derived from consulting services for acute care hospitals. Since 1990, the Company has transitioned into providing a variety of products and services that employ its proprietary database comprised of acute care hospitals' operational cost and key performance information. During the first six months of fiscal 1997, approximately 74% of the Company's revenues were derived from database subscriptions and software licenses. Within the acute care segment of the hospital market, MECON has marketed its products and services primarily to individual hospitals with over 100 beds.

On March 29, 1996, the Company merged with Managed Care Information Systems, Inc. ("MCIS") in a pooling of interests transaction. In connection with the merger, the Company exchanged 338,155 shares of its common stock for all of the outstanding shares of MCIS, assumed 33,052 common stock options, and assumed a note payable and accrued interest to a third party in the amount of \$2.5 million which was repaid during the first fiscal quarter of 1997. In addition, the Company recorded merger related charges during the first fiscal quarter of 1997 totaling \$152,000. Accordingly, all prior period financial information has been restated. Unless otherwise noted,

management's discussion of financial results is based on restated figures.

The Company's revenue has increased primarily due to greater market penetration of its database and software products, product enhancements, price increases, and increased support and data analysis fees related to the Company's expanded software customer base. The Company's revenue is primarily derived from direct sales to end users.

RESULTS OF OPERATIONS

The following table sets forth certain operating data as a percentage of net revenue for the period indicated:

	Three Months Ended September 30,		Six Months Ended September 30,	
	1995	1996	1995	1996
<S>	<C>	<C>	<C>	<C>
Subscription and license revenue	72%	75%	67%	74%
Services revenue	28%	25%	33%	26%
Net revenue	100%	100%	100%	100%
Gross margin	63%	67%	57%	66%
Research and development	17%	10%	18%	10%
Sales and marketing	28%	20%	32%	22%
General and administrative	18%	17%	20%	17%
Merger and acquisition	0%	0%	0%	2%
Operating income (loss)	0%	20%	(13%)	15%
Interest expense	(2%)	0%	(3%)	0%
Interest income	0%	5%	0%	5%
Income (loss) before provision for taxes	(2%)	25%	(16%)	20%
Provision for income tax (expense) benefit	0%	(9%)	0%	(7%)
Net income (loss)	(2%)	16%	(16%)	13%
Accretion of redeemable preferred stock	(2%)	0%	(2%)	0%
Net income (loss) attributable to common stockholders	(4%)	16%	(18%)	13%

</TABLE>

REVENUE. Revenue for the three months ended September 30, 1996 increased 53% to \$4.6 million compared to \$3.0 million for the comparable period in the prior year. Subscription and license revenue for the three months ended September 30, 1996 increased 59% to \$3.5 million compared to \$2.2 million for the comparable period in the prior year and accounted for 81% of the revenue growth. These increases were primarily due to an increase of new MECON-PEERx subscriptions, Optimis and Action*Point licenses and implementation services. Services revenue for the three months ended September 30, 1996 increased 31% to \$1.1 million compared to \$840,000 for the comparable period in the prior year. This increase was primarily due to an increase in software implementation services offset by a planned decrease in consulting revenue as a result of the Company's continued shift in focus to product sales from consulting services. Revenue for the six months ended September 30, 1996 increased 53% to \$8.1 million compared to \$5.3 million for the comparable period in the prior year. Subscription and license revenue for the six months ended September 30, 1996 increased 71% to \$6.0 million compared to \$3.5 million for the comparable period in the prior year and accounted for 89% of the revenue growth. These increases were primarily due to an increase of new MECON-PEERx subscriptions, optional MECON-PEERx reports and MECON-PEERx analyses sold back to the subscriber base and Optimis and Action*Point licenses. Services revenue for the six months ended September 30, 1996 increased 23% to \$2.1 million compared to \$1.7 million for the comparable period in the prior year. This increase was primarily due to an increase in optional MECON-PEERx reports, MECON-PEERx analyses sold back to the subscriber base and Software implementation services offset by a planned decrease in consulting revenue as a result of the Company's continued shift in focus to product sales from consulting services.

