(4)

LEVEL 8 SYSTEMS
Scalable EAI

Level 8

[Overview](#)
[Mgmt Bios](#)
[Locations](#)
[FAQ](#)
[Investor Info](#)
[Employment](#)

Company Info
Product Info
News
Case Studies
Services
Education
Search
Contact Us

Level 8 Systems - Company Information

Level 8 Systems is a premier provider of scalable enterprise application integration solutions through a combination of technologies and services that enable organizations to meet their information systems development, integration, management and E-commerce enablement needs. Level 8's software product suite includes scalable application integration and Web-enablement tools, message-oriented middleware, and application development and management engines. Level 8 has more than 350 employees worldwide and has its corporate headquarters in Cary, North Carolina, and offices in the United States, Europe, and Australia.

Corporate Overview

Management Team Biographies

Office Locations

Frequently Asked Questions

Investor Relations

Employment Opportunities

home | company info | product info | news | case studies | services | education | search | contact us

Level 8

LEVEL 8 SYSTEMS
Scalable EAI

- Overview
- Mgmt Bios
- Locations
- FAQ
- Investor Info
- Employment

- Company Info
- Product Info
- News
- Case Studies
- Services
- Education
- Search
- Contact Us

Level 8 Corporate Overview

Level 8 Systems, Inc. is a leading provider of scalable enterprise application integration solutions. As new computer technologies have proliferated in enterprise computing environments, the integration and management of the applications that rely on them has grown in complexity. Level 8 is focused on enterprise application integration (or "EAI") solutions, which address the emerging need for information systems to deliver enterprise-wide views of a company's business information and processes.

Founded in 1994, Level 8 originally provided consulting services and resold third-party software products, including IBM's MQSeries message queueing product. In 1998, the company shifted its focus to selling its own software products and strategically positioned itself to enter the EAI and middleware markets. As part of this strategic transition, the company acquired Momentum Technologies in early 1998. Momentum's technology now forms the basis for Level 8's message-oriented middleware product offering. At the end of 1998, Level 8 took another major step in its transition with the acquisition of Seer Technologies. Seer brought with it a well-established presence in the global marketplace, production-proven application development and management technology, and a strong internal infrastructure that would support Level 8's planned growth.

Level 8's products and services are designed to enable organizations to address information systems' integration and management problems in a simple and cost-effective way through a combination of software products and consulting services. The new Geneva Integration Server, launched in April 1999 and expected to become one of the company's leading products, is designed to provide comprehensive, secure and reliable interoperability between applications running on disparate and otherwise incompatible computer systems. FalconMQ, first introduced in early 1998, replicates Microsoft Corporation's Message Queue Server (MSMQ) capability on non-Microsoft systems, thereby enabling non-Microsoft systems to communicate freely with Windows NT systems using MSMQ. As a result of the Seer acquisition, the company also offers the Seer*HPS product, which is a set of application development tools that assists customers in developing and adapting enterprise-wide computer applications for client/server networks.

In addition to its products, the company offers a broad range of consulting services in the EAI solutions area. The company's consulting staff is highly experienced in large-scale, enterprise-wide applications and the complex networked computing environments in which they run.

To date, the company's products and services have been utilized by companies in a wide variety of industries including banking and financial services, insurance, retail, manufacturing, data processing, public utilities, and transportation. Specifically, Level 8's customer base includes major corporations around the world such as ABN AMRO, Credit Suisse, drugstore.com, Montgomery Wards, Nasdaq, National Bank of Greece, Prudential Insurance, Royal+Sun Alliance, Sikorsky Aircraft, TeleDanmark, and Telenor 4tel AS, among others.

Headquartered in Cary, North Carolina, Level 8 has more than 350 employees worldwide, and its products and services are sold globally through a network of regional sales offices in the United States, Canada, Europe, and Australia. Please visit the company's website at http://www.level8.com for more information. The company trades on the Nasdaq National Market under the symbol "LVEL."

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home | company info | product info | news | case studies | services | education | search | contact us

Level 8

LEVEL 8 SYSTEMS Scalable EAI

Overview
Mgmt Bios
Locations
FAQ
Investor Info
Employment

Company Info
Product Info
News
Case Studies
Services
Education
Search
Contact Us

Level 8 Management Team Biographies

Arik Kilman
Chief Executive Officer

Steven Dmiszewicki
Chief Operating Officer

Samuel Somech
President and Chief Technical Officer

Dennis McKinnie
Senior Vice President, Chief Legal and Administrative Officer, Corporate Secretary

Andee Treinis
Vice President, Human Relations

Eileen Ibenhard
Acting Vice President, Worldwide Marketing

Bill McMurray
Senior Vice President, EMEA and AP

Al Nisbet
Vice President, Development and Technical Operations

Shashi Prasad
Vice President of Channel Sales

home | company info | product info | news | case studies | services | education | search | contact us

Level 8 Frequently Asked Questions

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1. *Why did Level 8 decide to move into the EAI market?*
2. *With Level 8 changing its business focus, will you still be able to provide your existing customers with the same services that you've provided in the past?*
3. *What type of changes can we expect from Level 8 in the next year or two? Are you planning to acquire more companies? How might you change your business?*
4. *It seems that Level 8 has a pretty close relationship with Microsoft. What are your long-term plans for customers who don't use Microsoft systems?*
5. *Why did Level 8 lose so much money last year?*
6. *Why did Level 8 purchase Seer Technologies?*
7. *Now that the acquisition is complete, what does the combined organization look like?*
8. *With Level 8 coming off such a bad year financially, is the company now stable and financially viable?*
9. *Level 8 had such a turbulent year in '98. Are things going to calm down and be more stable in 1999?*

Q. NEW DIRECTION: Why did Level 8 decide to move into the EAI market?

The EAI market is one of today's fastest growing market segments, and Level 8 already had extensive expertise in application integration technology. In fact, our CTO was the architect of IBM's MQSeries, and we consulted with Microsoft on the development of its middleware product, MSMQ. So it was a very logical progression for us to draw on our in-house expertise to shape a product set geared toward developing, integrating, managing, Web- and E-commerce enabling applications, which are the key requirements for enterprise application integration.

Q. NEW DIRECTION: With Level 8 changing its business focus, will you still be able to provide your existing customers with the same services that you've provided in the past?

Yes. We are absolutely committed to continuing to meet the needs of our existing customer base.

Q. FUTURE DIRECTION: What type of changes can we expect from Level 8 in the next year or two? Are you planning to acquire more companies? How might you change your business?

Our intention is to take and sustain a leadership role in the EAI marketplace. To accomplish this we will look to evolve and expand our portfolio of products to be able to offer an increasingly valuable set of solutions for customers. This means that our business model is shifting to be more product oriented, with our services geared to supporting the implementation of our software products. In turn, we plan to grow the company and expand our product portfolio in a number of ways, including strategic acquisitions.

Q. MICROSOFT RELATIONSHIP: It seems that Level 8 has a pretty close relationship with Microsoft. What are your long-term plans for customers who don't use Microsoft systems?

Level 8, like Seer, is also an IBM Best Team partner. In fact, Level 8 was the first company designated by IBM as a premier level Best Team Business Partner, and we maintain close ties with and are always seeking to further strengthen our relationship with IBM. We also have a strategic alliance with Unisys and are exploring similar relationships with other major industry players such as Compaq and Oracle. So while we have a strong relationship with Microsoft, our focus is much broader. And, as we grow the company and expand our product set, we intend to do so in ways that continue to broaden our scope of offerings.

Q. EARNINGS: Why did Level 8 lose so much money last year?

The main reason was a series of one-time costs associated with the acquisitions of Seer Technologies and Momentum. In addition, Level 8's management made a decision early in 1998 to change the company's strategic focus from being a provider of consulting services and a reseller of third party products like IBM's MQSeries to selling its own software products which would be geared toward the growing EAI market. So in 1998 management chose to invest in developing these new products, transitioning the company's business model and growing by acquisition. While this had an impact on the bottom line, it also laid a solid foundation for the company's future.

Q. SEER PURCHASE: Why did Level 8 purchase Seer Technologies?

The purchase of Seer provided Level 8 with two things that we needed to grow our business and position ourselves for the future. Seer brought a well-established international presence and the infrastructure and business processes that will allow us to compete worldwide and take this company to the next level. In addition, our Geneva product's component-based design blends nicely with Seer*HPS' strengths in enabling development and deployment of fully integrated, component-based client/server, mainframe and web- and E-commerce enabled applications. We did extensive due diligence before making the decision to buy Seer, and we're confident that it was the right move for us.

Q. COMBINED ORGANIZATION: Now that the acquisition is complete, what does the combined organization look like?

We completed the merger of the two organizations, including the management team, during the first quarter of 1999, and it went very smoothly. There was some reorganization to eliminate redundancies and consolidate various functions. The new Level 8 organization adopted Seer's structural model, with headquarters in North Carolina and regional offices around the world. Its sales and consulting operations are divided into two territories, the Americas and Europe-Middle East-Africa/Asia-Pacific, and research and development is now distributed between labs in North Carolina, New Jersey, and New York.

Q. STABILITY: With Level 8 coming off such a bad year financially, is the company now stable and financially viable?

We've spent the past year positioning ourselves to be a leader in the EAI market. We have a good product line, a global customer base, a strong management team, a tactical plan for steady, managed growth and the infrastructure to support it. Although our 1998 earnings weren't as good as we hoped, they reflect a transition period and are not indicative of where we are heading as a company.

Q. STABILITY: Level 8 had such a turbulent year in '98. Are things going to calm down and be more stable in 1999?

Today and moving forward, the company has a clear focus and a clear direction: we are committed to being a recognized leader in the EAI marketplace. We will continue to actively look for new ways to improve and grow our business, but anything that we do in the future will be done to strengthen our position in the EAI market.

Level 8

LEVEL 8 SYSTEMS
Scalable EAI

Overview
Mgmt Bios
Locations
FAQ
Investor Info
Employment

Company Info
Product Info
News
Case Studies
Services
Education
Search
Contact Us

Level 8 Investor Relations

Report Cites Middleware Market Is Booming

Worldwide middleware revenue will top $7 billion by 2002, according to a recent report by International Data Corporation.

IDC's Middleware 1998 Worldwide Markets and Trends report states that in all, 1997 was an "outstanding year for the middleware markets." The combined middleware markets grew 28 percent to $1.716 billion, despite the worldwide sales drag put on middleware products by the Year 2000 bug, European currency conversion, and the Asia-Pacific economic downturn, according to the study.

"Overall there is a consistency to the extreme growth we're seeing in the markets. It is faster each year than we originally expect," said IDC analyst Ed Acly, one of the co-authors of the study.

Level 8 . . . A Stock to Watch

According to Investor's Business Daily (July 7, 1998), Level 8 could be "one to watch" due to its on-going relationship with Microsoft.

The article discussed the fact that the middleware market is still in its infancy and parallelled it with the early days of Microsoft and Cisco in terms of an opportunity "to get in on the ground floor of an emerging tech sector."

". . . Most companies producing middleware will continue to grow rapidly. And, having emerged from the primordial soup just a year or two ago, they're now showing up on Wall Street's radar screen."

For additional information about Level 8 and its financial performance please click on:

- HOOVERS Online
  The financial information service from Hoover's Company Capsules
- YAHOO! Finance

Enter Level 8 Systems Inc. ticker symbol **"LVEL"** to look up company stocks.

Get Quotes | Basic

- QUOTE.COM
  The financial information service from Quote.com

- The EDGAR Database of corporate information -- http://www.sec.gov/edgarhp.htm

Level 8 Financial News

Level 8 News

May 1999

10-May-99	Level 8 Systems Adds Support For Windows DNA to Geneva Integration Server

April 1999

29-Apr-99	Level 8 Announces Record Revenue For First Quarter 1999
28-Apr-99	Two Senior Industry Executives Join Level 8 Systems Management Team
16-Apr-99	Level 8 Systems Announces Completion of Its Tender Offer for Seer Technologies, Inc.
13-Apr-99	Level 8 Systems Announces Geneva Integration Server™
01-Apr-99	Level 8 Announces New Corporate Direction, Reports Fiscal Year and Fourth Quarter 1998 Results

March 1999

26-Mar-99	Level 8 Systems, Inc. Announces Extension of Tender Offer to April 15
16-Mar-99	Level 8 Systems, Inc. Announces Extension of Tender Offer to March 26
04-Mar-99	Level 8 to Provide Support for XML Based E-commerce Solutions
04-Mar-99	Level 8 Supports Microsoft CIP and BizTalk for E-commerce
02-Mar-99	Level 8 Systems, Inc. Announces Extension of Tender Offer

February 1999

01-Feb-99	Level 8 Systems, Inc. Commences Tender Offer for Seer Technologies, Inc.

December 1998

07-Dec-98	Clarus Corporation Incorporates Enterprise Application Integration Software from Level 8 Systems

November 1998

24-Nov-98 Level 8 Systems and Seer Technologies Announce Strategic Merger

Level 8 Systems Adds Support For Windows DNA to Geneva Integration Server

Enterprise Customers Can Now Quickly Build Scalable Applications That Take Advantage of the Power and Flexibility of Windows DNA

CARY, N.C. and REDMOND, Wash. - May 10, 1999 - Level 8 Systems Inc. (Nasdaq: LVEL) and Microsoft Corp. (Nasdaq: MSFT) today announced that Geneva, Level 8's leading scalable application integration server, now provides support for the Microsoft(r) Windows(r) Distributed interNet Applications (Windows DNA) architecture, the most comprehensive and integrated application server platform for building distributed applications. Level 8 Systems now becomes a Microsoft Windows DNA partner.

The Geneva Integration Server can be implemented using Microsoft's Component Object Model (COM), the most widely adopted component model, running on over 150 million systems worldwide. COM provides users with the capability to interoperate with systems from almost any vendor. Geneva also utilizes Microsoft Transaction Server (MTS) technology in the Microsoft Windows NT(r) operating system for database connection pooling and component activation management, and Distributed Transaction Coordinator (DTC) to provide automatic transaction support for data integrity protection and for managing scalable and robust enterprise, Internet and intranet server applications.

"We are delighted with Level 8's adoption of Windows DNA in the Geneva Integration Server," said Jigish Avalani, group manager of Windows DNA at Microsoft. "Geneva optimizes powerful Windows DNA technologies such as COM and MTS and delivers integrated management, fault tolerance and distributed transactional capability in one integrated package."

"Geneva simplifies the incorporation of Windows DNA technologies with existing business systems in an enterprise application integration platform for building scalable, reliable n-tier business systems," said Greg Lomow, product manager for Geneva Integration Server at Level 8 Systems. "Now Microsoft developers can use their skills to build enterprise application integration solutions based on Windows DNA."

The Geneva Integration Server allows large enterprise customers to quickly build scalable applications that take full advantage of the power and flexibility of Windows DNA, including COM, Distributed Component Object Model (DCOM), MTS, OLE DB, Active Server Pages (ASP), and Microsoft Message Queue Service. Moving forward, Geneva will support the Microsoft Windows 2000 operating system and the evolution of Microsoft component services into COM+, which will ship as part of Windows 2000.

Geneva also takes advantage of Microsoft's recently announced BizTalk(tm) e-commerce vision by supporting a complete set of broker-oriented functions, including Extensible Markup Language (XML). In addition, Geneva provides a simplified programming interface for applications that use Windows DNA and need to integrate products in the BackOffice(r) family such as Microsoft SQL Server(tm), Application Server technologies, Commerce Server, SNA Server and Windows NT

Server's Internet Information Services (IIS).

Windows DNA is the distributed application development model for the Windows platform. It specifies how to develop robust, scalable, distributed applications using the Windows platform, extend existing data and external applications to support the Internet, and support a wide range of client devices maximizing the reach of an application. The Windows DNA architecture enables ISVs and organizations to solve industry-specific challenges while lowering costs associated with deploying and managing information technology systems.

For more information about Windows DNA, interested parties should visit Microsoft's Web site at http://www.microsoft.com/dna/, or the Windows DNA section of Level 8's site at http://www.level8.com/windowsdna.

About Level 8
Level 8 Systems is a premier provider of scalable enterprise application integration solutions through a combination of technologies and services that enable organizations to meet their information systems development, integration, management and e-commerce enablement needs. Level 8's software product suite includes scalable application integration and Web-enablement tools, message-oriented middleware, and application development and management engines.

Level 8 has more than 375 employees worldwide and has its corporate headquarters in Cary, N.C., and offices in the United States, Europe and Australia. Please visit the company's Web site at http://www.level8.com/.

About Microsoft
Founded in 1975, Microsoft (Nasdaq "MSFT") is the worldwide leader in software for personal computers. The company offers a wide range of products and services for business and personal use, each designed with the mission of making it easier and more enjoyable for people to take advantage of the full power of personal computing every day.

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Note to editors: If you are interested in viewing additional information on Microsoft, please visit the Microsoft Web page at http://www.microsoft.com/presspass/ on Microsoft's corporate information pages.

Level 8 Announces Record Revenue For First Quarter 1999

Cary, NC - April 29, 1999 - Level 8 Systems, Inc. (Nasdaq: LVEL) a leading provider of scalable application integration software solutions, today reported record revenue for its first fiscal quarter of 1999 which ended March 31, 1999.

- Total revenue for first quarter of $13.2 million, a 530 percent increase in total revenue over fourth quarter 1998
- Software license revenue five times higher than fourth quarter 1998
- Positive EBITDA of $0.03 per share (exclusive of foreign exchange losses caused by the acquisition of Seer Technologies as discussed below)

Revenues for the quarter ended March 31, 1999 were $13.2 million compared with $3.1 million in the comparable period last year, and $2.1 million in the fourth quarter of 1998.

The company incurred a significant expense of $0.5 million, due to foreign exchange losses caused by the acquisition of Seer Technologies as discussed below. Excluding this expense, EBITDA (earnings before interest, taxes, depreciation and amortization) for the first quarter was $0.2 million, or $0.03 per share.

Including the foreign exchange losses, the company's EBITDA was a loss of $0.3 million, or $0.03 per share, compared with an EBITDA loss for the same period in 1998 of $0.5 million, or $0.07 per share, and $4.7 million, or $0.61 per share for last year's fourth quarter, excluding charges related to the acquisitions of Seer and Momentum for the 1998 periods. The company reported a loss from operations of $3.0 million, compared with $2.0 million for the comparable period in 1998. The operating loss includes significant amortization of acquired intangible assets.

The net loss from continuing operations was $3.8 million, or $0.44 per share, compared with a net loss from continuing operations of $1.5 million, or $0.21 per share for the same period in 1998.

During the acquisition of Seer, Level 8 re-negotiated its line of credit. As part of the re-negotiation effort, the company's hedge against foreign currency fluctuations was eliminated. The company experienced greater foreign exchange fluctuations than expected during the first quarter. While there is no guarantee that such fluctuations will not again occur, management does not believe that this will be a recurring problem in the future.

"We are pleased with our first quarter results and the progress we've made in growing and shaping Level 8 to become a leading provider of solutions for enterprise application integration," stated Arik Kilman, chairman and CEO of Level 8. "During 1998 we focused our efforts on laying the groundwork that would enable us to begin moving the company forward in 1999. The final piece of that was the acquisition of Seer Technologies in December. During the past three months we were very busy with the enormous task of integrating the Seer organization into Level 8 while at the same time having to keep our business going, including closing sales and building our pipeline. The company performed well under the circumstances. However, we still have a lot of hard work ahead of us in getting the company to sustainable profitability."

"This past quarter we completed a year of transition with the integration of Seer and Level 8," commented Steven Dmiszewicki, chief operating officer for Level 8. "We streamlined the operations of the combined company, consolidating functions, eliminating the inevitable redundancies, and recognizing the synergies of the two companies. With these synergies, the strong foundation built over the past year, and the recent launch of our new Geneva Integration Server product for EAI, we are well equipped to grow our business on a global scale."

"Managing the worldwide growth of our business requires a top notch management team," added Dmiszewicki. "As we integrated the Seer and Level 8 organizations, we assessed the strengths of our combined management team and identified areas where we needed to augment our executive staff. Just this week, I'm pleased to say, we welcomed two highly experienced senior executives to our team to head up the critical areas of marketing and human resources."

In a separate announcement this week, Level 8 indicated that it has hired Dr. Richard Phelps as Senior Vice President of Worldwide Marketing and Ms. Andee Treinis as Vice President of Human Resources. Each brings between fifteen and twenty years of experience in the software industry in their respective areas of expertise.

"The incorporation of the Seer direct sales force, particularly in Europe and Australia, significantly expanded Level 8's direct sales capabilities," Dmiszewicki noted. "We expect to leverage these resources increasingly in coming quarters as they become trained on the company's full set of products. We believe our experienced global sales force will prove to be a distinct advantage in meeting our goals, as evidenced by our results this quarter which already reflect an increased direct sales contribution to revenue."

"Also during the first quarter, our marketing and development teams worked together to prepare for the launch of our newest product, Geneva Integration Server, which we officially announced on time two weeks ago," noted Dmiszewicki. "Geneva is a powerful application integration engine which can seamlessly link any number of applications running on diverse and incompatible platforms as well as enable them for the Internet and E-commerce. We're very excited about Geneva, which is our leading entry in the enterprise application market (EAI) market."

"We are now prepared to take the next steps in moving the company forward," concluded Dmiszewicki. "We have a number of major goals and initiatives that we will be concentrating on in the coming months. We are changing our sales model in ways that we believe will begin to augment our revenue stream, including teleselling some of our products and recruiting partners to build indirect sales channels. We are also working to strengthen our relationships with important strategic partners like Microsoft and IBM and to develop relationships with other important strategic players."

"We are deeply committed to growing Level 8 internally, as well as by acquisition. In addition, we look forward to positioning the company as a global leader and remain committed to improving shareholder value," stated Kilman.

Level 8's Products

Level 8's EAI solutions are comprised of a combination of sophisticated software products and high-level consulting services. The Company's products currently include Geneva Integration Server, FalconMQ and Seer*HPS. The newest addition to the Company's product set, Geneva Integration Server, is designed to provide powerful inter-application communication capabilities needed for complex large-scale legacy application integration and E-commerce enablement. FalconMQ is a message oriented middleware (MOM) product which provides the simple cross-platform connectivity needed for integrating Microsoft Windows NT-based and non-NT-based applications. Seer*HPS is a full life cycle application development and management environment designed for building large-scale, complex, client/server-based applications running across heterogeneous platforms from desktops to mainframes.

More About Level 8 Systems

Level 8 Systems is a premier provider of scalable enterprise application integration solutions through a combination of technologies and services that enable organizations to meet their information systems development, integration, management and E-commerce enablement needs. Level 8's software product set includes scalable application integration and web-enablement tools, message-oriented middleware, and application development and management engines. Level 8 has more than 320 employees worldwide and has its corporate headquarters in Cary, North Carolina, and offices in the North America, Europe, and Australia. Please visit the company's website at http://www.level8.com for more information on Level 8 and its products and services.

Except for any historical information contained herein, this news release contains forward looking statements on such matters as anticipated financial performance, business prospects, technological development, new products, research and development activities and similar matters. The company notes that a variety of factors could cause its actual results to differ materially from the anticipated results or other expectations expressed in this release. The company's performance, development and results of operations may be affected by the risks presented by market acceptance of the company's strategic direction; continued market acceptance of the company's existing technology and service offerings; fluctuations in quarterly operating results and volatility of the price of the company's common stock; competition; customer concentration; the potential failure to meet product delivery dates; matters relating to international operations; intellectual property and proprietary rights; an inability to attract and retain experienced, qualified professional staff with the ability to execute the company's strategic and tactical operating plans; the ability of company's sales professionals to perform to quota; and the sufficiency of the company's liquidity and capital resources. See the company's annual report on Form 10-K for the year ended December 31, 1998 for additional information regarding factors that may cause actual results to vary.

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LEVEL 8 SYSTEMS, INC.
Consolidated Statements of Operations
(in thousands, except per share data)

	Three Months Ended March 31 1999	1998*
Revenue:		
Software	$ 2,712	$ 212
Maintenance	3,883	540
Services	6,610	2,341
Total operating revenue	13,205	3,093
Cost of revenue:		
Software	838	426
Maintenance	759	101

Services	6,018	1,665
Total cost of revenue	7,615	2,192
Gross profit	5,590	901
Operating expenses:		
Sales and marketing	2,619	200
General and administrative	1,753	947
Research and development	2,520	426
Amortization of intangible assets	1,697	105
Purchased research and development	-	1,200
Total operating expenses	8,589	2,878
Loss from operations	(2,999)	(1,977)
Interest income (expense), net	(627)	70
Loss before provision for income taxes	(3,626)	(1,907)
Income tax provision	202	(401)
Loss from continuing operations	(3,828)	(1,506)
Loss from discontinued operations	-	(978)
Net loss	$ (3,828)	$ (2,484)
Loss per common share - Basic and diluted	$ (0.44)	$ (0.35)
Weighted average common shares outstanding - Basic and diluted	8,710	7,110

*Results of operations for the quarter ended March 31, 1998 do not include the operations of Seer Technologies, which was acquired by the company on December 31, 1998. The results of operations for Momentum Software Corporation are included from the date of acquisition on March 26, 1998.

Condensed Balance Sheets
(in thousands)

	March 31, 1999	December 31, 1998
Assets		
Cash	$ 2,221	$ 6,078
Accounts receivable, net	16,009	16,992
Goodwill and other intangibles, net	30,520	32,217
Other assets	14,931	15,483
Total assets	$ 63,681	$ 70,770
Liabilities and Stockholders' Equity		
Notes payable and long-term debt	$ 17,926	14,615
Notes payable and loans from related company	12,652	13,147
Accounts payable	1,985	3,691
Deferred revenue and customer deposits	11,721	13,172
Other liabilities	14,470	17,253
Total liabilities	58,754	61,878
Stockholders' equity	4,927	8,892
Total liabilities and stockholders' equity	$ 63,681	$ 70,770

Level 8 Systems Announces Geneva Integration Server™

Simplifies Integration of Legacy, E-commerce enabled and Windows DNA-Based Systems

Cary, NC - April 13, 1999 - Level 8 Systems (NASDAQ: LVEL), a leading provider of scalable application integration software solutions for Global 2000-sized enterprises, today announced the release of its new Geneva Integration Server™. Geneva™ is a software product for enterprise application integration that solves the problem of functionally linking custom, legacy, E-commerce, Web-enabled, and Windows DNA-based application systems.

"With Geneva Integration Server, Level 8 Systems is delivering a businessware platform positioned to seamlessly integrate and event -enable distributed Windows NT applications with core business applications," said Ed Acly, director of middleware and businessware research at International Data Corporation. "Operating on top of the customer's choice of underlying message oriented middleware, Geneva Integration Server provides the guaranteed and reliable communication that is essential for conducting E-commerce."

"Level 8's Geneva Integration Server provides great value for our customers who are using the Microsoft Windows platform for enterprise application integration," said Michael Gross, product manager for Microsoft Corporation. "We are pleased to see Level 8's commitment to Microsoft's application server technologies: COM, MTS, IIS and MSMQ as key building blocks for their integration server. We feel that Geneva Integration Server can significantly reduce the cost and complexity associated with back-office application integration and interoperability with legacy systems."

About Geneva Integration Server
Geneva Integration Server is an open, standards-based integration platform for connecting business applications running on Windows with business systems running on other platforms. Geneva makes it easy to link new and existing systems and adapt them to meet changing business requirements.

"Geneva Integration Server evolved out of Level 8's many years of building scalable application integration solutions for large customers," says Sam Somech, president and chief technology officer for Level 8 Systems. "This technology is an extension of the company's mission of delivering value to our customers by providing better and quicker access to mission-critical business information and streamlining the IT infrastructures. Organizations that must respond quickly to changing business needs will find Geneva Integration Server ideal since most integration tasks can now be performed with little or no programming."

Geneva's fully componentized architecture offers users a wide variety of options for defining and customizing the rules that control the interaction between application systems. With Geneva, users define integration rules with a simple graphical user interface. The integration rules are written using a Visual Basic (VB) or Java Script and Internet-standard XML, rather than the proprietary rules languages used in most other application integration products on the market today. Geneva Integration Server further simplifies integration by hiding the location and structure of disparate applications and allowing the collected application information to be viewed using XML as a universal data format.

Geneva Integration Server is strategically aligned with Windows component-based development, enabling enterprise customers who have invested in Microsoft tools and development resources to easily scale their component-based solutions on Windows out to diverse information resources across the enterprise. Geneva is a scalable application integration engine that takes advantage of the power of Windows DNA products and technologies, and delivers integrated management, fault tolerance and distributed transactional capability in one integrated package.

Geneva supports a complete set of broker-oriented functions, including XML rules-based message reformatting, message transformation and workflow, content-based routing and publish/- subscribe messaging. In addition, Geneva provides a simplified programming interface for applications that use Windows DNA and need to integrate BackOffice products such as SQL Server, Application Server, Commerce Server, SNA Server, Internet Information Server, MTS, and MSMQ.

Geneva Helps Users Solve Business Problems

Early adopters of Geneva Integration Server are already realizing significant benefits from Geneva's unique capabilities. Some examples include:

- Retailer Montgomery Wards is using Geneva for integrating new Windows NT-based customer service applications with MVS-hosted legacy systems;
- Clarus Corporation (NASDAQ: CLRS), a leading provider of Web-based Commerce applications that enable organizations to gain control of their operational resources, has embedded Geneva in their Clarus Fusion integration framework;
- A distributor of motor-sports related memorabilia is using Geneva for integrating a Windows NT-based E-commerce environment with its existing order processing, shipping, and billing systems running on AS/400 and UNIX.

"The Geneva Integration Server provides the foundational component for Clarus Fusion, the integration framework for Clarus Commerce," said Steve Jeffery, CEO and president for Clarus Corporation. "The Geneva Integration Server was clearly the right technology choice given our focus on supporting Microsoft's BizTalk and the XML standards."

According to Oriel Maxime, technical analyst at Montgomery Wards, "Geneva Integration Server from Level 8 Systems has allowed us to simply and manageably integrate this new application with our existing legacy systems in a platform-independent manner. This enables our new application to significantly improve customer service by delivering consolidated information from a variety of systems to the desktops of our service representatives."

Geneva Integration Server and E-commerce Applications

Geneva Integration Server allows rapid integration of new E-commerce systems and Web-enabled applications on popular commerce platforms such as Microsoft Commerce Server. Geneva supports Microsoft's Commerce Interchange Pipeline and will support Microsoft's recently announced BizTalk vision for E-commerce. Geneva provides adapters for Internet standards like Java, HTTP, HTML forms, XML, the W3C domain object model, RSA and DES encryption, and authentication.

The Level 8 Systems Product Family

Level 8's FalconMQ message-oriented middleware (MOM) product is Microsoft's recommended cross-platform implementation of MSMQ on non-Windows platforms. Seer*HPS is Level 8's model-driven, full life-cycle development environment which automates and manages the building of large-scale, complex, network-centric applications running across heterogeneous platforms. The XIPC technology is an advanced software tool set for the development of multi-tasking and distributed applications.

More About Level 8 Systems
Level 8 Systems is a premier provider of scalable enterprise application integration solutions through a combination of technologies and services that enable organizations to meet their information systems development, integration, management and E-commerce enablement needs. Level 8's software product suite includes scalable application integration and Web-enablement tools, message-oriented middleware, and application development and management engines.

Level 8 has more than 375 employees worldwide and has its corporate headquarters in Cary, North Carolina, and offices in the United States, Europe, and Australia. Please visit the company's website at http://www.level8.com.

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Level 8 Announces New Corporate Direction, Reports Fiscal Year and Fourth Quarter 1998 Results

CARY, N.C.--April 1, 1999--Level 8 Systems (Nasdaq: LVEL - news) today announced its new corporate direction, to move aggressively into the enterprise application integration (``EAI") market.

Level 8's strategy going forward will be to combine its products and service offerings to provide EAI solutions, helping companies enhance the functionality and extend the productive life cycle of their existing application systems by integrating them and enabling them for electronic commerce. The Company also reported its financial results for the fiscal year and fourth quarter ended December 31, 1998.

``During the past year, Level 8 has taken significant, carefully planned steps towards becoming a key player in the enterprise application integration market," commented Arik Kilman, chairman and chief executive officer of Level 8 Systems. ``Although from a financial performance perspective this year was not a good one for us, we feel that overall it has been one of the most important years in the history of Level 8 because we laid the foundation for our future in 1999 and beyond. By acquiring Momentum Software Corporation earlier this year and acquiring Seer Technologies in December, as well as investing in developing new EAI-oriented technology internally, we believe we have extended our product set to effectively address the needs of the EAI market going forward."

Fiscal 1998 Financial Results

Revenues for the year ended December 31, 1998 were $10.7 million compared with $14.7 million in 1997. The Company's adjusted EBITDA loss (loss from operations before interest, taxes, depreciation and amortization) and excluding one-time charges related to the acquisitions of Momentum and Seer, was $8.0 million, or $(1.06) per share, compared to EBITDA for the same period in 1997 of $2.0 million, or $0.29 per share. Excluding one-time charges related to the acquisitions of Momentum and Seer, the net loss from continuing operations was $11.7 million, or $(1.55) per share, compared with net income of $1 million, or $0.14 per share in 1997. Including one-time charges and discontinued operations, the net loss was $25.1 million, or $(3.32) per share, compared with net income of $1.1 million or $0.16 per share.

Revenues for the quarter ended December 31, 1998 were $2.1 million compared with $6.1 million in 1997. Because Level 8's 69 percent interest in Seer was not acquired until December 31, 1998, Seer's operations are not included in Level 8's results of operations for 1998. The Company's adjusted EBITDA loss (loss from operations before interest, taxes, depreciation and amortization) and excluding one-time charges related to the acquisitions of Momentum and Seer, was $4.7 million, or $0.61 per share, compared to EBITDA for the same period in 1997 of $0.7 million, or $0.11 per share. Excluding one-time charges related to the acquisitions of Momentum and Seer, the net loss from continuing operations was $6.4 million, or $(0.83) per share, compared with net income from continuing operations of $0.4 million, or $0.06 per share for the same period in 1997. Including one-time charges, the net loss for the fourth quarter of 1998 was $17.6 million, or $(2.29) per share, compared with $0.4 million or $0.06 per share for the fourth quarter of 1997.

A number of factors, many of which were non-cash, contributed to the reported loss:

- Restructuring charges of $1.5 million primarily related to personnel-related charges and costs associated with reduction in facilities in connection with the acquisition of Seer.

- Write-offs of $5.9 million in total for purchased research and development as a result of both acquisitions.

- Write-off of $4.6 million of goodwill originating from the purchase of Momentum due to a change in the Company's product plans, which impaired its value.

- Loss from discontinued operations of $1.4 million related to disposal of ProfitKey International, Inc. in 1998.

``This was a year of major change and transition for the Company, but overall we believe it was change for the good," noted Steven Dmiszewicki, chief operating officer for Level 8. ``We made a deliberate decision to shift our business model away from primarily selling other companies' products, such as IBM's MQ Series, to selling our own software products. This shift entailed both building and acquiring products that would fit well with our new strategy of providing solutions for enterprise application integration. However, changing our product focus and the lead time to market required for developing and integrating new products into our product set clearly took a toll on our software license revenue stream. In the fourth quarter we focused primarily on the Seer acquisition and merging the Seer and Level 8 organizations in ways that would best leverage the strengths and synergies between the two companies. In addition, the substantial restructuring charges we absorbed had a major negative effect on our bottom line for 1998. Now, with these charges behind us, we are prepared to move into 1999 on a positive note.``

In October of 1998, Level 8 signed a multi-year agreement with Microsoft. As part of this agreement, Microsoft licensed software originally developed by Level 8 that enables Microsoft's Windows NT server platforms using Microsoft MSMQ middleware to integrate with IBM's MQ Series message-oriented middleware on the mainframe. Microsoft intends to ship this software as part of its Windows 2000 operating system and to make it available to its Windows NT server platform customers. While the agreement was signed in 1998, the associated revenue will be recognized for financial statement purposes over a two and a half year period. No revenue associated with this agreement is reflected in the Company's fiscal 1998 year.

Conclusion

``On balance, Level 8 is now well-positioned for the future," offered Dmiszewicki in conclusion. ``Incorporating the Seer organization gave Level 8 a highly developed infrastructure for supporting worldwide business operations and a well established presence in Europe and Australia. With our current products and especially with the imminent release of our new EAI and E-commerce enabling product, we are optimistic about our ability to pursue the market opportunities afforded by the EAI marketplace."

Level 8's EAI Solutions

The introduction of Level 8's new corporate direction heralds the start of the

Company's 1999 fiscal year, and will be the guiding force behind the Company's strategic and tactical plans moving forward. As part of its strategy, the Company is focusing on shaping its products into solutions that address the key challenges driving the EAI market, which include:

- demand for information systems that offer enterprise-wide views of a company's business-critical information, driven by increasing competitive pressures on Global 5000-sized companies

- the economic need to functionally integrate and extend the productive life cycle of existing applications which typically run on a variety of disparate, incompatible computer systems

- the rapidly growing need for companies to take advantage of the Internet and intranets for improving internal business processes and enabling applications for E-commerce

Level 8's EAI solutions are comprised of a combination of sophisticated software products and high-level consulting services. The Company's products currently include FalconMQ and Seer*HPS. FalconMQ is a message oriented middleware (MOM) product which provides the simple cross-platform connectivity needed for integrating NT-based and non-NT-based applications. Seer*HPS is a full life cycle application development and management environment designed for building large-scale, complex, client/server-based applications running across heterogeneous platforms from desktops to mainframes. A new addition to the Company's product set, scheduled to be launched in the second quarter of 1999, is designed to provide powerful inter-application communication capabilities needed for complex large-scale legacy application integration and E-commerce enablement.

