Overview

Since our founding in 1981, we have developed and marketed software and services to companies in the process industries. In addition to internally generated growth, we have acquired a number of businesses, including Hyprotech in the fourth quarter of fiscal 2002, Petrolsoft in the fourth quarter of fiscal 2000, ICARUS in the first quarter of fiscal 2001, Broner Systems in the second quarter of fiscal 2001, and the Houston Consulting Group and Coppermine LLC, a subsidiary of CPU that was formed to operate CPU's process applications business, in the fourth quarter of fiscal 2001.

We acquired Hyprotech, ICARUS, Broner, the Houston Consulting Group and Coppermine in transactions accounted for as purchases. Our operating results include the operating results of these acquisitions only for periods subsequent to their respective dates of acquisition. See Note 4 to the consolidated financial statements included elsewhere in this Form 10-K. We acquired Petrolsoft in a transaction accounted for as a pooling-of-interests. Accordingly, our consolidated financial statements reflect the historic operations of Petrolsoft for all periods.

We typically license our engineering solutions for terms of three to five years and license our manufacturing/supply chain solutions for terms of 99 years.

Software license revenues, including license renewals, consist principally of revenues earned under fixed-term and perpetual software license agreements and all generally recognized upon shipment of the software if collection of the resulting receivable is probable, the fee is fixed or determinable, and vendor-specific objective evidence, or VSOE, of fair value exists for all undelivered elements. We determine VSOE based upon the price charged when the same element is sold separately. Maintenance and support VSOE represents a consistent percentage of the license fees charged to customers. Consulting services VSOE represents standard rates, which we charge our customers when we sell our consulting services separately. For an element not yet being sold separately, VSOE represents the price established by management having the relevant authority when it is probable that the price, once established, will not change before the separate introduction of the element into the marketplace. Revenues under license arrangements, which may include several different software products and services sold together, are allocated to each element based on the residual method in accordance with SOP 98-9, "Software Revenue Recognition, with Respect to Certain Transactions". Under the residual method, the fair value of the undelivered elements is deferred and subsequently recognized when earned. We have established sufficient VSOE for professional services, training and maintenance and support services. Accordingly, software license revenues are recognized under the residual method in arrangements in which software is licensed with professional services, training and maintenance and support services. We use installment contracts as a standard business practice and have a history of successfully collecting under the original payment terms without making concessions on payments, products or services.

Maintenance and support services revenues are recognized ratably over the life of the maintenance and support contract period. Maintenance and support services include telephone support and unspecified rights to product upgrades and enhancements. These services are typically sold for a one-year term and are sold either as part of a multiple element arrangement with software licenses or are sold independently at time of renewal. We do not provide specified upgrades to our customers in connection with the licensing of our software products.

Service revenues from fixed-price contracts are recognized using the percentage-of-completion method, measured by the percentage of costs (primarily labor) incurred to date as compared to the estimated total costs (primarily labor) for each contract. When a loss is anticipated on a contract, the full amount thereof is provided currently. Service revenues from time-and-expense contracts and consulting and training revenues are recognized as the related services are performed. Services that have been performed but for which billings have not been made are recorded as unbilled services, and billings that have been recorded before the services have been performed are recorded as unearned revenue in the accompanying consolidated balance sheets.

We license our software in U.S. dollars and several foreign currencies. We hedge material foreign currency-denominated installments receivable with specific hedge contracts in amounts equal to those installments receivable. Historically, we experience minor foreign currency exchange gains or losses due to foreign exchange rate fluctuations, the impact of which have not been material in periods prior to the fourth quarter of fiscal 2002. During the fourth quarter of fiscal 2002, the U.S. dollar weakened against European currencies, and we experienced foreign currency exchange losses primarily due to ineffective hedging of accounts receivable of our foreign subsidiaries, in particular Hyprotech and its subsidiaries, that were

denominated in currencies other than the local functional currencies. We do not expect fluctuations in foreign currencies to have a significant impact on either our revenues or our expenses in the foreseeable future.

Our operating costs for the years ended June 30, 2000 and 2001 include the amortization of intangible assets, including goodwill, arising from acquisitions accounted for as purchases. The net balance of these intangible assets as of June 30, 2001 was $44.0 million and was being amortized over periods ranging from two to twelve years. The amortization from acquisitions that was charged to operations was $2.4 million for fiscal 2000 and $6.1 million for fiscal 2001.

In June 2001, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets". Under SFAS No. 142, companies no longer amortize goodwill and certain other intangible assets with indefinite lives, but instead assess for impairment using a fair-value-based test, on at least an annual basis. Effective July 1, 2001, we adopted SFAS No. 142 and stopped amortizing a net carrying value of $23.7 million of intangible assets. The amortization associated with these intangible assets was $1.0 million and $2.6 million for fiscal 2000 and 2001 respectively. Amortization expense related to intangible assets with definite lives existing as of July 1, 2001, that will continue to be amortized pursuant to SFAS No. 142 will range from approximately $1.3 million to $1.2 million per quarter in fiscal 2003 and from $1.2 million to $1.1 million per quarter in fiscal 2004. Thereafter, amortization expense related to existing acquired technology and other identifiable intangible assets will continue to decline through fiscal 2009.

Critical Accounting Estimates and Judgments

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP). The preparation of our financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The significant accounting policies that we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

- *revenue recognition for both software licenses and fixed-fee consulting services;*
- *impairment of long-lived assets, goodwill and intangible assets;*
- *accounting for income taxes; and*
- *allowance for doubtful accounts.*

Revenue Recognition — Software Licenses

We recognize software license revenue in accordance with American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) No. 97-2, "Software Revenue Recognition", as amended by SOP No. 98-4 and SOP No. 98-9, as well as the various interpretations and clarifications of those statements. These statements require that four basic criteria must be satisfied before software license revenue can be recognized:

- *persuasive evidence of an arrangement between ourselves and a third party exists;*
- *delivery of our product has occurred;*
- *the sales price for the product is fixed or determinable; and*
- *collection of the sales price is probable.*

Our management uses its judgment concerning the satisfaction of these criteria, particularly the criteria relating to the determination of whether the fee is fixed and determinable and the criteria relating to the collectibility of the receivables relating to such sales. Should changes and conditions cause management to determine that these criteria are not met for certain future transactions, all or substantially all of the software license revenue recognized for such transactions could be deferred from revenue.