COST OF REVENUE. Cost of revenue for the three months ended September 30, 1996 increased 36% to \$1.5 million compared to \$1.1 million for the comparable period in the prior year, primarily due to additional staffing to support the Company's growth. Cost of revenue for the three months ended

September 30, 1996 included \$23,751 in amortization expense from the capitalization of software development expenses compared to \$38,500 for the comparable period in the prior year. The decrease in amortization expense was primarily due to certain software development costs capitalized prior to fiscal year 1996 being fully amortized compared

to the amortization of software development costs capitalized related to MECON Optimis for Windows which was released in the third fiscal quarter of 1996. Cost of revenue for the three months ended September 30, 1996 decreased to 33% of total revenue compared to 37% for the comparable period in the prior year, primarily due to improved utilization of customer support staff and lower travel expenses attributable to establishing regional offices in Chicago and Washington D.C. Cost of revenue for the six months ended September 30, 1996 increased 17% to \$2.7 million compared to \$2.3 million for the comparable period in the prior year, primarily due to additional staffing to support the Company's growth. Cost of revenue for the six months ended September 30, 1996 included \$47,502 in amortization expense from the capitalization of software development expenses compared to \$72,000 for the comparable period in the prior year. The decrease in amortization expense was primarily due to certain software development costs capitalized prior to fiscal year 1996 being fully amortized compared to the amortization of software development costs capitalized related to MECON Optimis for Windows which was released in the third fiscal quarter of 1996. Cost of revenue for the six months ended September 30, 1996 decreased to 34% of total revenue compared to 43% for the comparable period in the prior year, primarily due to improved utilization of customer support staff and lower travel expenses attributable to establishing regional offices in Chicago and Washington D.C.

RESEARCH AND DEVELOPMENT. Research and development expenses for the three months ended September 30, 1996 decreased 11% to \$455,000 compared to \$509,000 for the comparable period in the prior year, primarily due to a shift from utilizing independent contract staff to full-time employees at lower rates. During the three months ended September 30, 1996, \$178,000 was capitalized for internally developed software related to product development compared to \$157,000 for the comparable period in the prior year. Research and development expenses for the three months ended September 30, 1996 decreased to 10% of total revenue compared to 17% for the comparable period in the prior year primarily due to the completion of the MECON-Optimis Windows-based product. Research and development expenses for the six months ended September 30, 1996 decreased 8% to \$850,000 compared to \$925,000 for the comparable period in the prior year, primarily due to a shift from utilizing independent contract staff to full-time employees at lower rates. During the six months ended September 30, 1996, \$346,000 was capitalized for internally developed software related to product development compared to \$256,000 for the comparable period in the prior year. Research and development expenses for the six months ended September 30, 1996 decreased to 11% of total revenue compared to 18% for the comparable period in the prior year primarily due to utilization of programming capacity developed in research and development.

SALES AND MARKETING. Sales and marketing expenses for the three months ended September 30, 1996 increased 8% to \$925,000 compared to \$853,000 for the comparable period in the prior year, primarily due to the Company hiring a Vice President of Marketing in the fourth fiscal quarter of 1996 and increased commissions as a result of increased revenue. Sales and marketing expenses for the three months ended September 30, 1996 decreased to 20% of revenue compared to 28% for the comparable period in the prior year, primarily due to utilization of the capacity developed in sales and marketing. Sales and marketing expenses for the six months ended September 30, 1996 increased 6% to \$1.8 million compared to \$1.7 million for the comparable period in the prior year, primarily due to the Company hiring a Vice President of Marketing in the fourth fiscal quarter of 1996 and increased commissions as a result of increased revenue. Sales and marketing expenses for the six months ended September 30, 1996 decreased to 22% of revenue compared to 32% for the comparable period in the prior year, primarily due to utilization of the capacity developed in sales and marketing.

GENERAL AND ADMINISTRATIVE. General and administrative expenses for the three months ended September 30, 1996 increased 48% to \$793,000 compared to \$535,000 for the comparable period in the prior year, primarily due to increased staffing, failed acquisition costs of approximately \$100,000, and general expenses related to an increase in business activity and infrastructure expenses related to a public company's operations. General and administrative expenses for the three months ended September 30, 1996 decreased to 17% of revenue compared to 18% for the comparable period in the prior year, primarily due to utilization of the capacity developed in administration. General and administrative expenses for the six months ended September 30, 1996 increased 27% to \$1.4 million compared to \$1.1 million for the comparable period in the prior year, primarily due to increased staffing, failed acquisition costs of approximately \$100,000, and general

expenses related to an increase in business activity and infrastructure expenses related to a public company's operations. General and administrative expenses for the six months ended September 30, 1996 decreased to 17% of revenue compared to 20% for the comparable period in the prior year, primarily due to utilization of the capacity developed in administration.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 1996, the Company had \$5.2 million in billed and unbilled accounts receivable, including \$922,000 in accounts receivable over 90 days compared to \$3.3 million in billed and unbilled accounts receivable at March 31, 1996, including \$804,000 in accounts receivable over 90 days. This increase in accounts receivable, particularly the accounts receivable over 90 days, was primarily due to sales to integrated health networks that typically pay slower than independent hospitals. In the first fiscal quarter of 1997, the company hired additional collection personnel to focus on accounts older than 90 days. As a result, the average days in accounts receivable decreased 14% to 81 days as of September 30, 1996 from 94 days as of June 30, 1996.