Also as part of its EAI solutions strategy, Level 8 is actively engaged in building new, as well as expanding existing relationships with key strategic alliance partners, such as Microsoft, and developing a network of channel partners to broaden its revenue stream. The Company's channel partner initiative is focused on identifying and building alliances with providers of products and services that complement the Company's own EAI solutions as well as independent software vendors (ISV's) who may benefit from incorporating some of the integration capabilities of Level 8's products in building their own software products.

``We are very pleased with the strategic partnerships and alliances formed this year, and we will continue to expand our efforts in this important area," added Kilman. ``We also intend to continue to invest resources into the on-going enhancement of our existing software products as well as into the development and potential acquisition of new product. We believe this approach will augment our solution offerings and as a result grow our share of the EAI market and contribute significantly to our revenue mix over time."

More About Level 8 Systems

Level 8 Systems is a premier provider of scalable enterprise application integration solutions through a combination of technologies and services that enable organizations to meet their information systems development, integration, management and E-commerce enablement needs. Level 8's software product set includes scalable application integration and web-enablement tools, message-oriented middleware, and application development and management engines. Level 8 has more than 320 employees worldwide and has its corporate headquarters in Cary, North Carolina, and offices in the North America, Europe, and Australia. Please visit the company's website at http://www.level8.com for more information on Level 8 and its products and services.

Except for any historical information contained herein, this news release contains forward looking statements on such matters as anticipated financial performance, business prospects, technological development, new products, research and development activities and similar matters. The company notes that a variety of factors could cause its actual results to differ materially from the anticipatedresults or other expectations expressed in this release. The company's performance, development and results of operations may be affected by the risks presented by market acceptance of the company's strategic direction; continued market acceptance of the company's existing technology and service offerings; fluctuations in quarterly operating results and volatility of the price of the company's common stock; competition; customer concentration; the potential failure to meet product delivery dates; matters relating to international operations; intellectual property and proprietary rights; an inability to attract and retain experienced, qualified professional staff with the ability to execute the company's strategic and tactical operating plans; the ability of company's sales professionals to perform to quota; and the sufficiency of the company's liquidity and capital resources. See the company's annual report on Form 10-K for the year ended December 31, 1998 for additional information regarding factors that may cause actual results to vary.

LEVEL 8 SYSTEMS, INC.
Consolidated Statements of Operations
(In thousands, except per share data)

	Three Months Ended December 31 1998	Three Months Ended December 31 1997	Year Ended December 31 1998	Year Ended December 31 1997
Revenue:				
Software	$ 475	$ 2,352	$ 1,552	$ 4,354
Consulting and services	1,613	3,771	9,133	10,171
Other	--	--	--	155
Total operating revenue	2,088	6,123	10,685	14,680
Cost of revenue:				
Software	855	1,843	2,060	2,554
Consulting and services	1,848	2,068	5,973	4,995
Other	--	2	--	40
Total cost of revenue	2,703	3,913	8,033	7,589
Gross profit	(615)	2,210	2,652	7,091
Operating expenses:				
Selling, general and administrative	4,458	1,264	11,710	4,834
Research and development	136	491	2,111	1,058
Write-off of in-process research and development	4,692	--	5,892	--
Write-off of goodwill	4,601	--	4,601	--
Restructuring charges	1,540	--	1,540	--
Total operating expenses	15,427	1,755	25,854	5,892
Income (loss) from operations	(16,042)	455	(23,202)	1,199
Interest income (expense), net	(233)	84	(81)	390
Income (loss) before provision for income taxes	(16,275)	539	(23,283)	1,589
Income tax provision	963	130	405	553
Income (loss) from continuing operations	(17,238)	409	(23,688)	1,036
Income (loss) from discontinued operations	(390)	(14)	(1,368)	53
Net income (loss)	$(17,628)	$ 395	$(25,056)	$ 1,089
Income (loss) per common share - basic	$ (2.29)	$ 0.06	$ (3.32)	$ 0.16

Income (loss) per common share - diluted	$ (2.29)	$ 0.05	$ (3.32)	$ 0.14
Weighted average common shares outstanding:				
Basic:	7,711.	6,583	7,552	6,992
Diluted	7,711	7,900	7,552	7,561

Condensed Balance Sheets:
(in thousands)

	December 31, 1998	December 31, 1997
Assets		
Cash	$ 6,078	$ 7,062
Accounts receivable, net	16,992	6,455
Goodwill and other intangibles, net	32,217	1,793
Other assets	15,483	8,172
Total assets	$70,770	$23,482
Liabilities and Stockholders' Equity		
Notes payable, due upon demand	12,275	--
Other debt	15,487	353
Accounts payable	3,691	1,936.
Deferred revenue and customer deposits	13,172	42
Other liabilities	17,253	780
Total liabilities	61,878	3,111
Stockholders' equity	8,892	20,371
Total liabilities and stockholders' equity	$70,770	$23,482

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Level 8 to provide support for XML based E-Commerce Solutions

Level 8 supports Microsoft CIP and BizTalk for E-Commerce

San Francisco, CA. -- March 4, 1999 -- Today at the Microsoft Commerce Solutions Briefing, Level 8 Systems (NASDAQ:LVEL), a leading provider of messaging middleware and enterprise application integration (EAI) solutions, announced support for Microsoft Commerce Interchange Pipeline (CIP) and the BizTalk framework in its upcoming EAI product, Geneva E/A Integrator.

Geneva E/A Integrator ("Geneva") is a Windows NT Server-based enterprise application integration product that supports XML based messaging and workflow integration across heterogeneous platforms and applications. Geneva, with its tight integration with Windows Distributed interNet Applications (DNA) architecture technologies including MTS and MSMQ, XML, HTTP, and other middleware technologies, fully supports the BizTalk Vision and is ideal for connecting CIP solutions throughout the enterprise.

"XML based application interoperability is a core part of Microsoft's business to business commerce strategy. It's exciting to see Level 8's Geneva business solution providing support for XML that complements our efforts," said Satya Nadella, General Manager Microsoft Commerce Division.

Geneva provides the infrastructure for integrating Windows applications with back-end systems using XML based transactional workflow and cross-platform message queuing. Geneva will be officially launched at the end of March as an EAI product that utilizes the recently announced Microsoft Application Server technologies.

"Level 8 has proven expertise in delivering enterprise application integration solutions that solve customers' complex business problems in the e-commerce marketplace. With our products we have enabled customers around the world to successfully build e-commerce and other transactional solutions in Microsoft environments. Today's support for CIP and BizTalk further solidifies our commitment to integrating Windows-based applications with enterprise systems", said Sam Somech, President and Chief Technology Officer of Level 8 Systems.

More About Level 8 Systems
Level 8 Systems is a premier provider of scalable enterprise application integration solutions through a combination of technologies and services that enable organizations to meet their information systems integration and management needs. Level 8 has offices in the United States, Europe, and Australia. For more information, please visit the Company's web site at http://www.level8.com or call (919) 380-5000.

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LEVEL 8 SYSTEMS
Scalable EAI

Clarus Corporation Incorporates Enterprise Application Integration Software from Level 8 Systems

Atlanta, GA -- December 7, 1998 -- Clarus takes the lead in embedding Level 8 Enterprise Application Integration (EAI) software for seamless, open integration.

Clarus Corporation (Nasdaq:CLRS - news), formerly SQL Financials International, Inc. (Nasdaq:SQLF - news), announced today it is the first e-commerce procurement provider embedding Level 8 Systems Enterprise Application Integration (EAI) software to enable logical data mapping, transactional workflow, Extensible Markup Language (XML) document publishing and data transformation. Incorporated in Clarus(tm) E-Procurement, this soon to be released technology will allow seamless, open integration between Clarus' HR and financial backoffice applications and other third party vendors' systems.

Leveraging advanced Level 8 technology allows users to publish documents or objects, such as vendor receipts or purchase orders that adhere to Open Applications Group Integration Specification (OAGIS) standards. OAGIS is an association of enterprise applications software vendors that specifies how applications from multiple sources interoperate. Clarus selected the Level 8 solution after a detailed survey of alternative technologies, and is using this technology to publish XML objects adhering to the OAGIS standards for real-time systems integration.

``Companies today rarely implement just one HR or financial backoffice application enterprise-wide - they often need seamless integration across disparate locations and systems," said Steve Hornyak, vice president of marketing for Clarus Corporation. ``We are leveraging Level 8 technology with Clarus E-Procurement to enable logical integration with Clarus or any other backoffice application, while competitors are hard coding their solutions with other vendors' systems."

Hornyak added, ``With Clarus and Level 8, it's plug-and-play with minimal upgrade risks and a lower cost of ownership than hard coded solutions. Providing a cost-efficient solution that can be implemented rapidly and integrated seamlessly with other applications is key for maximizing market acceptance and achieving mass deployment."

Clarus E-Procurement is a cornerstone of the Company's Corporate Service Applications strategy. By extending the value of backoffice applications to frontline employees, the Clarus Corporate Service Applications are designed to reduce an organization's administrative costs, improve employee service levels, and free backoffice professionals to focus on more strategic activities. Clarus plans to utilize the EAI technology to deliver open message-based integration for its entire suite of Corporate Service Applications.

Founded in 1994, Level 8 Systems www.level8.com (NASDAQ:LVEL - news) is a leading provider of message-oriented middleware technology. The company offers message queuing interoperability and enterprise application integration products that allow enterprise connectivity between heterogeneous platforms.

The Clarus solution consists of financial, human resource, and corporate service applications; Graphical Architects® modules; the Clarus Methodology; Clarus Professional Services for customer implementation; and Clarus TotalCare services for on-going customer support. The Clarus solution is targeted for mid- to large-sized companies that need robust administrative applications with minimal resource requirements for implementation, maintenance and upgrades.

Atlanta-based Clarus Corporation www.claruscorp.com (Nasdaq:CLRS - news), formerly SQL Financials International, Inc. (Nasdaq:SQLF - news), is the provider of Clarus, a comprehensive suite of world-class financial and human resource backoffice solutions and Web-based corporate service applications designed specifically for mid- to large-sized companies. Founded in 1991, the company's applications create high lifetime value by delivering sophisticated functionality while substantially reducing the time required for implementation, maintenance and upgrades. Clarus serves such customers as First Data Corporation, MasterCard International, Hyatt Regency Chicago, Investment Technology Group, T. Rowe Price Associates, Inc., Toronto Dominion Bank, The Container Store, HD Vest, Amtrak and Chartwell Re Holdings Corp.

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NOTE TO EDITORS: Clarus(tm) E-Procurement was formerly marketed as ELEKOM Procurement.

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Product Info

LEVEL 8 SYSTEMS
Scalable EAI

- FalconMQ
- Geneva
- MonitorMQ
- Seer*HPS
- XIPC3
- Background

- Company Info
- Product Info
- News
- Case Studies
- Services
- Education
- Search
- Contact Us

Level 8 Products

FalconMQ
The Windows NT-to-legacy link.

Geneva Integration Server
Scalable enterprise application integration.

MonitorMQ
Unified management of MQSeries networks across multiple platforms.

Seer*HPS
Enterprise-scale, component-based development.

XIPC3
Cross-platform interprocess communication tools.

Background Information
A few short articles about the industry segments for which Level 8 develops products.

home | company info | product info | news | case studies | services | education | search | contact us

Product Info

LEVEL 8 SYSTEMS
Scalable EAI

FalconMQ
Geneva
MonitorMQ
Seer*HPS
XIPC3
Background

Company Info
Product Info
News
Case Studies
Services
Education
Search
Contact Us

FalconMQ

FalconMQ is a simple, reliable, cost-effective solution for connecting enterprise applications. Deployed in conjunction, MSMQ and FalconMQ connect Windows NT applications with applications that reside on all of the popular flavors of UNIX, MVS mainframes, AS/400 and VMS servers, and Unisys legacy systems.

Since 1996, Level 8 has been working with Microsoft Corporation to deliver a business application platform for connecting Microsoft and non-Microsoft applications. The foundation of this business platform is Microsoft Message Queue Server (MSMQ). MSMQ is the popular message queuing subsystem integrated with the Windows NT family of server products.

Over the years, working closely with both with Microsoft and Microsoft customers, Level 8 has gained a profound mastery of the issues involved in connecting Microsoft and non-Microsoft applications. Now, Level 8 has distilled that mastery into FalconMQ, the only non-Windows implementation of MSMQ.

Overview

Frequently Asked Questions

Case Studies

FalconMQ and Windows DNA

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Documentation

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Product Info

- FalconMQ
- Geneva
- MonitorMQ
- Seer*HPS
- XIPC3
- Background

- Company Info
- Product Info
- News
- Case Studies
- Services
- Education
- Search
- Contact Us

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Scalable EAI

Overview | FAQ | Case Studies | FalconMQ and Windows DNA | Download | Documentation |

FalconMQ Overview

- Ease of Use
- Reliable Message Queuing
- Interoperability
- Integration with NT Services
- Low Total Cost of Ownership

FalconMQ message queuing delivers real benefits

Every business today, no matter how small or how large, has a need to integrate information. For some companies this may mean integrating a legacy system like a mainframe or UNIX server with Windows NT applications.

Other companies may need to connect Web users directly to their existing business systems; others may want to build comprehensive business processes to respond more effectively to business events or customer requests.

Microsoft Message Queue Server (MSMQ) plays a significant role in Microsoft's cross-platform interoperability and application strategy and has teamed with Level 8 Systems to provide non Windows implementations of MSMQ to meet the interoperability needs of enterprise developers. Level 8 Systems' FalconMQ is a cross-platform application connectivity product that is Microsoft's recommended implementation of the MSMQ API non-Microsoft operating system platforms.

Together, MSMQ and FalconMQ provide comprehensive, cross-platform asynchronous connectivity between enterprise applications.

FalconMQ extends full MSMQ functionality from its native Windows environment to encompass the full gamut of non-Windows operating systems, including: Solaris (SPARC and Intel), HP-UX, AIX, SCO-UNIX, Linux, VMS (VAX and Alpha), OS/ 400 and MVS, providing complete and seamless MSMQ messaging interoperability between all supported platforms.

The MSMQ programming model is preserved even when an application is spread over a network of heterogeneous computer platforms. The portable MSMQ API provides for immediate source code portability between dissimilar platforms. The MSMQ portion of an application need only be written once.

This simple approach to application connectivity, uses the proven message queuing communications paradigm to provide scalable, reliable connectivity between applications -allowing users to focus on the business of integration with out having to worry about technology.

Ease of Use

Simple MSMQ Programming Interface

FalconMQ (FMQ) programming is performed through the standard Microsoft MSMQ API, primarily through five simple MSMQ functions (open, close, send, receive, and locate). FMQ delivers its advanced message queuing benefits without complex network-level programming.

Object Model

FMQ provides a queuing object model that implements a convenient and full-featured application programming interface (API) to MSMQ features. Such support makes it easy to access the MSMQ API from popular object-oriented programming languages such C++ and Java. This makes the FMQ environment easy to use and accessible to a wide range of developers.

Protocol Independence

From a programming perspective, all FMQ functions and features are completely protocol independent. This greatly simplifies programming because developers never have to be aware of protocol translation or bridging issues.

Interactive Access to MSMQ API

FMQ provides full access to the MSMQ API via an interactive tool. This eliminates the need to write full test programs in situations when ad hoc messaging operations are necessary. This capability is particularly useful for testing an application's handling of various messaging scenarios that may be otherwise difficult to create through the normal execution of an application.

Reliable Message Queuing

Reliable, Resilient Message Delivery

FMQ uses sophisticated techniques such as sliding window protocols and recoverable storage to deliver messages. This lets developers focus on business logic and not on sophisticated communications programming.

One Time, In Order Message Delivery

FMQ can make sure that messages are delivered exactly one time, and that messages are delivered in the order that they were sent. This prevents many different kinds of problems that can occur within receiving applications such as duplicated orders and overdrawn accounts or inventories.

Automatic Message Journaling

FMQ can make journal copies of all messages sent or received by applications. Journals provide audit trails and simplify recovery from many types of failure.

Message Priority Support

The MSMQ API enables applications to assign priorities to messages and queues. FMQ routes and delivers messages in priority order. Priorities make it easy for applications to process important requests first when there is a backlog.

Interoperability

Heterogeneous Platform Support

FMQ extends full MSMQ functionality from its native Windows environment to encompass the full range of non-Windows operating systems as well, including: Solaris (SPARC and Intel), HP-UX, AIX, SCO-UNIX, VMS (VAX and Alpha), OS/400 and MVS, providing complete and seamless MSMQ messaginginteroperability between all supported platforms.

The MSMQ programming model is preserved even when an application is spread over a network of heterogeneous computer platforms. The portable MSMQ API provides for immediate source code portability between dissimilar platforms. The MSMQ portion of an application need only be written once.

Seamless Interface with Windows NT based MSMQ

FMQ supports a unified MSMQ application messaging environment across applications on Windows and non-Windows platforms - from the smallest PC workstation, through UNIX middle-tier nodes up to large-scale MVS systems.

Optimized for Native Platform

FMQ implements MSMQ environments on supported platforms by fully leveraging each platform's underlying system services. This guarantees FMQ's high-performance and robust characteristics.

Integration with NT Services

MS Transaction Server (MTS)

Heterogeneous MSMQ applications, involving non-Windows and Windows platforms, can integrate the Windows-based messaging activity within MTS transactions for data integrity protection.

Clustering Support

FMQ allows MSMQ messaging activity occurring on Windows NT platforms to benefit from clustered Windows NT Servers. Clustering enables administrators to configure native Windows MSMQ services for automatic failover and fault-tolerant, high-availability operation.

IIS Active Server Page Support

Active Server Pages (ASPs), running under Microsoft Internet Information Server (IIS), can send or receive messages using the COM interfaces to Windows-based MSMQ. ASPs can submit requests to back-end applications as MSMQ messages and return quickly to the user, improving response time and perceived availability. FMQ permits the back-end servers to be any of the platforms supported by FMQ (e.g., UNIX, OS/400, MVS, etc.), thus allowing for the deployment of multi-tier, Internet-based server applications.

Built-in Message Encryption	FMQ can automatically encrypt, protect, and sign messages.

Low Total Cost of Ownership

Low Total Cost of Ownership	Beginning with Windows NT 4.0 and continuing with Windows 2000, MSMQ is an integrated subsystem bundled with Microsoft's operating system. This results in Microsoft customers incurring no additional costs, outside of the operating system, for a powerful message queuing system.
30% of the Cost For Server Platforms	Following the Microsoft model, Level 8 has priced FalconMQ at 30-40% of competing message queuing systems on server platforms such as AS/400 and UNIX.
10% of the Cost For Mainframe Systems	On larger mainframe systems such as MVS and Unisys, Level 8 has priced FalconMQ at a fraction of the cost of competing message queuing systems while still providing the reliable local store and forward functionality necessary to provide reliable asynchronous communications.
Add-On Tools	Both Level 8 and Microsoft provide a basic management tool at no additional cost that allows customers to install and implement message queuing systems quickly and easily. This approach is in contrast to the competing message queueing systems that require expensive third-party managment tools even for the most basic monitoring functions.

Product Info

LEVEL 8 SYSTEMS
Scalable EAI

FalconMQ
Geneva
MonitorMQ
Seer*HPS
XIPC3
Background

Company Info
Product Info
News
Case Studies
Services
Education
Search
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Geneva Integration Server

Change is inevitable - and unpredictable. Smart IT professionals know that having the right infrastructure in place is absolutely critical to supporting dynamic, evolving business needs. In this rapidly changing, information-driven marketplace, the ability to quickly respond to new business opportunities and changing business requirements is vital for business success. E-commerce, mergers, acquisitions, global competition, and changing customer demands are just a few of the business drivers that are forcing IT organizations to find cost-effective ways to work smarter.

Geneva Integration Server™ is an advanced application integration platform based on Microsoft's Distributed InterNet Architecture (DNA™) that simplifies the integration of n-tier Windows applications, E-commerce systems, and legacy systems.

Announcement

Description

Product Overview

Data Sheet

White Paper

Geneva Integration Server and Windows DNA

Frequently Asked Questions

home | company info | product info | news | case studies | services | education | search | contact us

Product Info

LEVEL 8 SYSTEMS Scalable EAI

Geneva Integration Server Description

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Geneva Integration Server™ is an advanced application integration platform based on Microsoft's Distributed InterNet Architecture (DNA™) that simplifies the integration of n-tier Windows applications, E-commerce systems, and legacy systems.

How Geneva works and what it does

Geneva Integration Server lets you define integration rules - including transaction flows, data transformations, and adapters for connecting systems - with little or no programming; manage these rules in a central repository; and use them throughout your IT infrastructure. These features significantly reduce both initial development costs and long-term maintenance costs by providing a comprehensive set of tools for quickly connecting systems within the enterprise and for Internet-enabling them for conducting E-commerce - both business-to-consumer and business-to-business.

With easy to learn COM and Java interfaces, developers can build and integrate systems using Microsoft products and technologies, including MTS, MSMQ, OLE DB, SQL Server, SNA Server, Commerce Server, and Application Server, while shielded from the complexities and nuances of these technologies. The learning curve for developers is shortened, allowing them to concentrate on fulfilling business requirements and spend less time on integration issues.

Strong support for standards

A cross-platform integration platform, Geneva Integration Server allows users to integrate E-commerce systems with core business systems without having to give up the ease of use provided by Windows NT. The product accomplishes this by providing adapters for Internet standards like HTTP, HTML forms, XML, the W3C domain object model, RSA encryption, DES encryption, and authentication. Geneva Integration Server also fully supports Microsoft's recently announced BizTalk vision for E-commerce.

Geneva Integration Server allows users to leverage their investment in legacy systems by providing adapters for XML messages, fixed format messages, MQSeries, and LDAP. It simplifies connecting disparate systems running on different platforms by using XML as a cross-platform standard for exchanging information.

Geneva solves tough integration problems and saves money doing it

Geneva Integration Server is a multi-faceted integration platform capable of solving a wide array of integration problems. This means lower overall costs when compared to buying multiple products and training developers and operations personnel to use those products.

With its flexible component-based architecture, its wide variety of integration options, and its scalable design, Geneva Integration Server will be a cornerstone of your infrastructure that will equip you to meet even the toughest and most complex E-commerce and application integration challenges today and into the next millennium.

Product Info

LEVEL 8 SYSTEMS Scalable EAI

FalconMQ
Geneva
MonitorMQ
Seer*HPS
XIPC3
Background

Company Info
Product Info
News
Case Studies
Services
Education
Search
Contact Us

MonitorMQ

MonitorMQ is a unified management tool for monitoring an MQSeries network across multiple platforms and systems from a single, centralized interface that is Web accessible. The product provides real-time information about the status of MQSeries queue managers, queues, events and channels. This information identifies problematic nodes within a network and helps ensure a successful deployment of MQSeries.

Description

Frequently Asked Questions

home | company info | product info | news | case studies | services | education | search | contact us

Product Info

LEVEL 8 SYSTEMS
Scalable EAI

FalconMQ
Geneva
MonitorMQ
Seer*HPS
XIPC3
Background

Company Info
Product Info
News
Case Studies
Services
Education
Search
Contact Us

Description | FAQ |

MonitorMQ Description

MonitorMQ is a unified management tool for monitoring MQSeries networks across multiple platforms from a single, centralized interface that is web-accessible. This means MonitorMQ gives you world-wide access to your MQSeries network information from a Web browser.

If you are in the initial stages of developing an MQSeries network or looking for a tool to MonitorMQSeries in a production environment, this easy-to-use, low-cost tool for monitoring your MQSeries data is an ideal solution.

MonitorMQ provides real-time information about MQSeries queue managers, applications, queues, events and channels. MonitorMQ currently provides client agents on:

- MVS/ESA - V113/V114/V120
- Sun Solaris - V221/V500
- AIX - V221/V500
- OS400 -
- WindowsNT - V221/V500
- HP-UX V10 - V221/V500

These client agents "push" MQSeries information to MonitorMQ's HTML engine which filters the MQSeries message format into an HTML text. At this point the MQSeries information may be accessed from any browser on the network.

By using MonitorMQ and a Web browser, you can monitor the status of all of the active MQSeries Queue Managers for:

- Traffic Flow
- Events
- Queues
- Channels
- Dead Letter Queues
- Any Queue Containing Messages
- Application Status

MonitorMQ's HTML engine continuously refreshes the Web browser with updates about the queue manager, channel and event status and the overall status of your entire MQSeries network. MonitorMQ provides hierarchical views which support attribute displays of halted queue managers, channels or events to assist you with fast problem resolution across your network.

Key Enterprise Benefits

- **Simplicity:** MonitorMQ is easy to install and configure, requiring little or no training
- **Lower Total Cost of Ownership:** Lowers the total cost of ownership of an MQSeries environment by reducing the personnel time spent in monitoring MQSeries

MQSeries information you can access via the MonitorMQ web interface:

- Queue manager status and information (for identifying bottlenecks and traffic flow patterns through each queue manager)
- Event status (for all queue managers)
- Queue status (within any enterprise-wide queue manager)
- Channel status for all active queue managers (to monitor throughput and application status)
- Additionally, browsing of the Dead Letter Queue (DLQ) or any other queue allows message de-coding and analysis of headers, data, and reason codes.

For more information on MonitorMQ contact Fred Crane.

Product Info

LEVEL 8 SYSTEMS
Scalable EAI

FalconMQ
Geneva
MonitorMQ
Seer*HPS
XIPC3
Background

Company Info
Product Info
News
Case Studies
Services
Education
Search
Contact Us

Seer*HPS

Businesses in many industries have begun to realize the potential benefits of component-based development (CBD), which utilizes small, well-defined, reusable application objects that work together to form a broader solution.

The Seer*HPS development environment is ideally suited for companies seeking to gain the benefits of component-based development, whether those components are purchased models, reengineered legacy applications, or green field development.

Product Overview

Frequently Asked Questions

home | company info | product info | news | case studies | services | education | search | contact us

Seer*HPS Product Overview

The component-based development vision

For some time, businesses have exploited many of the advantages of network-centric applications. These distributed applications harness multiple platforms to provide flexible, cost-effective business solutions. Another innovation — the introduction of object-oriented techniques — gives developers richer tools for understanding and solving business information requirements. With a global internetwork in place, what's next is Component-Based Development (CBD) — enabling software components to work together seamlessly, regardless of vendor, platform, or location. CBD lets companies focus on tactical requirements without sacrificing the integrity of their technology architecture. And the ability to reuse components means they receive a greater return on their technology investment.

Seer*HPS: the key to CBD success

Successfully implementing CBD with an enterprise reach requires three factors : interoperability, scalability, and manageability. Seer*HPS gives customers superior capabilities in all three categories.

Interoperability.

By their very definition, components need to be able to talk and work together. The middleware in Seer*HPS shields developers from the complexities of different communications protocols, providing maximum interoperability for minimum effort.

Scalability.

Effective CBD solutions give companies maximum flexibility in implementing solutions across departments, platforms and locations. Seer*HPS has been designed to scale with a customer's needs in development and deployment — adding new users, platforms, and networks requires no redesign.

Manageability.

Maintaining an enterprise-scale component-based development environment requires serious tools for construction, storage and retrieval, and assembly. The advanced multi-tier Seer*HPS repository gives development organizations the ability to track thousands of objects and modifications.

Interoperability without complexity

Seer*HPS lets developers automatically partition multi-tier, distributed CBD applications to take full advantage of the appropriate processing power, data, and presentation resources on the most suitable platform.

Consistent object focus

Seer*HPS provides a consistent object focus for all software development activities. Analysts identify and refine requirements as business objects; these business objects can then be automatically developed into working design objects. The tools and languages used to express business rules and object interaction encourage the development and subsequent reuse of small, well-defined components that directly model business activities. Discrete inputs and outputs enable these components to interoperate easily with other applications and objects, regardless of source.

Integrated middleware

Through integration with Level 8's NetEssential middleware, Seer*HPS can deliver distributed applications that can interoperate and be managed in a heterogeneous systems environment. Some of NetEssential's key features are communications services such as Remote Procedure Calls, three types of request routing (data dependent, alternate, and error dependent), and a publish and subscribe functionality — all of which combine to provide a robust communications architecture for applications to share information and respond to critical events.

Scalability without difficulty

Seer*HPS lets customers scale applications from department implementations to wide-reaching systems that span the enterprise. Developers can target specific databases and platforms, or take advantage of integrated middleware to provide data-dependent and alternative transaction routing and server replication, all of which enable maximum availability. Organizations can even integrate mainframes into a distributed application to take full advantage of the platform's existing application resources, high volume transaction throughput, and support for thousands of concurrent end users.

Leverages existing assets

Preserving and extending existing mainframe assets is a major concern for many organizations — legacy data, applications, and investments simply can't be discarded. In addition, mainframes offer significant computing and data storage capabilities that are required by the high throughput mission-critical systems. Mainframes are often the server platform of choice for new client/server application deployment. To expand or extend the life of existing assets or facilitate new development, Seer*HPS provides a complete integration solution for mainframe-based applications. Options include:

Mainframe development.
Seer*HPS offers a Windows NT or OS/2 workstation-based development environment that interoperates with development tools on the mainframe. New applications can be developed on the workstation and then moved to the mainframe for deployment.

Mainframe application extension.
Alternatively, existing mainframe CICS and IMS applications can be integrated into distributed computing applications running on mid-tier servers and GUI or 3270 clients via Seer*HPS' integrated middleware.

Room for future growth

Seer*HPS provides a technology infrastructure that shields developers from the complexities associated with building applications for multiple operating platforms, databases, networking protocols, communication paradigms, and languages. Applications are developed in a platform-neutral and database-neutral way and then automatically generated to run on the target client and server platforms. Developers can quickly react to changes in the execution environment by simply regenerating the application. Even within an existing architecture, application performance and system resources are maximized through automatic partitioning and repartitioning to test different configurations.

Flexible development approach

There is no "silver bullet" approach for developing complex network applications today. Most IT organizations use varying methods based on the type of application to be delivered. An enterprise will typically employ a rigorous method-driven or model-driven approach. However, a department needing to deploy a smaller scale client/server application quickly will use a construction-based or RAD approach. Seer*HPS supports both types of approaches for building network-centric applications. When a model-driven approach is used, Seer*HPS developers can use predefined or user constructed templates to automatically transform analysis models (whether from structured development or object-oriented analysis activities) into working designs automatically. Using a construction approach, developers actually prototype and test applications directly from their workstations.

Additionally, Level 8 offers two complete methodology products with associated consulting services for organizations that want a highly integrated methodology/tool environment. "Route-maps" between other popular methodologies and Level 8's methodology are also available. In summary, Seer*HPS gives IT organizations choice and flexibility to build applications in the manner they prefer.

Manageability without limitations

Large-scale development efforts, even with some of the advanced tools and techniques available on the market today, often fail simply because of their size. Methods and techniques designed to help manage complexity often stifle developer creativity and innovation. Seer*HPS was designed from its inception to balance creative, innovative development with productivity and manageability: keys to successful enterprise development of large, complex applications.

Intelligent repository speeds development

The most robust application ever built is of little use if not delivered when needed. Seer*HPS can speed the development and deployment process through an integrated multi-user workstation repository and an optional host-based repository. Seer*HPS facilitates and ensures the successful integration of these application components with features like conference-based notification, cross-repository object sharing, project-based security models, object-level versioning and sophisticated object locking. All of these features lead to a concurrent, real-time, secure, shared work environment.

In addition, reuse of these components enables future applications to be built faster, with a higher assurance of quality, and with improved and consistent "look and feel" through standardization. The Seer*HPS repository can support teams from five to 100+ developers. True scalability from the department to the enterprise is provided.

Frameworks focus development efforts

To make the most effective use of Seer*HPS, many customers focus on specific business areas or functions to begin development. Optional frameworks available from Level 8 can provide a tested blueprint for comparison, or, with support within Seer*HPS for models-to-code development, jump start their application development. Frameworks provide organizations with a manageable set of objectives in a wider enterprise context.

Proven in production

Organizations have used the Seer*HPS environment to bring mission-critical computing power to application development for nearly a decade. With over 500 applications in production today, Seer*HPS provides the foundation for Level 8's proven record for delivering innovative network-centric development products.

Add-on modules

Seer*HPS is designed in a modular way to allow the development environment to grow and change as the needs of the users change. Add-on enhancements include modules, templates, and integration packages. Additional developer seats, repositories, and execution server platforms may be easily and simply integrated.

Summary

Seer*HPS is ideal for IT organizations needing a full life cycle, model-based development environment for the enterprise or a construction-oriented development product for the department. In both cases, Seer*HPS provides a robust development and deployment product suite for building large-scale, complex network-centric applications. Seer*HPS allows an organization to:

- Develop multi-tier, high performance applications that can be ported across multiple platforms,
- Integrate mainframes into distributed computing environments
- Speed application development and ensure application success with reusable components,
- Shield developers from system complexities such as communications protocols and operating environments,
- Choose from development approaches, including model-based, construction-based, or RAD,
- Provide a complete 4GL environment that automatically generates native C or COBOL,
- Scale functionality with add-on models, templates, and integration packages,
- Re-deploy applications to different environments quickly and easily.

XIPC3

XIPC is an advanced software toolset for the development of multitasking and distributed applications. XIPC provides fault-tolerant management of guaranteed delivery and real-time message queuing, synchronization semaphores and shared memory, all of which are network-transparent.

Description

Overview

Benefits

Features

Download

MonitorXIPC Overview

Product Info

LEVEL 8 SYSTEMS
Scalable EAI

XIPC Description

XIPC is an advanced software toolset for the development of multitasking and distributed applications. XIPC provides fault-tolerant management of guaranteed delivery and real-time message queuing, synchronization semaphores and shared memory, all of which are network-transparent.

With XIPC, you can:

- *Speed* your processing-and your business processes-with rapid and guaranteed message delivery and data synchronization services that support critical real-time and mission-critical applications, including telecommunications routing, high-speed message switching, manufacturing process control, transportation systems control, robotics and more.

- *Simplify* the development, testing, delivery and maintenance of electronic commerce, management and financial applications with a single platform-independent API as well as real-time monitoring and debugging tools that shorten the developer and user learning curves and accelerate delivery of multitasking and distributed applications by as much as 50%.

- *Interoperate* and ensure portability over the widest range of operating system environments, protocols and languages in the distributed processing arena.

- *Scale* your environment - from stand-alone through networking paradigms - without changing code, as your applications and business activities evolve in size and complexity.

- *Rely* on your network application communications with guaranteed store and forward messaging, sophisticated exception handling and system fault-tolerance.

- *Secure* aspects of your application environment with user-defined exits that can incorporate encryption, authentication, authorization and digital signatures.

XIPC is the network-transparent middleware of choice, providing the most comprehensive, scalable, easy to use, rapid and reliable set of services available.

For more information on XIPC contact Fred Crane.

Table of Contents

Executive Summary

Section I	Scope, Objectives and Work Plan
Section II	Overview of Seer
Section III	Consideration of Business Activities and Financial Position
Section IV	Analysis of Operations
Section V	Analysis of Technical and Development Activities
Section VI	Customer Survey
Section VII	Concerns and Recommendations

Attachments

A-1	Burton Grad Professional Profile
A-2	Sidney J. Dunayer Professional Profile
A-3	Martin Y. Silberberg Professional Profile
A-4	Specifics, Inc. Description
B-1	Information Provided List
B-2	People Interviewed
C-1	Descriptive Materials - Seer
C-2	Seer Financials -- FY1996 and FY1997
C-3	Press Release and Financial Statements for First Nine Months of FY1998
C-4	Seer Customers -- FY98
C-5	Selected Organization Charts -- July 31, 1998
D	Operations Report on Seer -- Martin Y. Silberberg
E	~~Sapiens~~ Seer Development and Technical Findings -- Sidney J. Dunayer
F	Customer Survey -- Specifics, Inc.

Section II. Overview of Seer

During our preliminary review, BGAI identified the following principal business values along with the principal business problems and specific areas of potential risk. These are listed below:

Principal Seer Business Values

- Customer Base
  - recurring maintenance, services and software add-on revenues
  - customer satisfaction with products and services
  - planned customer usage of products and services for new development

- Staff Resources
  - marketing and sales - U.S., Europe, Asia
  - professional services - U.S., Europe, Asia
  - product development and technical maintenance
  - customer support
  - finance and administration
  - executives and management

- Products
  - HPS - MVS
  - HPS - NT/Unix, etc.

- Alliances
  - IBM - Europe

- Other Values
  - CoreBank (IBM)
  - Investment in Relativity (~1% of the company's stock)
  - Net Essentials Programs -communications capability (being enhanced)
  - NTPA (brokerage application)

- Strategic New Concepts for Seer Future Direction
  - enterprise application renewal software
  - network computing facilities
  - application warehouse capabilities

- Net Operating Loss Carryforward

Principal Seer Problems

- Obligations to customers and alliances
- Financial obligations: debt and taxes
- Current perceived financial weakness and performance concerns by customers
- Loss of key people (is it ongoing?)
- Very low revenues from new sales with flat maintenance and lower services revenues, particularly in the Americas
- Anticipated costs of previous and future layoffs
  - pensions
  - vacations

Potential Risks

- Lack of market opportunities
- Strong competition
- Impact of layoffs on technical capabilities
- Lower employee and management morale and lost loyalty
- Loss of business momentum
- Lack of European sales independence (dependence on IBM)
- Poor U. S. sales performance

Seer Descriptive and Financial Materials

Seer is in the process of trying to change its primary focus from just selling and maintaining proprietary application development tools to becoming a broad provider of tools and services targeted at integrating applications written in various languages running on a variety of platforms. Appendix C-1 describes the previous strategy and the planned new strategy.

Seer financial results have been deteriorating rapidly since FY96 although FY97 results were not as negative as FY96. The financials for both years are shown in Appendix C-2.

Appendix C-3 shows the even more severe losses and negative equity which occurred during the first nine months of FY98 with a continuing increase in debt.

Seer probably had close to 100 active customers during the first nine months of FY98. Appendix C-4 shows that there have been relatively few additional license fees, but that there were ongoing maintenance fees from 74 customers; there was services work for 23 customers who were on maintenance plus 51 customers who were not on maintenance.