Revenue Recognition — Consulting Services

We recognize revenue associated with fixed-fee service contracts in accordance with AICPA SOP No. 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts", using the percentage-of-completion method, measured by the percentage of costs (primarily labor) incurred to date as compared to the estimated total costs (primarily labor) for each contract. When a loss is anticipated on a contract, the full amount of the anticipated loss is provided currently. Our management uses its judgment concerning the estimation of the total costs to complete the contract, considering a number of factors including the experience of the personnel that are performing the services and the overall complexity of the project. Should changes and conditions cause actual results to differ significantly from management's estimates, revenue recognized in future periods could be adversely affected.

Impairment of Long-lived Assets, Goodwill and Intangible Assets

In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets To Be Disposed Of", we review the carrying value of long-lived assets and certain intangible assets periodically, based upon the expected future operating cash flows of our business. These future cash flow estimates are based on historical results, adjusted to reflect our best estimate of future markets and operating conditions, and are continuously reviewed based on actual operating trends. Actual results may differ materially from these estimates. We adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", as of July 1, 2002, which supercedes SFAS No. 121. We believe that the critical estimates and judgments that will be applied after the adoption of SFAS No. 144 will not be significantly different than those applied previously.

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets", we conduct at least an annual assessment of the carrying value of our goodwill assets. We most recently performed this assessment as of January 1, 2002. We obtain a third-party valuation of the reporting units associated with the goodwill assets, which is either based on estimates of future income from the reporting units or estimates of the market value of the units, based on comparable recent transactions. These estimates of future income are based upon historical results, adjusted to reflect our best estimate of future markets and operating conditions, and are continuously reviewed based on actual operating trends. Actual results may differ materially from these estimates. In addition, the relevancy of recent transactions used to establish market value for our reporting units is based on management's judgment.

The timing and size of impairment charges involve the application of management's judgment and estimates and could result in the write-off of all or substantially all of our long-lived assets, intangible assets and goodwill.

Accounting for Income Taxes

As part of the process of preparing our consolidated financial statements we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves us estimating our actual current tax liabilities together with assessing temporary differences resulting from differing treatment of items, such as deferred revenue, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. Tax assets also result from net operating losses, research and development tax credits and foreign tax credits. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, the impact will be included in the tax provision in the statement of operations.

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our deferred tax assets. The valuation allowance is based on our estimates of taxable income by jurisdiction in which we operate and the period over which our deferred tax assets will be recoverable. In the event that actual results differ from these estimates or we adjust these estimates in future periods, we may need to establish an additional valuation allowance which could result in a tax provision equal to the carrying value of our deferred tax assets.

Allowance for Doubtful Accounts

We make judgments as to our ability to collect outstanding receivables and provide allowances for the portion of receivables when collection becomes doubtful. Provisions are made based upon a specific review of all significant outstanding invoices. For those invoices not specifically reviewed, provisions are provided at differing rates, based upon the age of the receivable. In determining these percentages, we analyze our historical collection experience and current economic trends. If the historical data we use to calculate the allowance provided for doubtful accounts does not reflect the future ability to collect

outstanding receivables, additional provisions for doubtful accounts may be required for all or substantially all of certain receivable balances.

Results of Operations

The following table sets forth the percentages of total revenues represented by certain consolidated statement of operations data for the periods indicated:

Year Ended June 30,	2000	2001	2002
Revenues:			
Software licenses	49.6%	45.1%	41.8%
Service and other	50.4	54.9	58.2
Total revenues	100.0	100.0	100.0
Expenses:			
Cost of software licenses	3.6	3.6	3.7
Cost of service and other	31.8	35.0	37.5
Selling and marketing	34.3	34.8	35.9
Research and development	19.2	21.1	23.2
General and administrative	9.2	9.4	10.7
Costs related to acquisition	0.6	—	—
Restructuring and other charges	—	2.1	5.0
Charges for in-process research and development	—	3.0	4.6
Total expenses	98.7	109.0	120.6
Income (loss) from operations	1.3	(9.0)	(20.6)
Interest income	3.7	3.1	2.1
Interest expense	(2.1)	(1.7)	(1.7)
Write-off of investments	—	(1.5)	(2.9)
Other income (expense), net	0.0	0.2	(0.2)
Income (loss) before provision for (benefit from) income taxes	2.9	(8.9)	(23.3)
Provision for (benefit from) income taxes	0.9	(2.7)	0.8
Net income (loss)	2.0	(6.2)	(24.1)
Accretion of preferred stock discount and dividend	—	—	(1.9)
Net income (loss) applicable to common stockholders	2.0%	(6.2)%	(26.0)%

Revenues

Revenues are derived from software licenses, consulting services and maintenance and training. Total revenues for fiscal 2002 decreased 1.9% to $320.6 million from $326.9 million in fiscal 2001. Total revenues for fiscal 2001 increased 21.9% from $268.1 million in fiscal 2000. Total revenues from customers outside the United States were $146.9 million or 45.8% of total revenues for fiscal 2002, $159.5 million or 48.8% of total revenues for 2001, and $121.7 million or 45.4% of total revenues for fiscal 2000 respectively. The geographical mix of revenues can vary from period to period.