As of September 30, 1996, the Company had net working capital of \$18.8 million including cash, cash equivalents and short-term investments of \$16.5 million. The Company currently has no material commitments for capital expenditures.

The Company believes that the cash and short-term investments of \$16.5 million, together with anticipated cash flows from operations, will be adequate to fund its cash requirements for at least the next twelve months. During the fiscal year, the Company intends to complete the development and release of its PEERVIEW product and intends to hire customer service personnel as the installed customer base increases.

CERTAIN FACTORS BEARING ON FUTURE RESULTS

VARIABILITY OF QUARTERLY RESULTS; SEASONALITY

The Company's quarterly revenues and operating results have varied significantly in the past and are likely to vary substantially from quarter to quarter in the future. Quarterly revenues and operating results may fluctuate as a result of a variety of factors, including: the Company's sales cycle and demand for its products and services; changes in distribution channels; changes in the Company's product mix; the termination of, or a reduction in, subscriptions to the Company's MECON-PEERx product; the loss of customers due to consolidation in the health care industry; customer delays in providing information needed by the Company to complete implementation of, and revenue recognition from, sales of the MECON-PEERx product; changes in customer budgets; investments by the Company in marketing, sales, research and development and administrative personnel necessary to support the Company's growth; the timing of new product introductions and enhancements by the Company and its competitors; marketing and sales promotional activities and trade shows; the unpredictability of revenues from consulting services; and general economic conditions. Accordingly, the Company's operating results for any particular quarterly period may not be indicative of results for future periods. Moreover, the Company's operating expense levels are relatively fixed and, to a large degree, are based on anticipated revenue levels. Consequently, if anticipated revenues in any given quarter do not occur as expected, expense levels could be disproportionately high and may result in losses.

The Company's quarterly results have been, and may continue to be, affected by hospital budgeting practices that cause many discretionary purchase decisions to be made shortly before the budgetary year end, which generally occurs on June 30 or December 31. Consequently, the Company's operating results have been somewhat seasonal.

DEPENDENCE ON PRINCIPAL PRODUCT

For the six months ended September 30, 1996, approximately 74% of the Company's revenues were derived from subscriptions to its MECON-PEERx product and related services. Accordingly, any significant reduction in subscriptions to such product would have a material adverse effect on the Company's business and operating results. Although subscriptions to the MECON-PEERx database generally have three-year terms, there can be no assurance that customers will not cancel their subscriptions prior to the end of the subscription period. In addition, although the Company has

experienced a high customer renewal rate, there can be no assurance that the Company's customers will renew their subscriptions or that any renewal terms will be as favorable to the Company as existing terms.

INTEGRITY AND RELIABILITY OF DATABASE

The Company's success depends significantly on the integrity of its database. Although the Company tests data for completeness and consistency, it does not conduct independent audits of the information provided by its customers. Moreover, while the Company believes that the benchmarking information contained in its database is representative of the operational aspects of various types of hospitals, there can be no assurance that such information is appropriate for comparative analysis in all cases or that the database accurately reflects general or specific trends in the hospital market. If the information contained in the database were found, or were perceived, to be inaccurate, or if such information were generally perceived to be unreliable, the Company's business and operating results could be materially and adversely affected.

COMPETITION

The market for health care information systems and services is intensely competitive and rapidly changing. The Company's competitors include other providers of operations and financial benchmarking data and services, providers of decision support software systems and management and health care consulting firms. Furthermore, other major health care information companies not presently offering cost management solutions may enter the markets in which the Company competes. Many of the Company's competitors and potential competitors have significantly greater financial, technical, product development and marketing resources than the Company, and currently have, or may develop or acquire, substantial installed customer bases in the health care industry. The Company also faces significant competition from internal management information services departments of large hospital alliances or for-profit hospital chains, many of which have developed or may develop benchmarking information and other cost control solutions. In addition, increased competitive pressures, among other factors, could lead to lower prices for the Company's products and services, thereby materially adversely affecting the Company's operating results. Accordingly, there can be no assurance that the Company will be able to compete successfully in the future.