Finally, Appendix C-5 shows the principal organizational units as of July 31, 1998. There were still 452 employees which is very high for a $60M going revenue rate company in the software/services area. This would question whether the radical reductions in personnel made during the past two months have gone anywhere near far enough to bring costs into line with the sharply reduced revenue (and the change in revenue mix).

Section III. Consideration of Business Activities and Financial Position

Findings

Based on the interviews conducted and materials reviewed, BGAI has the following findings regarding these values, problems and risks:

1. Seer has not been able to make any significant new software sales of HPS or even any substantial add-on software sales during 2QFY98 or 3QFY98. Maintenance revenues have been flat, and services revenues have dropped. Poor Americas performance has been the largest problem, but it is a worldwide issue.

2. Seer shows a substantial loss in 3QFY98, but expects to break even in 4QFY98. The improved financial results will come from very sharp cost reductions in 3QFY98, principally through reduction in marketing, sales and other personnel and by closing offices.

3. Seer is an integral part of IBM-Europe's planned CoreBank strategy and products. Each IBM sale of CoreBank systems would involve a major license of HPS products to the IBM customer (plus ongoing maintenance fees) and may generate significant initial and on-going services fees for training, usage assistance, etc. IBM stated to BGAI that it plans to generally release its CoreBank system in mid 1999, but IBM may make an announcement and some sales much earlier.

4. The organization structure and key executive and senior management positions are in flux as Seer is trying to adjust to the recent extensive layoffs. The office of the president seems to be working satisfactorily to reduce costs, but there are as yet no signs of a revenue resurgence.

5. Seer has identified a principal new strategic direction aimed at enterprise application renewal. This strategy requires enhancing HPS to permit open use of existing or future applications, written in various languages, interfaced with the current or future HPS proprietary applications. This appears to be technically achievable by Seer. It is too early to have any strong sense of the market acceptance of this new strategy.

6. Seer has also identified an application warehousing direction which would treat applications information in a manner similar to how data warehousing treats data from various sources and data bases.

Conclusions

1. Seer is teetering on the edge of bankruptcy and, without major new money, it probably cannot survive long enough to again become a growing, profitable company.

2. Seer's problems are not just short term, but have been festering at least since shortly after Seer made its IPO in 1995. Management direction has been overly aggressive, inconsistent and plagued by poor reading of market opportunities and market changes.

3. Seer has some assets which may have cash-in value and would not negatively impact Seer's future revenues or operating income. Sale of these assets could help in providing cash needed to produce and launch the new Seer products and to rebuild the infrastructure where needed. These are: NTPA (brokerage package), Relativity investment and, probably most significant, Net Essentials, a middleware communications program.

4. The CoreBank system, when announced and sold by IBM-Europe, should provide major incremental new sales and services revenue. While Seer expects this to have impact in FY99, this is speculative since IBM has stated that it doesn't expect general release until the second half of calendar year 1999.

5. Seer faces heavy duty competition from Sterling Software (previous TIS and Synon products), Sapiens, Rational and others as well as from Oracle, Informix, et al. These are larger and better financed companies with their own independent sales force selling on a worldwide basis. The key to the future for all of the tools vendors lies in customer's acceptance of NT-based tools, able to integrate mainframe application programs with new client/server initiatives.

6. Seer's new products will probably require 6-12 months before they are ready for general release.

Section IV. Analysis of Operations

These comments are based upon Marty Silberberg's report which is in Appendix D.

Findings

1. Certain of Seer's organizations have been severely impacted by the recent layoffs. Some of the key people have left the company and more may be seeking new jobs. This may leave significant gaps in marketing and sales, and possibly in services, support and, of greatest concern, in development.

2. Seer has been previously involved in various alliances, all of which have now been dissolved (except for IBM-Europe). These were generally not successful; significant reserves have been set up to cover non-payment by the partners under the existing contracts.

Conclusions

1. The current executive team has done a yeoman-like job in the past four months to staunch the severe cash bleeding, but has not yet demonstrated that it can successfully sell Seer's products and services (old or new).

2. The application development tools market has been significantly impacted by user companies being focused on Y2K corrections which has delayed new application development. Nevertheless, the revenue reduction has been far more severe to Seer than to its principal competitors. Seer's particular weakness in the Americas (especially the lack of new customers) is somewhat surprising and of special concern. Is it product and platform decisions or just sales force inadequacy and poor management? Since the Americas are the principal part of the world where Seer sells directly (not through or with IBM), these dismal results may indicate that the only way Seer's products can be sold successfully is through a manufacturer or system integrator.

3. Seer is almost totally dependent on IBM as its only marketing partner in Europe. This dependency is confirmed by the initial customer survey. While the IBM-CoreBank strategic planning manager gives Seer high grades and IBM keeps involving Seer in new proposals, this is still a serious long term exposure.

Section V. Analysis of Technical and Development Activities

These comments are based upon Sid Dunayer's report which is in Appendix E.

Findings

1. Seer's HPS products appear to be technically sound and competitive in both the MVS and NT/Unix markets. It appears that the MVS products as rewritten recently in C may be relatively better performers than the current programs for the NT/Unix market.

2. Seer's HPS MVS products seem to be well structured and documented. The non-MVS products are not as readable and are sparsely commented; documentation seems to be satisfactory.

3. There was no evidence that any of the Seer programs were the property of any third party, and Seer states that all current product code was developed by Seer and is their property.

4. HPS analysis and design tools are not as robust as those in some competing products, but the repository and construction tools seem to be quite strong and have given Seer an edge on the code generation side, which is critical to many customers.

5. The technologies needed to extend HPS to provide the open systems capability needed for the enterprise application renewal offering appear to be available for licensing or can be reasonably developed by Seer.

Conclusions

1. The current HPS products are a valuable asset and provide a solid base for future development work.

2. The technical staff has done high quality work, although the standards have slipped recently with the NT/Unix products.

3. Going forward, the NT/Unix programs may be able to be eliminated by basing these programs on the MVS implementation. This should help reduce the apparently excessive number of technical development and maintenance employees.

4. The open language/application direction seems quite interesting and well within Seer's current technical capabilities.

Section VI. Customer Survey

These comments are based on Specifics' Customer Survey Report which is in Appendix F.

Findings

1. Customer satisfaction with Seer's HPS products is good with generally positive statements for the MVS product. However, recent product releases have been late and not well tested or integrated into the system. The products are relatively hard to learn to use, but they perform the application development functions well.

2. Seer's consulting services are viewed favorably by its customers and are considered essential to learning and using HPS successfully. However, customers are concerned that Seer's financial problems may cause a loss of key Seer consulting resources.

3. While most customers plan to write more applications using HPS, some are in a wait and see position until Seer gets its financial and operational house in order.

4. Customers are interested in Seer's Enterprise Application renewal direction, but have doubts of Seer's ability to implement the necessary functionality in a timely manner.

Conclusions

1. Changing current customer perceptions regarding Seer's future will be essential to rebuilding sales and service revenues from existing customers, but, more importantly, to obtain new customers.

2. Seer will have a "concept-selling" hill to climb to get even existing customers to consider Seer's new open products.

Section VII. General Conclusions and Recommendations

Conclusions

1. There are no individual operational, technical or customer show stoppers which would clearly indicate that Liraz should not proceed with a letter of intent and a stock purchase option for Seer.

2. However, there are a large number of danger signals which indicate that getting Seer to become a growth company again may be a Herculean task and may over-stretch Liraz financial limitations.

3. Before proceeding with the actual purchase of the new shares, Liraz will need to do a much more thorough due diligence study of technologies, operations, customers and finances.

4. The most serious questions arise on the financials (which were not BGAI's specific assignment). The amount of money needed to even have a chance of turning Seer into a profitable company will be very large, probably risking a total of $50 million to $60 million.

5. While there are a few assets which can be sold, this would probably yield less than $10 million, not reducing the downside risk significantly.

Recommendations

The Executive Summary reviews the recommendations thoroughly; below is a brief summary of them:

1. Liraz should not invest in Seer, given the very large debt and the relatively high costs of re-establishing the market for HPS as a product. Without time and money, Seer will not have the opportunity of introducing its proposed new product line into its new market space.

2. Under certain circumstances, Liraz might find it worthwhile to acquire the products, technologies, customer base and a subset of the personnel to construct a new Seer, not encumbered with Seer's debts and potential public stockholder liabilities. A new Seer, with clean books, could be regrown as a privately held technical services company with its own proprietary application development products and with a new application development management system to integrate old and new applications written in various languages for a variety of platforms. Going private may be blocked by WCAS concerns regarding potential stockholder suits, the relative enormity of the debt and the continuing operating and restructuring losses.

3. The possibility of Seer being acquired by a suitable other software company might be pursued, but it is not clear how Liraz could benefit from such an arrangement.

MYS MANAGEMENT SERVICES

Date: July 29, 1998

Subject: SEER Evaluation

Prepared By: Martin Y. Silberberg

The content of this report is based on telephone interviews with the following SEER executives and written material they provided: Ted Venema, CEO/CTO, Office of the President; Eileen Ibenhard, VP of World wide Marketing; Mark Fagan, head of EMEA Consulting and Bill McMurray, head of AmAP Sales/Services. The interviews/discussions took place over the period July 20 through July 27, 1998.

CURRENT STATUS

The current status of and immediate outlook for SEER for the current fiscal quarter, July through September, 1998, is the following:

- Steps have been taken to significantly reduce costs by eliminating ineffective/costly activities and by letting go of nonproductive staff.

According to numbers given to me by Eileen and Bill, costs have been reduced by a current going rate of some $11 million/quater. Channel marketing has been eliminated completely ($3 million/quarter) and Marketing has had a major reduction (from $4 million to $0.25 million/quarter). The former made no sense given the nature of SEER's offerings and marketplace and the latter was clearly at too high a level. In addition, a small development office in New York City has been closed and also the sales offices in South America and Singapore which were not cost effective.

- Major changes have been made at the top management levels and organization changes are in process.

These include the Office of the President, reporting structures, appointment of Eileen Ibenhard as VP of Marketing, selection of Bill McMurray to head Americas Sales/Services in addition to AP, and other changes at the next levels. Bill plans major changes in the Americas.

- A strategy has been defined that addresses the current situation with regard to changes in SEER's marketplace and that focuses on SEER's strengths.

An excellent description of this strategy is in a document prepared by Eileen entitled "Corporate Strategy Overview - Solutions for Application Renewal", dated July 1998. It is logically structured and identifies exposures and dependencies as well as opportunities

- The top levels of management I interviewed agree with and are making plans to implement consistent with the strategy. Staff in general appears to be on board.

This applies at both Corporate HQ and in the field. I was told that attrition of quality Consulting Services and Sales staff and other valued employees has been reduced.

- Steps are being taken to "test" the logic of the strategy with customers.

This includes some one-on-one discussions with selected customers and a presentation at a user's council teleconference held on Thursday, July 23. I have asked Ted to try to get us a copy of the minutes of that meeting.

- The outlook for the current quarter is positive.

Revenue is projected to be about $18 million and costs will be about $16 million for this quarter. This would be a dramatic change, but not an indicator for the long term. IBM's plan to announce Core Bank of course provides long term upside potential, as does the possibility of selling or selling the rights to NTPA and generating other OEM models.

EXPOSURES/DEPENDENCIES

Although all of the above is positive, I view the strategy and its implementation as being in alpha/beta test of validity. I identified what I saw as key exposures and dependencies during my discussions with Ted, Mark and Bill. I was very pleased to later find many of these identified in the strategy document by Eileen referenced above. She reconfirmed her understanding in my discussion with her, which was the last of the four. I think this recognition of realities is also quite positive. My view of the issues is outlined below:

- Technical feasibility still to be confirmed.

I don't think that opening up the HPS repository as described in the strategy will require rocket science; nevertheless the development required is still in the design/planning phase.

- Market feasibilty still to be confirmed.

SEER has almost certainly made proper identification of the factors that caused their revenue to drop, but that doesn't ensure that customers will place orders based on the new strategy/offerings.

- SEER credability is an issue for acceptance.

Customers are very aware of SEER's recent financial problems and may be reluctant to make a major investment with them for fear they won't be around for the long term required. Some customers have already expressed that concern.

- Staff to implement the strategy is not in place.

Attrition, although now reduced, has been high and some good people have been lost from consulting and sales. They will have to be replaced and additional skills required for the new strategy will have to be obtained through both training and new hires. SEER credability will be key for the latter.

- The ability to obtain "used" assets is not certain.

This is an important part of the strategy and it isn't a given that customers will want to make such assets avaiable for use by their competitors.

- The current organization is not optimum in my opinion.

A two-person corporate office as currently structured is ripe for conflict in future. Moreover it conveys a feeling of being in transition, which is not good for the credability issue.

Bill McMurray will be running the Americas remotely from Sydney, Australia for the forseeable future. My impression is that he is a very competent individual, but remote management poses serious challenges, especially for an area that has been as troubled and done as poorly as the Americas.

BOTTOM LINE

Investment in SEER looks like a good gamble at current prices for the stock, but it is a gamble. Several of the issues and concerns noted above could be addressed/assessed fairly quickly to improve the likelihood of a positive outcome.

Preliminary Technical Review of Seer Technologies, Inc.

Sid Dunayer – 31 July 1998

The following comments reflect data gathered during an on-site visit to Seer on July 23, 1998. The primary source of all information was Ted Venema who was candid in his answers. Despite being at Seer for only a year, he seemed quite knowledgeable about how the product worked today, as well as how the new product would be structured.

Development

- All development areas report to Al Nisbet, VP of Development. There are three Development area managers, a QA manager, a Planning manager and a Project Management manager. Each of the development areas is further subdivided into development teams for individual parts of HPS. Each development area also has a dedicated documentation staff. Seer has a "handbook" that is used to guide new developers and technicians as to the overall development process including the automated testing methods.

- The MVS development teams have a defined set of standards that developers are expected to and do follow. The non-MVS teams do not have a corresponding set of standards and the lack of same is noticeable in the code.

- Seer has a documented development plan that shows all scheduled development and maintenance activities. There are also planning documents and business case justifications for new features.

- Seer has an excellent document describing the automated testing and QA procedures currently in place. They use several different tools to perform this function and reportedly have an extensive test case suite. Unfortunately, these procedures have been bypassed or short circuited in the past allowing poorly functioning code to be delivered to customers. These practices have reportedly been stopped and the quality of the delivered product is better than in the past.

- HPS is "internationalized", but many parts of the code still do not support DBCS. This makes their product less attractive in Asian markets. Seer has produced a business case and plan to upgrade the entire product to support DBCS.

Technical Review

- The HPS development workbench runs under Windows/NT or OS/2. There is also a version that runs under MVS, but it is not the recommended platform. The generated client code can run on Windows (NT, 95, 3.x), OS/2, or on 3270 terminals. The generated server code can run on MVS, Windows/NT, OS/2, AIX, AS/400, Sun, HP, or Sinix (Siemens UNIX). There is only one client using the Sinix code. There also is the ability to generate code for the Tandem, but this is not being marketed.

- HPS provides a total development environment for creating new client/server applications. It contains Analysis Tools (data flow diagrams, process diagrams, etc.), Design/Preparation Tools (window painting, window flow diagrams, HPS rule editor, etc.), a proprietary Repository and Construction Tools that do the actual code generation and partitioning. The Repository must reside on a server (MVS, NT, OS/2 or AIX).

- The non-MVS portions of the product are all written in either C or C++. The MVS portions are written in C, Assembler, Cobol and a small amount of PL/1.

- All current product code was reportedly developed at and is the property of Seer.

- In general, there are copyright notices in the source code. There are some exceptions to this, most notably in the non-MVS code.

- Change control is performed using standard tools, such as PVCS.

- Seer has documentation and design notes for current and recent development activities.

- Some source code for the MVS and non-MVS components were reviewed. While this was not an extensive examination, it was sufficient to note that the MVS code (all languages) was well structured and commented. Clearly, the MVS programmers follow the standards and produce very readable and understandable code. The non-MVS code was not as readable and was sparsely commented.

Observations

- Seer markets HPS to large, mainframe-centric companies that are doing new client/server development. The current product is an all-or-nothing deal. You can only use HPS tools for all aspects of development. Unfortunately, this market will continue to shrink. The new strategy of "application renewal" will expand this market somewhat by including those large companies that wish to modernize what they currently have or can buy (what Seer refers to as "used assests"). While this will indeed expand the target market, it still primarily addresses a limited mainframe market.

- The HPS analysis and design tools are not as robust as competing tools from other vendors. Seer recognizes these weaknesses and indicates that the new strategy would allow them to effectively retire these tools in favor of allowing the customers the use of more robust tools, like Visual Basic. This is probably not a bad move as it would free development resources for other projects, but Seer will have to continue to satisfy those customers that are already using the HPS tools.

- The repository and construction tools are highly versatile and this is an area where HPS apparently gets high marks. There will need to be changes to both the actual repository structure and the construction tools in order to support other languages. While Seer has a good grasp of the changes needed in the repository, they will need to acquire technology to analyze and process the other languages they wish to support in their construction tools. Technology to process Visual Basic can be licensed from Microsoft. Technology to process other languages, like Cobol, C and Java, will either have to be invented at Seer or acquired from third parties. There will then be the task of interfacing to these technologies.

- There are currently two separate code bases for the Repository support, one for MVS and one for non-MVS. The reasons for this are historical and have much to do with the fact that the original MVS repository code was written in Assembler and Cobol. Most of this code has reportedly been rewritten in C for MVS. Given that changes are required in the Repository code, it would make sense to consolidate the code bases at this time. This would have the benefits of freeing valuable development resources and ensuring consistent operation of the Repository on all targeted platforms.

- Seer uses a proprietary runtime package, which they developed, to implemented window painting on the various client platforms. This code has been troublesome and difficult to support. The use of alternative window painting tools, like Visual Basic, could help to eliminate the need for the runtime package.

- Communication between the client and server components is realized using a middleware layer known as NetEssentials (NETE) and developed at Seer. The code is reportedly reliable and fairly robust. Despite this, customers have indicated the desire to utilize alternative communications schemes such as PCOM. Seer acknowledges that it is not a middleware company and is working to allow the use of other methods.

- Seer also has a product called NTPA, a brokerage application written in HPS. It has been around since the beginning, but only two copies have been sold. Seer indicates that it is not in the brokerage application business and does not know how to market and support NTPA directly. If the package is a functioning product, there may be opportunities to help realize the value of this asset.

BURTON GRAD ASSOCIATES, INC.
101 POST ROAD EAST
WESTPORT, CONNECTICUT 06880
(203) 222-8718
(203) 222-8728 FAX
BURTGRAD@AOL.COM

May 18, 1999

Mr. Lenny Recanati
DIC Finance and Management Corp.
14 Beth Hashoeva Lane
P.O. Box 1688
Tel Aviv, Israel 61016

Dear Mr. Recanati:

Burton Grad Associates, Inc. (BGAI) proposes to perform an analysis of the value of Level 8 Systems, Inc. (Level 8) for DIC Finance and Management Corp. (DIC).

Objectives

DIC wants to have an independent valuation study performed prior to making an investment in Level 8. This will help ensure that there are no marketing, sales, customer service, customer support, development, technical or financial issues which would reduce the current market value or Level 8 projections of future revenues and profits.

BGAI, an independent consulting firm with extensive experience in computer software and services company valuations, is pleased to perform this valuation study so that DIC can proceed with its potential investment decision in an informed and timely manner.

Work Plan

1. BGAI will request certain information from Level 8 for the areas to be examined. The initial request list is attached as Appendix B.

2. BGAI will conduct limited telephone interviews with executives and key managers of Level 8 and obtain other relevant Level 8 materials.

3. BGAI will analyze the investment values relating to current position and future revenues and profit and identify what it believes to be the principal opportunities and risks.

4. BGAI will prepare a report to DIC summarizing its valuation findings and recommendations.

Staffing

The project will be managed by Burton Grad, president of BGAI, with BGAI Associates Sid Dunayer and Marty Silberberg as consultants on this project. The assignments are noted below:

- Business Analysis (Markets, Competition, Customer Base, Strategic Plans, Financial Projections) -- Grad
- Operations (Sales and Marketing, Customer Service and Support) -- Silberberg
- Technical (Product Development, Technical Assessment) -- Dunayer

Professional profiles for the BGAI participants are enclosed as Appendices A-1, A-2 and A-3.

DIC and Level 8 will designate liaisons for BGAI to work with.

Schedule

The initial list of the items needed (Appendix B) will be sent to Level 8 on May 18, 1999. The key response materials should be sent to BGAI and its Associates by May 19, 1999 for review.

The telephone interviews will be scheduled for May 19-May 25, 1999.

An oral report covering the principal conclusions will be available to DIC by May 26, 1999. A written report will be delivered by May 28, 1999.

Confidentiality

All information received and work performed will be treated as confidential and not disclosed to any third party without prior written consent from Level 8 and DIC.

Costs and Payments

The work will be performed on a time and expense basis. The following are the BGAI consultant fees:

Burton Grad	$2,500/day
Sid Dunayer	$1,500/day
Marty Silberberg	$1,500/day

Based on the information available to us at this time, we estimate that the project will require about one to two days each for Dunayer and Silberberg and two to three days for Grad. Therefore, the consulting fees for BGAI will not exceed $15,000 unless DIC requires additional analyses or projections.

In addition, BGAI will be reimbursed for all authorized out of pocket expenses, including a travel, accommodations, phone/fax, express delivery, etc. The expenses will include local travel for the BGAI consultants. Since none of the BGAI staff currently plans to visit any Level 8 sites, we estimate that expenses will not exceed $500.

Payments are due as follows (in U.S.$ on an American bank):

On signing the contract	$5,000 (due now)
On completion of the valuation project:	Total fees and expenses less $5,000

Payment is due within 15 days of DIC Finance and Management Corp. receiving an invoice.

If the above project description is satisfactory, please sign below to authorize BGAI initiating the work and forward the advance payment.

Sincerely,

Burton Grad
Burton Grad
President

Enclosures
5041

Accepted for DIC Finance and Management Ltd.

by ______________________________
signature

____
title

____
date

Attachment B

Information Requested for Company Valuation

1. Analysis of Level 8 installed customer base for each product by country, platform, maintenance status

2. Current financial statements for Level 8

3. Organization chart for Level 8, with number of employees by function

4. Marketing materials for current Level 8 products

5. List, description, size and market share of principal competitors to Level 8 for each product area

6. Level 8 business and strategic plans including planned products, types of services, pricing, new development projects, etc.

7. Sales, marketing and support plan for products, services and customers

8. Analysis of Level 8 products in terms of program size, language, documentation

9. Analysis of Level 8 product maintenance in terms of reported problems, time to fix, open problems

10. Most recent 10K and 10Q

5042

Subj: **Level 8 Systems Inc [formerly Across Data Systems Inc] - 10-Q**
Date: 5/17/99 6:44:56 PM Eastern Daylight Time
From: filing@secinfo.com (SEC Info)
To: burtgrad@aol.com

Level 8 Systems Inc [formerly Across Data Systems Inc]

filed on Friday, 5/14/99, a 6-document, 59-page "10-Q" --

Quarterly Report -- Form 10-Q --

for the period ended Wednesday, 3/31/99

filed as of Friday, 5/14/99

This filing:
10-Q -- http://www.secinfo.com/$/SEC/Filing.asp?D=sR77.614&CIK=945384

Filer:
Level 8 Systems Inc [formerly Across Data Systems Inc] --
http://www.secinfo.com/$/SEC/Registrant.asp?CIK=945384

An SEC filing notification service of http://www.secinfo.com

SEC Info is the most-sophisticated EDGAR database service on
the Web, with over 700,000,000 links within the SEC filings.

------------------ Headers ------------------
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Received: from rly-zc04.mx.aol.com (rly-zc04.mail.aol.com [172.31.33.4]) by air-zc02.mail.aol.com (v59.4) with SMTP; Mon, 17 May 1999 18:44:54 -0400
Received: from mail.fomci.com (mail.fomci.com [204.177.223.6])
by rly-zc04.mx.aol.com (8.8.8/8.8.5/AOL-4.0.0)
with ESMTP id SAA24157 for <burtgrad@aol.com>;
Mon, 17 May 1999 18:44:37 -0400 (EDT)
Message-Id: <199905172244.SAA24157@rly-zc04.mx.aol.com>
Received: from DB0 by mail.fomci.com with SMTP (Microsoft Exchange Internet Mail Service Version 5.0.1458.49)
id J2T21HQT; Mon, 17 May 1999 15:44:34 -0700
Date: Mon, 17 May 1999 22:44:36 GMT
From: SEC Info <filing@secinfo.com>
To: burtgrad@aol.com
Subject: Level 8 Systems Inc [formerly Across Data Systems Inc] - 10-Q

BURTON GRAD ASSOCIATES, INC.
101 POST ROAD EAST
WESTPORT, CONNECTICUT 06880
(203) 222-8718 FAX: (203) 222-8728
E-MAIL: BURTGRAD@AOL.COM

Date: May 18, 1999

To: Dennis McKinnie

Copy: Steve Dmiszewicki
Lenny Recanati

From: Burton Grad

Subject: Analysis of Level 8

As we discussed, Burton Grad Associates, Inc. (BGAI) has been asked by DIC to review the Level 8 business operations and plans and provide its valuation of the proposed investment by DIC in Level 8 common stock.

It is understood that the information supplied to BGAI will be consistent with that supplied to DIC and does not constitute insider information.

Attached is a list of information which BGAI wishes to review about Level 8. In addition, BGAI will wish to conduct telephone interviews with certain Level 8 executives and managers to provide additional information regarding markets, competition, strategic and tactical plans, development projects, technical assessments, financial results, etc.

At DIC's request, BGAI is performing this analysis on an accelerated basis and will appreciate timely cooperation from Level 8.

Enclosure
5042

Information Requested for Company Valuation

1. Analysis of Level 8 installed customer base for each product by country, platform, maintenance status

- 2. Current financial statements for Level 8

✓3. Organization chart for Level 8, with number of employees by function

4. Marketing materials for current Level 8 products

5. List, description, size and market share of principal competitors to Level 8 for each product area

6. Level 8 business and strategic plans including planned products, types of services, pricing, new development projects, etc.

7. Sales, marketing and support plan for products, services and customers

8. Analysis of Level 8 products in terms of program size, language, documentation

9. Analysis of Level 8 product maintenance in terms of reported problems, time to fix, open problems

✓10. Most recent 10K and 10Q

A MEMBER OF THE IDB HOLDING GROUP

Discount Investment Corporation Ltd.

14, Beth-Hashoeva Lane P.O.B. 1688 Tel Aviv 61016, Israel
Telephone: 972-3-567 2700 Facsimile: 972-3-560 2327
e-mail: ir@dic.co.il

FAX TRANSMISSION

To:	Mr. Burton Grad, President Burton Grad Associates, Inc.	*From:* *Direct Tel No.*	Lenny Recanati 972-3-5672700
Fax:	203 222 8728	*Direct Fax No.*	972-3-5602327
Date:	May 19, 1999	*No of Pages:*	2

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BURTON GRAD ASSOCIATES, INC.

In addition, BGAI will be reimbursed for all authorized out of pocket expenses, including a travel, accommodations, phone/fax, express delivery, etc. The expenses will include local travel for the BGAI consultants. Since none of the BGAI staff currently plans to visit any Level 8 sites, we estimate that expenses will not exceed $500.

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On signing the contract	$5,000 (due now)
On completion of the valuation project:	Total fees and expenses less $5,000

Payment is due within 15 days of DIC Finance and Management Corp. receiving an invoice.

If the above project description is satisfactory, please sign below to authorize BGAI initiating the work and forward the advance payment.

Sincerely,

Burton Grad
President

Enclosures
5041

Accepted for DIC Finance and Management Ltd.

by LENNY RECANATI Jon Boo[illegible]
signature

title

17.5.99
date

BG

BURTON GRAD ASSOCIATES, INC.
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DIC Finance and Management Corp.
14 Beth Hashoeva Lane
P.O. Box 1688
Tel Aviv, Israel 61016

Invoice #2932

May 18, 1999

Project: #272-2

Attention: Mr. Lenny Recanati

INVOICE

Project: Perform Analysis of the Value of Level 8 Systems, Inc.

Due upon signing of agreement **$5,000**

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, 1999.

[ ] 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 0-26392

LEVEL 8 SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

New York	11-2920559
(State or other jurisdiction of incorporation or organization)	(I.R.S Employer Identification Number)

8000 Regency Parkway, Cary, NC	27511
(Address of principal executive offices)	(Zip Code)

(919) 380-5000
(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 15d of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES X NO __

Indicate the number of shares outstanding in each of the issuer's classes of common stock, as of the latest practicable date.

8,720,994 common shares, $.01 par value, were outstanding as of March 31, 1999.

Level 8 Systems, Inc.
Index

			Page Number
PART I.	Financial Information		
	Item 1.	Financial Statements	
		Consolidated balance sheets as of March 31, 1999 (unaudited) and December 31, 1998	3
		Consolidated statements of operations (unaudited) for the three months ended March 31, 1999 and 1998	4
		Consolidated statements of cash flows (unaudited) for three months ended March 31, 1999 and 1998	5
		Consolidated statements of comprehensive income (unaudited) for three months ended March 31, 1999 and 1998	6
		Notes to consolidated financial statements (unaudited)	7
	Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	11
	Item 3.	Quantitative and Qualitative Disclosures about Market Risk	19
PART II.	Other Information		20
SIGNATURES			22

Part I. Financial Information
Item 1. Financial Statements

Level 8 Systems, Inc.
Consolidated Balance Sheets
(in thousands)
(unaudited)

	March 31, 1999	December 31, 1998
Assets		
Cash and cash equivalents	$ 2,221	$ 6,078
Accounts receivable, less allowance for doubtful accounts of $1,832 and $3,252 at March 31, 1999 and December 31, 1998, respectively	16,009	16,992
Due from related company	271	271
Note receivable for sale of subsidiary	2,000	2,000
Prepaid expenses and other current assets	2,428	2,606
Total current assets	22,929	27,947
Property and equipment, net	2,333	2,682
Excess of cost over net assets acquired, net	30,520	32,217
Software development costs, net	6,687	6,753
Other assets	1,212	1,171
Total assets	$ 63,681	$ 70,770
Liabilities and stockholders' equity		
Notes payable, due on demand	$ 5,600	$ 12,275
Current maturities of loan from related company	167	628
Current maturities of long-term debt	758	799
Accounts payable	1,985	3,691
Accounts payable to related company	170	82
Accrued expenses:		
Compensation	614	318
Commissions	473	1,021
Restructuring	797	973
Merger-related	3,145	4,803
Other	7,387	8,275
Deferred revenue and customer deposits	9,747	13,075
Income taxes payable	1,883	1,781
Total current liabilities	32,726	47,721
Long-term debt, net of current maturities	11,569	1,541
Loan from related company, net of current maturities	12,484	12,519
Deferred revenue	1,974	97
Stockholders' equity		
Preferred stock	-	-
Common stock	87	87
Additional paid-in-capital	34,070	34,045
Accumulated other comprehensive income	(161)	-
Accumulated deficit	(29,068)	(25,240)
Total stockholders' equity	4,928	8,892
Total liabilities and stockholders' equity	$ 63,681	$ 70,770

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

Level 8 Systems, Inc.
Consolidated Statements of Operations
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended March 31, 1999	Three Months Ended March 31, 1998
Revenue:		
Software	$ 2,712	$ 212
Maintenance	3,883	540
Services	6,610	2,341
Total operating revenue	13,205	3,093
Cost of revenue:		
Software	838	426
Maintenance	1,600	101
Services	6,018	1,665
Total cost of revenue	8,456	2,192
Gross profit	4,749	901
Operating expenses:		
Sales and marketing	2,619	200
Research and development	1,679	426
General and administrative	1,753	947
Amortization of intangible assets	1,697	105
Purchased research and development	-	1,200
Total operating expenses	7,748	2,878
Loss from operations	(2,999)	(1,977)
Other income (expense)		
Interest income	74	74
Interest expense	(701)	(4)
Loss before tax provision	(3,626)	(1,907)
Income tax provision (benefit)	202	(401)
Loss from continuing operations	(3,828)	(1,506)
Discontinued operations:		
Loss from discontinued operation, net of tax	-	(135)
Loss on disposal, net of tax	-	(843)
	-	(978)
Net loss	$ (3,828)	$ (2,484)
Net loss per common share:		
Loss from continuing operations - basic and diluted	$ (0.44)	$ (0.21)
Loss from discontinued operations - basic and diluted	-	(0.14)
Net loss per share - basic and diluted	$ (0.44)	$ (0.35)
Weighted shares outstanding - basic and diluted	8,710	7,110

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

Level 8 Systems, Inc.
Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Three Months Ended March 31, 1999	Three Months Ended March 31, 1998
Cash flows from operating activities:		
Net loss	$ (3,828)	$ (2,484)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,709	273
Deferred income taxes	(2)	(760)
Provision for uncollectible accounts	104	50
Loss from discontinued operations	-	135
Loss on disposal of discontinued operations	-	843
Purchased research and development	-	1,200
Write-off of capitalized software costs	-	294
Changes in assets and liabilities, net of assets acquired and liabilities assumed:		
Trade accounts receivable	604	1,580
Prepaid expenses and other assets	164	(391)
Accounts payable, accrued expenses and income taxes payable	(4,489)	(260)
Deferred revenue	(1,350)	480
Net cash provided by (used in) operating activities	(6,088)	960
Cash flows from investing activities:		
Cash received from acquisition	-	362
Purchases of property and equipment	(54)	(272)
Capitalization of software development costs	(544)	(118)
Net cash used in investing activities	(598)	(28)
Cash flows from financing activities:		
Issuance of common shares	25	28
Net borrowings on line of credit	3,325	-
Payments on borrowings from related company	(496)	-
Payments on capital leases	(13)	
Deferred income taxes	-	(109)
Payment on other long-term debt	-	(33)
Net cash provided by (used) in financing activities	2,841	(114)
Effect of exchange rate changes on cash	(12)	-
Net increase (decrease) in cash and cash equivalents	(3,857)	818
Cash and cash equivalents:		
Beginning of period	6,078	7,062
End of period	$ 2,221	$ 7,880

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

Level 8 Systems, Inc.
Consolidated Statements of Comprehensive Income
(in thousands)
(unaudited)

	Three Months Ended March 31, 1999	Three Months Ended March 31, 1998
Net loss	$ (3,828)	$ (2,484)
Other comprehensive income, net of tax		
Foreign currency translation adjustment	(161)	-
Comprehensive loss	$ (3,989)	$ (2,484)

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

Level 8 Systems, Inc.
Notes to the Consolidated Financial Statements
(in thousands, except per share amounts)
(unaudited)

NOTE 1. INTERIM FINANCIAL STATEMENTS

The accompanying financial statements are unaudited, and have been preparedpursuant to the rules and regulations of the Securities and Exchange Commission.Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principleshave been condensed or omitted pursuant to those rules and regulations. Accordingly, these interim financial statements should be read in conjunction with the audited financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 1998. The results of operations for the interim periods shown in this report are not necessarily indicative of results to be expected for other interim periods or for the full fiscal year. In the opinion of management, the information contained herein reflects all adjustments necessary for a fair statement of the interim results of operations. All such adjustments are of a normal, recurring nature.

The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles.

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. All of the Company's subsidiaries are wholly-owned except for Seer Technologies, Inc. ("Seer"). The Company acquired a 69% interest in Seer on December 31, 1998. Seer had net liabilities of $24,535 at the acquisition date. The stockholders of the remaining 31% of the outstanding voting stock were deemed to have shared in the losses of Seer only for their proportionate share of Seer's net assets. Accordingly, there is no minority interest in the losses of the Seer subsidiary reflected in the consolidated financial statements as of and for the period ended March 31, 1999.

Certain prior year amounts in the accompanying financial statements have been reclassified to conform to the 1998 presentation. Such reclassifications had no effect on previously reported net income or stockholders' equity.

Statement of Position 98-9, "Modification of SOP 97-2, 'Software Revenue Recognition,' with Respect to Certain Transactions" ("SOP 98-9") will be effective for the Company's fiscal year beginning January 1, 1999. Retroactive application is prohibited. SOP 98-9 amends SOP 97-2 to require that an entity recognize revenue for multiple element arrangements by means of the "residual method" when (1) there is vendor-specific objective evidence ("VSOE") of the fair values of all of the undelivered elements that are not accounted for by means of long -term contract accounting, (2) VSOE of fair value does not exist for one or more of the delivered elements, and (3) all revenue recognition criteria of SOP 97 -2 (other than the requirement for VSOE of the fair value of each delivered element) are satisfied. The provisions of SOP 98-9 that extend the deferral of certain passages of SOP 97 -2 became effective December 15, 1998. The Company has implemented SOP 98-9 as of January 1, 1999.

NOTE 2. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is computed based upon the weighted average number of common shares outstanding. Diluted earnings (loss) per share is computed based upon the weighted average number of common shares outstanding and any potentially dilutive securities. Potentially dilutive securities are not included in the diluted earnings per share calculations if their inclusion would be anti-dilutive to the basic earnings (loss) per share calculations. Potentially dilutive securities outstanding during the first quarter of fiscal year 1999 include stock options and stock warrants.

NOTE 3. INCOME TAXES

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." The Company's effective tax rate differs from the statutory rate primarily due to the fact that no income tax benefit was recorded for the net loss for the first quarter of fiscal year 1999. Because of the Company's inconsistent earnings history, the deferred tax assets have been fully offset by a valuation allowance.

The income tax provision for the first quarter of fiscal year 1999 is primarily related to income taxes from profitable foreign operations and foreign withholding taxes.

NOTE 4. USE OF ACCOUNTING ESTIMATES

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 date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from these estimates.

NOTE 5. SEGMENT INFORMATION

Management of the Company makes operating decisions and assesses performance of its operations based on the following reportable segments: (1) Software, (2) Maintenance, (3) Services, and (4) Research and Development.