Software license revenues represented 41.8%, 45.1% and 49.6% of total revenues for fiscal 2002, 2001 and 2000 respectively. Revenues from software licenses in fiscal 2002 decreased 9.2% to $133.9 million from $147.4 million in fiscal 2001, as compared to an increase of 11.0% in fiscal 2001 from $132.8 in license fees reported for fiscal 2000. Software license revenues are attributable to software license renewals covering existing users, the expansion of existing customer relationships through licenses covering additional users, licenses of additional software products, and, to a lesser extent, to the addition of new customers. Lower software license revenues in fiscal 2002 were driven by significant delays in purchases by our customers in the process industries, due to the struggling economic environments in the United States and Europe, which resulted in license revenues for the whole fiscal year 2002 being lower than our initially anticipated levels. Higher

software license revenues in fiscal 2001 were driven by strong demand from the petroleum sector and a 44% increase in sales in the first half of the fiscal year compared to the first half of fiscal 2000. In the second half of fiscal 2001, we saw a general delay in decision-making from many customers, which resulted in license revenues for the whole fiscal year 2001 being lower than our initially anticipated levels, but still higher than license revenues in fiscal 2000.

Revenues from service and other consist of consulting services, post-contract support on software licenses, training and sales of documentation. Revenues from service and other for fiscal 2002 increased 4.0% to $186.7 million from $179.5 million for fiscal 2001, as compared to an increase of 32.7% in fiscal 2001, from $135.3 million reported in fiscal 2000. Excluding reimbursable out-of-pocket expenses of $18.8 million and $16.3 million in fiscal 2002 and 2001 respectively, revenues from service and other increased 2.9% or $4.7 million from fiscal 2001 to fiscal 2002 and 20.6% or $27.9 million from fiscal 2000 to 2001. A corresponding amount of reimbursable out-of-pocket expenses is not reflected in fiscal 2000, as it would be impracticable to do so. The increase in revenues during fiscal 2001 reflects an improvement in our support and maintenance business resulting from higher levels of license revenues in fiscal 2001, as well as improvements in the pricing and utilization of our consulting services business.

Cost of Software Licenses

Cost of software licenses consists of royalties, amortization of previously capitalized software costs, costs related to delivery of software, including disk duplication and third-party software costs, printing of manuals and packaging. Cost of software licenses for fiscal years 2002, 2001 and 2000 was $11.8 million, $11.9 million, and $9.6 million. Cost of software licenses as a percentage of revenues from software licenses was 8.8%, 8.0% and 7.2% for fiscal years 2002, 2001 and 2000 respectively. The increase in the cost of software licenses as a percentage of revenues from software licenses in 2002 and 2001 is the result of decreased license revenue, and the largely fixed nature of the costs that are included in cost of software licenses. Cost of software licenses contributed by Hyprotech was not significant in fiscal 2002.

Cost of Service and Other

Cost of service and other consists of the cost of execution of application consulting services, technical support expenses and the cost of training services. Cost of service and other for fiscal 2002 increased 4.7% to $120.0 million from $114.6 million for fiscal 2001, as compared to an increase of 34.5% in fiscal 2001 from $85.2 million reported for fiscal 2000. Cost of service and other, as a percentage of revenues from service and other was 64.3% for fiscal 2002, 63.8% for fiscal 2001 and 63.0% for fiscal 2000. Cost of service and other increased from fiscal 2000 to fiscal 2001 in order to support the expansion of various business segments. In addition, the increase is attributable to $16.3 million in reimbursable out-of-pocket expenses, as discussed above.

Excluding reimbursable out-of-pocket expenses of $18.8 million and $16.3 million in fiscal 2002 and 2001 respectively, cost of service and other increased 2.9% or $2.9 million from fiscal 2001 to fiscal 2002. In addition, cost of service and other as a percentage of revenues from service and other remained consistent, increasing to 60.3% in fiscal 2002 from 60.2% in fiscal 2001. On this basis, the increase in cost of service and other is consistent with the increase in revenues from service and other. The comparable numbers for fiscal 2000 cannot be calculated since it is impractical to calculate reimbursable expenses for that time period.

Selling and Marketing

Selling and marketing expenses for fiscal 2002 increased 1.4% to $115.2 million from $113.6 million for fiscal 2001, as compared to a 23.7% increase for fiscal 2000 from $91.9 million. Selling and marketing expenses as a percentage of total revenues were 35.9%, 34.8% and 34.3% in fiscal years 2002, 2001 and 2000 respectively. The increase in selling and marketing costs in all three fiscal years was primarily attributable to an expense base that increased to support the company's anticipation of higher license revenue levels, including our investment in additional headcount to support our initiatives in the areas of expanding partnerships.

Additionally in fiscal 2002, sales and marketing expenses increased from the acquisition of Hyprotech in June 2002. During fiscal 2002, 2001 and 2000 we continued to selectively invest in sales personnel and regional sales offices to improve our geographic proximity to our customers. Fiscal 2002 also included additional expenses as compared to fiscal 2001 relating to our plans to expand certain new business initiatives. The increase in costs from fiscal 2000 to fiscal 2001 was attributable to our continued investment in developing our partnership channels and relationships, the roll-out of certain e-business technologies, our investment in user group meetings, the addition of a new sales training program, the launch of a new advertising strategy to generate greater company awareness and the addition of costs relating to our acquisitions in fiscal 2001.

Research and Development

Research and development expenses consist of personnel and outside consultancy costs required to conduct our product development efforts. Capitalized research and development costs are amortized over the estimated remaining economic life of the relevant product, not to exceed three years. Research and development expenses for fiscal 2002 increased 8.0% to $74.5 million from $68.9 million for fiscal 2001, as compared to an increase of 33.6% in fiscal 2001 from the $51.6 million for fiscal 2000. Research and development expenses as a percentage of total revenues was 23.2%, 21.1% and 19.2% for fiscal years 2002, 2001 and 2000 respectively.