MANAGEMENT OF GROWTH

The Company is currently experiencing a period of rapid growth and expansion which has placed a significant strain on its personnel and resources. The Company's growth has resulted in an increase in the level of responsibility for the Company's key personnel, several of whom were only recently hired, including the Company's Chief Financial Officer, who joined the company in November 1994, and the Company's President and Chief Operating Officer, who joined the Company in September, 1996. Failure to manage growth effectively, or to develop, maintain or upgrade management information and other systems and controls, could have a material adverse effect on the Company. In addition, through the merger of MCIS in March 1996, the Company increased the scope of its product lines and operations. This expansion in scope has resulted in an increased need for infrastructure and systems. Furthermore, this requirement is relatively more substantial due to the limited systems investment made by the Company prior to fiscal 1997. This requirement includes, without limitation, securing adequate financial resources to

successfully integrate and manage MCIS, retention of key employees, integration of management information, control and telecommunications systems, consolidation of geographically dispersed facilities, and integration of various functions and groups of employees, each of which could pose significant challenges. Moreover, MCIS historically has not been profitable, and the Company must make significant and rapid improvements at MCIS for the merged operation to achieve profit margins comparable to the Company's historical results. The Company's future operating results will depend in large measure on its success in implementing operating and financial procedures and controls, improving communication and coordination among different operating functions, integrating certain functions such as sales and implementation, strengthening management information and telecommunications systems, and continuing to hire additional qualified personnel in all areas. There can be no assurance that the Company will be able to manage these activities and implement these additional systems and controls successfully, and any failure to do so could have a material adverse effect upon the Company's operating results.

DEPENDENCE ON STRATEGIC RELATIONSHIPS

A key element of the Company's business strategy is to develop relationships with leading industry organizations in order to increase the

Company's market presence, expand distribution channels and broaden the Company's product line. The Company has recently entered into strategic relationships with Arthur Andersen LLP and HBOC. The Company believes that its success in penetrating new markets for its products and services depends in large part on its ability to maintain these relationships and cultivate additional relationships. There can be no assurance that the Company's existing or future strategic partners will not develop and market products in competition with the Company or otherwise discontinue their relationships with the Company, or that the Company will be able to successfully develop additional strategic relationships.

CONSOLIDATION AND UNCERTAINTY IN THE HEALTH CARE INDUSTRY

Many health care providers are consolidating to create larger health care delivery enterprises with greater regional market power. Such consolidation could erode the Company's existing customer base and reduce the size of the Company's target market. In addition, the resulting enterprises could have greater bargaining power, which may lead to price erosion of the Company's products and services. The reduction in the size of the Company's target market or the failure of the Company to maintain adequate price levels could have a material adverse effect on the Company.

The health care industry is subject to changing political, economic and regulatory influences that may effect the procurement practices and operation of health care industry participants. During the past several years, the US health care industry has been subject to an increase in governmental regulation of, among other things, reimbursement rates and certain capital expenditures. Several lawmakers have announced that they intend to propose programs to reform the US health care system. These programs may contain proposals to increase governmental involvement in health care, lower reimbursement rates and otherwise change the operating environment for the Company's customers. Health care industry participants may react to these proposals and the uncertainty surrounding such proposals by curtailing or deferring investments, including those for the Company's products and services. The Company cannot predict what impact, if any, such factors might have on its business, financial condition and results of operations.

UNCERTAINTY OF ENTRANCE INTO NEW MARKETS

A substantial majority of the Company's revenues to date have been derived from sales to large hospitals in urban areas. The Company's future success depends in part upon the Company's ability to market its products and services to other health care providers, including small and rural hospitals, long-term care facilities, large group medical practices, rehabilitation hospitals and surgical centers. In order to develop the subscriber base necessary for the accumulation of meaningful operations benchmarking data for such new markets, the Company may be required to offer significant price discounts to prospective customers in such markets. In addition, because such providers typically have smaller budgets than the Company's existing customers, entry into new markets may require the Company to offer lower priced versions of its products. Sales of such new products may result in lower gross margins than sales to the

Company's existing customer base. Moreover, the entry into such new markets may require the Company to increase substantially its product development, marketing and other expenses. There can be no assurance that the Company will be successful in entering new markets.

NEW PRODUCT DEVELOPMENT

The Company's future success and financial performance will depend in large part on the Company's ability to continue to meet the increasingly sophisticated needs of its customers through the timely development and successful introduction of new and enhanced versions of its database and other complementary products and services. Product development has been focused on enhancing existing products or introducing new products and has inherent risks, and there can be no assurance that the Company will be successful in its product development efforts or that the market will continue to accept the Company's existing or new products and services. The Company believes that significant continuing product development efforts will be required to sustain the Company's growth. There can be no assurance that the Company will successfully develop, introduce and market new products or product enhancements, or that products or product enhancements developed by the company will meet requirements of health care providers and achieve market acceptance.