The accounting policies of the segments are the same as those described in the "Summary of Significant Accounting Policies," included in the Company's Annual Report on Form 10-K for year ended December 31, 1998. Segment data includes a charge allocating all corporate-headquarters costs to each of its operating segments based on each segment's proportionate share of expenses. The Company evaluates the performance of its segments and allocates resources to them based on earnings (loss) before interest, taxes and amortization of goodwill (EBITA).

Comparative information is not available for the same period of 1998 because the Company previously reviewed its operations as one reportable segment and did not have international operations.

The table below presents information about reported segments for the quarter ending March 31, 1999:

	Software	Maintenance	Services	Research And Development	Total
Total Revenue	$ 2,712	$ 3,884	$ 6,610	$ -	$ 13,205
Total EBITA	$ (1,221)	$ 3,020	$ (235)	$ (2,867)	$ (1,303)

A reconciliation of total segment EBITA to total consolidated income before taxes for the quarter ended March 31, 1999 is as follows:

Total EBITA	$ (1,302)
Amortization of goodwill	(1,697)
Interest expense, net	(627)
Total loss before income taxes	$ (3,626)

The following table presents a summary of revenue by geographic region for the quarter ended March 31, 1999:

Australia	$ 648
Denmark	1,408
Germany	542
Greece	408
Italy	1,278
Norway	608
Sweden	299
Switzerland	1,000
United Kingdom	1,608
USA	4,511
Other	895
Total revenue	$ 13,205

Presentation of revenue by region is based on the country in which the customer is domiciled.

Note 6. Contingencies

LITIGATION. On April 6, 1998, the Company sold substantially all assets and operations of its wholly owned subsidiary ProfitKey International, Inc. ("ProfitKey"). According to the terms of the ProfitKey sale agreement, the purchase price is subject to adjustment to reflect any variance in working capital from a specified amount. The purchaser has notified the Company that it believes there are adjustments totaling $1,466 which would require a reduction in the purchase price. The Company has begun to attempt to negotiate a settlement with the purchaser and has made provision for its estimate of the purchase price adjustment and the costs to resolve this matter. Management believes at this time that any additional provision required to ultimately resolve this matter will not have a material effect on the financial position, cash flows, or results of operations of the Company.

In December 1997, Seer filed a lawsuit against Saadi Abbas and Cambridge Business Solutions (UK) Limited ("CBS") alleging that Mr. Abbas and CBS had injured Seer by interfering with Seer's ability to market and sublicense the LightSpeed Financial Model. Seer obtained a preliminary injunction against Mr. Abbas and CBS halting their actions. Mr. Abbas and CBS filed counterclaims against Seer claiming wrongful dismissal of Abbas and breach of the license agreement. Due to the erosion of the market for the LightSpeed Financial Model, Seer voluntarily dismissed its claims against Mr. Abbas and CBS in the summer of 1998. Mr. Abbas and CBS are continuing to pursue their claims against Seer. At the present point in the litigation, it is impossible to calculate the chances of success in this litigation. However, the Company intends to continue to vigorously defend against the counterclaim. The Company has made provision for its estimated costs to resolve this matter. Management does not believe at this point in the litigation that any additional amounts required to ultimately resolve this matter will have a material effect on the financial position, cash flows, or results of operations of Seer.

LIQUIDITY. During the first quarter of 1999, the Company incurred a net loss of $3.8 million and has negative working capital of $9.8 million and an accumulated deficit of $29.1 million at March 31, 1999. The Company's ability to generate positive cash flow is dependent upon the Company achieving and sustaining certain cost reductions and generating sufficient revenues for the year. The Company already implemented certain steps to, among other things, reduce headcount, restructure operations and eliminate various costs from the business. Liraz has committed to provide the Company up to $7.5 million of working capital on an as needed basis, upon thirty days notice. Advances, if any, made under the commitment would become due and payable upon the earlier of March 31, 2000 or the successful completion of an equity financing which provides more than $7.5 million in proceeds to the Company. The advancement of funds under the commitment is subject to the Company's acceptance of certain terms including possible conversion of the outstanding balance, if any, to common stock of the Company and the execution of appropriate documentation. Management's plans also include the possibility of raising additional equity financing. The Company believes that existing cash on hand, cash provided by future operations, additional borrowings under its line of credit and the Liraz commitment will be sufficient to finance its operations and expected working capital and capital expenditure requirements for at least the next twelve months so long as the Company continues to perform to its operating plan. However, there can be no assurance that the Company will be able to continue to meet its cash requirements through operations or, if needed, obtain additional financing on acceptable terms, and the failure to do so may have an adverse impact on the Company's business and operations.

NOTE 7. SUBSEQUENT EVENTS

Subsequent to March 31, 1999, the Company renegotiated its line of credit and converted $10 million of borrowings under its credit facility to a term loan due on September 1, 2000. The interest rate on the line of credit was increased to prime plus 2% per annum.

On April 15, 1999, the Company completed its cash tender offer (the "Tender Offer") that commenced on February 1, 1999 for all of the outstanding shares of common stock ("Seer Common Stock"), par value $.01 per share, of Seer at a purchase price of $.35 per share in cash. The Company has accepted for payment 3,375,833 shares of Seer Common Stock validly tendered and not properly withdrawn pursuant to the Tender Offer. As of April 30, 1999, the Company acquired the remaining minority interest in Seer, for $0.35 per share of Seer Common Stock in cash by merger. The total purchase price for the remaining 31% of Seer acquired through the Tender Offer and merger in April, 1999 was approximately $1.7 million. As a result of the completion of the Tender Offer and merger, Seer became a wholly owned subsidiary of the Company.

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

General Information and Recent Developments

The Company is a leading provider of scaleable enterprise application integration solutions. As new computer technologies have proliferated in enterprise computing environments, the integration and management of the applications which rely on them has grown in complexity. Enterprise application integration (or "EAI") solutions address the emerging need for information systems to deliver enterprise-wide views of a company's business information and processes. The Company's products and services are designed to enable organizations to address information systems integration and management problems in a simple and cost effective way. The Company provides customers with solutions to link their critical business applications internally across the enterprise and externally with strategic business partners. The Company's products and services also enable organizations to engage in electronic commerce. Currently, Level 8's products and services are sold worldwide through a network of regional sales offices. To date, the Company's products and services have been utilized by companies in a wide variety of industries including banking and financial services, insurance, retail, manufacturing, data processing, public utilities, and transportation.

On April 13, 1999, the Company announced the general release of its new Geneva Integration Server ("Geneva"). Geneva is an open, standards-based integration platform for connecting business applications running on Windows with business systems running on other platforms. Geneva functionally addresses the problem of functionally linking custom, legacy, E-commerce, Web-enabled, and Windows DNA-based application systems.

RESULTS OF OPERATIONS

In order to effect the Company's strategic shift to the EAI market, the Company completed a series of dispositions and acquisitions during 1998. See further descriptions of these transactions included in the Company's Annual Report on Form 10-K for the year ended December 31, 1998. Operations for the subsidiaries acquired during 1998 are included in the Company's results of operations from the date of acquisition. Accordingly, the results of operations for the first quarter of 1998 include the operations of Momentum Software Corporation ("Momentum") since March 26, 1998. The results of operations for the first quarter of 1998 do not reflect any of Seer's operations since the Company's 69% interest in Seer was not acquired until December 31, 1998, except as otherwise indicated, the discussion below relates to the actual results of operations without giving pro forma effect to the acquisitions and dispositions in 1998. Pro forma combined data assumes the acquisition of Momentum and the acquisition of 69% of Seer had each occurred as of January 1, 1998 and does not purport to be indicative of the results which would have actually been obtained had the transactions taken place as of such date or of future results of operations. The acquisitions made in 1998 make it difficult to compare the actual results of operations for the periods presented. A discussion of results of operations on a pro forma combined basis has been included below where considered meaningful for an understanding of the Company's results of operations for the first quarter of 1999. However, pro forma combined results reflect the operations of the three companies on a separate basis without consideration for any synergies obtained through the integration of the companies' operations.

The Company is a leading provider of scaleable enterprise application integration solutions. As new computer technologies have proliferated in enterprise computing environments, the integration and management of the applications which rely on them has grown in complexity. Enterprise application integration (or "EAI") solutions address the emerging need for information systems to deliver enterprise-wide views of a company's business information and processes. The Company's products and services are designed to enable organizations to address information systems integration and management problems in a simple and cost effective way. The Company provides customers with solutions to link their critical business applications internally across the enterprise and externally with strategic business partners. The Company's products and services also enable organizations to engage in electronic commerce. Currently, Level 8's products and services are sold worldwide through a network of regional sales offices. To date, the Company's products and services have been utilized by companies in a wide variety of industries including banking and financial services, insurance, retail, manufacturing, data processing, public utilities, and transportation.

The following table sets forth, for the periods indicated, the Company's unaudited results of continuing operations expressed as a percentage of revenue:

	Three months ended March 31, 1999	Three months ended March 31, 1998
Revenue:		
Software products	20.5%	6.9%
Maintenance	29.3%	17.5%
Services	50.2%	75.6%
Total	100.0%	100.0%
Cost of revenue:		
Software products	6.3%	13.8%
Maintenance	12.1%	3.3%
Services	45.6%	53.8%
Total	64.0%	70.9%
Gross profit	36.0%	29.1%
Operating expenses:		
Sales and marketing	19.8%	6.5%
Research and product development	12.7%	13.8%
General and administrative	13.3%	30.6%
Amortization of goodwill and intangibles	12.9%	3.4%
Purchased research and development	---	38.8%
Total	58.7%	93.1%
Other income (expense), net	(4.7%)	2.3%
Loss before taxes	(27.4%)	(61.7%)
Income tax provision (benefit)	1.5%	(13.0%)
Loss from continuing operations	(28.9%)	(48.7%)

The following table sets forth unaudited data for total revenue by geographic origin as a percentage of total revenue for the periods indicated:

	Three months ended March 31, 1999	Three months ended March 31, 1998
United States	35 %	99 %
Mexico / Canada	1 %	---
South America	1 %	---
Europe	57 %	---
Middle East / Africa	1 %	1 %
Asia Pacific	7 %	---
Total	100 %	100%

REVENUE AND GROSS MARGIN. The Company has three categories of revenue: software products, maintenance, and services. Software products revenue is comprised primarily of fees from licensing the Company's proprietary software products. Maintenance revenue is comprised of fees for maintaining, supporting, and providing periodic upgrades to the Company's software products. Services revenue is comprised of fees for consulting and training services related to theCompany's software products.

The Company's revenues vary from quarter to quarter, with the largest portion of revenue typically recognized in the last month of each quarter. The Company believes that these patterns are partly attributable to the Company's sales commission policies, which compensate sales personnel for meeting or exceeding quarterly quotas, and to the budgeting and purchasing cycles of customers. The Company typically does not have any material backlog of unfilled software orders, and product revenue in any quarter is substantially dependent upon orders received in that quarter. Because the Company's operating expenses are based on anticipated revenue levels and are relatively fixed over the short term, variations in the timing of recognition revenue can cause significant variations in operating results from quarter to quarter. Fluctuations in operating results may result in volatility in the price of the Company's common stock.

Effective January 1, 1998, the Company adopted Statement of Position 97-2, "Software Revenue Recognition" ("SOP 97-2"), as amended by Statement of Position 98-4 "Deferral of the Effective Date of Certain Provisions of SOP 97-2." SOP 97-2 requires each element of a software sale arrangement to be separately identified and accounted for based on the relative fair value of such element. Revenue cannot be recognized on any element of the sale arrangement if undelivered elements are essential to the functionality of the delivered elements.

Statement of Position 98-9, "Modification of SOP 97-2, 'Software Revenue Recognition,' with Respect to Certain Transactions" ("SOP 98-9") will be effective for the Company's fiscal year beginning January 1, 1999. Retroactive application is prohibited. SOP 98-9 amends SOP 97-2 to require that an entity recognize revenue for multiple element arrangements by means of the "residual method" when (1) there is vendor-specific objective evidence ("VSOE") of the fair values of all of the undelivered elements that are not accounted for by means of long -term contract accounting, (2) VSOE of fair value does not exist for one or more of the delivered elements, and (3) all revenue recognition criteria of SOP 97 -2 (other than the requirement for VSOE of the fair value of each delivered element) are satisfied. The provisions of SOP 98-9 that extend the deferral of certain passages of SOP 97 -2 became effective December 15, 1998. The Company implemented SOP 98-9 as of January 1, 1999.

Total revenues increased significantly for the first quarter of 1999 as compared to the same period of 1998 primarily due to the acquisitions of Momentum and Seer during 1998. The gross margin improved to 36% for the quarter ended March 31, 1999 from 29% for the comparable period of 1998.

On a pro forma combined basis, total revenues for the first quarter of 1998 were $19.3 million. The $6.1 million decline in revenue on a pro forma combined basis is primarily due to a decline in consulting resources employed by Seer from the first quarter of 1998 to the first quarter of 1999. The gross margin for the quarter ended March 31, 1998 on a pro forma combined basis was approximately 20%.

SOFTWARE PRODUCTS. Software products revenue increased significantly for the first quarter of 1999 as compared to the same period of 1998 primarily due to the sales of products acquired from Momentum and Seer during 1998 coupled with sales of the Company's new Geneva Integration Server.

In the first quarter of 1998, the Company's software sales were primarily resales of IBM's MQ Series licenses and sales of Falcon messaging products, which were commercially released in late 1997. Through its acquisitions in 1998, the Company acquired Momentum's XIPC messaging product and Seer's HPS products which are used for application development. Additionally, as discussed above, the Company has developed Geneva Integration Server, an EAI solution, during late 1998 and early 1999.

Gross margins on software products increased significantly from a negative margin of 100% for the first quarter of 1998 to 69% for the first quarter of 1999 primarily due to the increase in the Company's software products revenue. The increase in gross margin was offset somewhat by a $.4 million increase in cost of software. Cost of software is composed of production and distribution costs, amortization of capitalized software and royalties to third parties. The increase in cost of software was primarily due to amortization of capitalized software from Momentum's and Seer's developed technology valued in the purchase transactions and royalties for technology acquired in 1998 from Liraz Systems, Ltd. ("Liraz"), the Company's majority shareholder.

MAINTENANCE. Maintenance revenue increased significantly from the first quarter of 1998 to the first quarter of 1999 primarily due to addition of Seer*HPS to the Company's products, which has historically had a significant revenue stream from maintenance. Maintenance revenue on a pro forma combined basis for the first quarter of 1998 was $4.2 million.

Cost of maintenance is comprised of personnel costs and related overhead and the cost of third-party contracts for the maintenance and support of the Company's software products. Gross margins on maintenance declined from 81% for the first quarter of 1998 to 59% for the first quarter of 1999 primarily due to the addition of Seer*HPS to the Company's products. Due to their complexity, the Seer*HPS products have historically required more resources for maintenance and support.

SERVICES. Services revenue increased significantly from the first quarter of 1998 to the first quarter of 1999 primarily due to the acquisition of Seer, which added approximately 150 consultants to the Company's consulting staff.

Cost of services primarily includes personnel and travel costs related to the delivery of services. Services gross margins declined from 29% to 9% from the first quarter of 1998 to the first quarter of 1999 primarily due to lower utilization of billable resources. Additionally, changes in the composition of the Company's services revenue have caused margins to decline since the Seer*HPS-related services has historically generated lower margins than the Company's other service offerings. The Company is seeking to improve its consulting margins through better utilization of its consultants and by retraining the Seer*HPS consulting resources to provide higher margin services for the Company's Falcon and Geneva Integration Server products.

SALES AND MARKETING. Sales and marketing expenses primarily include personnel costs for salespeople, travel, and related overhead, as well as trade show participation and other promotional expenses. Sales and marketing expenses increased significantly from the first quarter of 1998 to the first quarter of 1999 due to an increase in the size of the Company's sales force, both through acquisition and recruiting. Sales and marketing expenses have also increased as a percentage of revenue from 6.5% in the first quarter of 1998 to 19.8% in the first quarter of 1999. These increases were necessitated by the reorganization of the Company's sales and promotional activities to correspond with its new product strategy as well as the Company's expansion into the global marketplace with the acquisition of Seer. The Company intends to continue to increase its spending in the sales and marketing area to increase market awareness and acceptance of its new product Geneva Integration Server and to establish an indirect distribution network.

RESEARCH AND DEVELOPMENT. Research and development expenses primarily include personnel costs for product authors, product developers and product documentation personnel and related overhead. Research and development expense increased significantly from the first quarter of 1998 to the first quarter of 1999 due to the addition of 90 developers from Momentum and Seer. As a percentage of revenues, research and development expenses remained relatively constant at 13% and 14% for the first quarters of 1999 and 1998, respectively. The Company intends to continue making a significant investment in research and development while also improving efficiencies in this area.

GENERAL AND ADMINISTRATIVE. General and administrative expenses consist of personnel costs for the executive, legal, financial, human resources, and administrative staff and related overhead and all non-allocable corporate costs of operating the Company. General and administrative expenses increased 85% from the first quarter of 1998 to the first quarter of 1999. The increases are primarily related to the additional infrastructure necessary to support the Company after the acquisitions of Momentum and Seer, as well as $.5 million in foreign exchange losses related to Seer's international operations. As a percentage of revenue excluding the foreign exchange losses, general and administrative expense has declined from 31% in the first quarter of 1998 to 9% in the first quarter of 1999 due to synergies obtained through the Company's 1998 acquisitions. The Company intends to begin hedging foreign currency transactions in an effort to reduce its exposure to changes currency exchange rates.

AMORTIZATION OF GOODWILL AND OTHER INTANGIBLE ASSETS. Amortization of goodwill and other intangible assets was $1.7 million in the first quarter of 1999 and $.1 million in the first quarter of 1998. The amortization of goodwill in the first quarter of 1998 was related to the purchase of Level 8 Technologies in April of 1995. In the first quarter of 1999, the amortization of goodwill and other intangible assets related to the purchase of Seer, Momentum and Level 8 Technologies. The Company anticipates that the amortization of goodwill and other intangible assets will increase due to additional intangible assets expected to be acquired following the acquisition of the 31% minority interest in Seer during the second quarter of 1999. The Company will continue to assess the recoverability of its intangible assets on a quarterly basis based on the net present value of the expected future cash flows.

PURCHASED RESEARCH AND DEVELOPMENT. Based on the results of a third-party appraisal, the Company recorded a charge in the first quarter of 1998 of $1.2 million to expense purchased in-process research and development costs related to the acquisition of Momentum. There were no similar charges recorded in the first quarter of 1999. The Company does anticipate recording an expense related to purchased in-process research and development costs in the second quarter of 1999 as it completes its acquisition of the 31% minority interest in Seer.

PROVISION FOR INCOME TAXES. The Company's effective income tax rate for continuing operations differs from the statutory rate primarily because an income tax benefit was not recorded for the net loss incurred in the first quarter of 1999. Because of the Company's inconsistent earnings history, the deferred tax assets have been fully offset by a valuation allowance. The income tax provision for the first quarter of fiscal year 1999 is primarily related to income taxes from profitable foreign operations and foreign withholding taxes.

DISCONTINUED OPERATIONS. During 1998, the Company disposed of one of its wholly-owned subsidiaries, ProfitKey International, Inc. The disposal was accounted for as a discontinued operation. According, the results of operations for the first quarter of 1998 reflects a $1.0 million loss from discontinued operations.

IMPACT OF INFLATION. Inflation has not had a significant effect on the Company's operating results during the periods presented.

LIQUIDITY AND CAPITAL RESOURCES

Net cash used in operations and for investment in capital during the first quarter of 1999 was $6.7 million. Payments of approximately $2.0 million for merger and restructuring costs related to the acquisition of Seer were a primary component of the net cash outflow in addition to the Company's normal, recurring operating expenses. Also, both the Company and Seer had lower than anticipated billings in the fourth calendar quarter of 1998 which contributed to a reduction in cash received from customers. The Company believes this trend was caused primarily by internal distractions within both companies in the fourth calendar quarter of 1998 due to the November announcement of the Seer transaction which was consummated on December 31, 1998. During the first quarter of 1999, the Company also paid approximately $.5 million on its outstanding debt obligations with its majority shareholder Liraz. The Company funded its cash needs during the first quarter of 1999 with cash on hand at December 31, 1998, through first quarter operations and through $3.3 million in additional borrowings under its line of credit.

As of March 31, 1999, the Company had outstanding borrowings of $15.6 million under a credit facility with a commercial bank shared between the Company and Seer (the "Credit Facility") at an interest rate of 7.75%. Subsequent to March 31, 1999, the Credit Facility was amended and currently provides for borrowings up to the lesser of $25 million or the sum of 80% of eligible receivables and a $10 million term loan payable on September 1, 2000. The receivables-based borrowings under the Credit Facility are due on demand. The Credit Facility bears interest at the prime rate plus 2% per annum and has no financial covenant provisions. The Credit Facility terminates on December 31, 2001; however, it is automatically renewed for successive additional terms of one year each, unless terminated by either party. The Credit Facility is collateralized by the Company's accounts receivable, equipment and intangibles, including intellectual property.

In addition to the Credit Facility, the Company has other outstanding borrowings at March 31, 1999 including (i) $.2 million under a note payable to Liraz which bears interest at 4% per year and is payable in equal quarterly installments of $.035 million, including interest, (ii) $.5 million under a note payable to Liraz which bears interest at 8% per year and is payable in annual installments, (iii) $2.3 million of $3 million notes issued to the sellers of Momentum which bear interest at 10% per year and are payable in annual installments, and (iv) a $12 million loan from Liraz which bears interest at 12% and is payable on June 30, 2000. The $12 million note and other debt payable to Liraz is subordinate in right of payment to the Credit Facility.

Future maturities on the Company's outstanding debt at March 31,1999 include $6.5 million in 1999, $23.3 million in 2000 and $.7 million in 2001. Of such amounts, $12.5 million in 2000 are due to Liraz.

The $12 million loan from Liraz was used by the Company to pay off a portion of Seer's bank debt on the date of the Company's acquisition of its 69% interest in Seer. In connection with the loan agreement, the Company and Liraz agreed that the Company would effect a pro rata offering to its shareholders of shares of preferred stock intended to have an aggregate liquidation preference initially equal to the principal and accrued interest under the note and to be convertible into an aggregate number of common stock determined by dividing the aggregate liquidation preference (which will accrete at the rate of 12% a year, compounded quarterly) by the conversion price. The conversion price would be an amount equal to the greater of $5.00 and two-thirds of the average closing price of a share of the Company's common stock during the 20 trading days ending on the fifth trading day before the rights offering. Each share of preferred stock would be entitled to two votes for each share of common stock into which it is convertible. The preferred stock would be redeemable at the Company's option at any time after June 30, 2000, upon at least 30 days' notice, at a redemption price equal to the preferred stock's accreted liquidation preference. The purchase price for each share of preferred stock to be offered to the Company's shareholders would equal its initial liquidation preference. Liraz would be permitted to pay the purchase price for any preferred stock it purchases in the offering with cash or by reducing the amount payable to it under the $12 million note. If the rights offering is consummated before June 30, 1999, the Company is required to use the net proceeds of the rights offering to prepay the unpaid balance under the $12 million note. In the context of reviewing other financing alternatives, the Company and Liraz are currently reevaluating the proposed rights offering and may determine not to proceed with the rights offering.

As of March 31, 1998, the Company did not have any material commitments for capital expenditures.

On April 15, 1999, the Company completed its cash tender offer (the "Tender Offer") that commenced on February 1, 1999 for all of the outstanding shares of common stock ("Seer Common Stock"), par value $.01 per share, of Seer at a purchase price of $.35 per share in cash. The Company has accepted 3,375,833 shares of Seer Common Stock validly tendered and not properly withdrawn pursuant to the Tender Offer. As of April 30, 1999, the Company acquired the remaining minority interest in Seer, for $0.35 per share of Seer Common Stock in cash. The total purchase price for the remaining 31% of Seer acquired through the Tender Offer and merger in April, 1999 was approximately $1.7 million. As a result of the completion of the Tender Offer and merger, Seer became a wholly owned subsidiary of the Company.

In early 1999, management began both to effect the various restructuring actions and to implement other cost control and cost reduction efforts. Management's planned actions also include the sale of certain technologies thatare not closely related to the Company's current strategic direction and positioning the Company for the possible rights offering discussed above or an alternative financing transaction.

During the first quarter of 1999, the Company incurred a net loss of $3.8 million and has negative working capital of $9.8 million and an accumulated deficit of $29.1 million at March 31, 1999. The Company's ability to generate positive cash flow is dependent upon the Company achieving and sustaining certain cost reductions and generating sufficient revenues for the year. The Company already implemented certain steps to, among other things, reduce headcount, restructure operations and eliminate various costs from the business. Liraz has committed to provide the Company up to $7.5 million of working capital on an as needed basis, upon thirty days notice. Advances, if any, made under the commitment would become due and payable upon the earlier of March 31, 2000 or the successful completion of an equity financing which provides more than $7.5 million in proceeds to the Company. The advancement of funds under the commitment is subject to the Company's acceptance of certain terms including possible conversion of the outstanding balance, if any, to common stock of the Company and the execution of appropriate documentation. Management's plans also include the possibility of raising additional equity financing. The Company believes that existing cash on hand, cash provided by future operations and additional borrowings under the Credit Facility and Liraz commitment will be sufficient to finance its operations and expected working capital and capital expenditure requirements for at least the next twelve months so long as the Company continues to perform to its operating plan. However, there can be no assurance that the Company will be able to continue to meet its cash requirements through operations or, if needed, obtain additional financing on acceptable terms, and the failure to do so may have an adverse impact on the Company's business and operations.

YEAR 2000

The Company is aware of the issues associated with the programming code in existing computer systems as the millennium (Year 2000) approaches. The "Year 2000 Problem" is pervasive and complex as virtually every computer operation will be affected in some way by the rollover of the two digit year value to 00. The issue is whether computer systems will properly recognize date sensitive information when the year changes to 2000. Systems that do not properly recognize such information could generate erroneous data or cause a system to fail.

Software Sold to Consumers. The Company believes that it has substantially identified potential Year 2000 Problems with the software products that it develops and markets. See "Item 1. Business - Products and Services," of the Company's Annual Report on Form 10-K for the year ended December 31, 1999 for a further discussion of the Company's products. The Company's Seer*HPS toolset products are designed to allow developers to develop applications that are Year 2000 compliant, through the use of four-digit year fields which can accept and accurately represent dates both before and after the Year 2000. Once a four-digit year is properly input, applications built with the Seer*HPS toolset can properly process the dates.

Dates may be input into these applications either by entering a four-digit year or, as a shortcut, by entering the last two digits of the year. In the latter case, the application assigns a century to the date and "feeds back" a four-digit year to the user by displaying it on the screen. For all versions of Seer*HPS above 5.2.3K, the century is assigned according to a moving 100-year window. The Company has made available documentation to its customers that explains how this moving 100-year window can be adjusted, both on the workstation platform and on the host. For version 5.2.3K, the century is assigned a default value of "19". In either case, the user can either accept the proposed four-digit date or correct it, if the application has assigned the wrong century in a particular case.

The foregoing description related to Seer*HPS versions 5.2.4S and higher (for the workstation) and 5.2.3K and higher (for the host), which were released in December 1995. The Company believes that if operated properly, applications constructed with these versions in accordance with the product documentation should not manifest Year 2000-related errors traceable to the Seer*HPS product. The Company does not believe any of its customers are using earlier versions of the software.

The Company cannot, however, eliminate the possibility of input errors, where input is in the form of two-digit years. Among other potential errors, it is possible to introduce incorrect dates into applications using the shortcut mentioned above if the operator is inattentive to the feedback, or if the operator or batch data inputs dates represented as two-digit years, without any way for the operator to determine which century a given year falls in. The Company has attempted to identify the possible errors by making documentation available to its customers.

With respect to the Company's Seer*HPS development environment itself, the Company is not aware of any Year 2000 issues except the following. The tools store certain information with respect to objects created using the tools (such as the dates the object was created or last modified) as two-digit dates. Because of the way the tools use these dates, the Company does not believe this will cause any Year 2000-related problems except in the limited instance of migrations spanning the century boundary. The Company has made available to its customers documentation calling their attention to this issue and a workaround.

Accordingly, the Company believes that it has fulfilled its obligations to its customers with respect to Year 2000 functionality. However, the law in this area is still evolving and lawsuits are being filed against software companies on an ongoing basis, many of them asserting novel theories of damage and liability. Accordingly, no assurance can be given that claims will not be made against the Company relating to date-processing issues or that the effect of such claims on the Company will not be material.

Internal Infrastructure. The Company is currently identifying substantially all of the major computers, software applications, and related equipment used in connection with its internal operations that must be modified, upgraded, or replaced to minimize the possibility of a material disruption to its business and has commenced the process of modifying, upgrading, and replacing major systems that have been identified as adversely affected, and expects to complete this process by the middle of 1999.

Systems Other Than Information Technology Systems. In addition to computers and related systems, the operation of office and facilities equipment, such as fax machines, photocopiers, telephone switches, security systems, elevators, and other common devices may be affected by the Year 2000 Problem. The Company is currently assessing the potential effect of, and costs of remediating, the Year 2000 Problem on its office and facilities equipment.

The Company's assessment of its internal systems is approximately 85% complete. Based on its current assessment, the Company does not believe the total cost to the Company of completing any required modifications, upgrades, or replacements of these internal systems will have a material adverse effect on the Company's financial condition, cash flows, or results of operations.

Suppliers. The Company has reviewed information from third party suppliers of the major computers, software, and other equipment used, operated, or maintained by the Company to identify and, to the extent possible, to resolve issues involving the Year 2000 Problem. However, the Company has limited or no control over the actions of these third party suppliers. Thus, there can be no assurance that these suppliers will resolve any or all Year 2000 Problems with these systems before the occurrence of a material disruption to the business of the Company or any of its customers. Any failure of these third parties to resolve Year 2000 problems with their systems in a timely manner could have a material adverse effect on the Company's business, financial condition, and results of operation.

Most Likely Consequences of Year 2000 Problems. The Company does not believe that the Year 2000 Problem will have a material adverse effect on the Company's business or results of operations. However, management believes that it is not possible to determine with complete certainty that all Year 2000 Problems affecting the Company have been identified or corrected. The number of devices that could be affected and the interactions among these devices are simply too numerous. In addition, one cannot accurately predict how many Year 2000 Problem-related failures will occur or the severity, duration, or financial consequences of these perhaps inevitable failures. As a result, management expects that the Company could suffer the following consequences:

1. a significant number of operational inconveniences and inefficiencies for the Company and its clients that may divert management's time and attention and financial and human resources from its ordinary business activities;

and

2.. a lesser number of serious system failures that may require significant efforts by the Company or its clients to prevent or alleviate material business disruptions.

Contingency Plans. The Company is currently developing contingency plans to be implemented as part of its efforts to identify and correct Year 2000 Problems affecting its internal systems. The Company expects to complete its contingency plans by the middle of 1999. Depending on the systems affected, these plans could include accelerated replacement of affected equipment or software, short to medium-term use of backup equipment and software, increased work hours for Company personnel or use of contract personnel to correct on an accelerated schedule any Year 2000 Problems that arise or to provide manual workarounds for information systems, and similar approaches. If the Company is required to implement any of these contingency plans, it could have a material adverse effect on the Company's financial condition and results of operations.

Disclaimer. The discussion of the Company's efforts, and management's expectations, relating to Year 2000 compliance are forward-looking statements. The Company's ability to achieve Year 2000 compliance and the level of incremental costs associated therewith, could be adversely impacted by, among other things, the availability and cost of programming and testing resources, vendors' ability to modify proprietary software, and unanticipated problems identified in the ongoing compliance review.

EURO CONVERSION

Several European countries adopted a Single European Currency (the "Euro") as of January 1, 1999 with a transition period continuing through January 1, 2002. The Company is reviewing the anticipated impact the Euro may have on its internal systems and on its competitive environment. The Company believes its internal systems will be Euro capable without material modification cost.

Further, the Company does not presently expect the introduction of the Euro currency to have an adverse material impact on the Company's financial condition, cash flows, or results of operations.

FORWARD LOOKING AND CAUTIONARY STATEMENTS

This report contains forward-looking statements relating to such matters as anticipated financial performance, business prospects, technological developments, new products, research and development activities, the pending transaction with Seer, liquidity and capital resources, Year 2000 issues and similar matters within the meaning of the Private Securities Reform Act of 1995 ("Reform Act"). The Company may also make forward looking statements in other reports filed with the Securities and Exchange Commission, in materials delivered to shareholders, in press releases and in other public statements. In addition, the Company's representatives may from time to time make oral forward looking statements. Forward looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Words such as "anticipates," "believes," "expects," "estimates," "intends," "plans," "projects," and similar expressions, may identify such forward looking statements. In accordance with the Reform Act, set forth below are cautionary statements that accompany those forward looking statements. Readers should carefully review these cautionary statements as they identify certain important factors that could cause actual results to differ materially from those in the forward looking statements and from historical trends. The following cautionary statements are not exclusive and are in addition to other factors discussed elsewhere in the Company's filings with the Securities and Exchange Commission and in materials incorporated therein by reference: the Company's future success depends on the market acceptance of the new Geneva Integration Server; an unexpected revenue shortfall may adversely affect the Company's business because its expenses are largely fixed; the Company's quarterly operating results may vary significantly because the Company cannot accurately predict the amount and timing of individual sales and this may adversely impact the Company's stock price; trends in sales of the Company's products and general economic conditions may affect investors' expectations regarding the Company's financial performance and may adversely affect the Company's stock price; because a substantial amount of the Company's revenues have historically been derived from Seer*HPS, decreased demand for services relating to this product could adversely affect the Company's business; the Company's future results may depend upon the continued growth and business use of the Internet; the Company may lose market share and be required to reduce prices as a result of competition from its existing competitors, other vendors and information systems departments of customers; the Company may not have the resources to successfully manage the integration of Seer; the Company's future results may depend upon the successful integration of acquisitions; the Company may not have the resources to successfully manage additional growth; rapid technological change could render the Company's products obsolete; if the Company's relationship with Microsoft weakens, it could adversely affect the Company's business; the loss of any one of the Company's major customers could adversely affect the Company's business; the Company's business is subject to a number of risks associated with doing business abroad including the effect of foreign currency exchange fluctuations on the Company's results of operations; the Company's products may contain undetected software errors, which could adversely affect its business; because the Company's technology is complex, the Company may be exposed to liability claims; year 2000 issues may cause problems with the Company's systems and expose the Company to liability; the failure of the Company to meet product delivery dates could adversely affect its business; the Company may be unable to enforce or defend its ownership and use of proprietary technology; because the Company is a technology company, its Common Stock may be subject to erratic price fluctuations; and the Company may not have sufficient liquidity and capital resources to meet changing business conditions. See the Company's Form 10-K filed on April 1, 1999 for a more detailed description of certain risks presented by the Company's operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Approximately 65% of the Company's first quarter 1999 revenues were generated by sales outside the United States. The Company is exposed to significant risks of foreign currency fluctuation primarily from receivables denominated in foreign currency and are subject to transactions gains and losses, which are recorded as a component in determining net income. Additionally, the assets and liabilities of the Company's non-U. S. operations are translated into U.S. dollars at exchange rates in effect as of the applicable balance sheet dates, and revenue and expense accounts of these operations are translated at average exchange rates during the month the transactions occur. Unrealized translation gains and losses will be included as an adjustment to shareholders' equity. Based upon the foregoing, the Company intends to begin hedging transactions in an effort to reduce its exposure to currency exchange rates. However, as a matter of procedure, the Company will not invest in speculative financial instruments as a means of hedging against such risk.

PART II. Other Information

Item 1. Legal Proceedings

In December 1997, Seer filed a lawsuit against Saadi Abbas and Cambridge Business Solutions (UK) Limited ("CBS") alleging that Mr. Abbas and CBS had injured Seer by interfering with Seer's ability to market and sublicense the LightSpeed Financial Model. Seer obtained a preliminary injunction against Mr. Abbas and CBS halting their actions. Mr. Abbas and CBS filed counterclaims against Seer claiming wrongful dismissal of Abbas and breach of the license agreement. Due to the erosion of the market for the LightSpeed Financial Model, Seer voluntarily dismissed its claims against Mr. Abbas and CBS in the summer of 1998. Mr. Abbas and CBS are continuing to pursue their claims against Seer. At the present point in the litigation, it is impossible to calculate the chances of success in this litigation. However, the Company intends to continue to vigorously defend against the counterclaim. The Company has made provisions for its estimated costs to resolve this matter. Management does not believe at this point in the litigation that any additional amounts required to ultimately resolve this matter will have a material effect on the financial position, cash flows, or results of operations of the Company.

From time to time, the Company is a party to routine litigation incidental to its business. As of the date of this Report, the Company was not engaged in any legal proceedings that are expected, individually or in the aggregate, to have a material adverse effect on the Company.

Item 2. Changes in Securities

None

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.30 Amendment dated Mach 31,1999, to the Loan and Security Agreement among Seer, the Company and Greyrock Capital, a division of NationsCredit Capital Corporation, dated March 31, 1999.

10.31 Amendment dated April 21, 1999, to the Loan Documents among Seer, the Company and Greyrock Capital, a division of NationsCredit Commercial Corporation.

10.32 Amendment dated April 21, 1999, to amend the Schedule to Loan and Security Agreement among Seer, the Company and Greyrock Capital, a division of NationsCredit Commercial Corporation.

10.33 Amendment dated April 29, 1999, to amend the Amendment to Schedule Agreement between Seer, the Company, and Greyrock, a division of NationsCredit Commercial Corporation.

(b) Reports on Form 8-K

On January 11, 1999, the Company filed a report on Form 8-K/A relating to the dismissal of Grant Thornton LLP as the Company's certifying accountants.

On January 15, 1999, the Company filed a report on Form 8-K reporting the acquisition of Seer Technologies, Inc.

On January 21, 1999, the Company filed a report on Form 8-K reporting the appointment of PricewaterhouseCoopers as the Company's certifying accountants.