The increase in costs between fiscal years 2001 and 2002 was attributable to a full year of costs relating to the June 2001 acquisitions of certain technology divisions of CPU and the Houston Consulting Group, non-capitalizable costs incurred in association with the Accenture Strategic Alliance, are a general increase in normal development activities and costs contributed by Hyprotech in June 2002. The increase in costs between fiscal years 2000 and 2001 was attributable to the continued roll-out of our engineering and manufacturing/supply chain solutions, including the addition of costs relating to the acquisitions of ICARUS and Broner, and the other acquisitions in fiscal 2001, and other e-business technologies, including a significant portion of the $8.3 million invested in our PetroVantage solution in fiscal 2001. The increase in research and development expenses as a percentage of total revenues is primarily related to lower than anticipated revenues. We capitalized 11.7%, 7.6% and 7.5% of our total research and development costs during fiscal years 2002, 2001 and 2000 respectively. Of the fiscal 2002 amount, 3.0% related to internal costs and costs incurred by Accenture as part of the Accenture Strategic Alliance. The remaining 8.7% in fiscal 2002 related to our traditional development efforts, as compared to 7.6% in fiscal 2001.

General and Administrative

General and administrative expenses consist primarily of salaries of administrative, executive, financial and legal personnel, outside professional fees and amortization of intangibles. General and administrative expenses for fiscal 2002 increased 11.8% to $34.3 million from $30.6 million for fiscal 2001, as compared to an increase of 23.9% in fiscal 2001 from $24.7 million reported for fiscal 2000. General and administrative expenses as a percentage of total revenues were 10.7%, 9.4% and 9.2% in fiscal years 2002, 2001 and 2000 respectively. Fiscal 2001 expenses also include $2.6 million associated with the amortization of goodwill, for which there is no corresponding charge in fiscal 2002, resulting in a comparative increase of $6.2 million or 22.2%. These increases were due primarily to the full year of amortization of intangibles related to the 2001 acquisitions of Icarus, CPU and the Houston Consulting Group, an increase to our bad debt reserve due to the current economic environment, and an increase in certain non-recurring professional fees and costs related to the settlement of minor litigation. Amortization of intangible assets, including goodwill in fiscal 2001 and 2000, was $5.2 million in fiscal 2002 and $6.1 million in fiscal 2001, and $2.4 million in fiscal 2000 respectively. General and administrative expenses contributed by Hyprotech were not significant in fiscal 2002.

Restructuring and Other Charges

Fiscal Year 2002

During fiscal 2002, management undertook two separate restructuring plans. The first occurred in August 2001 and amounted to $2.6 million, primarily related to severance. The second occurred in May 2002 and amounted to $14.4 million, related to severance, facility consolidations and the write-off of certain assets. In addition, during fiscal 2002, we revised estimates on previously recorded restructuring plans, resulting in a reversal of an aggregate $1.1 million of facility accruals and a $0.1 million increase to a severance settlement.

August 2001 restructuring plan. *During August 2001, in light of economic uncertainties, management made a decision to adjust the business plan by reducing spending, which resulted in a restructuring charge of $2.6 million, primarily for severance. Approximately 100 employees, or 5% of the workforce, were eliminated under the changes to the business plan implemented by management. Areas impacted included sales and marketing, services, research and development, and general and administrative.*

May 2002 restructuring plan. *In the third quarter of fiscal 2002, revenues were lower than our expectations as customers delayed spending due to the general weakness in the economy. Like many other software companies, we reduced our revenue expectations for the fourth quarter and for the fiscal year 2003. Based upon the impact of these reduced revenue expectations, management evaluated our current business and made significant changes, resulting in a restructuring plan*

for our operations. This restructuring plan included a reduction in headcount, tighter cost controls, the close-down and consolidation of facilities and the write-off of certain assets.

Close-down/consolidation of facilities: *Approximately $4.9 million of the restructuring charge relates to the termination of facility leases and other lease-related costs. The facility leases had remaining terms ranging from several months to nine years. The amount accrued reflects our best estimate of the actual costs to buy-out leases or to sublease the underlying properties.*

Employee severance, benefits and related costs: *Approximately $8.3 million of the restructuring charge relates to the reduction in headcount. Approximately 200 employees, or 10% of the workforce, were eliminated under the changes to the business plan implemented by management. Business units impacted included sales and marketing, services, research and development, and general and administrative, across all geographic areas.*

Write-off of assets: *Approximately $1.2 million of the restructuring charge relates to the write-off of prepaid royalties related to third-party software products that we will no longer support.*

Fiscal Year 2001

In the third quarter of fiscal 2001, revenues were lower than our expectations as customers delayed spending due to the widespread slowdown in IT spending and the deferral of late-quarter purchasing decisions. Like many other software companies, we reduced our revenue expectations for the fourth quarter and for the fiscal year 2002. Based upon the impact of these reduced revenue expectations, management evaluated our current business and made significant changes, resulting in a restructuring plan for our operations. This restructuring plan included a reduction in headcount, a substantial decrease in discretionary spending and a sharpening of our e-business focus to emphasize our marketplace solutions and PetroVantage.

Close-down/consolidation of facilities: *Approximately $2.8 million of the restructuring charge related to the termination of facility leases and other lease-related costs. The facility leases had remaining terms ranging from one month to six years. The amount accrued reflects our best estimate of the actual costs to buy-out leases or to sublease the underlying properties. Included in this amount is the write-off of certain assets, primarily leasehold improvements.*

Employee severance, benefits and related costs: *Approximately $3.2 million of the restructuring charge related to the reduction in headcount. Approximately 100 employees, or 5% of the workforce, were eliminated under the changes to the business plan implemented by management. Areas impacted included sales and marketing, services, research and development, and general and administrative.*

Write-off of assets: *Approximately $1.0 million of the restructuring and other charges related to the write-off of the investment in e-business initiatives that were abandoned as a direct consequence of the change in business plan. The write-off was based on the residual amount remaining after our receipt of cash in winding down some of the e-business initiatives in which we participated.*

Adjustments to previously recorded restructuring charges. *In March 2002, due to revised sub-lease assumptions at one of our facilities, we recorded a $0.5 million reversal to the restructuring accrual that had been recorded in the fourth quarter of fiscal 2001. In June 2002, due to revisions to the life of the expected sublease end dates for two facilities, we recorded $0.3 million reversals to both the restructuring accrual that had been recorded in the fourth quarter of fiscal 2001 and in the fourth quarter of fiscal 1999.*

Charge for In-Process Research and Development

Fiscal 2002

In connection with the acquisition of Hyprotech in May 2002, $14.9 million of the purchase price was allocated to in-process research and development projects based upon an independent appraisal. This allocation represented the estimated fair value based on risk-adjusted cash flows related to the incomplete research and development projects. At the date of acquisition, the development of these projects had not yet reached technological feasibility, and the research and development in progress had no alternative future uses. Accordingly, these costs were expensed as of the acquisition date.