POTENTIAL ACQUISITIONS

For the three months ended September 30, 1996, the Company incurred failed acquisition costs of \$100,000. The Company may continue to attempt to expand its product line through the acquisition of complementary

businesses, products and technologies. Any such transactions would be accompanied by the risks commonly encountered in such transactions. In particular, business combinations include such risks as the difficulty of assimilating the operations and personnel of the combined companies, the ability to manage geographically remote units, the diversion of management's attention from other business concerns, the potential disruption of the Company's ongoing business, the risks of entering markets in which the Company has limited or no direct experience, the inability to retain key technical and managerial personnel, the inability of management to maximize the financial and strategic position of the Company through the successful integration of acquired businesses, additional expenses associated with amortization of acquired intangible assets and maintenance of uniform standards, controls, procedures and policies, and the impairment of relationships with employees and customers as a result of any integration of new personnel. In addition, acquisitions may involve the expenditure of significant funds. The Company's management has limited prior experience in managing acquisitions. There can be no assurance that the Company would be successful in overcoming these risks or other problems encountered in connection with such business combinations or that such transactions will not materially adversely affect the Company's business, financial condition or results of operations. In addition, such business combinations may involve the issuance of additional equity securities, which may be dilutive to stockholders.

DEPENDENCE ON KEY PERSONNEL

The success of the Company and of its business strategy is dependent in large part on its key management and operating personnel, including its Chief Executive Officer and President, Vasu R. Devan. The Company believes that its future success will also depend upon its ability to attract and retain highly-skilled technical, managerial and marketing personnel. Such individuals are in high demand and often attract competing offers. In particular, the Company's success will depend on its ability to retain the services of its executive officers. The Company will also have an ongoing need to expand its management personnel and support staff. The loss of the services of one or more members of management of key employees or the inability to hire additional personnel as needed may have a material adverse effect on the Company.

PART II: OTHER INFORMATION

Item 1. Legal Proceedings
None

Item 2. Changes in Securities
None

Item 3. Defaults upon Senior Securities
None

Item 4. Submission of Matters to a Vote of Security Holders

The following matters were approved at the Company's Annual Meeting of Stockholders held on September 17, 1996:

(a) The following directors were elected:

Directors -----	Votes For -----	Votes Withheld -----
Vasu R. Devan	5,674,928	100
Raju Rajagopal	5,674,928	100
William H. Kimball	5,674,928	100
Walter G. Kortschak	5,674,928	100
David L. Lowe	5,674,928	100
Robert L. Montgomery	5,674,928	100

(b) The Stockholders approved the following proposals:

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<S>	Proposal <C>	Number of Common Shares Voted			
		For ---	Against -----	Abstain -----	No Vote -----
1)	Amendment to the 1995 Stock Plan to increase the number of shares of Common Stock reserved for issuance thereunder by 550,000 shares	4,816,640	658,401	800	0
2)	Ratification of appointment				

of KPMG Peat Marwick LLP
as independent accountants 5,647,928 0 100 0

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Item 5. Other Information
None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibits 11.1 Computation of Earnings per Share
Exhibits 27.0 Financial Data Schedules

(b) Reports on Form 8-K

The Company did not file any reports on Form 8-K during the three months ended September 30, 1996.

Signatures

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

MECON INC.
(Registrant)

Date: 11/13/96 /s/ Vasu Devan

Vasu R. Devan
President and Chief Executive Officer

Date: 11/13/96 /s/ David J. Allinson

David J. Allinson
Chief Financial Officer

EXHIBIT 11.1

MECON INC.
STATEMENT REGARDING COMPUTATION OF EARNINGS PER SHARE
(IN THOUSANDS, EXCEPT PER SHARE DATA)

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	Three Months Ended September 30,		Six Months Ended September 30,	
	1995	1996	1995	1996
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Weighted average shares of common stock	3,329	5,916	3,408	5,906
Cashless exercise of warrants	57	0	57	0
Conversion of Series C preferred stock	480	0	480	0
Dilutive effect of options outstanding	0	450	0	469
Options subject to Staff Accounting Bulletin No. 83	315	0	315	0
Shares used in per share calculation	4,181	6,366	4,260	6,375
Net income (loss) attributable to common stockholders	\$ (133)	\$ 746	\$ (933)	\$1,059
Earnings per share	\$ (0.03)	\$ 0.12	\$ (0.22)	\$ 0.17

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