On March 16, 1999, the Company filed a Form 8-K/A including pro forma financial information in connection with the acquisition of Seer.

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.

Level 8 Systems, Inc.

/s/ Steven Dmiszewicki

Date: May 13, 1999

....

Steven Dmiszewicki
Chief Operating Officer

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1998.

[_] 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: **0-26392**

LEVEL 8 SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

New York	**11-2920559**
(State of Incorporation)	*(I.R.S. Employer Identification No.)*

8000 Regency Parkway, Cary, North Carolina 27511
(Address of principal executive offices, including Zip Code)

(919) 380-5000
(Registrant's telephone number, including area code)

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

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, $.01 par value**

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [_]

Aggregate market value of the voting stock held by non-affiliates of the Registrant as of March 26, 1999 was approximately $28,131,936. There were 8,720,994 shares of Common Stock outstanding as of March 26, 1999.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 1999 Annual Meeting of Shareholders are incorporated by reference in Part III hereof.

Exhibit Index appears on Page E-1.

LEVEL 8 SYSTEMS, INC.
Annual Report on Form 10-K
For the Fiscal Year Ended December 31, 1998

Table of Contents

Item Number		Page Number
	PART I	
1.	Business	1
2.	Properties	13
3.	Legal Proceedings	13
4.	Submission of Matters to a Vote of Security Holders	13
	PART II	
5.	Market for Registrant's Common Stock and Related Shareholder Matters	14
6.	Selected Financial Data	14
7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	15
7A.	Quantitative and Qualitative Disclosures About Market Risk	25
8.	Financial Statements and Supplementary Data	25
9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	25
	PART III	
10.	Directors and Executive Officers of the Registrant	26
11.	Executive Compensation	26
12.	Security Ownership of Certain Beneficial Owners and Management	26
13.	Certain Relationships and Related Transactions	26
	PART IV	
14.	Exhibits, Financial Statement Schedules, and Reports on Form 8-K	27
SIGNATURES		33
INDEX TO FINANCIAL STATEMENTS		F-1
INDEX TO EXHIBITS		E-1

PART I

Item 1. Business.

Overview

Level 8 Systems, Inc. (the "Company" or "Level 8") is a leading provider of scaleable enterprise application integration solutions. As new computer technologies have proliferated in enterprise computing environments, the integration and management of the applications which rely on them has grown in complexity. Enterprise application integration (or "EAI") solutions address the emerging need for information systems to deliver enterprise-wide views of a company's business information and processes. The Company's products and services are designed to enable organizations to address information systems integration and management problems in a simple and cost effective way. The Company provides customers with solutions to link their critical business applications internally across the enterprise and externally with strategic business partners. The Company's products and services also enable organizations to engage in electronic commerce. Electronic commerce or "E-commerce" refers to business conducted over the Internet. Currently, Level 8's products and services are sold worldwide through a network of regional sales offices. To date, the Company's products and services have been utilized by companies in a wide variety of industries including banking and financial services, insurance, retail, manufacturing, data processing, public utilities, and transportation. Specifically, Level 8's customer base includes major corporations around the world such as ABN AMRO, Information Technology Services Company, Charles Schwab & Company, Inc., Credit Suisse First Boston, Italia Telecom, Prudential Insurance Company of America, Sikorsky Aircraft, TeleDenmark A/S, Telenor A/S and Montgomery Ward & Co., Incorporated.

From inception in 1988 through 1997, the Company provided systems integration consulting services, primarily to manufacturing businesses in the State of California. In October 1994, the Company acquired ProfitKey International, Inc. ("ProfitKey") and Bizware Computer Systems (Canada) Inc. and, in April 1995, the Company acquired Level 8 Technologies, Inc. ("Level 8 Technologies"). The Company decided to focus on the middleware business of Level 8 Technologies and sold substantially all the assets of Bizware for $230,000 on September 9, 1996, and subsequently changed the Company's name to Level 8 Systems, Inc. In early 1998, the Company sold its ProfitKey subsidiary and completed the acquisition of Momentum Software Corporation ("Momentum"). See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - General Information and Recent Developments."

On November 23, 1998, the Company entered into an agreement with Welsh, Carson, Anderson & Stowe VI L.P. ("WCAS") and certain other parties affiliated or associated with WCAS pursuant to which the Company agreed to acquire approximately 69% of the outstanding voting stock of Seer Technologies, Inc., a Delaware corporation ("Seer"), from WCAS and its affiliates in exchange for 1,000,000 shares of common stock of the Company and warrants to purchase an additional 250,000 shares of common stock of the Company at an exercise price of $12 per share. Pursuant to its agreement with WCAS, the Company acquired 69% of the voting stock of Seer on December 31, 1998 and has commenced a tender offer to acquire all of the remaining shares of Seer for $0.35 per share in cash. The Company has also agreed to acquire any remaining shares of Seer following completion of the tender offer through a merger at the same $0.35 cash price per share. The Company expects to complete its acquisition of the entire equity interest in Seer in the second quarter of 1999.

The Company was incorporated under New York law in 1988 under the name Advanced Systems U.S.A. (LSU) Inc., and was initially a wholly owned subsidiary of Liraz Systems Ltd. ("Liraz"), an Israeli public company in the systems integration business. The Company's principal executive offices are located at 8000 Regency Parkway, Cary, North Carolina 27511, telephone number (919) 380-5000.

Industry Background

A significant challenge facing global 5000-sized companies today is the integration of critical business applications which run on disparate computer systems. Business and competitive pressures are driving the demand for information systems that offer enterprise-wide views of a company's business information. Further, information systems departments of global 5000-sized companies are compelled by both economic necessity and internal mandates to find ways to leverage their existing investment in information technology.

EAI solutions, including those developed by the Company, are designed to provide these capabilities through an open, enterprise-wide infrastructure that can accomplish the complete integration of a Company's entire computing systems environment, including technologies enabling E-commerce. In addition, EAI encompasses extending the productive life cycle of existing systems by adding new functionality and by cost-effectively managing all aspects of the development, deployment, and continued enhancement of existing systems. Indeed, the Company believes that lines between "new" development and what has in the past been considered "maintenance" are blurring. More and more of the "new" development going forward is going to be in the area of enhancing the functionality of existing systems in an enterprise's computing infrastructure.

Key factors driving the current need for EAI solutions include:

- The current computer systems of many companies were developed in an era when systems tended to be self-contained. The ability of the systems to communicate with other systems was not considered important. As a result, many current systems were not designed to accommodate communications with different systems.

- Many global 5000-sized companies addressed computer system development problems by adopting new technologies as they have emerged. This approach has resulted in increasingly diverse computing environments that mix a variety of hardware platforms, operating systems and programming languages.

- Many global 5000-sized companies have made significant recent investments in ensuring that their existing systems will be able to function properly in the year 2000 and beyond. The size of the investment made by these companies addressing year 2000 problems is forcing information systems departments to find ways to leverage such investments by extending the life of current systems.

- Global 5000-sized companies have dramatically increased their use of the Internet and intranets both to expedite internal communication and to support business-to-business and business-to-consumer transactions. This has created strong demand for an entirely new class of enterprise-wide computer applications. Meeting this demand in a cost efficient manner requires modernizing existing systems to enable them to operate intranet and E-commerce applications, as well as developing new applications.

- As a result of mergers and acquisitions, the computer systems of many companies have become considerably more complex at an enterprise-wide level. The increased complexity results from the fact that the newly-acquired computer systems are rarely compatible with the existing computer systems. Furthermore, there are often redundancies between the respective systems that make integration more difficult.

Products and Services

The Company's goal is to be a recognized leader in the growing market for EAI solutions. The Company's solutions combine software products and consulting services to help enterprises meet their application development, integration and management needs. FalconMQ, first introduced in early 1998, replicates Microsoft Corporation's Message Queue Server ("MSMQ") capability on non-Microsoft systems, thereby enabling non-Microsoft systems to communicate freely with Windows NT systems using MSMQ. The new Geneva Integration Server, scheduled for official launch in April 1999 and expected to become one of the Company's leading products, is designed to provide comprehensive, secure and reliable interoperability between applications running on disparate and otherwise incompatible computer systems. As a result of the Seer acquisition, the Company also offers the Seer*HPS product, which is a set of application development tools that assists customers in developing and adapting enterprise-wide computer applications for client/server networks. In addition to its products, the Company offers a broad range of consulting services in the EAI solutions area. The Company's consulting staff is highly experienced in large-scale, enterprise-wide applications and the complex networked computing environments in which they run. To position the Company as a leading global provider of EAI solutions, the Company has developed a plan for staged product development and integration as well as service enhancements which management believes will enable the Company to effectively accomplish its objectives.

FalconMQ

In client/server networks, messages that contain information and/or processing instructions are passed from one system to one or more other systems for processing. A completion message is returned to the originating system when all of the steps in the transaction are completed. In the synchronous communication model traditionally used within client/server networks, the system sending the message must wait until it receives a return message that the transaction was completed before sending the next message to start a new transaction. This results in a significant amount of wasted system capacity, since both the client and server systems must sit idle waiting for a response before moving on to the next task.

Message queuing technology, such as that found in Microsoft's MSMQ product and IBM's MQ Series, was developed to eliminate the wasted capacity problem associated with synchronous communication by enabling more sophisticated asynchronous communication. In asynchronous communication, a client or server performs a function and then dispatches that function in the form of a "message" to its opposite member and immediately moves on to perform the next function. Once the dispatched function has been processed by the opposite member, the result is then "messaged" back to the client or server for further processing. In addition, message queuing is used by developers to guarantee reliable data delivery in applications, even if the network goes down.

FalconMQ is message-oriented middleware technology intended to provide the asynchronous communication capability of MSMQ on non-Microsoft systems, such as UNIX systems, MVS operating systems for IBM mainframe computers, IBM AS/400 systems, Sun Microsystems' SOLARUS systems and LINUX systems. FalconMQ is designed for developers to leverage the power and flexibility of message queuing on the systems mentioned above. Accordingly, FalconMQ permits the free exchange of messages over a network between any MSMQ application and any FalconMQ client applications.

The current version of the FalconMQ product requires that the message queues themselves reside on a Microsoft Windows NT system. The Company is developing version 2.0 of FalconMQ, currently targeted for release in early 2000, that will allow message queues to reside on all non-Microsoft systems supported by FalconMQ. This additional capability of FalconMQ version 2.0 is designed to enable seamless interconnectivity between applications running on a broad spectrum of systems on an enterprise-wide basis.

Geneva Integration Server

The Company's new Geneva Integration Server, scheduled for official launch in April 1999, has been deployed at a limited number of customer sites since early 1998 in connection with the implementation of fully integrated enterprise application systems. The Geneva Integration Server is designed to provide comprehensive, secure and reliable interoperability between applications running on disparate and otherwise incompatible computer systems. Because different computer systems and the applications developed for them vary widely in the ways in which they send, receive, view and process information, information can not generally be exchanged between diverse applications running on different systems. The Geneva Integration Server, which runs on Windows NT server systems, will enable the sharing of information between disparate systems by automatically transforming the data from one system into formats and representations that can be used by other systems. In this way, Geneva Integration Server can enable timely access to enterprise-wide critical business information without the need for complex and costly ongoing software program modifications. Geneva Integration Server's extensive message transformation capabilities allow Geneva Integration Server to collect messages from existing systems and transform them into forms that can be exchanged via the Internet and vice versa, which makes it well-suited to enable existing applications for E-commerce.

The Company believes that Geneva Integration Server provides the following advantages to corporate information services departments:

- Improved customer service and reduced time to market by promoting reuse of the knowledge base embodied in existing applications.
- Reduced time to market in delivering scalable, cost-effective E-commerce applications.
- Enhanced agility and flexibility of information technology assets in addressing changing business conditions.
- Improved utilization and the ability to leverage the skills of the rapidly growing number of developers with Windows NT expertise, reducing the need for more costly and specialized expertise.

Geneva Integration Server embodies a core set of translation services, together with "adapter" modules that allow it to link to many popular systems, to middleware such as Microsoft's MSMQ and IBM's MQ Series, and to Internet interfaces such as HTTP, HTML, XML and others. The combination of the translation services and adapters allows Geneva Integration Server to act as a liaison with respect to three fundamental elements of inter-system communication that vary widely between disparate systems: the technical protocols required for the delivery of messages, the message formats that set forth the manner in which data will appear in a communication, and the actual content of the message itself, which often must be transformed in order to permit communication between incompatible systems.

Geneva Integration Server enhances the ability of information systems departments to monitor and manage the flow of transactions and tasks across various applications by providing and tracking information about the nature and character of data, or "metadata," in a secure medium separate from the data message itself. This supports system and workflow management to optimize system performance. For example, metadata may tell a computer that the first four digits of a particular communication represent the identification code for loan recipients. If a bank using a traditional system switched from 4-digit to 6-digit identification codes, a labor-intensive search and recoding of the bank's software programs would be required to process 6-digit codes accurately. Geneva Integration Server's use of metadata allows a user simply to modify the definition of that particular type of communication to tell it about 6-digit codes and Geneva Integration Server automatically ensures that all affected applications will accurately process the new 6-digit codes.

Geneva Integration Server also has the ability to contain system workflow procedures in a medium that is separate from the tasks that need to be performed in order to complete an application requirement. "System workflow procedures" refers to information regarding the order in which a series of tasks must be completed in order to complete a given application. For example, when a customer orders a product the complete transaction may entail a series of interdependent steps. Geneva Integration Server's workflow management capability tracks the dependencies between the serial steps in the transaction process. If any of the serial steps are not completed successfully, Geneva Integration Server would automatically reset to the beginning before any applications or databases are updated.

The Company believes that the Geneva Integration Server product is currently the most comprehensive product of its kind to provide enterprise application integration capabilities for Microsoft NT server-based environments.

Seer*HPS

Seer*HPS is a set of application development tools that assists customers in developing, adapting and managing enterprise-wide computer applications for client/server networks. The product enables users to define in a high level, simplified language the tasks and operations the users would like an application to perform. Users can then simply "push a button" and Seer*HPS automatically generates the necessary software programming to perform the tasks and operations defined. This significantly speeds the development and deployment of highly complex, large-scale, custom enterprise applications and greatly enhances the productivity of programming resources.

Unlike its primary competitors, Seer*HPS includes its own embedded middleware, enabling communications among Seer*HPS developed application components across various systems throughout a client/server network. Seer*HPS enables users to specify which applications or portions of an application are to be executed on a given system within the computing environment. This enables workload balancing among systems, which allows customers to utilize available resources in their respective computing environments more efficiently and improve system performance.

Seer*HPS stores all of the information pertaining to each Seer*HPS-developed application in its own centrally located repository. Use of repository facilitates the efficient enhancement of the functionality of Seer*HPS applications. Since the repository contains all relevant system data, Seer*HPS is able to assess automatically the potential impact of any such proposed changes in functionality. As a result, not only are initial development time and costs reduced, but on-going system maintenance and enhancement efforts are simplified as well.

Future Integration and Development of Company Products

FalconMQ. Currently, FalconMQ requires that all message queues reside on a Microsoft Windows NT system. FalconMQ Version 2.0, scheduled for release in early 2000, will permit the message queues to reside on all systems supported by FalconMQ. The Company also intends to ensure continued compatibility between FalconMQ and Microsoft's MSMQ. As a result, companies can safely build and link applications using FalconMQ with confidence that their systems will continue to operate without disruption, with no need for manual programming updates as new versions of MSMQ are released by Microsoft.

Geneva Integration Server. The Company intends to enhance Geneva Integration Server to meet marketplace needs as they evolve. Enhancements planned through the second quarter of 2000 include strengthening Geneva Integration Server's ability to support and interact with the MVS operating system for IBM mainframe computers and the UNIX operating system as well as applications components based on the Java language, which is typically used for web-based applications. In the longer term, the Company plans to incorporate the repository capability found in Seer*HPS into Geneva Integration Server. Among other things, expanding Geneva Integration Server repository capabilities will allow information regarding system workflow procedures to be stored in a comprehensive, enterprise-wide repository and retrieved as needed by the Geneva Integration Server product. The Company also plans to introduce a new graphical user interface that will facilitate a customer's reconfiguration of its system. This interface will represent a customer's system as a schematic diagram, and reconfiguration of the system will be accomplished by a customer changing the way the different elements of its system are linked through the schematic diagram.

*Seer*HPS*. The Company is currently adapting Seer*HPS to support common industry standards in order to interact with applications and components that are not part of a Seer*HPS system. The first step, scheduled for mid-1999, will be the development of an adapter to link the Seer*HPS middleware layer with Geneva Integration Server. This link will make available all of the capabilities of Geneva Integration Server to Seer*HPS customers. Other planned extensions include providing support for the Java language and "Java Beans" architecture plus support for other middleware products, such as CORBA and the FalconMQ and MQ Series products. Longer term product development plans include the creation of an Information Systems Warehouse based on leading industry standard "core repository" technologies. The Information Systems Warehouse will manage the development and interaction of applications across the entire enterprise. The repository for the current version of Seer*HPS manages the development and interaction of applications only for Seer*HPS-generated applications.

Other Products

The XIPC product is an advanced software toolset that greatly simplifies the development, deployment and management of distributed applications in complex client/server networks. XIPC manages the different forms of network communication while showing the developer only a single, simple unified view or model of the communications taking place. This means that XIPC effectively shields developers from the complexity of diverse computing environments while letting them take advantage of all of the capabilities and functionality that these environments can provide in developing efficient and sophisticated applications.

In addition, the Company offers other products which it intends to continue to support and further enhance, but which management does not believe are material to the Company's business.

Services

The Company provides a full spectrum of consulting services as part of its commitment to providing its customers industry-leading EAI solutions. The Company's worldwide consulting team has in-depth experience in developing successful enterprise-class solutions as well as valuable insight into the business information needs of customers in global 5000-size companies. The Company offers consulting services in project management, applications and platform integration, application design and development, application renewal and web- and E-commerce enablement, along with expertise in a wide variety of development environments and programming languages.

In addition, the Company's training organization offers a full curriculum of courses and labs designed to help customers become proficient in the use of the Company's products and related technology as well as enabling customers to take full advantage of the Company's field-tested best practices methodologies.

Sales and Marketing

Sales

The Company derives revenue primarily from software licenses, consulting services and software maintenance. Presently, almost all of the Company's revenue is derived from sales of Seer*HPS and related maintenance and consulting services. Management believes this mix will change significantly over time to reflect an increasing proportion of revenue resulting from sales of FalconMQ and Geneva Integration Server.

Seer*HPS and Geneva Integration Server are designed for use primarily in large-scale, complex computing environments. A customer's decision to use such products involves a substantial commitment of financial and personnel resources. Accordingly, a decision to purchase these products typically involves a lengthy internal review process, often involving a customer's senior management. As a result, the sales cycle for these products is relatively lengthy, averaging nine to twelve months. The Company's sales strategy for such products will continue to involve a complete evaluation of the customer's business, followed by the identification and sale of solutions incorporating software and related services. These products and their related services also provide customers the flexibility to scale up or down and integrate new component products, whether created by the Company or a third party.

The FalconMQ and XIPC products are by design more project-oriented in scope. As a result, they are typically sold in smaller configurations than Seer*HPS or Geneva Integration Server. FalconMQ is typically sold through the Internet and by telephone and the sales cycle has averaged two to six months. The Company is evaluating alternative sales strategies for FalconMQ, including a mix of outsourced telephone sales and indirect channels such as sales through strategic partners and independent software vendors (known as "ISV's") who could bundle FalconMQ with applications they develop and sell.

The Company's direct sales staff has substantial knowledge of the Company's products and service offerings as well as general experience in the software industry. The Company's direct field sales force is headed by two general managers -- one for the Americas and one for all other territories that are the focus of active sales efforts. These currently include the United Kingdom, France, Spain, Italy, Greece, the Benelux countries, Germany, Austria, Switzerland, the Scandinavian and eastern bloc countries, Australia and Asia-Pacific Rim countries. The general managers' respective operations include sales and consulting services for new and existing customers. On a pro forma basis, taking into account the business combination between Seer and Level 8, \$26 million (39%) of the Company's 1998 revenue was generated from the Americas and \$41 million (61%) was generated outside the Americas. Since substantially all of the Company's 1998 revenues were derived from sales of Seer*HPS and related services, the geographic distribution of the Company's revenues may change as the Company's revenue mix changes.

Marketing

The target market for the Company's products and services is global 5000-sized companies. Around the world, global 5000-sized companies are making substantial expenditures in renovating existing applications for year 2000 compliance. In addition, the rapid development of the Internet and intranet technology is driving companies to find ways to take advantage of these new technologies out of competitive necessity. As a result, information systems departments are compelled by both economic necessity and internal mandates to find ways to leverage their investment in information technology.

In addition, the lines between "new" development and what has in the past been considered "maintenance" are blurring. The Company believes more and more of the "new" development going forward will be in the area of enhancing the functionality of existing operational systems in an enterprise's current computing infrastructure, resulting in the identification of new and emerging markets for EAI solutions.

The Company's marketing staff has an in-depth understanding of the global software marketplace and the needs of customers in that marketplace. The staff also has broad knowledge of the Company's products and services and how they can meet these customer needs, as well as experience in all of the key marketing disciplines. Marketing is headed by a vice president of worldwide marketing who manages an international staff, with corporate marketing and core functions performed by the majority of the staff which is based at corporate headquarters. Regional marketing programs are supported by corporate staff as well as locally by staff located in the various regions. The Company also has a vice president of alliances who identifies potential strategic alliance partners and develops and manages the Company's relationships with these alliance partners.

The Company utilizes a wide variety of marketing programs which are intended to attract potential customers and to promote the Company and its brand names. The Company uses a mix of market research, analyst updates, seminars, telemarketing, direct mail, tradeshows, speaking engagements, public relations, and website marketing in order to achieve these goals. The marketing department also produces collateral material for distribution to prospects including demonstrations, presentation materials, white papers, case studies, articles, brochures, fact sheets, and materials that are specific to the area of interest. The Company is also implementing an alliance program to support its channel partners with a variety of programs, incentives, and support plans.

The Company has a key strategic relationship with Microsoft. Microsoft has licensed from the Company software originally developed by the Company that enables its Windows NT server platforms to integrate with IBM's MQ Series message-oriented middleware ("MOM"), which currently represents a significant share of the worldwide MOM market. Microsoft intends to ship this software as part of its Windows 2000 operating system and to make it available to its Windows NT server platform customers through its website. Microsoft recommends FalconMQ as its preferred implementation of the MSMQ functionality on operating systems other than Microsoft Windows. The Company is actively exploring opportunities to continue and expand its relationship with Microsoft in EAI related areas.

The Company is also actively seeking alliances with other third parties who provide complementary products and services. In particular, the Company is targeting the hundreds of companies active in Microsoft's Solution Providers partner program as potential partners with complementary products and services. In addition, the Company's Seer subsidiary has an important historical relationship with IBM in Europe, which in the past has been a major marketer and distributor of Seer*HPS in Europe.

Competition

The Company competes in markets that are intensely competitive and characterized by rapidly changing technology and evolving standards. The rapid growth and long-term potential of the market for EAI solutions make it attractive to new competition. Many of the Company's competitors have greater name recognition, a longer installed customer base and significantly greater financial, technical, marketing, and other resources than the Company. The Company believes it offers a broader range of EAI solutions than its competitors, and therefore generally competes on a product-by-product basis.

FalconMQ

The competition in the message-oriented middleware market is primarily between Microsoft's MSMQ and IBM's MQ Series. However, since FalconMQ is designed to link MSMQ-based applications, FalconMQ indirectly competes with middleware technology designed for IBM's MQ Series message queues product, including middleware marketed by IBM itself.

Geneva Integration Server

Geneva Integration Server competes most directly with the MQIntegrator product from New Era of Networks (known as "NEON"), which enables the integration of both existing and packaged enterprise resource planning (known as "ERP") applications through IBM's MQ Series middleware. IBM and NEON recently announced an agreement whereby NEON's MQIntegrator product will be sold through IBM's distribution and reseller network. Geneva Integration Server also competes against a number of other early entrants in the EAI solutions market, such as the Mercator product line from TSI International Software, Ltd.; TIB ActiveEnterprise from TIBCO Software, Inc.; and BusinessWare from Vitria Technology, Inc.

The majority of these competitors focus on the integration of a customer's existing applications to large ERP packaged applications such as those provided by SAP, PeopleSoft, Baan and JD Edwards. The most successful of these competitors have focused their products primarily on mainframe and UNIX systems. Because Geneva Integration Server takes advantage of advanced features of Windows NT such as superior security for E-commerce, the Company believes Geneva Integration Server has a competitive advantage in the current marketplace.

*Seer*HPS*

Historically, the primary competitor to Seer*HPS has been Sterling Software with its Cool:GEN product lines. As the Company repositions Seer*HPS as one of its EAI solution offerings, it will face new and different competitors such as Viasoft and Platinum, who offer repository technologies and consulting services that they promote as addressing the application renewal and life cycle management aspects of EAI.

Services

In the system integration and consulting services market, the Company competes with providers of systems integration services, such as Andersen Consulting and Logica PLC, and with numerous local and regional providers of consulting and integration services. In this area, the Company also competes with providers of software packages for particular markets, such as Fourth Shift Corporation and Symix Systems, Inc. Some of the Company's competitors, particularly systems integrators, generally have substantially larger operations, broader product lines with greater name recognition and market acceptance and significantly greater resources than the Company. However, the Company's consulting staff's expertise is focused primarily on supporting and accelerating the productivity of purchasers of the Company's software products. The Company believes this offers the Company a competitive advantage in selling services to new and existing customers of the Company's software products.

Customers

The Company's products and services are currently used by thousands of software developers. Hundreds of enterprise-wide applications built and integrated through the Company's products are used daily by over a million end users worldwide. The Company's customer base includes major corporations around the world such as ABN AMRO, Information Technology Services Company, Charles Schwab & Company, Inc., Credit Suisse First Boston, Italia Telecom, Prudential Insurance Company of America, Sikorsky Aircraft, TeleDenmark A/S, Telenor A/S and Montgomery Ward & Co., Incorporated. Industries that are significantly represented in the Company's customer base include banking and financial services, insurance, retail, manufacturing, data processing, public utilities, and transportation. ABN AMRO was the Company's only customer accounting for 10% or more of 1998 historical operating revenue. On a pro forma basis, after giving effect to the acquisition of Seer, no one customer accounted for more than 10% of operating revenues in 1998.

The Company seeks to form strong partnering relationships with customers in order to gain an in-depth understanding of the business and technology challenges they face. Notably, the Company maintains a customer advisory board for Seer*HPS customers that meets regularly. The volunteer members of the customer advisory board represent the Company's global customer base and act as a sounding board for new ideas and initiatives, as well as providing a means for information flow and feedback regarding the Company's products and services. In conjunction with the customer advisory board, the Company supports several internet-based special interest groups providing discussion forums focused on specific areas of technology. The Company also intends to provide customers of its other products the opportunity to participate in a customer advisory board.

In addition, the Company holds periodic international customer conferences to present new information, address customer questions and concerns and provide constructive open forums for customer interaction. In many areas around the world, local customers hold periodic regional user group meetings that are supported and encouraged by the Company. The Company also receives a great deal of feedback through its consulting services and technical support organization regarding the effectiveness of the Company's products in meeting customer needs.

Research and Product Development

The Company has made substantial investments in research and development. The Company conducts research and development to enhance its existing products and to develop new products. The Company intends to focus its research and development efforts on integrating and evolving its Geneva Integration Server, FalconMQ and Seer*HPS product lines in such a manner that all of these products can interact with each other to provide customers a comprehensive EAI solution. Research and development expense increased 100% from 1997 to 1998 and 99% from 1996 to 1997. The increase in 1998 is partially attributable to the acquisition of Momentum and the personnel added in this area of the Company. The trend in increasing research and development expenses is a result of the Company's investment in new products, primarily Geneva Integration Server and Version 2.0 of FalconMQ. This trend is expected to continue with the purchase of Seer, the Company's continuing attempts to strengthen its messaging products and completion of the transition into the EAI marketplace.

The markets for the Company's products are characterized by rapidly changing technologies, evolving industry standards, frequent new product introductions and short product life cycles. The Company's future success will depend to a substantial degree upon its ability to enhance its existing products and to develop and introduce, on a timely and cost-effective basis, new products and features that meet changing customer requirements and emerging and evolving industry standards. The Company budgets for research and development based on planned product introductions and enhancements. Actual expenditures, however, may significantly differ from budgeted expenditures. Inherent in the product development process are a number of risks. The development of new, technologically advanced software products is a complex and uncertain process requiring high levels of innovation, as well as the accurate anticipation of technological and market trends. The introduction of new or enhanced products also requires the Company to manage the transition from older products in order to minimize disruption in customer ordering patterns, as well as ensure that adequate supplies of new products can be delivered to meet customer demand. There can be no assurance that the Company will successfully develop, introduce or manage the transition to new products. The Company has in the past, and may in the future, experience delays in the introduction of its products, due to factors internal and external to the Company. Any future delays in the introduction or shipment of new or enhanced products, the inability of such products to gain market acceptance or problems associated with new product transitions could adversely affect the Company's results of operations, particularly on a quarterly basis.

For additional information, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Years Ended December 31, 1998, 1997 and 1996 - Research and Development."

Intellectual Property

The Company's success is dependent upon developing, protecting and maintaining its intellectual property assets. The Company relies upon combinations of copyright, trademark and trade secrecy protections, along with contractual provisions, to protect its intellectual property rights in software, documentation, data models, methodologies, data processing systems, and related written materials in the international marketplace. In addition, the Company has patents with respect to certain of Seer's products. The effectiveness of these various types of protection can be limited, however, by variations in laws and enforcement procedures from country to country. There can be no assurance that the steps taken by the Company will prevent misappropriation of its technology, and such protections do not preclude competitors from developing products with functionality or features similar to the Company's products. Furthermore, there can be no assurance that third parties will not independently develop competing technologies that are substantially equivalent or superior to the Company's technologies. Any failure by or inability of the Company to protect its proprietary technology could have a material adverse effect on the Company's business, operating results and financial condition.

Copyright protection is generally available under United States laws and international treaties for the Company's software and printed materials. Seer has obtained patents in the United States and Australia with regard to the basic application development and deployment technology in the Seer*HPS product line, and has related patents pending in various countries. Seer has registered the trademarks "SEER", "Archetype", "CASIM", "Freeway", "NewArc 2000", "Seer*HPS", and "TurboCycler" in the United States, and has active programs to register the "SEER" mark in other countries where it does business. The Company has registered the trademark "Level 8 Systems," and uses the trademarks "Monitor MQ", "Monitor XIPC", "Level 8", "XIPC", "FalconMQ", "Geneva", "Geneva Integration Server", "NetEssential", "SeerTalk", "SmartPak" and "The Seer*Method". The Company intends to seek registration of some of the trademarks including "FalconMQ", "Geneva", and "Geneva Integration Server."

Although the Company does not believe its products infringe the proprietary rights of any third parties, there can be no assurance that infringement claims will not be asserted against the Company or its customers in the future. In addition, the Company may be required to indemnify its distribution partners and end users for similar claims made against them. Furthermore, the Company may initiate claims or litigation against third parties for infringement of the Company's proprietary rights or to establish the validity of the Company's proprietary rights. Litigation, either as a plaintiff or defendant, would cause the Company to incur substantial costs and divert management resources from productive tasks whether or not such litigation is resolved in the Company's favor, which could have a material adverse effect on the Company's business, operating results and financial condition. Parties making claims against the Company could secure substantial damages, as well as injunctive or other equitable relief which could effectively block the Company's ability to license its products in the United States or abroad. Such a judgment could have a material adverse effect on the Company's business, operating results and financial condition. If it appears necessary or desirable, the Company may seek licenses to intellectual property that it is allegedly infringing. There can be no assurance, however, that licenses could be obtained on commercially reasonable terms, if at all, or that the terms of any offered license would be acceptable to the Company. The failure to obtain the necessary licenses or other rights could have a material adverse effect on the Company's business, operating results and financial condition. As the number of software products in the industry increases and the functionality of these products further overlaps, the Company believes that software developers may become increasingly subject to infringement claims. Any such claims, with or without merit, can be time consuming and expensive to defend and could adversely affect the Company's business, operating results and financial condition. The Company is not aware of any currently pending claims that the Company's products, trademarks or other proprietary rights infringe upon the proprietary rights of third parties.

Employees

As of March 15, 1999, the Company had a total of 366 employees. Of these employees, 35 were engaged in software sales and marketing, and technical support; 50 in administration; 102 in research, development, and technical support; and 179 in consulting and training. The Company's continued success is dependent on its ability to attract and retain qualified employees. During 1998, Seer experienced difficulties in recruiting and retaining qualified employees due, in part, to the uncertainty of its financial position. Seer also reduced its headcount as part of its revision of its business plan. The Company also experienced difficulty in recruiting and retaining consultants and research and development employees during fiscal 1998 due to the intense competition for such personnel in the software industry. The Company believes that to fully implement its business plan it will be required to enhance its marketing functions by adding additional marketing personnel. In addition, the Company believes additional sales associates will be required to support the Company's sales operations following the acquisition of Seer. Although the Company believes it will be successful in attracting and retaining qualified employees to fill these positions, no assurance can be given that the Company will be successful in attracting and retaining these employees now or in the future. The Company's employees are not represented by a union or a collective bargaining agreement.

Forward Looking and Cautionary Statements:

Certain statements contained in this Annual Report may constitute "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 ("Reform Act"). The Company may also make forward looking statements in other reports filed with the Securities and Exchange Commission, in materials delivered to shareholders, in press releases and in other public statements. In addition, the Company's representatives may from time to time make oral forward looking statements. Forward looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Words such as "anticipates," "believes," "expects," "estimates," "intends," "plans," "projects," and similar expressions, may identify such forward looking statements. In accordance with the Reform Act, set forth below are cautionary statements that accompany those forward looking statements. Readers should carefully review these cautionary statements as they identify certain important factors that could cause actual results to differ materially from those in the forward looking statements and from historical trends. The following cautionary statements are not exclusive and are in addition to other factors discussed elsewhere in the Company's filings with the Securities and Exchange Commission and in materials incorporated therein by reference: the Company's future success depends on the market acceptance of the new Geneva Integration Server; an unexpected revenue shortfall may adversely affect the Company's business because its expenses are largely fixed; the Company's quarterly operating results may vary significantly because the Company cannot accurately predict the amount and timing of individual sales and this may adversely impact the Company's stock price; trends in sales of the Company's products and general economic conditions may affect investors' expectations regarding the Company's financial performance and may adversely affect the Company's stock price; because a substantial amount of the Company's revenues have historically been derived from Seer*HPS, decreased demand for services relating to this product could adversely affect the Company's business; the Company's future results may depend upon the continued growth and business use of the Internet; the Company may lose market share and be required to reduce prices as a result of competition from its existing competitors, other vendors and information systems departments of customers; the Company may not have the resources to successfully manage the integration of Seer; the Company's future results may depend upon the successful integration of acquisitions; the Company may not have the resources to successfully manage additional growth; rapid technological change could render the Company's products obsolete; if the Company's relationship with Microsoft weakens, it could adversely affect the Company's business; the loss of any one of the Company's major customers could adversely affect the Company's business; the Company's business is subject to a number of risks associated with doing business abroad including the effect of foreign currency exchange fluctuations on the Company's results of operations; the Company's products may contain undetected software errors, which could adversely affect its business; because the Company's technology is complex, the Company may be exposed to liability claims; year 2000 issues may cause problems with the Company's systems and expose the Company to liability; the failure of the Company to meet product delivery dates could adversely affect its business; the Company may be unable to enforce or defend its ownership and use of proprietary technology; because the Company is a technology company, its Common Stock may be subject to erratic price fluctuations; and the Company may not have sufficient liquidity and capital resources to meet changing business conditions.

Item 2. Properties.

The Company maintains its principal executive offices in approximately 54,000 square feet of leased space in Cary, North Carolina. The Company also maintains executive offices in approximately 13,500 square feet of leased space in New York, New York. As of December 31, 1998, the Company also leased 14 additional offices to provide consulting services to its clients and to facilitate the development, sale and distribution of its products. The Company leases office space abroad in Canberra, Melbourne and Sydney, Australia; Toronto, Canada; Copenhagen, Denmark; London, England; Paris, France; Frankfurt, Germany; Rome, Italy; Milan, Italy; Madrid, Spain; and Nieuwegein, The Netherlands. The Company also maintains an office in Limerick, Ireland on a set fee arrangement.

Item 3. Legal Proceedings.

Seer, the Company's 69% subsidiary acquired December 31, 1998, filed a lawsuit against Saadi Abbas and Cambridge Business Solutions (UK) Limited ("CBS") in December 1997 alleging that Mr. Abbas and CBS had injured Seer by interfering with Seer's ability to market and sublicense the LightSpeed Financial Model. Seer obtained a preliminary injunction against Mr. Abbas and CBS halting their actions. Mr. Abbas and CBS filed counterclaims against Seer claiming wrongful dismissal of Abbas and breach of the license agreement. Due to the erosion of the market for the LightSpeed Financial Model, Seer voluntarily dismissed its claims against Mr. Abbas and CBS in the summer of 1998. Mr. Abbas and CBS are continuing to pursue their claims against Seer. At the present point in the litigation, it is impossible to calculate the chances of success in this litigation. However, Seer intends to continue to vigorously defend against the counterclaim. Seer has made provisions for its estimated costs to resolve this matter. Management does not believe at this point in the litigation that any additional amounts required to ultimately resolve this matter will have a material effect on the financial position, cash flows, or results of operations of Seer or the Company.

From time to time, the Company is a party to routine litigation incidental to its business. As of the date of this Report, the Company was not engaged in any legal proceedings that are expected, individually or in the aggregate, to have a material adverse effect on the Company.

Item 4. Submission Of Matters To A Vote Of Security Holders.

None.