At the acquisition date, Hyprotech was conducting design, development, engineering and testing activities associated with the completion of its next-generation product. This project involved developing a new componentized architecture that would

result in a next-generation software suite. In addition, design and development was in progress for the next release cycle for several of Hyprotech's other products. At the acquisition date, the technologies under development ranged from 25 to 74 percent complete based on engineering man-month data and technological progress. Anticipated completion dates ranged from three months to two years at an estimated cost of $19.3 million.

In making this purchase price allocation, we considered present value calculations of income, an analysis of project accomplishments and remaining outstanding items and an assessment of overall contributions, as well as project risks. The values assigned to purchased in-process technology were determined by estimating the costs to develop the acquired technologies into commercially viable products, estimating the resulting net cash flows from the projects, and discounting the net cash flows to their present values. The revenue projections used to value the in-process research and development were based on estimates of relevant market sizes and growth factors, expected trends in technology, and the nature and expected timing of new product introductions by us and our competitors. The resulting net cash flows from the projects are based on estimates of cost of sales, operating expenses and income taxes from the projects. The rates utilized to discount the net cash flows to their present value were based on estimated cost of capital calculations. Due to the nature of the forecasts and the risks associated with the projected growth and profitability of the developmental projects, discount rates of 20 to 40 percent were considered appropriate for the in-process research and development. Risks related to the completion of technology under development include the inherent difficulties and uncertainties in achieving technological feasibility, anticipated levels of market acceptance and penetration, and market growth rates and risks related to the impact of potential changes in future target markets.

Fiscal 2001

In connection with the acquisitions of ICARUS, Broner, certain assets and technologies of an Internet-based trading company, the Houston Consulting Group and Coppermine during fiscal 2001, approximately $9.9 million of the aggregate purchase prices were allocated to in-process research and development projects based upon independent appraisals. These allocations represented the estimated fair value based on risk-adjusted cash flows related to the incomplete research and development projects. At the dates of acquisition, the development of these projects had not yet reached technological feasibility, and the research and development in progress had no alternative future uses. Accordingly, these costs were expensed as of the acquisition dates.

At the acquisition date, ICARUS was conducting design, development, engineering and testing activities associated with the completion of its next-generation product. This project involved developing a framework that will unify ICARUS' cost engine technology and user modules into one seamless architecture. At the acquisition date, the technologies under development ranged from 15 to 80 percent complete based on engineering man-month data and technological progress. Anticipated completion dates ranged from five to twelve months at an estimated cost of $0.5 million. During fiscal 2002, development of this product was completed, with costs incurred at or near the original estimate.

At the acquisition date, Broner was conducting design, development, engineering and testing activities associated with the completion of several new additions to their product suite. The addition of these modules broadened Broner's product offerings to customers. At the acquisition date, the technologies under development ranged from 70 to 80 percent complete based on engineering man-month data and technological progress. Anticipated completion dates ranged from four to six months at an estimated cost of $0.4 million. During fiscal 2002, development of these products was completed, with costs incurred at or near the original estimates.

At the acquisition date, the Internet-based trading company from which we purchased certain assets and technology was conducting design, development, engineering and testing activities associated with the completion of its next-generation e-commerce solution. The effort entailed redirecting technology and (productizing) certain offerings to attract a broader base of customers. At the acquisition date, the technologies under development ranged from 60 to 80 percent complete based on engineering man-month data and technological progress. Anticipated completion dates ranged from two to four months at an estimated cost of $1.1 million. During fiscal 2002, development of this product was completed, with costs incurred at or near the original estimate.

At the acquisition date, the process applications division of CPU was conducting design, development, engineering and testing activities associated with its software, which facilitates integration of plant-centric applications in a real-time environment and connects to a range of applications including our software, ERP systems and relational databases. At the

acquisition date, the technologies under development ranged from 10 to 90 percent complete based on engineering man-month data and technological progress. Anticipated development costs are $0.3 million over a seven-month period. During fiscal 2002, development of these technologies was completed, with costs incurred at or near the original estimates.

At the acquisition date, the Houston Consulting Group was conducting design, development, engineering and testing activities associated with its Orion refinery scheduling software, which will extend our supply chain planning and scheduling solutions for the petroleum industry. The efforts consisted primarily of development of additional capabilities in the blending and scheduling aspects of the Orion product family. At the acquisition date, the technologies under development ranged from 15 to 35 percent complete based on engineering man-month data and technological progress. Anticipated development costs are $0.2 million over a five-month period. During fiscal 2002, development of this product was completed, with costs incurred at or near the original estimate.

Interest Income

Interest income is generated from investment of excess cash in short-term and long-term investments and from the license of software pursuant to installment contracts. Under these installment contracts, we offer a customer the option to make annual payments for its term licenses instead of a single license fee payment at the beginning of the license term. Historically, a substantial majority of our engineering software customers have elected to license these products through installment contracts. Included in the annual payments is an implicit interest rate established by us at the time of the license. As we sell more perpetual licenses for manufacturing/supply chain solutions, these sales are being paid for in forms that are generally not installment contracts. If the mix of sales moves away from installment contracts, interest income in future periods will be reduced. We sell a portion of the installment contracts to unrelated financial institutions. The interest earned by us on the installment contract portfolio in any one year is the result of the implicit interest rate established by us on installment contracts and the size of the contract portfolio. Interest income was $6.8 million for fiscal 2002 as compared to $10.3 million in fiscal 2001. This decrease is due to the general decline in interest rates during fiscal 2002 which effected interest earned on installment contracts and our short-term investments.