PART II

Item 5. Market For Registrant's Common Stock and Related Shareholder Matters.

During fiscal years 1997 and 1998, the Common Stock of the Company was traded on the Nasdaq Stock Market under the symbol "LVEL." The Company has never declared or paid any cash dividends on its Common Stock. The Company anticipates that all of its earnings will be retained for the operation and expansion of the Company's business and does not anticipate paying any cash dividends in the foreseeable future. The Company's credit agreements require the Company to obtain approval from its lenders prior to declaration or payment of any cash dividends on its Common Stock. The chart below sets forth the high and low stock prices for the quarters of the fiscal years ended December 31, 1997 and 1998.

	1997		1998	
Quarter	High	Low	High	Low
First	$18.2500	$10.2500	$16.3125	$ 10.3750
Second	$18.5000	$10.6250	$14.0000	$ 8.3750
Third	$25.8750	$15.8750	$11.0000	$ 6.5625
Fourth	$23.8750	$11.5000	$ 9.8750	$ 5.0000

The closing price of the Common Stock on December 31, 1998 was $9.6875 per share. As of March 26, 1999, the Company had 122 registered shareholders of record.

Item 6. Selected Financial Data.

The following selected financial data is derived from the consolidated financial statements of the Company. The data should be read in conjunction with the consolidated financial statements, related notes, and other financial information included herein.

For 1998, the following data includes the Company, ASU, Level 8 Technologies and Momentum since its acquisition on March 26, 1998. For 1997, the following data includes the Company, ASU, and Level 8 Technologies. For 1996, the following data includes the Company, ASU, and Level 8 Technologies. For 1995, the following data includes the Company for the full year and Level 8 Technologies since its acquisition on April 1, 1995. For 1994, the following data includes the Company and ASU.

Year Ended December 31,
(in thousands, except per share data)

	1994	1995	1996	1997	1998
SELECTED STATEMENT OF OPERATIONS DATA					
Revenue	$ 1,660	$ 3,012	$ 7,272	$ 14,680	$ 10,685
Net income (loss) from continuing operations	26	(429)	(845)	1,036	(23,688)
Net income (loss) from continuing operations per common and common equivalent share – basic	.01	(.10)	(.10)	.16	(3.15)
Net income (loss) from continuing operations per common and common share – diluted	.01	(.10)	(.14)	.14	(3.15)
Weighted average common and common equivalent shares outstanding – basic	3,839	4,314	6,076	6,992	7,552
Weighted average common and common equivalent shares outstanding – diluted	3,839	4,403	6,076	7,561	7,552

	At December 31,				
	1994	1995	1996	1997	1998
SELECTED STATEMENT OF OPERATIONS DATA					
Working capital (deficiency)	($1,679)	$ 4,103	$ 11,007	$ 15,826	($19,774)
Total assets	5,848	15,059	20,787	23,482	70,770
Long-term debt, net of current maturities	19	43	23	16	1,541
Loans from related companies, net	2,015	454	331	202	12,519
Shareholders' equity	489	11,499	18,300	20,371	8,892

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

General Information and Recent Developments

The Company is a leading provider of scaleable enterprise application integration solutions. As new computer technologies have proliferated in enterprise computing environments, the integration and management of the applications which rely on them has grown in complexity. Enterprise application integration (or "EAI") solutions address the emerging need for information systems to deliver enterprise-wide views of a company's business information and processes. The Company's products and services are designed to enable organizations to address information systems integration and management problems in a simple and cost effective way. The Company provides customers with solutions to link their critical business applications internally across the enterprise and externally with strategic business partners. The Company's products and services also enable organizations to engage in electronic commerce. Currently, Level 8's products and services are sold worldwide through a network of regional sales offices. To date, the Company's products and services have been utilized by companies in a wide variety of industries including banking and financial services, insurance, retail, manufacturing, data processing, public utilities, and transportation.

As part of the Company's strategic shift to the EAI market in the first quarter of 1998, the Company decided to sell its wholly owned subsidiary, ProfitKey International Inc. (which sale was completed on April 6, 1998). See Note 3 to Consolidated Financial Statements.

The Company thereupon, on March 26, 1998, acquired Momentum Software Corporation ("Momentum") in return for 594,866 shares of the Company's common stock and warrants to purchase 200,000 common shares at an exercise price of $13.11 per share, subject to additional consideration based on the market value of the Company's stock on December 1, 1998. In December 1998, the Company issued notes totaling $3 million in payment of such additional consideration. Momentum was purchased primarily for its technology, some of which has been integrated into Level 8's Falcon product set.

The Company's most significant step to date into the EAI marketplace was the acquisition of a controlling interest in Seer Technologies, Inc. ("Seer") on December 31, 1998. Seer is one of the software industry's earliest pioneers and a long-time leader in software application development tools. During 1998, Seer redirected its focus on emerging market demand for extending the life cycle of enterprise applications through enterprise application renewal. On November 23, 1998, the Company entered into an agreement with Welsh, Carson, Anderson & Stowe VI L.P. ("WCAS") and certain other parties affiliated or associated with WCAS pursuant to which the Company agreed to acquire approximately 69% of the outstanding voting stock of Seer from WCAS and its affiliates in exchange for 1,000,000 shares of common stock of the Company and warrants to purchase an additional 250,000 shares of common stock of the Company at an exercise price of $12 per share. Pursuant to its agreement with WCAS, the Company acquired 69% of the voting stock of Seer on December 31, 1998 and has commenced a tender offer to acquire all of the remaining shares of Seer for $0.35 per share in cash. The Company has also agreed to acquire any remaining shares of Seer following completion of the tender offer through a merger at the same $0.35 cash price per share. The Company expects to complete its acquisition of the entire equity interest in Seer in the second quarter of 1999.

As a result of (i) the purchase of Momentum at the end of the first quarter of 1999, (ii) the purchase of 69% of the voting stock of Seer on December 31, 1998, (iii) the pending completion of the purchase of the remaining 31% of the voting stock of Seer, and (iv) the disposition of ProfitKey, the information within this report is not necessarily indicative of future operating results. Also, these changes make it difficult to compare the results for the years presented as the direction of the business has evolved throughout the period. Unless otherwise specifically indicated, the information in this report is stated as of December 31, 1998 and does not give effect to the remaining portion of the pending acquisition of the remaining 31% of Seer. The Company expects that its results of operations will significantly change with its acquisition of Seer and through the development of its other technologies as it continues to attempt to strengthen its position in the EAI marketplace.

This report contains forward-looking statements relating to such matters as anticipated financial performance, business prospects, technological developments, new products, research and development activities, the pending transaction with Seer, liquidity and capital resources, Year 2000 issues and similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with the terms of the safe harbor, the Company notes that a variety of factors could cause its actual results to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements. See "Item 1. Business - Forward Looking and Cautionary Statements."

Results Of Operations

The Company's 1998 results of operations include the operations of the Company and its subsidiaries. Operations for the subsidiaries acquired during 1998 are included from the date of acquisition. Accordingly, the 1998 results of operations include the operations of Momentum since March 26, 1998. The 1998 results of operations do not reflect any of Seer's operations since the Company's 69% interest in Seer was not acquired until December 31, 1998. The shareholders of the remaining 31% of the outstanding voting stock were considered to have shared in the losses of Seer only for their proportionate share of Seer's net assets. No minority interest for Seer is reflected in the Company's consolidated balance sheet at December 31, 1998 because Seer had net liabilities of $25 million at December 31, 1998. The Company has only recorded 69% of the value of the Company's intangible assets, including the value of in-process technology which has been written off. Subsequent to December 31, 1998, the Company commenced a tender offer for the remaining 31% of Seer. Until the tender offer is completed, the Company will report only 69% of any net earnings and 100% of any net losses of Seer. The Company anticipates completing the tender offer and acquiring the remaining minority interest in Seer during the second quarter of 1999. Following the acquisition of the minority interest in Seer, the Company's operations will include all of Seer's operations and the Company will record the remaining intangible assets of Seer, including an additional write-off for in-process technology.

The following table sets forth, for the years indicated, the Company's results of continuing operations expressed as a percentage of revenue.

	Year Ended December 31,		
	1998	1997	1996
Revenue:			
Software products	14.5%	29.7%	20.4%
Services	85.5%	69.3%	75.9%
Other	---	1.0%	3.7%
Total	100.0%	100.0%	100.0%
Cost of revenue:			
Software products	19.3%	17.4%	19.6%
Services	55.9%	34.0%	42.0%
Other	---	0.3%	0.5%
Total	75.2%	51.7%	62.1%
Gross Profit	24.8%	48.3%	37.9%
Operating Expenses:			
Research and product development	19.8%	7.2%	7.3%
Selling, general and administrative	91.5%	30.5%	40.8%
Amortization of goodwill and intangibles	18.1%	2.9%	5.8%
Write-off of in-process research and development	55.1%	---	---
Write-off of goodwill	43.1%	---	---
Restructuring charges	14.4%	---	---
Total	242.0%	40.5%	53.9%
Other income (expense), net	(0.7%)	3.0%	2.0%
Income (loss) before taxes	(217.9%)	10.8%	(14.0%)
Income tax provision (benefit)	3.8%	3.8%	(2.4%)
Net income (loss) from continuing operations	(221.7%)	7.0%	(11.6%)

Years Ended December 31, 1998, 1997, and 1996

Revenue and Gross Margin. The Company has two categories of revenue: software products and services. Software products revenue is comprised primarily of fees from licensing the Company's proprietary software products and, to a lesser extent, from product development contracts. Services revenue is comprised of fees for maintaining, supporting, providing periodic upgrades and consulting and training services related to the Company's software products.

The Company's revenues vary from quarter to quarter, with the largest portion of revenue typically recognized in the last month of each quarter. The Company believes that these patterns are partly attributable to the Company's sales commission policies, which compensate sales personnel for meeting or exceeding quarterly quotas, and to the budgeting and purchasing cycles of customers. The Company typically does not have any material backlog of unfilled software orders, and product revenue in any quarter is substantially dependent upon orders received in that quarter. Because the Company's operating expenses are based on anticipated revenue levels and are relatively fixed over the short term, variations in the timing of recognition revenue can cause significant variations in operating results from quarter to quarter. Fluctuations in operating results may result in volatility in the price of the Company's common stock.

Effective January 1, 1998, the Company adopted Statement of Position 97-2, "Software Revenue Recognition" ("SOP 97-2"), as amended by Statement of Position 98-4 "Deferral of the Effective Date of Certain Provisions of SOP 97-2." SOP 97-2 requires each element of a software sale arrangement to be separately identified and accounted for based on the relative fair value of such element. Revenue cannot be recognized on any element of the sale arrangement if undelivered elements are essential to the functionality of the delivered elements.

Adoption of SOP 97-2 resulted in the deferral of license revenue of approximately $262. In addition, the unique nature of a significant contract resulted in the deferral of $3,700 of software revenue as of December 31, 1998. At least a portion of the license revenue for these contracts may have been recognized under SOP 91-1 "Software Revenue Recognition", which was effective in previous years.

Statement of Position 98-9, "Modification of SOP 97-2, 'Software Revenue Recognition,' with Respect to Certain Transactions" ("SOP 98-9") will be effective for the Company's fiscal year beginning January 1, 1999. Retroactive application is prohibited. SOP 98-9 amends SOP 97-2 to require that an entity recognize revenue for multiple element arrangements by means of the "residual method" when (1) there is vendor-specific objective evidence ("VSOE") of the fair values of all of the undelivered elements that are not accounted for by means of long-term contract accounting, (2) VSOE of fair value does not exist for one or more of the delivered elements, and (3) all revenue recognition criteria of SOP 97-2 (other than the requirement for VSOE of the fair value of each delivered element) are satisfied. The provisions of SOP 98-9 that extend the deferral of certain passages of SOP 97-2 became effective December 15, 1998. The Company is evaluating the future requirements of SOP 98-9 and the effects, if any, on the Company's current revenue recognition policies.

Total revenues decreased 27% from 1997 to 1998 and increased 102% from 1996 to 1997. The decrease from 1997 to 1998 was primarily attributable to a decrease in software products revenue, along with a reduction in services revenue. The increase from 1996 to 1997 was a result of significant increases in both software products and services. The gross margins were 25%, 48%, and 38% for 1998, 1997, and 1996, respectively.

Results for 1998 do not reflect any revenue from an agreement the Company entered into with Microsoft in August, 1998. Under the agreement, the Company has agreed to license to Microsoft the source and object codes for certain software products that enable interoperability between Microsoft's Message Queue Server running on Microsoft's Windows NT operating systems and IBM Corporation's MQ Series message software running on a variety of operating systems. Microsoft accepted the English version of the product in September and the Japanese version in November. The Company received cash equal to the $3.7 million total contract value from Microsoft in 1998. Due to certain limitations with respect to available "vendor specific objective evidence," all other associated contract revenue has been deferred and will be recognized beginning in 1999 ratably over the contract's period.

Software Products. Software products revenue decreased 64% in 1998 in comparison to 1997 and increased 193% from 1996 to 1997. The gross margins on software products was (33%), 41%, and 4% for the 1998, 1997, and 1996 fiscal periods, respectively. Cost of software is composed of production and distribution costs, amortization of capitalized software and royalties to third parties.

The decrease in software revenue from 1997 to 1998 is the result of the Company's shift in strategic direction primarily relating to the Company's dispositions and acquisitions in 1998, as well as reduced emphasis on resales of IBM's MQ Series licenses in favor of the Company's FalconMQ Products developed by the Company. The decrease in gross margins between 1997 and 1998 is the effect of increased amortization costs, lower software product revenues, $.38 million of royalties to Liraz under the joint development agreement described under "-Research and Development." and a write-off of approximately \$.3 million of capitalized technology costs.

Software revenue increased from 1996 to 1997 from sales of products introduced in 1997 and the resale of IBM's MQ Series. The increase in gross margins is primarily a result of the increased software revenue, somewhat offset by increased amortization expense related to products becoming generally available in 1997.

Services. Services revenue decreased by 10% from 1997 to 1998 and increased by 84% from 1996 to 1997. Services gross margins were 35%, 51%, and 45% for 1998, 1997, and 1996 respectively. Cost of services primarily includes personnel and travel costs related to the delivery of services.

The services revenue decline from 1997 to 1998 was primarily attributable to the decline in software products revenue and the resultant decline in utilization of billable services. The decline in software products revenue impacts services revenue as there are fewer new customers than in the prior year, reducing the base of the customers utilizing the Company's consulting and training services as part of an overall technology solution purchase. Gross margins decreased in 1998 in relation to 1997 due to lower than normal billable utilization of consultants caused by project delays.

The significant increase in services revenues increase from 1996 to 1997 was a result of the addition of a combination of new consulting and training services and increases in maintenance services in correlation with the introduction of new products that created increased market demand. Gross profits increased in 1997 due to the Company's ability to obtain higher billing rates than previously earned and high utilization of staff during this growth period.

Research and Development. Research and development expenses primarily include personnel costs for product authors, product developers and product documentation personnel. Research and development expense increased 100% from 1997 to 1998 and 99% from 1996 to 1997. The increase in 1998 is partially attributable to the acquisition of Momentum and the personnel added in this area of the Company. The trend in increasing research and development expenses is a result of the Company's investment in new products, primarily Geneva Integration Server, which is scheduled to be released in the second quarter of 1999 and Version 2.0 of FalconMQ which is expected to be released in early 2000. This trend is expected to continue with the purchase of Seer, the Company's continuing attempts to strengthen its messaging products and completion of the transition into the EAI marketplace.

The Company and Liraz previously had an agreement for the joint development of certain software for a Microsoft contract. Under the agreement, Liraz and the Company were each to pay 50% of the total project development costs. In exchange for providing 50% of such costs, Liraz was previously entitled to receive royalties of 30% of the first \$2 million in contract revenue, 20% of the next \$1 million, and 8% thereafter. On April 1, 1998, the agreement was amended to provide that the Company would reimburse Liraz's costs of development of \$1.5 million and would pay Liraz royalties of 3% of program revenues generated from January 1, 1998 until December 31, 2000. The \$1.5 million reimbursement is being amortized over the term of the revised royalty agreement and was paid to Liraz by the delivery of an 8% note payable in three installments in 1998, 1999 and 2000. Additional royalties of \$.13 million are payable to Liraz for 1998 sales.

Selling, General, and Administrative. Selling expenses consist of sales and marketing expenses for personnel, travel, trade show participation, and other promotional expenses. General and administrative expenses consist of personnel costs for the executive, legal, financial, human resources, and administrative staff and all overhead expenses. Overhead expenses primarily include office rent, depreciation and lease costs on machinery and equipment, communications expenses, insurance, allowances for bad debts and other expenses of operating the Company and its facilities.

Selling, general, and administrative expenses increased 51% in 1997 in comparison to 1996 and 119% in 1998 in relation to 1997. The increases are primarily related to additional sales and marketing expenses for new products, the additional general and administrative support necessary following the purchase of Momentum, and continued efforts to build a supporting infrastructure for further acquisitions, such as Seer.

Amortization of Goodwill and Other Intangible Assets. Amortization of goodwill and other intangible assets was $1.9 million in 1998 and $.4 million in each of 1997 and 1996. The amortization of goodwill in 1997 and 1996 was related to the purchase of Level 8 Technologies. In 1998, the amortization of goodwill and other intangible assets related to the purchase of Momentum as well as Level 8 Technologies.

Other Items. As a result of the acquisitions of Momentum and Seer, the Company recorded several nonrecurring charges in 1998. Based on the results of third-party appraisals, the Company recorded charges totaling $5.9 million to expense purchased in-process research and development costs, consisting of $1.2 million and $4.7 million related to the acquisition of Momentum and Seer, respectively. In the opinion of management and the appraiser, the acquired in-process research and development had not yet reached technological feasibility and had no alternative future uses. The value of the in-process projects was adjusted to reflect the relative value and contribution of the acquired research and development. In doing so, management gave consideration to the stage of completion, the complexity of the work completed to date, the difficulty of completing the remaining development costs already incurred, and the projected cost to complete the projects. The value assigned to purchased in-process technology was based on key assumptions, including revenue growth rates for each technology considering, among other things, current and expected industry trends, acceptance of the technologies and historical growth rates for similar industry products. As a consequence of the Company's transition to an enterprise application integration solutions provider, the Company abandoned certain planned development efforts for products acquired in the Momentum transaction and reassessed the remaining undiscounted projected cash flows related to the identifiable and unidentifiable intangible assets acquired from Momentum. It was concluded that, with the principal exception of the Momentum technology utilized in the Level 8's Falcon product set and the XIPC products, the goodwill and intangible acquired in the Momentum transaction should be written off. Accordingly, during the fourth quarter of 1998, the Company adjusted the carrying value of its identifiable and unidentifiable assets to their fair value of $32,217, resulting in a non-cash impairment loss of $4,601.

During the fourth quarter of 1998, the Company reorganized its existing operations due to its acquisition of Seer. The restructuring included a staff reduction of 20% (15 employees), the abandonment of certain leased facilities, and the write-down to fair value of certain capitalized software costs for product lines which were being discontinued. The Company recorded a restructuring charge of approximately $1.5 million, which consisted of approximately $.7 million in personnel-related charges, approximately $.3 million in costs associated with carrying vacated space until the lease expiration date, approximately $.2 million of property and equipment related charges, approximately $.2 million in write-down of capitalized software costs, and approximately $.1 million in professional fees related to the restructuring. To date, the Company has paid approximately $.1 million in cash related to the restructuring. The Company believes the accrued restructuring cost of $1.0 million at December 31, 1998 represents its remaining cash obligations.

Provision for Income Taxes. The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." The effective income tax rate for continuing operations decreased from 35% for 1997 to (2%) for 1998 primarily because an income tax benefit was not recorded for the net loss incurred in 1998. The Company provided a full valuation allowance on the total amount of its deferred tax assets at December 31, 1998 since management does not believe that it is more likely than not that these assets will be realized.

Discontinued Operations. The loss on disposal of ProfitKey was approximately $1.2 million. The loss on discontinued operations related to ProfitKey was $.14 million for 1998.

Impact Of Inflation. Inflation has not had a significant effect on the Company's operating results during the periods presented.

Liquidity and Capital Resources

Cash and cash equivalents increased $.7 million in 1996 to $3.3 million at year end. During 1996, the Company completed a second public offering of common stock for net proceeds of $9.1 million. Net cash outflow of $1.1 million used in operating activities in 1996 was partially funded through the 1996 public offering. The net cash used by operations in 1996 consisted of increases in operating expenses to support headcount growth, principally for sales and marketing in new functions and regions. Net cash used in investing activities was $7.2 million, primarily as a result of a net $4.5 million investment in marketable securities. The Company also invested $1.5 million in property and capitalized software costs, and $1.2 million was used by the Company's discontinued operations.

During 1997, cash and cash equivalents increased $3.7 million to $7.0 million at year end. The increase was due primarily to the Company's investment activities in marketable securities offset by a $1.7 million investment for capitalized software development costs and equipment, and a $1 million use of cash by the Company's discontinued operations. The Company funded its operations in 1997 with cash remaining from the 1996 offering.

During 1998, cash and cash equivalents decreased by $1 million to $6 million at year end. The decrease in cash is due to the purchase of $.9 million in equipment, spending of $1.2 million for capitalized software development costs, and debt service of $1.5 million. This decrease was offset by $1.7 million of cash provided by operations, $.5 million from the sale of ProfitKey, and $.4 million of net cash acquired from acquisitions. Additionally, the Company borrowed $12 million from Liraz which was used to pay down Seer's bank debt on December 31, 1998.

As of December 31, 1998, the Company did not have any material commitments for capital expenditures. Future maturities on the Company's outstanding debt at December 31, 1998 include $13.7 million in 1999, $13.3 million in 2000 and $.7 million in 2001. Of such amounts, $.6 million in 1999 and $12.5 million in 2000 are due to Liraz, the Company's controlling shareholder.

The Company has agreed to acquire the remaining equity of Seer and expects to complete the acquisition of the remaining Seer shares in the second quarter of 1999 for approximately $1.7 million. In connection with the acquisition of Seer, the Company committed to fund Seer's operations through January 15, 2000, if necessary.

During the fourth quarter of 1998, the Company issued $3 million in notes to the sellers of Momentum as additional consideration, as provided for in the purchase agreement. These notes bear interest at 10% per year retroactive to the Momentum acquisition date of March 26, 1998, payable in four equal installments plus interest on December 1, 1998, November 26, 1999, November 20, 2000, and November 15, 2001. There are no financial covenants in these notes.

In connection with the acquisition of 69% of Seer on December 31, 1998, the Company issued a $12 million note payable to Liraz and applied the proceeds to pay off Seer's bank debt. In connection therewith, the Company and Liraz agreed that the Company would effect a pro rata offering to its shareholders of shares of preferred stock intended to have an aggregate liquidation preference initially equal to the principal and accrued interest under the note and to be convertible into an aggregate number of common stock determined by dividing the aggregate liquidation preference (which will accrete at the rate of 12% a year, compounded quarterly) by the conversion price. The conversion price would be an amount equal to the greater of $5.00 and two-third of the average closing price of a share of the Company's common stock during the 20 trading days ending on the fifth trading day before the rights offering. Each share of preferred stock would be entitled to two votes for each share of common stock into which it is convertible. The preferred stock would be redeemable at the Company's option at any time after June 30, 2000, upon at least 30 days' notice, at a redemption price equal to the preferred stock's accreted liquidation preference. The purchase price for each share of preferred stock to be offered to the Company's shareholders would equal its initial liquidation preference. Liraz would be permitted to pay the purchase price for any preferred stock it purchases in the offering with cash or by reducing the amount payable to it under the $12 million note. If the rights offering is consummated before June 30, 1999, the Company is required to use the net proceeds of the rights offering to prepay the unpaid balance under the $12 million note. In the context of reviewing other financing alternatives, the Company and Liraz are currently reevaluating the proposed rights offering and may determine not to proceed with the rights offering.

As of December 31, 1998, Seer had outstanding borrowings of $12.3 million under its credit facility with a commercial bank (the "Credit Facility") at an interest rate of 7.75%. Subsequent to December 31, 1998, the Credit Facility was amended to include the Company as a borrower. As amended, the Credit Facility provides for borrowings up to the lesser of $25 million or the sum of (i) eligible receivables, (ii) a $7 million term loan payable in monthly installments over two years, commencing on January 1, 2000, and (iii) a $2.5 million equipment loan payable over two and one-half years, commencing on April 1, 1999. There are no other financial covenants. The Credit Facility will bear interest at Prime Rate through June 30, 1999, Prime Rate plus 1% per annum through June 30, 2000, and Prime Rate plus 2% per annum thereafter. The Credit Facility as amended is due on demand and terminates on December 31, 1999; however, it is automatically renewed for successive additional terms of one year each, unless terminated by either party. The Credit Facility is collateralized by the Company's accounts receivable, equipment and intangibles, including intellectual property. The $12 million note and other debt payable to Liraz is subordinate in right of payment to the Credit Facility.

In early 1999, management began both to effect the various restructuring actions discussed previously and to implement other cost control and cost reduction efforts. Management's planned actions also include the sale of certain technologies that are not closely related to the Company's current strategic direction and positioning the Company for the proposed rights offering or an alternative financing transaction.

The Company incurred a net loss of $26.2 million and has negative working capital of $20.3 million and an accumulated deficit of $26.4 million at December 31, 1998. Additionally, Seer, in which the Company acquired a 69% interest on December 31, 1998, reported a loss of $62.4 million for its most recent fiscal year. The Company's ability to generate positive cash flow is dependent upon the Company achieving and sustaining certain cost reductions and generating sufficient revenues for the year. The Company already implemented certain steps to, among other things, reduce headcount, restructure operations and eliminate various costs from the business. As discussed above, the Company has also renegotiated the Credit Facility to increase borrowing capacity. Liraz has committed to provide the Company up to $7.5 million of working capital on an as needed basis, upon thirty days notice. Advances, if any, made under the commitment would become due and payable upon the earlier of March 31, 2000 or the successful completion of an equity financing which provides more than $7.5 million in proceeds to the Company. The advancement of funds under the commitment is subject to the Company's acceptance of certain terms including possible conversion of the outstanding balance, if any, to common stock of the Company and the execution of appropriate documentation. Management's plans also include the possibility of raising additional equity financing. The Company believes that existing cash on hand, cash provided by future operations and additional borrowings under the Credit Facility and Liraz commitment will be sufficient to finance its operations and expected working capital and capital expenditure requirements for at least the next twelve months so long as the Company continues to perform to its operating plan.

However, there can be no assurance that the Company will be able to continue to meet its cash requirements through operations or, if needed, obtain additional financing on acceptable terms, and the failure to do so may have an adverse impact on the Company's business and operations.

Year 2000

The Company is aware of the issues associated with the programming code in existing computer systems as the millennium (Year 2000) approaches. The "Year 2000 Problem" is pervasive and complex as virtually every computer operation will be affected in some way by the rollover of the two digit year value to 00. The issue is whether computer systems will properly recognize date sensitive information when the year changes to 2000. Systems that do not properly recognize such information could generate erroneous data or cause a system to fail.

Software Sold to Consumers. The Company believes that it has substantially identified potential Year 2000 Problems with the software products that it develops and markets. See "Item 1. Business - Products and Services," for a further discussion of the Company's products. The Company's Seer*HPS toolset products are designed to allow developers to develop applications that are Year 2000 compliant, through the use of four-digit year fields which can accept and accurately represent dates both before and after the Year 2000. Once a four-digit year is properly input, applications built with the Seer*HPS toolset can properly process the dates.

Dates may be input into these applications either by entering a four-digit year or, as a shortcut, by entering the last two digits of the year. In the latter case, the application assigns a century to the date and "feeds back" a four-digit year to the user by displaying it on the screen. For all versions of Seer*HPS above 5.2.3K, the century is assigned according to a moving 100-year window. The Company has made available documentation to its customers that explains how this moving 100-year window can be adjusted, both on the workstation platform and on the host. For version 5.2.3K, the century is assigned a default value of "19". In either case, the user can either accept the proposed four-digit date or correct it, if the application has assigned the wrong century in a particular case.

The foregoing description related to Seer*HPS versions 5.2.4S and higher (for the workstation) and 5.2.3K and higher (for the host), which were released in December 1995. The Company believes that if operated properly, applications constructed with these versions in accordance with the product documentation should not manifest Year 2000-related errors traceable to the Seer*HPS product. The Company does not believe any of its customers are using earlier versions of the software.

The Company cannot, however, eliminate the possibility of input errors, where input is in the form of two-digit years. Among other potential errors, it is possible to introduce incorrect dates into applications using the shortcut mentioned above if the operator is inattentive to the feedback, or if the operator or batch data inputs dates represented as two-digit years, without any way for the operator to determine which century a given year falls in. The Company has attempted to identify the possible errors by making documentation available to its customers.

With respect to the Company's Seer*HPS development environment itself, the Company is not aware of any Year 2000 issues except the following. The tools store certain information with respect to objects created using the tools (such as the dates the object was created or last modified) as two-digit dates. Because of the way the tools use these dates, the Company does not believe this will cause any Year 2000-related problems except in the limited instance of migrations spanning the century boundary. The Company has made available to its customers documentation calling their attention to this issue and a workaround.

Accordingly, the Company believes that it has fulfilled its obligations to its customers with respect to Year 2000 functionality. However, the law in this area is still evolving and lawsuits are being filed against software companies on an ongoing basis, many of them asserting novel theories of damage and liability. Accordingly, no assurance can be given that claims will not be made against the Company relating to date-processing issues or that the effect of such claims on the Company will not be material.

Internal Infrastructure. The Company is currently identifying substantially all of the major computers, software applications, and related equipment used in connection with its internal operations that must be modified, upgraded, or replaced to minimize the possibility of a material disruption to its business and has commenced the process of modifying, upgrading, and replacing major systems that have been identified as adversely affected, and expects to complete this process by the middle of 1999.

Systems Other Than Information Technology Systems. In addition to computers and related systems, the operation of office and facilities equipment, such as fax machines, photocopiers, telephone switches, security systems, elevators, and other common devices may be affected by the Year 2000 Problem. The Company is currently assessing the potential effect of, and costs of remediating, the Year 2000 Problem on its office and facilities equipment.

The Company's assessment of its internal systems is approximately 80% complete. Based on its current assessment, the Company does not believe the total cost to the Company of completing any required modifications, upgrades, or replacements of these internal systems will have a material adverse effect on the Company's financial condition, cash flows, or results of operations.

Suppliers. The Company has reviewed information from third party suppliers of the major computers, software, and other equipment used, operated, or maintained by the Company to identify and, to the extent possible, to resolve issues involving the Year 2000 Problem. However, the Company has limited or no control over the actions of these third party suppliers. Thus, there can be no assurance that these suppliers will resolve any or all Year 2000 Problems with these systems before the occurrence of a material disruption to the business of the Company or any of its customers. Any failure of these third parties to resolve Year 2000 problems with their systems in a timely manner could have a material adverse effect on the Company's business, financial condition, and results of operation.

Most Likely Consequences of Year 2000 Problems. The Company does not believe that the Year 2000 Problem will have a material adverse effect on the Company's business or results of operations. However, management believes that it is not possible to determine with complete certainty that all Year 2000 Problems affecting the Company have been identified or corrected. The number of devices that could be affected and the interactions among these devices are simply too numerous. In addition, one cannot accurately predict how many Year 2000 Problem-related failures will occur or the severity, duration, or financial consequences of these perhaps inevitable failures. As a result, management expects that the Company could suffer the following consequences:

1. a significant number of operational inconveniences and inefficiencies for the Company and its clients that may divert management's time and attention and financial and human resources from its ordinary business activities; and

2. a lesser number of serious system failures that may require significant efforts by the Company or its clients to prevent or alleviate material business disruptions.

Contingency Plans. The Company is currently developing contingency plans to be implemented as part of its efforts to identify and correct Year 2000 Problems affecting its internal systems. The Company expects to complete its contingency plans by the middle of 1999. Depending on the systems affected, these plans could include accelerated replacement of affected equipment or software, short to medium-term use of backup equipment and software, increased work hours for Company personnel or use of contract personnel to correct on an accelerated schedule any Year 2000 Problems that arise or to provide manual workarounds for information systems, and similar approaches. If the Company is required to implement any of these contingency plans, it could have a material adverse effect on the Company's financial condition and results of operations.

Disclaimer. The discussion of the Company's efforts, and management's expectations, relating to Year 2000 compliance are forward-looking statements. The Company's ability to achieve Year 2000 compliance and the level of incremental costs associated therewith, could be adversely impacted by, among other things, the availability and cost of programming and testing resources, vendors' ability to modify proprietary software, and unanticipated problems identified in the ongoing compliance review.

Euro Conversion

Several European countries will adopt a Single European Currency (the "Euro") as of January 1, 1999 with a transition period continuing through January 1, 2002. The Company is reviewing the anticipated impact the Euro may have on its internal systems and on its competitive environment. The Company believes its internal systems will be Euro capable without material modification cost. Further, the Company does not presently expect the introduction of the Euro currency to have an adverse material impact on the Company's financial condition, cash flows, or results of operations.

Item 7a. Quantitative and Qualitative Disclosures about Market Risk

Prior to the acquisition of Seer, the Company was not exposed to significant risks of foreign currency fluctuation. Following the acquisition of Seer, the Company's US-based operations now have significant receivables denominated in foreign currency and are subject to transactions gains and losses, which are recorded as a component in determining net income. Additionally, the assets and liabilities of the Company's non-U. S. operations are translated into U.S. dollars at exchange rates in effect as of the applicable balance sheet dates, and revenue and expense accounts of these operations are translated at average exchange rates during the month the transactions occur. Unrealized translation gains and losses will be included as an adjustment to shareholders' equity. Based upon the foregoing, the Company intends to begin hedging transactions in an effort to reduce its exposure to currency exchange rates. However, as a matter of procedure, the Company will not invest in speculative financial instruments as a means of hedging against such risk.

Item 8. Financial Statements And Supplementary Data.

The information required by this item appears beginning on page F-1 of this report. See Items 14(a)(1) and (2).

Item 9. Changes in and Disagreements on Accounting and Financial Disclosure.

On January 21, 1999, the Company engaged PricewaterhouseCoopers LLP to replace Grant Thornton LLP as its independent auditors. For further information regarding this change, reference is made to the Company's Forms 8-K filed with the Securities and Exchange Commission (the "Commission") on December 22, 1998 and January 21, 1999 and the Form 8-K/A filed with the Commission on January 11, 1999. Reference is also made to the Letter to the Commission from Grant Thornton LLP dated January 11, 1999 and filed as Exhibit 99.2 to the Form 8-K/A on January 11, 1999. On January 28, 1998, the Company engaged Grant Thornton LLP to replace Lurie, Besikof, Lapidus & Co., LLP. For further information regarding this change, reference is made to the Company's Forms 8-K filed with the Securities and Exchange Commission on January 30, 1998.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The information required by this item is incorporated by reference to information to be included under the captions "Election of Directors," "Executive Officers" and "Compliance with Section 16(a) of the Securities
Exchange Act of 1934" in the Company's Proxy Statement for the 1999 Annual Meeting of Shareholders.

Item 11. Executive Compensation.

The information required by this item is incorporated by reference to information to be included under the captions "Election of Directors - Director Compensation" and "- Compensation Committee Interlocks and Insider Participation," "Executive Compensation," "Compensation Committee Report on Executive Compensation" and "Stock Performance Graph" in the Company's Proxy Statement for the 1999 Annual Meeting of Shareholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The information required by this item is incorporated by reference to information to be included under the caption "Beneficial Ownership of Common Stock" in the Company's Proxy Statement for the 1999 Annual Meeting of Shareholders.

Item 13. Certain Relationships and Related Transactions.

The information required by this item is incorporated by reference to information to be included under the caption, "Certain Relationships and Related Party Transactions" and "Election of Directors - Compensation Committee Interlocks and Insider Participation" in the Company's Proxy Statement for the 1999 Annual Meeting of Shareholders.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) The following documents are filed as part of this Report:

1. Financial Statements:

The following financial statements of the Company and the related report of independent accountants thereon are set forth immediately following the Index of Financial Statements which appears on page F-1 of this report:

Reports of Independent Certified Public Accountants

Consolidated Balance Sheets as of December 31, 1998 and 1997

Consolidated Statements of Operations for the years ended December 31, 1998, 1997 and 1996

Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 1998, 1997 and 1996

Consolidated Statements of Cash Flows for the years ended December 31, 1998, 1997 and 1996

Notes to Consolidated Financial Statements

2. Financial Statement Schedules:

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

3. (a) Exhibits: The following exhibits are filed as part of this Report. Parenthetical references indicate incorporation by reference to documents previously filed by the Company with the Securities and Exchange Commission.

2.1 Agreement dated November 23, 1998 among the Company and Welsh, Carson, Anderson & Stowe VI L.P. ("WCAS") and related parties (the "WCAS Parties") named therein relating to the acquisition of capital stock of Seer Technologies, Inc. by the Company (filed as exhibit 2.1 to the Seer Technologies, Inc. Form 10-K for the fiscal year ended September 30, 1998, No. 0-26194, and incorporated herein by reference.)

2.2 Amendment No. 1 to the Agreement dated November 23, 1998 among the Company and WCAS and the WCAS Parties relating to the acquisition of capital stock of Seer (filed as Exhibit (c)(2) to the Company' s Schedule 13e-3 filed on March 29, 1999 and incorporated herein by reference).

3.1 Restated Certificate of Incorporation of the Company (filed as exhibit 3.1 to Registration Statement No. 33-92230 on Form S-1 and incorporated herein by reference.)

3.2 By-Laws of the Company (filed as exhibit 3.2 to Registration Statement No. 33-92230 on Form S-1 and incorporated herein by reference).

4.1 Form of Warrant(s) representing the 250,000 Level 8 warrants issued to the WCAS Parties (filed as exhibit 8.2(A) to Seer's Annual Report on Form 10-K for the year ended September 30, 1998, No. 0-26194, and incorporated herein by reference).

10.1 The Company's February 2, 1995 Non-Qualified Option Plan (filed as exhibit 10.1 to Registration Statement No. 33-92230 on Form S-1 and incorporated herein by reference).*

10.2 Amended and Restated Employment Agreement, effective November 8, 1996, between Level 8 Technologies, Inc. ("Level 8 Technologies") and Samuel Somech (filed as exhibit 10.12 to Registration Statement No. 33-92230 on Form S-1/A and incorporated herein by reference).*

10.2A Amendment dated February 26, 1999 to the Employment Agreement between the Company and Samuel Somech dated November 8, 1996 (filed herewith).*

10.3 Consulting Agreement, effective April 1, 1995, between the Company and Theodore Fine (filed as exhibit 10.13 to Registration Statement No. 33-92230 on Form S-1 and incorporated herein by reference).*

10.4 Form of Amendment, dated June, 1995, among the Company, Registrant and Theodore Fine (filed as exhibit 10.13A to Registration Statement No. 33-92230 on Form S-1 and incorporated herein by reference).*

10.5 Employment Agreement, dated May 1, 1995, between the Company and Arie Kilman (filed as exhibit 10.14 to Registration Statement No. 33-92230 on Form S-1 and incorporated herein by reference).

10.5A Amendment to Employment Agreement, dated as of September 18, 1996 between the Company and Arie Kilman (filed as exhibit 10.14A to Registration Statement No. 33-9230 on Form S-1 and incorporated herein by reference).*

10.5B Amendment to Employment Agreement, dated December 16, 1996, between the Company and Arie Kilman (filed as exhibit 10.14B to Registration Statement No. 33-92230 on Form S-1/A and incorporated herein by reference).*

10.6 Employment Agreement between the Company and Joseph Schwartz dated June 1, 1998 (filed herewith).*

10.6A Employment Agreement between the Company and Gonen Ziv dated April 2, 1998 (filed herewith).*

10.7 Agreement, dated June 13, 1995, between the Company and Liraz (filed as exhibit 10.23 to Registration Statement No. 33-92230 on Form S-1 and incorporated herein by reference).

10.8 Registration Rights Agreement, dated June 13, 1995, between the Company and Liraz (filed as exhibit 10.24 to Registration Statement No. 33-92230 on Form S-1 and incorporated herein by reference).

10.9 Form of Warrant Agreement, between the Company and Hampshire Securities Corporation for 135,000 shares of common stock (filed as exhibit 10.27 to Registration Statement No. 33-92230 on Form S-1 and incorporated herein by reference).

10.10 Form of Loan Agreement, dated June, 1995, between the Company and Liraz regarding Registrant's agreement to repay the principal amount of $1,228,172 (filed as exhibit 10.28 to Registration Statement No. 33-92230 on Form S-1 and incorporated herein by reference).

10.11 Form of Loan Agreement, dated June, 1995, between the Company and Liraz regarding Registrant's agreement to repay the principal amount of $628,172 (filed as exhibit 10.29 to Registration Statement No. 33-92230 on Form S-1 and incorporated herein by reference).

10.12 Development Agreement dated July 17, 1995 between Microsoft Corporation and the Company (filed as exhibit 10.38 to Registration Statement No. 33-92230 on Form S-1 and incorporated herein by reference).

10.13 Letter Agreement dated June 1, 1995 from Visa International Service Association to the Company (filed as exhibit 10.39 to Registration Statement No. 33-92230 on Form S-1 and incorporated herein by reference).

10.14 Development Agreement dated December 19, 1995 between Liraz and the Company (filed as exhibit 10.38 to Registration Statement No. 33-92230 on Form S-1 and incorporated herein by reference).

10.14A Amendment No. 1 to the Development Agreement dated December 15, 1995 between Liraz and the Company (filed herewith).

10.15 Agreement and Plan of Reorganization by and among the Company, Middleware Acquisition Corporation, Momentum Software Corporation, and Robert Brill, Bruns Grayson and Hubertus Vandervoort, as Trustees of the Momentum Liquidating Trust, on Behalf of the Securityholders of Momentum Software Corporation dated February 27, 1998 (filed as exhibit 10.42 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998 and incorporated herein by reference).

10.16 Form of Employee's Non Competition, Confidentiality and Invention Assignment Agreement (filed as exhibit 10.6 to Seer's Registration Statement No. 33-92050 on Form S-1 and incorporated herein by reference).

10.17 Form of Consultant's Non Competition, Confidentiality and Invention Assignment (filed as exhibit 10-7 to Seer's Registration Statement No. 33-92050 on Form S-1 and incorporated herein by reference).

10.18 Lease Agreement, dated December 25, 1992, between Seer Technologies, Inc. and Capital & Counties (London, England) (filed as exhibit 10.22 to Seer' Registration Statement No. 33-92050 on Form S-1 and incorporated herein by reference).

10.19 Employment Agreement between Steven Dmiszewicki and the Company dated December 4, 1998 (filed herewith)*

10.20 Credit Agreement between Seer and Greyrock Business Credit, dated March 26, 1997 (filed as exhibit 10.46 to Seer's Quarterly Report on Form 10-Q for the period ended March 31, 1997, No. 0-26194, and incorporated herein by reference), as amended by the Amendment thereto dated May 5, 1998 (filed as exhibit 10.53 and incorporated herein by reference).

10.21 Lease Amendment for Seer's Cary Office, dated March 31, 1997, between Seer and Regency Park Corporation (Cary, NC) (filed as exhibit 10.47 to Seer's Quarterly Report on Form 10-Q for the period ended March 31, 1997, No. 0-26194, and incorporated herein by reference), as amended by Addendum #1 thereto added July 6, 1998 (filed as exhibit 10.58 and incorporated herein by reference).

10.21A Lease Amendment for Seer's Cary Office, dated January 21, 1999, between Seer and Regency Park Corporation (Cary, NC) (filed herewith).

10.22 Amendment to Credit Agreement between Seer and Greyrock Business Credit, dated May 5, 1998 (filed as exhibit 10.53 to Seer's Quarterly Report on Form 10-Q for the period ended March 31, 1998, No. 0-26194, and incorporated herein by reference; original agreement is exhibit 10.46 to Seer's Quarterly Report on Form 10-Q for the period ended March 31, 1997, No. 0-26194, and incorporated herein by reference).

10.23 Addendum #1 to the Lease Agreement between Seer and Regency Park Corporation (Cary, NC), dated July 6, 1998 (filed as exhibit 10.58 to Seer's Quarterly Report on Form 10-Q for the period ended June 30, 1998, No. 0-26194, and incorporated herein by reference; original agreement is exhibit 10.47 to Seer's Quarterly Report on Form 10-Q for the period ended March 31, 1997, No. 0-26194, and incorporated herein by reference).

10.24 Amendment dated December 31, 1998 between Greyrock Capital, a division of NationsCredit Corporation (formerly Greyrock Business Credit) and Seer to the Loan and Security Agreement between Greyrock Business Credit and Seer dated March 26, 1997, as amended (filed as exhibit 10.60 to Seer's

Annual Report on Form 10-K for the year ended September 30, 1998, No. 0-26194, and incorporated herein by reference).

10.25 Level 8 Guaranty Agreement dated December 31, 1998 (filed as exhibit 10.1 to the Company's Form 8-K filed as of January 15, 1999, No. 0-26392, and incorporated herein by reference).

10.26 Level 8 Promissory Note dated December 31, 1998, in favor of Liraz Systems Ltd. in the principal amount of $12,000,000 (filed as exhibit 10.2 to the Company's Form 8-K filed as of January 15, 1999, No. 0-26392, and incorporated herein by reference).

10.27 Seer Promissory Note dated December 31, 1998, in favor of Level 8 in the principal amount of $12,000,000 (filed as exhibit 10.3 to the Company's Form 8-K filed as of January 15, 1999, No. 0-26392, and incorporated herein by reference).

10.28 Liraz Agreement dated December 31, 1998 (filed as exhibit 10.4 to the Company's Form 8-K filed as of January 15, 1999, No. 0-26392, and incorporated herein by reference).

10.29 Amended and Restated Loan and Security Agreement among Seer, the Company and Greyrock Capital, a division of NationsCredit Commercial Corporation, dated March 30, 1999 (filed herewith).

11.1 Statement Regarding Computation of Per Share Earnings (filed herewith).

16.1 Letter from Lurie, Besikof, Lapidus and Co., LLP regarding change in certifying accountant (filed as exhibit 1 to the Company's Form 8-K filed as of January 28, 1998, No. 0-26392, and incorporated herein by reference).

16.2 Letter from Grant Thornton LLP regarding change in certifying accountant, dated December 22, 1998 (filed as exhibit 16 to the Company's Form 8-K filed as of December 22, 1998, No. 0-26392, and incorporated herein by reference).

16.3 Letter from Grant Thornton LLP regarding change in certifying accountant, dated January 11, 1999 (filed as exhibit 99.2 to the Company's Form 8-K/A filed as of January 11, 1999, No. 0-26392, and incorporated herein by reference).

21.1 List of subsidiaries of the Company (filed herewith).

23.1 Consent of PricewaterhouseCoopers LLP (filed herewith).

27.1 Financial Data Schedule for Company (filed herewith).

* Management contract or compensatory agreement.

(b) Reports on Form 8-K

On October 13, 1998, the Company filed a Form 8-K to announce that the Company had entered into a license agreement with Microsoft Corporation. On December 22, 1998, the Company filed a Form 8-K, and on January 11, 1999, the Company filed a Form 8-K/A, to record the dismissal of its independent auditors, Grant Thornton LLP. On January 15, 1999, the Company filed a Form 8-K to announce the acquisition of 69% of the outstanding and issuable common stock of Seer Technologies, Inc., and on January 21, 1999, the Company filed a Form 8-K to announce the engagement of PricewaterhouseCoopers LLP as its independent auditors.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

LEVEL 8 SYSTEMS, INC.

By:/s/ Arie Kilman
Arie Kilman
Chairman of the Board and Chief Executive Officer

Date: March 31, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date: March 31, 1999

/s/Arie Kilman
Arie Kilman
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

Date: March 31, 1999

/s/ Steven Dmiszewicki
Chief Operating Officer (Principal Financial and Accounting Officer)

Date: March 31, 1999

/s/ Samuel Somech
Samuel Somech
President and Director

Date: March 31, 1999

/s/ Robert M. Brill
Robert M. Brill
Director

Date: March 31, 1999

/s/ Michael Berty
Michael Berty
Director

Date: March 31, 1999

/s/ Theodore Fine
Theodore Fine
Director

Date: March 31, 1999

/s/ Lenny Recanati
Lenny Recanati
Director

Date: March 31, 1999

/s/ Frank J. Klein
Frank J. Klein
Director

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Index to Financial Statements

Contents

Reports of Independent Accountants F-2

FINANCIAL STATEMENTS

Consolidated Balance Sheets F-5

Consolidated Statements of Operations F-7

Consolidated of Changes in Stockholders' Equity..F-9

Consolidated Statements of Cash Flows F-11

Notes to Consolidated Financial Statements F-15

Report of Independent Accountants

To the Stockholders of Level 8 Systems, Inc.

In our opinion, the accompanying consolidated balance sheet as of December 31, 1998 and the related consolidated statements of operations, changes in stockholders' equity and cash flows present fairly, in all material respects, the financial position of Level 8 Systems, Inc. (the "Company") and its subsidiaries at December 31, 1998 and the results of their operations and their cash flows for the year then ended, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above. The financial statements of the Company as of December 31, 1997 and for the year then ended and for the year ended December 31, 1996 were each audited by other independent accountants whose reports, dated February 23, 1998 and January 31, 1997, respectively, expressed unqualified opinions on those statements.

As explained in Note 14, the Company has entered into certain agreements with its primary stockholder, Liraz Systems, Ltd.

/s/ PricewaterhouseCoopers LLP

Washington, D.C.
March 31, 1999

Report of Independent Accountants

Board of Directors
Level 8 Systems, Inc. and subsidiaries

We have audited the consolidated balance sheet of Level 8 Systems, Inc. and subsidiaries as of December 31, 1997, and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 1997 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Level 8 Systems, Inc. and subsidiaries as of December 31, 1997, and the consolidated results of their operations and their consolidated cash flows for the year then ended, in conformity with generally accepted accounting principles.

/s/ Grant Thornton LLP

New York, New York
February 23, 1998 (except for Note 2, as to which the date is February 27, 1998 and Note 3, as to which the date is April 6, 1998)

Independent Auditor's Report

Stockholders and Board of Directors
Level 8 Systems, Inc.

We have audited the accompanying consolidated statements of operations, changes in stockholders' equity, and cash flows of Level 8 Systems, Inc. for the year ended December 31, 1996. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of their operations and their cash flows of Level 8 Systems, Inc. for the year ended December 31, 1996, in conformity with generally accepted accounting principles.

/s/ Lurie, Besikof, Lapidus & Co., LLP

Minneapolis, Minnesota
January 31, 1997, (except for Note 3, as to which the date is April 6, 1998)

LEVEL 8 SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	December 31, 1998	December 31, 1997
ASSETS		
Cash and cash equivalents	$ 6,078	$ 7,062
Trade accounts receivable, less allowance for doubtful accounts	16,992	6,455
Note receivable for sale of subsidiary	2,000	--
Due from related party	271	--
Income taxes receivable	--	406
Inventory	--	336
Prepaid expenses and other current assets	2,606	421
Net assets from discontinued operations	--	3,577
Total current assets	27,947	18,257
Property and equipment, net	2,682	974
Goodwill and other intangibles, net	32,217	1,793
Capitalized software costs, net	6,753	2,168
Other assets	1,171	290
Total assets	$ 70,770	$ 23,482
LIABILITIES AND STOCKHOLDERS' EQUITY		
Notes payable, due on demand	$ 12,275	$ --
Current maturities of loan from related party	628	128
Current maturities of long-term debt	799	7
Accounts payable	3,691	1,936
Accrued expenses:		
Compensation	318	82
Commissions	1,021	17
Restructuring	973	--
Merger – related	4,803	--
Other	8,275	125
Due to related party	82	--
Customer deposits and deferred revenue	13,075	42
Deferred taxes	--	94
Income taxes payable	1,7871	--
Total current liabilities	47,721	2,431
Deferred revenue	97	--
Long-term debt, net of current maturities	1,541	16
Loan from related party, net of current maturities	12,519	202

	December 31, 1998	December 31, 1997
Deferred income taxes	--	462
Total liabilities	61,878	3,111
Commitments and contingencies (Notes 16 and 17)		
Stockholders' equity:		
Preferred stock, $0.01 par value, 1,000,000 shares authorized; no shares issues or outstanding at December 31, 1998 and 1997	--	--
Common stock, $0.01 par value, 15,000,000 shares authorized; 8,708,231 and 7,044,634 shares issued and outstanding at December 31, 1998 and 1997, respectively	87	70
Additional paid-in-capital	34,045	20,603
Accumulated deficit	(25,240)	(184)
Accumulated other comprehensive income	--	(118)
Total stockholders' equity	8,892	20,371
Total liabilities and stockholders' equity	$ 70,770	$ 23,482

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

LEVEL 8 SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	For the Years Ended December 31, 1998	1997	1996
Operating revenue:			
Software products	$ 1,552	$ 4,354	$ 1,485
Services	9,133	10,171	5,521
Other	--	155	266
Total operating revenue	10,685	14,680	7,272
Cost of revenue:			
Software products	2,060	2,554	1,422
Services	5,973	4,995	3,056
Other	--	40	39
Total cost of revenue	8,033	7,589	4,517
Gross profit	2,652	7,091	2,755
Operating expenses:			
Research and product development	2,111	1,057	531
Selling, general and administrative	9,777	4,473	2,966
Amortization of goodwill and other intangibles	1,933	422	'422
Purchased in-process research and development	5,892	--	--
Write-off of goodwill and other intangibles	4,601	--	--
Restructuring charge	1,540	--	--
Total operating expenses	25,854	5,952	3,919
Income (loss) from operations	(23,202)	1,139	(1,164)
Other income (expense):			
Interest income	283	410	170
Gain on sale of ASU	--	60	--
Interest expense	(364)	(20)	(25)
Other income (expense), net	(81)	450	145
Income (loss) from continuing operations before provision for Income taxes	(23,283)	1,589	(1,019)
Income tax provision (benefit)	405	553	(174)
Income (loss) from continuing operations	(23,688)	1,036	(845)
Income (loss) from discontinued operations, net of tax	(135)	53	(40)
Gain (loss) on disposal of discontinued operations, net of tax	(1,233)	--	(1,484)
Net income (loss)	$ (25,056)	$ 1,089	$ (2,369)

	For the Years Ended December 31, 1998	1997	1996
Income (loss) per share from continuing operations – basic	$ (3.14)	$ 0.15	$ (0.14)
Income (loss) per share from discontinued operations – basic	$ (0.18)	$ 0.01	$ (0.25)
Total income (loss) per common share – basic	$ (3.32)	$ 0.16	$ (0.39)
Income (loss) per share from continuing operations – diluted	$ (3.14)	$ 0.13	$ (0.14)
Income (loss per share from discontinued operations – diluted	$ (0.18)	$ 0.01	$ (0.25)
Total income (loss) per common share – diluted	$ (3.32)	$ 0.14)	$ (0.39)
Weighted average common shares outstanding – basic	7,552	6,992	6,076
Weighted average common shares outstanding – diluted	7,552	7,561	6,076

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

LEVEL 8 SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(in thousands)

	Common Stock Share	Common Stock Amount	Additional Paid-In Capital	Retained Earnings (Deficit)
Balance as of 12/31/95	5,922	$ 59	$ 10,371	$ 1,096
Common Stock				
Private investor	247	2	2,607	
Public offering	705	7	6,470	
Stock option exercises	81	1	58	
Cumulative translation adjustment				
Adjustment of unearned compensation				
Net loss				(2,369)
Balance as of 12/31/96	6,955	69	19,506	(1,273)
Stock option and warrant exercise	90	1	507	
Additional public offering costs			(137)	
Net income			464	
Unearned compensation related to issuance of non-Employee stock options			263	
Adjustment of unearned compensation				
Net income				1,089
Balance as of 12/31/97	7,045	70	20,603	(184)
Shares issued for Momentum	595	6	6,480	
Shares issued for Seer	1,000	10	6,088	
Warrants issued for Momentum			654	
Warrants issued fur Seer			280	
Stock option and warrant exercises	68	1	58	
Adjustment of unearned compensation			(118)	
Net loss				(25,056)
Balance as of 12/31/98	8,708	$ 87	$ 34,045	$(25,240)

	Accumulated Other Comprehensive Income	Total
Balance as of 12/31/95	$ (28)	$ 11,498
Common Stock		
Private investor		2,609
Public offering		6,477
Stock option exercises		59
Cumulative translation adjustment	(5)	(5)
Adjustment of unearned compensation	30	30
Net loss		(2,369)
Balance as of 12/31/96	(3)	18,299
Stock option and warrant exercises		508
Additional public offering costs		(137)
Net income		464
Unearned compensation related to issuance of non-employee stock options	(263)	--
Adjustment of unearned compensation	148	148
Net income		1,089
Balance as of 12/31/97	(118)	20,371
Shares issued for Momentum		6,486
Shares issued for Seer		6,098
Warrants issued for Momentum		654
Warrants issued for Seer		280
Stock option and warrant exercises		59
Adjustment of unearned compensation	118	--
Net loss		(25,056)
Balance as of 12/31/98	$ ---	$ 8,892

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

LEVEL 8 SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Years Ended 1998	1997	1996
Cash flows from operating activities:			
Net income (loss)	$ (25,056)	$ 1,089	$ (2,369)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities, net of assets and liabilities acquired:			
(Income) loss from discontinued operations	135	(53)	40
(Gain) loss on sale of businesses	1,233	(60)	1,484
Depreciation and amortization	3,175	788	458
Deferred income taxes	(129)	281	90
Provision for uncollectible accounts	838	332	165
Loss on disposal of property	407	--	--
Purchased in-process research and development	5,892	--	--
Write-off of goodwill and other intangibles	4,601	--	--
Write-down of capitalized software costs	723	--	--
Other	--	120	--
Changes in assets and liabilities:			
Trade accounts receivables	3,255	(4,376)	(1,969)
Prepaid expenses and other assets	(755)	(156)	(616)
Net assets of discontinued operations	--	507	726
Accounts payable, accrued expenses, and income taxes payable	2,450	969	930
Customer deposits and deferred revenue	4,888	42	--
Net cash provided by (used in) operating activities	1,657	(517)	(1,061)
Cash flows from investing activities:			
Cash received from acquisitions	916	--	--
Cash expenditures from acquisitions	(484)	--	--
Proceeds from sales of subsidiaries	464	65	157
Change in net assets of discontinued operations	--	(888)	(1,191)
Purchase of marketable securities	--	(1,998)	(6,525)
Redemption of marketable securities	--	8,523	2,045
Employee advances (repayments)	--	--	(102)
Purchase of property and equipment	(941)	(516)	(413)
Capitalization of software development costs	(1,177)	(1,156)	(1,182)
Net cash provided by (used in) investing	(1,222)	4,030	(7,211)
Cash flows from financing activities:			
Issuance of common shares	59	507	10,529
Costs of issuance of common shares	--	(137)	(1,383)
Change in net assets of discontinued operations	--	(7)	(39)
Payments under capital lease obligations	(45)	--	--
Borrowings from related party	12,000	--	--
Payments on loans to related party	(683)	(123)	(118)

	For the Years Ended		
	1998	1997	1996
Paydown of line of credit	(12,000)	--	--
Payment on other long-term debt	(750)	(9)	(10)
Net cash provided by (used in) financing activities	(1,419)	231	8,979
Net increase (decreased) in cash and cash equivalents	(984)	3,744	707
Cash and cash equivalents:			
Beginning of period	7,062	3,318	2,611
End of period	$ 6,078	$ 7,062	$ 3,318
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Income taxes	$ --	$ 11	$ 92
Interest	$ 293	$ 20	$ 25
Noncash Investing and Financing Activities			

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

CONSOLIDATED STATEMENTS OF CASH FLOW
(continued)
(in thousands, except share and per share data)

During 1998, the Company acquired all of the common stock of Momentum Software Corporation ("Momentum") for approximately $10,717. In connection with the acquisition, the Company issued 594,866 shares of common stock, warrants to purchase an additional 200,000 shares of common stock, and a $3,000 note. See Note 2.

A reconciliation of the cost of the acquisition to the net cash received from the acquisition is as follows:

Fair value of :	
Assets received	$ 11,703
Liabilities assumed	(986)
Additional direct costs	(503)
Stock issued	(6,485)
Warrants issued	(654)
Note payable issued	(3,000)
Cash paid	75
Cash acquired	437
Net cash received from acquisition	$ 362

During 1998, the Company acquired 69% of the voting stock of Seer Technologies, Inc. ("Seer") for approximately $7,754. In connection with the acquisition, the Company issued 1,000,000 shares of common stock and warrants to purchase an additional 250,000 shares of common stock. See Note 2.

A reconciliation of the cost of the acquisition to the net cash received from the acquisition is as follows:

Fair value of :	
Assets received	$ 55,081
Liabilities assumed	(47,327)
Additional direct costs	(966)
Stock issued	(6,099)
Warrants issued	(280)
Cash paid	409
Cash acquired	479
Net cash received from acquisition	$ 70

During 1998, the Company renegotiated a royalty arrangement with its majority stockholder. The arrangement was financed through a $1,500 note. See Note 14.

During 1998, the Company sold its subsidiary ProfitKey International, Inc. in exchange for $464 in cash at closing and a $2,000 note receivable. See Note 3.

During 1997, the Company acquired certain computer equipment through the issuance of capital leases totaling $60.

During 1997, the Company recognized deferred unearned compensation expense related to the issuance of nonemployee stock options totaling $25.

During 1997, the Company sold its ASU consulting division for $65, resulting in a gain of $60. See note 3.

During 1996, the Company sold its subsidiary Bizware in exchange for $120 in cash at closing and a $110 note receivable. See Note 3.

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

NOTE 1. SUMMARY OF OPERATIONS, SIGNIFICANT ACCOUNTING POLICIES, AND RECENT ACCOUNTING PRONOUNCEMENTS OPERATIONS

Level 8 Systems, Inc. ("Level 8" or the "Company") is a premier provider of scaleable enterprise application integration solutions through a combination of technologies and services that enable organizations to meet their information systems integration and management needs.

Liraz Systems, Ltd. and its wholly-owned subsidiaries own approximately 57% of Level 8's outstanding common stock at December 31, 1998.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. See Notes 2 and 3 regarding the acquisitions and sales of subsidiaries. All of the Company's subsidiaries are wholly-owned except for Seer Technologies, Inc. ("Seer"). The Company acquired a 69% interest in Seer on December 31, 1998. Seer had net liabilities of $24,535 at the acquisition date. The stockholders of the remaining 31% of the outstanding voting stock were deemed to have shared in the losses of Seer only for their proportionate share of Seer's net assets. Accordingly, there is no minority interest for the Seer subsidiary reflected in the consolidated balance sheet at December 31, 1998. Because the acquisition occurred on December 31, 1998, the consolidated statement of operations does not include Seer's operations for 1998.

All significant intercompany accounts and transactions are eliminated in consolidation.

FOREIGN CURRENCY TRANSLATION

The assets and liabilities of foreign subsidiaries of Seer are translated to U.S. dollars at the current exchange rate as of the balance sheet date. Statements of operations items are translated at average rates of exchange during each reporting period.

REVENUE RECOGNITION

Effective January 1, 1998, the Company adopted Statement of Position 97-2, "Software Revenue Recognition" ("SOP 97-2"), as amended by Statement of Position 98-4 "Deferral of the Effective Date of Certain Provisions of SOP 97-2." SOP 97-2 requires each element of a software sale arrangement to be separately identified and accounted for based on the relative fair value of such element. Revenue cannot be recognized on any element of the sale arrangement if undelivered elements are essential to the functionality of the delivered elements.

Adoption of SOP 97-2 resulted in the deferral of license revenue of approximately $262. In addition, the unique nature of a significant contract resulted in the deferral of $3,700 of software revenue as of December 31, 1998. At least a portion of the license revenue for these contracts may have been recognized under SOP 91-1 "Software Revenue Recognition" which was effective in previous years.

Statement of Position 98-9, "Modification of SOP 97-2, 'Software Revenue Recognition,' with Respect to Certain Transactions" ("SOP 98-9") will be effective for the Company's fiscal year beginning January 1, 1999. Retroactive application is prohibited. SOP 98-9 amends SOP 97-2 to require that an entity recognize revenue for multiple element arrangements by means of the "residual method" when (1) there is vendor-specific objective evidence ("VSOE") of the fair values of all of the undelivered elements that are not accounted for by means of long -term contract accounting, (2) VSOE of fair value does not exist for one or more of the delivered elements, and (3) all revenue recognition criteria of SOP 97 -2 (other than the requirement for VSOE of the fair value of each delivered element) are satisfied. The provisions of SOP 98-9 that extend the deferral of certain passages of SOP 97 -2 became effective December 15, 1998. The Company is evaluating the future requirements of SOP 98-9 and the effects, if any, on the Company's current revenue recognition policies.

Revenue from recurring maintenance contracts is recognized ratably over the maintenance contract period, which is typically twelve months. Maintenance revenue that is not yet earned is included in deferred revenue.

Revenue from consulting and training services is recognized as services are performed. Any unearned receipts from service contracts result in deferred revenue.

COST OF REVENUE

The primary components of the Company's cost of revenue for its software products are packaging and distribution costs, software amortization and royalties. The primary component of the Company's cost of revenue for services is compensation expense.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include all cash balances and highly liquid investments with a maturity of three months or less from the date of purchase. For these instruments, the carrying amount is considered to be a reasonable estimate of fair value. The Company places substantially all cash and cash equivalents with various financial institutions in both the United States and several foreign countries. At times, such cash and cash equivalents may be in excess of FDIC insurance limits.

INVENTORY

Inventory is valued at the lower of cost (first-in, first-out) or market and consists of software held for resale.

NET ASSETS OF DISCONTINUED OPERATIONS

As of December 31, 1997, net assets of discontinued operations of ProfitKey International, Inc. ("ProfitKey") consist primarily of service contracts acquired, software development costs, and accounts receivable. On April 6, 1998, the Company sold substantially all assets and operations of ProfitKey. See Note 3.

DEFERRED COSTS

At December 31, 1997, the Company had deferred costs of $178 relating to the acquisition of Momentum. The deferred acquisition costs were recorded as part of the purchase price of the acquisition during 1998.

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost and depreciated using the straight-line method over the estimated useful lives of the related assets as follows:

Leasehold improvements	The lesser of the lease term or estimated useful life
Furniture and fixtures	3 to 5 years
Office equipment	3 to 5 years
Computer equipment	3 to 5 years

Expenditures for repairs and maintenance are charged to expense as incurred. The cost and related accumulated depreciation of property and equipment are removed from the accounts upon retirement or other disposition and any resulting gain or loss is reflected in operations.

SOFTWARE DEVELOPMENT COSTS

The Company capitalizes certain software costs after technological feasibility of the product has been established. The establishment of technological feasibility and the ongoing assessment of recoverability of capitalized software development costs requires considerable judgment by management with respect to certain external factors, including, but not limited to, technological feasibility, anticipated future gross revenue, estimated economic life and changes in software and hardware technologies.

Capitalized software costs are amortized over related sales on a product-by-product basis at the greater of the amount computed using (a) the ratio of current gross revenues for a product to the total of current and anticipated future gross revenues or (b) the straight-line method over the remaining estimated economic life of the product. Generally, an original estimated economic life of three years is assigned to capitalized software costs, once the product is available for general release to customers. Costs incurred prior to the establishment of technological feasibility are charged to research and development expense. Each quarter, the Company evaluates the value of its capitalized software costs based on the estimated discounted future cash flows. See Note 6.

EXCESS OF COST OVER NET ASSETS OF BUSINESS ACQUIRED

Excess of Cost over Net Assets of Business Acquired consists of both identifiable and unidentifiable assets (goodwill) and is amortized on a straight-line basis over periods from three to seven years. The Company periodically assesses the recoverability of intangible assets by determining whether the amortization of the balance over its remaining life can be recovered through undiscounted future operating cash flows of the related operations. See Note 7.

COMPREHENSIVE INCOME

During 1998 the Company adopted SFAS No. 130 "Reporting Comprehensive Income." SFAS No. 130 requires additional disclosures with respect to certain changes in assets and liabilities that previously were not required to be reported as results of operations for the period. All prior periods have been presented to conform with the provisions of the statement. Other components of comprehensive income are included in the consolidated statement of stockholders' equity and consist of foreign currency translation adjustments and unearned compensation related to option grants to non-employees.

ADVERTISING EXPENSES

The Company expenses advertising costs as incurred. Sales brochures and materials are carried as prepaid expenses until they are consumed or determined to be obsolete. Advertising expenses were approximately $770, $358, and $154, for the years ended December 31, 1998, 1997 and 1996, respectively.

RESEARCH AND PRODUCT DEVELOPMENT

Research and product development costs are expensed as incurred.

ACQUIRED IN-PROCESS RESEARCH AND DEVELOPMENT

The fair value of acquired in-process research and development ("IPR&D") projects acquired in business combinations is expensed immediately. The amount of purchase price allocated to IPR&D is determined based on independent appraisals obtained by the Company using appropriate, valuation techniques, including percentage-of-completion which utilizes the key milestones to estimate the stage of development of each project at the date of acquisition, estimating cash flows resulting from the expected revenue generated from such projects, and discounting the net cash flows back to their present value. The discount rate includes a factor that takes into account the uncertainty surrounding the successful development of the purchased in-process technology. At the respective dates of acquisition, the IPR&D projects had not yet reached technological feasibility and did not have alternative future uses. As discussed in Note 2, material risks existed with each IPR&D project, however, management expects that such projects will be completed.

INCOME TAXES

The Company uses Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes" to account for income taxes. This statement requires an asset and liability approach that recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. In estimating future tax consequences, all expected future events other than enactments of changes in the tax law or rates are generally considered. A valuation allowance is recorded when it is "more probable than not" that recorded deferred tax assets will not be realized.

EARNINGS (LOSS) PER SHARE

During 1998, the Company adopted the provisions of SFAS No. 128, "Earnings per Share", which specifies the computation, presentation, and disclosure requirements for earnings per share. All prior period earnings per share data has been restated, as applicable, to conform with the provisions of the statement.

Basic earnings (loss) per share is computed based upon the weighted average number of common shares outstanding. Diluted earnings (loss) per share is computed based upon the weighted average number of common shares outstanding and any potentially dilutive securities. Potentially dilutive securities outstanding during 1998, 1997 and 1996 include stock options and warrants to purchase common stock of the Company.

STOCK-BASED COMPENSATION

The Company has adopted the disclosure provisions of SFAS 123 and has applied Accounting Principles Board Opinion No. 25 and related Interpretations in accounting for its stock-based compensation plans. Accordingly, no compensation cost has been recognized in the Consolidated Statement of Operations for its stock option plans. See Note 10.

ACCOUNTING ESTIMATES

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 date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from these estimates.

RECLASSIFICATIONS

Certain prior year amounts in the accompanying financial statements have been reclassified to conform to the 1998 presentation. Such reclassifications had no effect on previously reported net income or stockholders' equity.

NOTE 2. ACQUISITIONS AND PRO FORMA FINANCIAL STATEMENTS

ACQUISITION OF MOMENTUM

On March 26, 1998, the Company acquired Momentum Software Corporation ("Momentum"). Under the agreement, Level 8 issued 594,866 shares of common stock and warrants to purchase 200,000 common shares at an exercise price of $13.108 per share. During the fourth quarter of 1998, the Company issued a $3,000 note as additional consideration as provided in the purchase agreement. The total cost of the acquisition was approximately $10,717. The acquisition was recorded utilizing purchase accounting. As a result of the acquisition of Momentum, the Company incurred a one-time charge to earnings of approximately $1,200 related to the estimated value of the purchase of in-process research and development costs. The remaining amount was allocated to other intangibles, goodwill and software development costs. The results of operations of Momentum are included in the financial statements since the date of acquisition.

The purchase price was allocated to the assets acquired and liabilities assumed based on the Company's estimates of fair value at the acquisition date. The fair value assigned to intangible assets acquired was based on a valuation prepared by an independent third-party appraisal company of the purchased in-process research and development, developed technology, and assembled workforce of Momentum. The purchase price exceeded the amounts allocated to tangible and intangible assets acquired less liabilities assumed by approximately $8,615. This excess of the purchase price over the fair values of assets acquired less liabilities assumed was allocated to goodwill.

The cost of the acquisition was allocated as follows:

Cash	$ 437
Accounts receivable	125
Prepaid expenses and other current assets	52
Property and equipment	174
In-process research and development	1,200
Developed technology	1,100
Goodwill	8,615
Accounts payable	(507)
Deferred revenue	(367)
Long-term debt	(112)
Cost of net assets acquired	$ 10,717

Approximately $1,200 of the purchase price represents purchased in-process research and development that had not yet reached technological feasibility and had no alternative future use. Accordingly, this amount was immediately expensed in the Consolidated Statement of Operations upon consummation of the acquisition. The value assigned to in-process research and development, based on a valuation prepared by an independent third-party appraisal company, was determined by identifying research projects, all of which related to either add-ons or enhancements of Momentum's existing XIPC product, in areas for which technological feasibility had not been established. The value of the in-process projects was adjusted to reflect the relative value and contributions of the required research and development. In doing so, consideration was given to the stage of completion, the complexity of the work completed to date, the difficulty of completing the remaining development costs already incurred, and the projected cost to complete the projects. The discount rate included a factor that takes into account the uncertainty surrounding successful development of the purchased in-process research and development.

ACQUISITION OF SEER TECHNOLOGIES, INC.

On December 31, 1998, the Company, as the first step in its pending acquisition of the entire equity interest in Seer, acquired beneficial ownership of approximately 69% of the outstanding voting stock of Seer, which was held by Welsh, Carson, Anderson and Stowe VI L.P. ("WCAS") and certain other parties affiliated or associated with WCAS ("WCAS Parties") in exchange for 1,000,000 shares of the Company common stock and warrants to purchase an additional 250,000 shares of the Company common stock at an exercise price of $12.00 per share. The total cost of the acquisition was $7,754 and has been accounted for by the purchase method of accounting. Because the net book value of Seer's liabilities exceeded its assets on the acquisition date, no minority interest in Seer was recorded. Because the acquisition occurred on December 31, 1998, there are no operations of Seer included in the Company's consolidated results of operations for the periods presented. The purchase price was allocated to the assets acquired and liabilities assumed based on the Company's estimates of fair value at the acquisition date. The fair value assigned to intangible assets acquired was based on a valuation prepared by an independent third-party appraisal company of the purchased in-process research and development, developed technology, installed customer base, assembled workforce, and trademarks of Seer. The purchase price exceeded the amounts allocated to tangible and intangible assets acquired less liabilities assumed by approximately $18,684. This excess of the purchase price over the fair values of assets acquired less liabilities assumed was allocated to goodwill.

The cost of the acquisition was allocated as follows:

Cash	$ 479
Accounts receivable	14,505
Prepaid expenses and other current assets	1,418
Property and equipment	1,614
Capitalized software and developed technology	3,659
In-process research and development	4,692
Goodwill and other intangibles	28,344
Other assets	370
Accounts payable	(1,949)
Accrued expenses and other liabilities	(13,228)
Deferred revenue	(7,875)
Notes payable, due on demand	(12,275)
Long-term debt	(12,000)
Cost of net assets acquired	$ 7,754

Approximately $4,692 of the purchase price represents purchased in-process research and development that had not yet reached technological feasibility and had no alternative future use. Accordingly, this amount was immediately expensed in the Consolidated Statement of Operations upon consummation of the acquisition. The value assigned to in-process research and development, based on a valuation prepared by an independent third-party appraisal company, was determined by identifying research projects in areas for which technological feasibility had not been established, including Java based projects ($3,105) and application warehousing projects ($1,587). The value of the in-process projects was adjusted to reflect the relative value and contributions of the required research and development. In doing so, consideration was given to the stage of completion, the complexity of the work completed to date, the difficulty of completing the remaining development costs already incurred, and the projected cost to complete the projects. The discount rate included a factor that takes into account the uncertainty surrounding successful development of the purchased in-process research and development.