Interest Expense

Interest expense was incurred under our 5 ¼% convertible debentures, bank line of credit and capital lease obligations. Interest expense in fiscal 2002 increased to $5.6 million from $5.5 million in fiscal 2001.

Write-off of Investment

During fiscal 2001 and 2002 we invested $10.8 million in Optimum Logistics Ltd. consisting of cash and stock, of which $2.1 million was refunded in March 2002. This investment entitled us to a minority interest in Optimum Logistics and was accounted for using the cost method. During the fourth quarter of fiscal 2002, we determined that our investment in Optimum Logistics was impaired and this investment of $8.7 million was written-off, in addition to $0.2 million of other write-offs.

During fiscal 2000, we acquired 833,333 shares of e-Chemicals non-voting Series E Preferred Stock for $6.00 per share. This investment entitled us to a minority interest in e-Chemicals and was accounted for using the cost method. During the second quarter of fiscal 2001, we deemed our investment in the stock of e-Chemicals to be worthless and this investment of $5.0 million was written-off.

Foreign Currency Exchange Loss

Foreign currency exchange gains and losses are primarily incurred through the revaluation of receivables denominated in foreign currencies. Foreign currency exchange loss in fiscal 2002 increased to $1.1 million from $0.1 million in fiscal 2001. This increase was due to the weakening of the U.S. dollar against European currencies and translation losses attributable to Hyprotech's receivables during the month of June for which we had not yet implemented an effective hedging policy.

Income on Equity in Joint Ventures and Realized Gain on Sales of Investments

Income on equity in joint ventures and realized gain on sales of investments was $0.2 million in fiscal 2002 as compared to $0.8 million in fiscal 2001 and $4,000 in fiscal 2000. In fiscal 2002 this consisted entirely of income on equity in joint ventures. In fiscal 2001, this primarily consisted of $0.6 million of realized gains on the partial sale of two investments and $0.1 million of income on equity in joint ventures.

Provision for/Benefit from Income Taxes

We recorded a provision for income taxes of $2.4 million and a benefit from income taxes of $8.7 million for fiscal 2002 and 2001 respectively. The provision for fiscal 2002 represents income taxes on income generated in certain foreign jurisdictions where we did not have operating loss carryforwards. We generated significant U.S. tax loss carryforwards during both fiscal 2002 and 2001. The provision for fiscal 2002 also included a benefit from income taxes and a corresponding increase in the tax valuation of $8.7 million as discussed below. The appropriate tax rate was 30% in fiscal 2002, 2001 and 2000 respectively.

Under "SFAS No. 109", a deferred tax asset related to the future benefit of a tax loss carryforward should be recorded unless we make a determination that it is "more likely than not" that such deferred tax asset would not be realized. Accordingly, a valuation allowance would be provided against the deferred tax asset to the extent that we cannot demonstrate that it is "more likely than not" that the deferred tax asset will be realized. In determining the amount of valuation allowance required, we consider numerous factors, including historical profitability, estimated future taxable income, the volatility of the historical earnings, and the volatility of earnings of the industry in which we operate. We periodically review our deferred tax asset to determine if such asset is realizable. In fiscal 2002, we concluded, in accordance with "SFAS No. 109", that we should not recognize the full value of our deferred tax asset under the "more likely than not" test and therefore increased the amount of the valuation allowance. See Note 10 of Notes to Consolidated Financial Statements.

Quarterly Results

Our operating results and cash flow have fluctuated in the past and may fluctuate significantly in the future as a result of a variety of factors, including purchasing patterns, timing of introductions of new solutions and enhancements by us and our competitors and fluctuating economic conditions. Because license fees for our software products are substantial and the implementation of our solutions often requires the services of our engineers over an extended period of time, the sales process for our solutions is lengthy and can exceed one year. Accordingly, software revenues are difficult to predict and the delay of any order could cause our quarterly revenues to fall substantially below expectations. Moreover, to the extent that we succeed in shifting customer purchases away from point solutions and toward integrated solutions, the likelihood of delays in ordering may increase and the effect of any delay may become more pronounced.

We ship software products within a short period after receipt of an order and usually do not have a material backlog of unfilled orders of software products. Consequently, revenues from software licenses, including license renewals, in any quarter are substantially dependent on orders booked and shipped in that quarter. Historically, a majority of each quarter's revenues from software licenses has been derived from license agreements that have been consummated in the final weeks of the quarter. Therefore, even a short delay in the consummation of an agreement may cause revenues to fall below expectations for that quarter. Since our expense levels are based in part on anticipated revenues, we may be unable to adjust spending in a timely manner to compensate for any revenue shortfall and any revenue shortfall would likely have a disproportionately adverse effect on net income. We expect that these factors will continue to affect our operating results for the foreseeable future.

The following table presents selected quarterly consolidated statement of operations data for fiscal 2001 and 2002. These data are unaudited but, in our opinion, reflect all adjustments necessary for a fair presentation of these data in accordance with accounting principles generally accepted in the United States.

	Fiscal 2001 Quarter Ending				Fiscal 2002 Quarter Ending			
	Sep. 30	Dec. 31	Mar. 31	June 30	Sep. 30	Dec. 31	Mar. 31	June 30
(In thousands)								
Revenues:								
Software licenses	$32,582	$40,630	$34,224	$ 40,012	$ 19,231	$39,939	$37,380	$ 37,363
Service and other	39,999	45,411	46,093	47,973	46,960	47,057	46,086	46,588
Total revenues	72,581	86,041	80,317	87,985	66,191	86,996	83,466	83,951
Expenses:								
Cost of software licenses	2,565	2,999	3,141	3,151	2,444	3,054	3,165	3,167
Cost of service and other	25,413	28,898	29,589	30,695	30,142	30,261	29,969	29,600
Selling and marketing	24,718	27,704	29,340	31,846	26,624	28,451	29,521	30,629
Research and development	14,992	16,568	18,590	18,763	17,999	17,829	19,585	19,045
General and administrative	6,565	7,600	8,289	8,189	7,422	7,520	8,678	10,638
Restructuring charges	—	—	—	6,969	2,642	—	(500)	13,941
Charges for in-process research and development	5,000	2,615	—	2,300	—	—	—	14,900
Total expenses	79,253	86,384	88,949	101,913	87,273	87,115	90,418	121,920
Income (loss) from operations	(6,672)	(343)	(8,632)	(13,928)	(21,082)	(119)	(6,952)	(37,969)
Interest income, net	1,541	1,328	1,052	878	753	144	103	177
Write-off of investments	—	(5,000)	—	—	—	—	—	(8,923)
Other income (expense), net	(134)	252	(99)	650	(184)	(171)	(152)	(386)
Income (loss) before provision for (benefit from) taxes	(5,265)	(3,763)	(7,679)	(12,400)	(20,513)	(146)	(7,001)	(47,101)
Provision for (benefit from) income taxes	(1,580)	(1,128)	(2,304)	(3,720)	(6,154)	(44)	(2,100)	10,702
Net income (loss)	(3,685)	(2,635)	(5,375)	(8,680)	(14,359)	(102)	(4,901)	(57,803)
Accretion of preferred stock discount and dividend	—	—	—	—	—	—	(4,140)	(2,161)
Net income (loss) applicable to common stockholders	$ (3,685)	$ (2,635)	$ (5,375)	$ (8,680)	$(14,359)	$ (102)	$ (9,041)	$ (59,964)
Basic and diluted income (loss) applicable to common shareholders	$ (0.13)	$ (0.09)	$ (0.18)	$ (0.28)	$ (0.45)	$ 0.00	$ (0.17)	$ (1.60)
Basic and diluted weighted average Shares outstanding	29,181	29,747	30,186	30,572	31,760	31,748	31,948	37,438

Liquidity and Capital Resources

In fiscal 2002, operating activities used $8.1 million of cash primarily as a result of the net loss, which was offset in part by non-cash items such as depreciation and amortization, the write-off of in-process research and development associated with the Hyprotech acquisition and the write-off of our investment in Optimum Logistics. In addition, decreases to accounts receivable and installments receivable, and increases to accounts payable and accrued expenses offset the net loss. In fiscal 2000 and 2001, operating activities provided $28.0 million and used $13.4 million of cash respectively.

In fiscal 2002, investing activities used $102.3 million of cash primarily as a result of cash used in the purchase of Hyprotech, purchases of property and leasehold improvements and an increase in computer software development costs, which were offset in part by the proceeds from the sale of property. In fiscal 2000 and 2001, investing activities used $21.9 million and $13.7 million of cash respectively.

In fiscal 2002, financing activities provided $107.2 million of cash primarily as a result of the issuance of Series B convertible preferred stock, common stock and warrants to purchase common stock. In fiscal 2000 and 2001, financing activities provided $9.0 million and $15.6 million of cash respectively.

Historically, we had financed our operations principally through cash generated from public offerings of our 5¼% convertible debentures and common stock; however, during fiscal 2002, these sources were replaced with private offerings of our Series B convertible preferred stock and common stock, operating activities and the sale of installment contracts to third parties.

In February and March 2002, we issued and sold 40,000 shares of Series B-I convertible preferred stock and 20,000 shares of Series B-II convertible preferred stock, together with warrants to purchase 791,044 shares of common stock, for an aggregate purchase price of $60.0 million. Our net proceeds from these transactions were $56.6 million, after deducting the placement agent fee and our other expenses in connection with the placement. The Series B preferred stock accrues dividends at an annual rate of 4% that is payable quarterly, commencing June 30, 2002, in either cash or common stock, at our option (subject to our satisfaction of specified conditions set forth in our charter). Each share of Series B preferred stock is convertible into a number of shares of common stock equal to the stated value, which initially is $1,000, divided by a conversion price of $19.97 and $17.66 for the Series B-I and Series B-II preferred stock respectively, subject to anti-dilution and other adjustments. As a result, the shares of Series B preferred stock initially were convertible into an aggregate of approximately 3,135,476 shares of common stock. The Series B preferred stock is subject to mandatory redemption on February 7, 2009, to be paid in cash, stock or both, at our option. The stock payment will consist of either common stock or Series C preferred stock, subject to our satisfaction of specified conditions set forth in our charter.

In May 2002, we issued and sold 4,166,665 shares of common stock together with warrants to purchase common stock for an aggregate purchase price of $50 million. Our net proceeds from this transaction were $48.0 million. We issued warrants with five-year lives to purchase up to 750,000 additional shares of common stock at a price of $15.00 per share and also issued a second class of warrants that entitled the investors to purchase, on or prior to July 28, 2002, up to 2,083,333 shares of common stock at a price of $13.20, together with five year warrants to purchase an additional 375,000 shares of common stock at a price of $15.60. The second class of warrants expired unexercised.