In connection with the Company's purchase of Seer's capital stock from the WCAS Parties, WCAS contributed approximately $17 million to Seer and the Company provided a $12 million subordinated loan to Seer to pay down Seer's bank debt. The funds used by the Company to make the subordinated loan to Seer were obtained from Liraz Systems Ltd. ("Liraz"), a principal stockholder of the Company. See Note 8. The Company also has agreed to use its best efforts to acquire all the remaining shares of Seer's outstanding common stock and has commenced a tender offer. See Note 19.

In connection with the acquisition of 69% of Seer on December 31, 1998, the Company and Liraz agreed that the Company would effect a pro rata offering to its stockholders of shares of preferred stock intended to have an aggregate liquidation preference initially equal to the principal and accrued interest under the note and to be convertible into an aggregate number of common stock determined utilizing an agreed-upon pricing formula. The preferred stock would be redeemable at the Company's option at any time after June 30, 2000, upon at least 30 days' notice, at a redemption price equal to the preferred stock's accreted liquidation preference. The purchase price for each share of preferred stock to be offered to the Company's stockholders would equal its initial liquidation preference. Liraz would be permitted to pay the purchase price for any preferred stock it purchases in the offering with cash or by reducing the amount payable to it under the $12 million note. If the rights offering is consummated before June 30, 1999, the Company is required to use the net proceeds of the rights offering to prepay the unpaid balance under the $12 million note. In the context or reviewing other financing alternatives, the Company and Liraz are currently reevaluating the proposed rights offering and may determine not to proceed with the rights offering.

Under the agreement between Company and the WCAS Parties, the WCAS Parties agreed that, prior to January 1, 2001, at any meeting of stockholders of the Company, WCAS Parties shall grant a proxy to one or more individuals named by the Company to vote all of the WCAS Parties' shares of common stock acquired by the WCAS Parties in connection with the transaction. Also, subject to limited exceptions, prior to January 1, 2001, the WCAS Parties may not sell, exchange or otherwise assign any of its shares of the Company without the prior written consent of the Company.

The following unaudited pro forma results of continuing operations assume the transactions described above occurred as of January 1, 1997 after giving effect to certain adjustments, including amortization of the excess of cost over underlying net assets.

	1998	1997
Net sales	$ 67,473	$ 118,146
Net loss from continuing operations before income taxes and extraordinary items	(58,994)	(14,844)
Net loss	(81,145)	(15,770)
Loss per share - basic and diluted	(9.34)	(1.84)
Weighted average shares outstanding – basic and diluted	8,688	8,587

The pro forma financial information does not purport to be indicative of the results of operations which would have actually resulted had the transactions taken place at the beginning of the periods presented or of future results of operations.

NOTE 3. DISCONTINUED OPERATIONS

In recent years, the Company has disposed of several wholly-owned subsidiaries. From October 3, 1994 through the first quarter of 1998, the Company's operations included the operations of ProfitKey International, Inc. ("ProfitKey"). ProfitKey offered turnkey manufacturing resource planning and scheduling software packages, and related installation, training and support services for use by manufacturing businesses. From October 28, 1994 through September 9, 1996, the Company's operations included the operations of Bizware

Computer Systems (Canada) Inc. ("Bizware"). Bizware sold software packages that provided cost information used by the petroleum and retail industries to manage and control individual retail outlets and groups of outlets.

Income from discontinued operations consists of the following items for the years ended December 31:

	1998	1997	1996
Net income (loss) of ProfitKey	$ (135)	$ 53	$ 132
Net loss of Bizware	--	--	(172)
Loss on disposal of ProfitKey, net of tax	(1,233)	--	--
Loss on disposal of Bizware, net of tax	--	--	(1,484)
Total	$ (1,368)	$ 53	$ (1,524)

SALE OF PROFITKEY

On April 6, 1998, the Company sold substantially all assets and operations of ProfitKey for $464 at closing and a note receivable from the purchaser of $2,000. The note is due on April 6, 2000 and bears interest at 9%. According to the terms of the ProfitKey sale agreement, the purchase price is subject to adjustment to reflect any variance in working capital from a specified amount. The purchaser has notified the Company that it believes there are adjustments totaling $1,466 which would require a reduction in the purchase price. The Company intends to vigorously contest this claim and has made provision for its estimate of the purchase price adjustment and the costs to resolve this matter as part of discontinued operations. Management believes at this time that any additional provisions required to ultimately resolve this matter will not have a material effect on the financial position, cash flows, or results of operations of the Company. The Company recorded a net loss from the sale of ProfitKey of $1,233.

The disposition of ProfitKey was accounted for as a discontinued operation and, accordingly, prior periods have been restated. Results of the discontinued operations of ProfitKey consisted of the following for the years ended December 31:

	1998	1997	1996
Net sales	$ 1,156	$ 5,545	$ 5,441
Income (loss) from operations before tax	(225)	191	345
Income tax expense (benefit)	(90)	138	213
Income (loss) from discontinued operations	$ (135)	$ 53	$ 132

For 1998, discontinued operations of ProfitKey includes ProfitKey's results of operations through the date of sale.

SALE OF BIZWARE

On September 9, 1996, the Company sold substantially all the assets and operations of Bizware for $120 at closing and a note receivable from the purchaser for $110. The note receivable was due in six equal monthly installments and has been fully collected by December 31, 1998. The Company recorded a loss from the sale of Bizware of $1,484, net of taxes of $0.

The disposition of Bizware was accounted for as a discontinued operation. Results of the discontinued operations of Bizware consisted of the following for the year ended December 31:

	1996
Net sales	$ 363
Loss from operations before tax	(358)
Income tax benefit	(186)
Loss from discontinued operations	$ (172)

For 1996, discontinued operations of Bizware includes Bizware's results of operations through the date of sale.

SALE OF ASU

Effective December 31, 1997, the Company sold the business and related assets of the ASU Consulting division for $65, resulting in a gain of $60 for the year ended December 31, 1997. The sale of the ASU Consulting division was not accounted for as a discontinued operation.

NOTE 4. ACCOUNTS RECEIVABLE

Trade accounts receivable consists of the following at December 31:

	1998	1997
Current trade accounts receivable	$ 20,244	$ 6,889
Less: Allowance for doubtful accounts	(3,252)	(434)
	$ 16,992	$ 6,455

Approximately $4,165 and $1,050 of current trade receivables were unbilled at December 31, 1998 and 1997, respectively. There were no receivables with payment terms in excess of one year recorded during the fiscal year ended December 31, 1998.

During 1998, the Company acquired certain trade receivables, net of allowances for doubtful accounts, in conjunction with its acquisition of Momentum and Seer. See Note 2.

The provision for uncollectible amounts was $838, $332 and $165 for the years ended December 31, 1998, 1997, and 1996, respectively. Write-offs of accounts receivable were $736, $95, and $43 for the years ended December 31, 1998, 1997, and 1996, respectively.

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	1998	1997
Computer equipment	$ 1,922	$ 957
Furniture and fixtures	286	239
Office equipment	312	174
Leasehold improvements	544	51
Subtotal	3,064	1,421
Less accumulated depreciation and amortization	(382)	(447)
Total	$ 2,682	$ 974

Depreciation and amortization expense was $426, $228, and $36 for the fiscal years ended December 31, 1998, 1997, and 1996, respectively.

During the fourth quarter of fiscal year 1998, property and equipment was written down for obsolescence and retirement of assets based in part on the Company's restructured operations. The write-down totaled $595, of which $188 is included in the restructuring charges in the Consolidated Statement of Operations. See Note 15.

NOTE 6. CAPITALIZED SOFTWARE COSTS

For the fiscal years ended December 31, 1998, 1997 and 1996, the Company capitalized $1,177, $1,156, and $1,182, respectively, of internal costs related to developing software for sale. The Company also acquired $1,100 and $3,659 in capitalized software costs through its acquisitions of Momentum and Seer, respectively. During the fiscal years ended December 31, 1998, 1997 and 1996, the Company recognized $816, $137, and $0, respectively, of expense related to the amortization of these costs, which is recorded as cost of software in the Consolidated Statements of Operations. During the first and fourth quarters of fiscal year 1998, capitalized software cost was written down to its fair value based upon an evaluation of its net realizable value. The write downs totaled $535, of which $241 is included in the restructuring charges in the Consolidated Statement of Operations. Accumulated amortization of capitalized software costs is $606 and $121 at December 31, 1998 and 1997, respectively.

NOTE 7. IDENTIFIABLE AND UNIDENTIFIABLE INTANGIBLE ASSETS

Identifiable and unidentifiable intangible assets primarily include goodwill, existing customer base, assembled workforce and trademarks recorded in connection with the acquisition of Seer Technologies on December 31, 1998. This goodwill is being amortized using the straight-line method over seven years. Also included are goodwill amounts acquired in the purchase of Momentum Software on March 26, 1998 and Level 8 Technologies on April 1, 1995. These assets are being amortized over three years and seven years, respectively. At December 31, 1998 and 1997, identifiable and unidentifiable intangible assets consist of the following:

	1998	1997
Goodwill, Level 8 Technologies	$ 2,954	$ 2,954
Goodwill, Momentum	4,014	--
Goodwill, Seer Technologies	18,684	--
Assembled workforce, Seer Technologies	4,278	--
Customer base, Seer Technologies	4,761	--
Trademark. Seer Technologies	623	--
Subtotal	35,314	2,954
Less accumulated amortization	(3,097)	(1,161)
Total	$ 32,217	$ 1,793

Amortization expense was $1,933, $422, and $422 for the fiscal years ended December 31, 1998, 1997, and 1996, respectively.

The Company assesses whether its identifiable and unidentifiable intangible assets are impaired as required by SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, based on an evaluation of undiscounted projected cash flows through the remaining amortization period. If an impairment exists, the amount of such impairment is calculated based on the estimated fair value of the asset determined based upon anticipated cash flows discounted at a rate commensurate with the risk involved. As a consequence of the Company's transition to an enterprise application integration solutions provider, the Company abandoned certain planned development efforts for products acquired in the Momentum transaction and reassessed the remaining undiscounted projected cash flows related to the identifiable and unidentifiable intangible assets acquired from Momentum. It was concluded that, with the principal exception of the Momentum technology utilized in the Level 8's Falcon product set and the XIPC products, the goodwill and intangible assets acquired in the Momentum transaction should be written off. Accordingly, during the fourth quarter of 1998, the Company adjusted the carrying value of its identifiable and unidentifiable assets to their fair value of $32,217, resulting in a non-cash impairment loss of $4,601.

NOTE 8. LONG-TERM DEBT AND CREDIT FACILITIES

Notes payable, long-term debt, and notes payable to a related party consist of the following at December 31:

	1998	1997
Credit facility	$ 12,275	$ --
Notes payable – Momentum	2,250	--
Capital leases	90	23
	14,615	23
Less current maturities	(13,074)	(7)
	$ 1,541	$ 16
Notes payable to a related party	13,147	330
Less current maturities	(628)	(128)
	$ 12,519	$ 202

At December 31, 1998, one of the Company's subsidiaries, Seer, maintained a credit facility (the "Revolving Facility") which provides for borrowing for working capital purposes based on the Company's eligible accounts receivable, as defined in the loan agreement. The Revolving Facility allows for borrowings of up to $25,000, bears interest at the prime rate and is collateralized by Seer's accounts receivable, equipment, and intangibles. There are no financial covenants for this credit facility. The Company has guaranteed, as of December 31, 1998, Seer's revolving credit facility (i) exceeding $20,000 through December 31, 1999, (ii) exceeding $10,000 from January 1, 2000 through December 31, 2000, and (iii) without limit thereafter. As of December 31, 1998, the interest rate on borrowings under the Revolving Facility was 7.75%.

Subsequent to December 31, 1998, the Company amended its Revolving Facility (the "Amended Facility") to involve the Company as a borrower. The terms of the Amended Facility allow the Company to maintain outstanding borrowings not to exceed the lesser of $25,000 or the sum of (a) eligible receivables, as defined in the Amended Facility, (b) a $7,000 term loan, and (c) a $2,500 equipment loan. The Amended Facility bears interest at the prime rate until June 30, 1999. The Amended Facility bears interest at 1% above the prime rate from July 1, 1999 through June 30, 2000. The Amended Facility bears interest at 2% above the prime rate subsequent to July 1, 2000. The $7,000 term loan is to be repaid in 24 equal monthly installments beginning on January 1, 2000. The $2,500 equipment loan is to be repaid in 30 equal monthly installments beginning on April 1, 1999.

On December 1, 1998 in connection with the acquisition of Momentum Software Corporation as described in Note 2, the Company issued notes totaling $3,000 payable over three years. The notes bear interest at 10% per year, retroactive to the Momentum acquisition date of March 26, 1998, and are due in four equal installments plus interest on December 1, 1998, November 26, 1999, November 20, 2000, and November 15, 2001. There are no financial covenants in this note.

The Company is obligated under various capital leases for certain computer and office equipment providing for aggregate payment, excluding interest, of $49 during 1999 and $41 during 2000.

On December 31, 1998 in connection with the acquisition of Seer Technologies, Inc. as described in Note 2, the Company issued a note payable to a related party in the amount of $12,000. The note bears interest at 12% per year, payable at maturity, and is due on June 30, 2000. In addition, if the Company consummates the rights offering as described in Note 10 before June 30, 1999, the Company shall pay to the holder of the note the amount of the net proceeds of the rights offering, to the extent the note shall not have been cancelled in payment of the subscription price for shares purchased in the rights offering.

On April 1, 1998 in connection with an amendment to a custom computer programming agreement, the Company issued a note payable to a related party in the amount of $1,500. The note bears interest at 8% per year and is payable in three annual installments. The first installment, including accrued interest, was paid during 1998. The second installment of $450 plus accrued interest is due on April 1, 1999 and the third installment of $450 plus interest is due on April 1, 2000.

On September 1, 1995, the Company issued a note payable to a related party in the amount of $628. The note bears interest at 4% per year and is payable in equal quarterly installments of $35, including interest. As of December 31, 1998, the principal amount outstanding on the note payable is $202.

Principal amounts of notes payable and long-term debt and notes payable to a related party maturing in each of the next five years ending December 31 are as follows:

	Notes Payable And Long-term Debt	Notes Payable to a Related Party
1999	$ 13,074	$ 628
2000	791	12,519
2001	750	--
Total	$ 14,615	$ 3,147

NOTE 9. INCOME TAXES

Income tax expense (benefit) consists of the following as of December 31:

	1998	1997	1996
Federal – current	$ --	$ 239	$ (247)
State and local – current	--	42	(43)
	--	281	(290)
Federal – deferred	344	231	99
State and local – deferred	61	41	17
	405	272	116
Total income tax expense (benefit)	$ 405	$ 553	$ (174)

A reconciliation of expected income tax at the statutory Federal rate with the actual income tax expense (benefit) is as follows for the fiscal years ended December 31:

	1998	1997	1996
Expected income tax benefit at statutory rate (34%)	$ (7,916)	$ 540	$ (347)
Loss on sale of discontinued operations	(331)	--	(468)
Discontinued operations	(77)	65	(41)
State taxes, net of federal tax benefit	(1,082)	97	--
Effect of foreign tax rates and credits	--	--	8
Effect of change in valuation allowance	6,246	(304)	381
Rate Differences	--	--	15
Amortization and write-off of non-deductible goodwill	2,787	197	182
In-process research and development – Momentum	408	--	--
Write-off of income tax receivable	406	--	--
Non-deductible expenses	12	34	14
Non-deductible loss on sale of foreign Subsidiary	--	--	106
Other	121	61	3
Total	$ 574	$ 690	$ (147)
Allocated as follows:			
Continuing operations	405	553	(174)
Sale of discontinued operations	259	--	--
Discontinued operations	(90)	137	27

Approximately $2,070 of the current year change in the valuation allowance is due to a valuation allowance offsetting certain deferred tax assets acquired from Momentum as recorded at the purchase date.

Significant components of the net deferred tax asset (liability) are as follows:

	1998 Current	1998 Long-Term	1997 Current	1997 Long-Term
Deferred tax assets				
Allowance for uncollectible accounts receivable	$ 240	$ --	$ 175	$ --
Accrued expenses non-tax deductible	660	--	12	--
Deferred revenue	1,621	--	8	--
Loss carryforwards	--	5,539	35	399
Unearned compensation	--	--	--	73
Depreciation and amortization	--	577	--	--
	2,521	6,116	230	472
Deferred tax liabilities				
Depreciation and amortization	--	--	--	(931)
Change from cash to accrual basis	--	--	(3)	(3)
	--	--	(3)	(934)
Deferred tax asset valuation allowance	(2,521)	(6,116)	(321)	--
Net deferred tax (liability)	$ --	$ --	$ (94)	$ (462)

At December 31, 1998, the Company also has approximate net operating loss carryforwards of $13,500, which may be applied against future taxable income. These carryforwards will expire at various times between 2005 and 2019 with over $6,500 not expiring until 2019. A substantial portion of these carryforwards is restricted to future taxable income of certain of the Company's subsidiaries or limited by Internal Revenue Code Section 382. Thus, the utilization of these carryforwards cannot be assured. Approximately $2,070 of the valuation allowance relates to deferred tax assets for which any subsequently recognized tax benefits will be allocated directly to reduce goodwill or other noncurrent intangible assets of Momentum.

The Company provided a full valuation allowance on the total amount of its deferred tax assets at December 31, 1998 since management does not believe that it is more likely than not that these assets will be realized.

NOTE 10. STOCK OPTIONS, WARRANTS AND RIGHTS

STOCK OPTIONS

The Company has 1995 and 1997 Stock Incentive Plans, which permit the issuance of incentive and nonstatutory stock options, stock appreciation rights, performance shares, and restricted and unrestricted stock to employees, officers, directors, consultants, and advisors. The Plans reserve a combined total of 2,300,000 shares of common stock for issuance upon the exercise of awards and provide that the term of each award be determined by the Board of Directors.

Under the terms of the Plans, the exercise price of the incentive stock options may not be less than the fair market value of the stock on the date of the award and the options are exercisable for a period not to exceed five years from date of grant. Stock appreciation rights entitle the recipients to receive the excess of the fair market value of the Company's stock on the exercise date, as determined by the Board of Directors, over the fair market value on the date of grant. Performance shares entitle recipients to acquire Company stock upon the attainment of specific performance goals set by the Board of Directors. Restricted stock entitle recipients to acquire Company stock subject to the right of the Company to repurchase the shares in the event conditions specified by the Board are not satisfied prior to the end of the restriction period. The Board may also grant unrestricted stock to participants at a cost not less than 85% of fair market value on the date of sale. Options granted vest at varying periods up to five years and expire in ten years.

Activity for stock options issued under these plans for the fiscal years ending December 31, 1998, 1997 and 1996 is as follows:

	Plan Activity	Option Price Per Share	Weighted Average Exercise Price
Balance at December 31, 1995	489,678	$ .69-5.75	$ 4.23
Granted	496,620	5.75-10.25	9.74
Exercised	(80,156)	.69-11.00	.73
Forfeited	(122,987)	.69-11.00	9.10
Balance at December 31, 1996	783,155	.69-11.00	7.31
Granted	444,500	10.69-16.62	8.14
Exercised	(91,646)	.69-16.62	7.01
Forfeited	(45,705)	.69-16.62	11.38
Balance at December 31, 1997	1,090,304	.69-16.62	7.51
Granted	1,293,000	7.25-12.75	8.14
Exercised	(38,175)	.69-11.76	9.13
Forfeited	(433,035)	.69-16.62	10.88
Balance at December 31, 1998	1,912,094	.69-16.62	8.85

The weighted average grant date fair value of options issued during the years ended December 31, 1998, 1997 and 1996 was equal to $4.37, $9.35 and $6.85 per share, respectively. The fair value of options granted during the fiscal years ended December 31, 1998, 1997 and 1996 was equal to $5,652, $4,156 and $3,402, respectively. There were no option grants issued below fair market value during 1998 or 1997. During 1996, the Company granted 187,420 options at exercise prices below fair market value. The fair value of options granted below fair market value was $1,192.

The fair value of the Company's stock-based awards to employees was estimated as of the date of the grant using the Black-Scholes option-pricing model, using the following weighted-average assumptions:

	1998	1997	1996
Expected life (in years)	5 years	5 years	5 years
Expected volatility	52%	77%	75%
Risk free interest rate	5.0%	6.05%	6.44%
Expected dividend yield	0%	0%	0%

For disclosure purposes, the adjusted estimated fair value of the Company's stock-based awards to employees is amortized over the vesting period. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant dates as calculated in accordance with SFAS 123, the Company's net loss and loss per share for the fiscal years December 31, 1998, 1997, and 1996 would have been increased to the pro forma amounts indicated below. The Company's adjusted information follows (in thousands, except for per share information):

	1998	1997	1996
Net income (loss), as reported	$ (25,056)	$ 1,088	$ (2,369)
Net income (loss), as adjusted	(27,697)	(821)	(3,525)
Net income (loss) per share, as reported – basic	(3.32)	16	(.39)
Pro forma net income (loss) per share, as adjusted – basic	(3.67)	(.12)	(.58)
Net income (loss) per share, as reported – diluted	(3.32)	14	(.39)
Pro forma net income (loss) per share, as adjusted – diluted	(3.67)	(.11)	(.58)

At December 31, 1998 and 1997, options to purchase approximately 908,638 and 539,980 shares of common stock were exercisable, respectively, pursuant to the plans at prices ranging from $.69 to $16.62. The following table summarizes information about stock options outstanding at December 31, 1998:

Exercise Price	Number Outstanding	Remaining Contractual Life for Options Outstanding	Number Exercisable
1.37	695	6.25	695
5.00	116,707	6.33	116,707
5.50	105,600	6.58	104,200
5.75	64,250	6.83	57,469
7.25	200,000	10.00	50,000
7.88	395,000	10.00	98,750
8.29	18,000	7.58	16,500
8.50	20,625	9.58	5,156
8.82	9,875	7.42	4,938
9.00	453,125	9.50	108,906
9.56	12,325	7.83	8,713
10.25	250,000	7.92	183,333
10.69	31,750	8.17	15,875
11.76	38,267	8.92	25,511
12.75	30,875	9.25	12,719
14.00	10,000	10.00	2,500
14.73	126,000	8.67	84,000
16.03	15,000	8.50	3,333
16.62	14,000	8.58	9,333
	1,912,094		908,638

As of December 31, 1998, Seer also had a Stock Option and Restricted Stock Purchase Plan and a Stock Option Plan for Non-Employee Directors, pursuant to which certain employees, officers, and non-employee directors of Seer had been granted options to acquire up to 2,720,000 of Seer's common stock. In connection with the acquisition of Seer by the Company, all of Seer's stock option plans are being terminated.

Subsequent to December 31, 1998, the Company has adopted a Stock Option Plan for Non-Employee Directors, pursuant to which non-employee directors can be granted options to acquire up to 12,000 shares of the Company's common stock, upon being elected to the Board of Directors. The options vest in one-third increments, on each of the first through third anniversaries of the grant date.

STOCK WARRANTS

In connection with the acquisition of Momentum during 1998, the Company issued warrants to purchase 200,000 shares of the Company's common stock. The warrants have an exercise price of $13.108 per share and expire on March 26, 2003. The warrants were valued at $654 or $3.27 per share. See Note 2.

In connection with the acquisition of Seer during 1998, the Company issued warrants to purchase 250,000 shares of the Company's common stock. The warrants have an exercise price of $12 per share and expire on December 31, 2002. The warrants were valued at $280 or $1.12 per share. See Note 2.

In connection with the initial and secondary public offerings, the Company issued 140,000 and 110,000 warrants, respectively, to the underwriter. The warrants are exercisable for four years, commencing one year from the effective dates of the public offerings at exercise prices of $7.43 and $14.85 per share, respectively, and have grant date fair values of $3.82 and $6.85 per share, respectively.

Warrants totaling 1,200 and 18,168 were exercised at an exercise price of $7.43 during the years ended December 31, 1998 and 1997, respectively.

STOCK RIGHTS

In connection with the issuance of a $12 million note payable to Liraz, the Company and Liraz agreed that the Company would effect a pro rata offering to its stockholders of shares of preferred stock intended to have an aggregate liquidation preference initially equal to the principal and accrued interest under the note and to be convertible into an aggregate number of common stock determined by dividing the aggregate liquidation preference (which will accrete at the rate of 12% a year, compounded quarterly) by the conversion price. The conversion price would be an amount equal to the greater of $5.00 and two-third of the average closing price of a share of the Company's common stock during the 20 trading days ending on the fifth trading day before the rights offering. Each share of preferred stock would be entitled to two votes for each share of common stock into which it is convertible. The preferred stock would be redeemable at the Company's option at any time after June 30, 2000, upon at least 30 days' notice, at a redemption price equal to the preferred stock's accreted liquidation preference. The purchase price for each share of preferred stock to be offered to the Company's stockholders would equal its initial liquidation preference. Liraz would be permitted to pay the purchase price for any preferred stock it purchases in the offering with cash or by reducing the amount payable to it under the $12 million note. If the rights offering is consummated before June 30, 1999, the Company is required to use the net proceeds of the rights offering to prepay the unpaid balance under the $12 million note.

NOTE 11. EMPLOYEE BENEFIT PLANS

The Company has a 401(k) plan for all qualified Momentum employees (the "Momentum Plan"). Matching contributions to the Momentum Plan are made at the discretion of the Board of Directors. For the year ended December 31, 1998, the Board of Directors did not authorize any contributions to the Momentum Plan.

The Company has a 401(k) plan for all qualified U.S. employees of Seer (the "Seer Plan"). The Seer Plan provides for a matching contribution of 25% for an employee's contribution up to 4% of an employee's salary. Because Seer was acquired on December 31, 1998, the Company did not make any contributions to the Seer Plan for the year ended December 31, 1998.

The Company has a 401(k) plan for all other qualified employees (the "Level 8 Plan"). Matching contributions to the Level 8 Plan are made at the discretion of the Board of Directors. For the year ended December 31, 1998, 1997, and 1996, the Board of Directors did not authorize any contributions to the Level 8 Plan.

Effective January 27, 1999, the Company merged the Momentum Plan and the Level 8 Plan into the Seer Plan and changed the name of the Seer Plan to the Level 8 Systems 401(k) and Profit Sharing Plan (the "Plan"). Participants in the Momentum Plan and the Level 8 Plan are allowed to roll over the balance of their accounts in the Momentum Plan and the Level 8 Plan into the Plan. Also effective January 27, 1999, the Company amended the new Level 8 Plan to provide a 50% matching contribution for an employee's contribution up to 4% of an employee's salary and a discretionary match of up to $0.50 on the dollar up to 2% of the employees salary based on the Company's performance and board of directors discretion. Participants must be employed at December 31 of each calendar year to be eligible for employer matching contributions.

In connection with the acquisition of Seer, the Company also has employee benefit plans for each of its foreign subsidiaries, as mandated by each country's laws and regulations. There was no expense recognized under these plans for the years ended December 31, 1998, 1997, and 1996.

Effective January 27, 1999, the Company adopted an Employee Stock Purchase Plan (U.S.) (the "U.S. Stock Purchase Plan") and the International Stock Purchase Plan (the "Stock Purchase Plan - International") for its employees. The Stock Purchase Plan (U.S. and International) allow employees to purchase shares of the Company's common stock for 85% of fair market value. The Company is responsible for the differential in market value, as well as administrative costs of the plans.

NOTE 12. SIGNIFICANT CUSTOMERS, CONCENTRATION OF CREDIT RISK, AND FOREIGN CURRENCIES

One customer accounted for more than 10% of operating revenue for the fiscal years ended December 31, 1998, 1997, and 1996.

Due to the acquisition of Seer, the Company has entered into several marketing and distribution agreements with IBM, primarily in the European market. The percentage of outstanding receivables from IBM-related transactions as of December 31, 1998, is approximately 24.8%.

As of December 31, 1998, the Company had significant balances outstanding from individual customers due to the nature of its operations. It is the policy of the Company to closely monitor all accounts receivable and to record a provision for uncollectible accounts as they become estimable. Generally, no collateral is required.

At December 31, 1998, the Company had approximately $219 and $8,527 U.S. dollar equivalent cash and trade receivable balances, respectively, denominated in foreign currencies.

The more significant trade accounts receivable denominated in foreign currencies as a percentage of total trade accounts receivable were as follows:

	1998
Danish Krona	8.73%
Pound Sterling	8.53%
Italian Lira	8.33%

NOTE 13. SEGMENT INFORMATION AND GEOGRAPHIC INFORMATION

In 1998, the Company adopted SFAS 131, "Enterprise and Related Information." SFAS 131 supercedes SFAS 14, "Financial Reporting for Segments of a Business Enterprise," replacing the "industry segment" approach with the "management approach". The management approach designates the internal organization that is used by management for making operating decisions and assessing performance as the source of the Company's reporting segment. For the periods presented, management reviewed the continuing operations as one segment. Due to the acquisition of Seer, management is reevaluating the "management approach" to reviewing its operations.

Due to the acquisition of Seer, the Company now operates in a variety of geographic regions. The following table represents a summary of long-lived assets by geographic region as of December 31:

		1998		1997		1996
United States	$	41,136	$	4,935	$	4,051
United Kingdom		416		--		--
Other		100		--		--
Total assets	$	41,652	$	4,935	$	4,051

The Company's foreign operations are reimbursed by the Company for their costs plus an appropriate mark-up for profit. Intercompany profits and losses are eliminated in consolidation.

NOTE 14. RELATED PARTY INFORMATION

During 1995, the Company and Liraz entered into a custom computer programming agreement for the joint development of certain software. Liraz and the Company were each to pay 50% of the total project development costs. In exchange for providing 50% of the project development costs, Liraz was to receive royalties of 30% of the first $2,000 in contract revenue from the sale of products developed under this agreement, 20% of the next $1,000, and 8% thereafter.

Due to a change in the Company's development plans for this product, during the first quarter of 1998, the Company and Liraz entered into an amendment to the original custom computer programming agreement, whereby the original royalty payment provisions were repealed. Under the new agreement, the Company agreed to reimburse Liraz's costs of development of $1,500 and to pay Liraz royalties of 3% of program revenues, as defined in the agreement, generated from January 1, 1998 until December 31, 2000. The Company issued a note to Liraz for $1,500 for cost reimbursement pursuant to this agreement and is amortizing the cost of reimbursement over the term of the agreement. See Note 8. The amortization of the cost reimbursement is included as a component of cost of software in the consolidated statement of operations

In addition, the Company and Liraz were awarded an Israel - U.S. Binational Industrial Research and Development Foundation ("BIRD") grant totaling $432. The BIRD grant provided for reimbursement of up to 50% of the development costs of the above project. At the point at which the products developed under this grant are available for sale, BIRD will be paid a royalty of 2.5% of related sales in the first year and 5% in subsequent years until BIRD recovers 110% to 150% (depending on the elapsed time) of its reimbursement of development costs. The Company capitalized the software development costs associated with Level 8's project development costs and reduced the capitalized costs by any grant funds received from BIRD. At December 31, 1998, the Company had capitalized approximately $1,249, after reimbursement of BIRD funds totaling approximately $400.

The Company sold software licenses to Liraz for $15 and $160 in 1998 and 1997, respectively, for resale to unrelated third parties.

Liraz also pays the salaries and expenses of certain company employees and is reimbursed by the Company. Salaries and expense paid by Liraz amounted to $568 and $14 during 1998 and 1997, respectively.

At December 31, 1998 and 1997, the Company had accounts receivable of $271 and $160 and accounts payable of $82 and $14 from and to Liraz, respectively.

See Note 8 regarding notes payable to Liraz.

In connection with the acquisition of Seer, the Company committed to fund Seer's operations through January 15, 2000, if necessary.

NOTE 15. RESTRUCTURING CHARGES

During the fourth quarter of 1998, the Company reorganized its existing operations due to its acquisition of Seer. The restructuring included a staff reduction in its development and administrative areas of 20% (15 employees), the abandonment of certain leased facilities, and the write-down to fair value of certain capitalized software costs for product lines which were being discontinued. The Company recorded a restructuring charge of approximately $1,540, which consisted of approximately $706 in personnel-related charges, approximately $292 in costs associated with carrying vacated space until the lease expiration date, approximately $188 of property and equipment related charges, approximately $241 in write-down of capitalized software costs, approximately $100 in professional fees related to the restructuring, and approximately $13 for other charges. Through December 31, 1998, the Company has paid approximately $113 in cash related to the restructuring. The Company believes the accrued restructuring cost of $973 at December 31, 1998 represents its remaining cash obligations.

NOTE 16. LEASE COMMITMENTS

The Company leases certain facilities and equipment under various operating leases. Future minimum lease commitments on operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 1998 are as follows:

1999	$ 3,310
2000	2,579
2001	2,030
2002	1,741
2003	1,543
Thereafter	2,570
	$ 13,773

Rent expense for the fiscal years ended December 31, 1998, 1997 and 1996 was $790, $378, and $279, respectively.

NOTE 17. CONTINGENCIES

Litigation. Various lawsuits and claims have been brought against the Company in the normal course of business. Management is of the opinion that the liability, if any, resulting from these claims would not have a material effect on the financial position or results of operations of the Company.

In December 1997, Seer filed a lawsuit against Saadi Abbas and Cambridge Business Solutions (UK) Limited ("CBS") alleging that Mr. Abbas and CBS had injured Seer by interfering with Seer's ability to market and sublicense the LightSpeed Financial Model. Seer obtained a preliminary injunction against Mr. Abbas and CBS halting their actions. Mr. Abbas and CBS filed counterclaims against Seer claiming wrongful dismissal of Abbas and breach of the license agreement. Due to the erosion of the market for the LightSpeed Financial Model, Seer voluntarily dismissed its claims against Mr. Abbas and CBS in the summer of 1998. Mr. Abbas and CBS are continuing to pursue their claims against Seer. At the present point in the litigation, it is impossible to calculate the chances of success in this litigation. However, Seer intends to continue to vigorously defend against the counterclaim. Seer has made provision for its estimated costs to resolve this matter. Management does not believe at this point in the litigation that any additional amounts required to ultimately resolve this matter will have a material effect on the financial position, cash flows, or results of operations of Seer.

Liquidity. As reflected in the accompanying financial statements, the Company incurred a net loss of $26.2 million and has negative working capital of $20.3 million and an accumulated deficit of $26.4 million at December 31, 1998. Additionally, Seer Technologies, Inc. in which the Company acquired a 69% interest on December 31, 1998, reported a loss of $62.4 million for its most recent fiscal year. The Company's ability to generate positive cash flow is dependent upon the Company achieving and sustaining certain cost reductions and generating sufficient revenues for the year. Management has already implemented certain steps to, among other things, reduce headcount, restructure operations and eliminate various costs from the business. They have also re-negotiated the Company's line of credit, to secure increased borrowing capacity, see Note 8. Management's plans also include the possibility of raising additional equity financing. Liraz has committed to provide up to $7.5 million of funding to the company on an as-needed basis through the earlier of March 31, 2000 or the completion of an equity financing which provides more than $7.5 million in proceeds to the Company. The Company believes that existing cash on hand, cash provided by future operations and additional borrowings under the credit facility and Liraz commitment will be sufficient to finance its operations and expected working capital and capital expenditure requirements for at least the next twelve months so long as the Company continues to perform to its operating plan. However, there can be no assurance that the Company will be able to continue to meet its cash requirements through operations of, if needed, obtain additional financing on acceptable terms, and the failure to do so may have an adverse impact on the Company's business and operations.

NOTE 18. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

(In Thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1998				
Net revenues	$ 3,093	$ 3,155	$ 2,349	$ 2,088
Gross profit	1,079	1,580	608	(615)
Net loss	(2,484)	(2,026)	(2,918)	(17,628)
Net loss per share - basic and diluted	($0.35)	($0.26)	($0.38)	($2.29)
1997:				
Net revenues	$ 2,853	$ 2,767	$ 2,937	$ 6,123
Gross profit	1,200	1,502	2,094	2,295
Net income	150	222	323	394
Net income per share – basic	0.02	0.03	0.05	0.06
Net income per share – diluted	$ 0.02	$ 0.03	$ 0.04	$ 0.06

During the fourth quarter of 1998, the Company recorded significant nonrecurring adjustments totaling $14,025. These adjustments related primarily to the acquisition of Seer, the impairment of the note receivable from the sale of a subsidiary, the impairment of goodwill recorded in connection with the acquisition of Momentum, and the restructuring charges. See Notes 2, 3, 7, and 15.

During the fourth quarter of 1997, the Company increased its allowance for doubtful accounts by $275 and recorded compensation expense of approximately $120 for options issued to a consultant.

The foregoing unaudited selected quarterly financial data differ from the Company's previously reported quarterly financial data included in its Quarterly Reports on Form 10-Q for 1998 as a result of a change in the valuation of the in-process technology of Momentum and certain other adjustments identified in connection with the audit of the 1998 financial statements. Accordingly, the Company intends to amend its previously filed Quarterly Reports on Form 10-Q promptly.

NOTE 19. SUBSEQUENT EVENTS

On February 1, 1999, Level 8 commenced a tender offer for all the remaining outstanding shares of the common stock of Seer for $0.35 per share, net to the seller in cash, upon the terms and conditions set forth in the offer to purchase and the letter of transmittal. The tender offer is expected to be completed in the second quarter of 1999 for an estimated cost of $1.7 million, plus expenses. Upon the completion the tender offer and related merger, Seer will become a wholly-owned subsidiary of the Company.

LEVEL 8 SYSTEMS