Historically, we have had arrangements to sell long-term contracts to two financial institutions, General Electric Capital Corporation and Fleet Business Credit Corporation (formerly Sanwa Business Credit Corporation). These contracts represent amounts due over the life of existing term licenses. During fiscal 2002, installment contracts increased by $34.2 million to $108.7 million, net of $42.7 million of installment contracts sold to General Electric Credit Corporation and Fleet Business Credit Corporation. Included in this net increase is the addition of $40.9 million of installments receivable in connection with the acquisition of Hyprotech. During fiscal 2001, installment contracts increased by $21.3 million to $74.5 million, net of $55.6 million of installment contracts sold to General Electric Capital Corporation and Fleet Business Credit Corporation. Included in this net increase is the addition of $7.2 million of installments receivable in connection with the acquisition of ICARUS. During fiscal 2000, installment contracts decreased by $4.0 million to $53.2 million, net of $28.0 million of installment contracts sold to General Electric Capital Corporation and Fleet Business Credit Corporation. Our arrangements with these two financial institutions provide for the sale of installment contracts up to a maximum of $160.0 million, subject to approval by the institutions, having certain recourse obligations. At June 30, 2002 and June 30, 2001, the balance of the uncollected principal portion of the contracts sold to these two financial institutions was $111.4 million and $108.5 million respectively, for

which we had partial recourse obligations of $7.2 million and $6.2 million respectively. The availability under these arrangements will increase as the financial institutions receive payment on installment contracts previously sold.

We maintain a $30.0 million secured bank line of credit, expiring December 31, 2002, that provides for borrowings of specified percentages of eligible accounts receivable and eligible current installment contracts. Advances under the line of credit bear interest at a rate equal to the bank's prime rate (4.75% at June 30, 2002) or, at our option, a rate equal to a defined LIBOR (2.28% at June 30, 2002) plus a specified margin. Any borrowings under the line of credit must be secured by a pledge of short-term investments or cash, and as a result, this line of credit does not increase the amount of net cash available to us during the term of the facility. The line of credit agreement requires us to provide the bank with certain periodic financial reports and to comply with certain financial tests, including maintenance of minimum levels of consolidated net worth and of the ratio of cash and cash equivalents, accounts receivable and current portion of our long-term installments receivable to current liabilities. As of June 30, 2002, we were not in compliance with certain of the above mentioned covenants. Subsequently, we received a waiver for such non-compliance, covering the period from June 30, 2002 to December 31, 2002. At June 30, 2002, there were no outstanding borrowings under the line of credit. We are currently in negotiations to either: (i) extend this line of credit with our current lender and amend the terms of the facility so that a pledge of short-term investment or cash is not required to secure borrowings; or (ii) obtain a facility from another lender.

As of June 30, 2002, we had cash and cash-equivalents totaling $33.6 million, as well as short-term investments totaling $18.5 million. Our commitments as of June 30, 2002 consisted primarily of leases on our headquarters and other facilities, as well as capital leases for software and equipment. Other than these, there were no other material commitments for capital or other expenditures. Our obligations related to these leases at June 30, 2002 are as follows (in thousands):

	2003	2004	2005	2006	2007	Thereafter
Non-cancellable leases	$22,741	$16,948	$12,062	$11,792	$11,705	$46,456

We believe our current cash balances, availability of sales of our installment contracts and cash flows from our operations will be sufficient to meet our working capital and capital expenditure requirements for at least the next 12 months. However, we may need to obtain additional financing thereafter or earlier, if our current plans and projections prove to be inaccurate or our expected cash flows prove to be insufficient to fund our operations because of lower-than-expected revenues, unanticipated expenses or other unforeseen difficulties. In addition, we may seek to take advantage of favorable market conditions by raising additional funds from time to time through public or private security offerings, debt financings, strategic alliances or other financing sources. Our ability to obtain additional financing will depend on a number of factors, including market conditions, our operating performance and investor interest. These factors may make the timing, amount, terms and conditions of any financing unattractive. They may also result in our incurring additional indebtedness or accepting stockholder dilution. If adequate funds are not available or are not available on acceptable terms, we may have to forego strategic acquisitions or investments, reduce or defer our development activities, or delay our introduction of new products and services. Any of these actions may seriously harm our business and operating results.

Inflation

Inflation has not had a significant impact on our operating results to date and we do not expect inflation to have a significant impact during fiscal 2003.

New Accounting Pronouncements

In November 2001, the Emerging Issues Task Force (EITF) released Issue No. 01-14, "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred". This requires that reimbursement received for out-of-pocket expenses be recorded as revenue and not as a reduction of expenses. This is mandatory for periods beginning after December 15, 2001, thus we adopted the pronouncement during quarter ended March 31, 2002. Reimbursable out-of-pocket expenses totaling $16.3 million and $18.8 million in the years ended June 30, 2001 and 2002 respectively, have been reclassified as service and other revenue and cost of service and other. Because it is impracticable to do so, reimbursable out-of-pocket expenses have not been reclassified for the year ended June 30, 2000.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". Under this statement, one accounting model is required to be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired. This statement broadens the presentation of discontinued operations to include more disposal transactions. This statement is effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. We do not expect that the adoption of SFAS No. 144 will have a material effect on our consolidated financial position or results of operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements SFAS Nos. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections". SFAS No. 145 rescinds Statement No. 4, "Reporting Gains and Losses from Extinguishments of Debt", and an amendment of that Statement, FASB Statement No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements". SFAS No. 145 also rescinds FASB Statement No. 44, "Accounting for Intangible Assets of Motor Carriers". SFAS No. 145 amends FASB Statement No. 13, "Accounting for Leases", to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale leaseback transactions. SFAS No. 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings or describe their applicability under changed conditions. The provision of SFAS No. 145 related to the rescission of Statement No. 4 shall be applied in fiscal year beginning after May 15, 2002. The provisions of SFAS No. 145 related to Statement No. 13 should be for transactions occurring after May 15, 2002. Early application of the provisions of this Statement is encouraged. We do not expect the adoption of SFAS No. 145 will have a significant impact on our consolidated results of operations, financial position or cash flows.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". This statement supersedes EITF No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity". Under this statement, a liability or a cost associated with a disposal or exit activity is recognized at fair value when the liability is incurred rather than at the date of an entity's commitment to an exit plan as required under EITF 94-3. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early adoption permitted. We are currently evaluating the impact that the adoption of SFAS No. 146 will have on our consolidated financial position and results of operations.