(1) Operations

Aspen Technology, Inc. and its subsidiaries (the Company) is a leading supplier of integrated software and services to the process industries, which consist of petroleum, chemicals, pharmaceutical and other industries that provide products from a chemical process. The Company develops two types of software to design, operate, manage and optimize its customers' key business processes: engineering software and manufacturing/supply chain software.

(2) Significant Accounting Policies

(a) Principles of Consolidation

The accompanying consolidated financial statements include the results of operations of the Company and its wholly owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

(b) Cash and Cash Equivalents

Cash and cash equivalents are stated at cost, which approximates market, and consist of short-term, highly liquid investments with original maturities of three months or less.

(c) Short-Term Investments

Securities purchased to be held for indefinite periods of time, and not intended at the time of purchase to be held until maturity, are classified as available-for-sale securities. Securities classified as available-for-sale are included in short-term investments and cash and cash equivalents and are recorded at market value in the accompanying consolidated financial statements. Unrealized gains and losses have been accounted for as a component of comprehensive income (loss). Realized investment gains and losses were not material in fiscal 2000, 2001 or 2002.

In the fourth quarter of fiscal 2001, a $2.0 million investment in Extricity Software, Inc. (Extricity) was converted into a marketable security when Extricity was purchased by Peregrine Systems (see Note 16).

Available-for-sale investments as of June 30, 2001 and 2002 were as follows (in thousands):

		June 30, 2001		June 30, 2002	
Description	Contracted Maturity	Total Market Value	Total Amortized Cost	Total Market Value	Total Amortized Cost
Cash and cash equivalents:					
Cash and cash equivalents	N/A	$25,599	$25,599	$21,835	$21,835
Money market funds	0–3 months	11,034	11,034	11,736	11,736
Total cash and cash equivalents		36,633	36,633	33,571	33,571
Short-term investments:					
Marketable securities	N/A	211	211	—	—
Corporate and foreign bonds	4–12 months	6,020	6,011	13,389	13,381
Corporate and foreign bonds	1–2 years	24,774	24,457	5,160	5,151
Total short term investments		31,005	30,679	18,549	18,532
		$67,638	$67,312	$52,120	$52,103

Short-term investments totaling $14.7 million were held by the bank as compensating balances for outstanding letters of credit as of June 30, 2001 and 2002.

(d) Derivative Instruments and Hedging

Effective July 1, 2000, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133, as amended by SFAS No. 138, requires that all derivatives, including foreign currency exchange contracts, be recognized on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through earnings. If a derivative is a hedge, depending on the nature of the hedge,

changes in the fair value of the derivative are either offset against the change in fair value of assets, liabilities or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is to be immediately recognized in earnings. The adoption of SFAS No. 133 resulted in an immaterial cumulative effect on income and other comprehensive income for the Company.

Forward foreign exchange contracts are used primarily by the Company to hedge certain balance sheet exposures resulting from changes in foreign currency exchange rates. Such exposures primarily result from portions of the Company's installment receivables that are denominated in currencies other than the U.S. dollar, primarily the Japanese Yen and the British Pound Sterling. These foreign exchange contracts are entered into to hedge recorded installments receivable made in the normal course of business, and accordingly, are not speculative in nature. As part of its overall strategy to manage the level of exposure to the risk of foreign currency exchange rate fluctuations, the Company hedges the majority of its installments receivable denominated in foreign currencies.

At June 30, 2002, the Company had effectively hedged $8.5 million of installments receivable and accounts receivable denominated in foreign currency. The Company does not hold or transact in financial instruments for purposes other than risk management. The gross value of the long-term installments receivable that were denominated in foreign currency was $4.7 million at June 30, 2001 and $16.1 million at June 30, 2002, which includes $12.9 million of long-term installments acquired in the purchase of Hyprotech (as discussed in Note 4(a)). The June 2002 installments receivable mature through June 2006. There have been no material gains or losses recorded relating to hedge contracts for the periods presented.

The Company records its foreign currency exchange contracts at fair value in its consolidated balance sheet and the related gains or losses on these hedge contracts are recognized in earnings. Gains and losses resulting from the impact of currency exchange rate movements on forward foreign exchange contracts are designated to offset certain accounts receivable and are recognized as other income or expense in the period in which the exchange rates change and offset the foreign currency losses and gains on the underlying exposures being hedged. During fiscal 2002 the net gain recognized in the consolidated statement of operations was $67,000. A small portion of the forward foreign currency exchange contract is designated to hedge the future interest income of the related receivables. The ineffective portion of a derivative's change in fair value is recognized currently through earnings regardless of whether the instrument is designated as a hedge. The gains and losses resulting from the impact of currency rate movements on forward currency exchange contracts are recognized in other comprehensive income for this portion of the hedge. During fiscal 2002, net loss deferred in other comprehensive income was not material.

The following table provides information about the Company's foreign currency derivative financial instruments outstanding as of June 30, 2002. The information is provided in U.S. dollar amounts, as presented in the Company's consolidated condensed financial statements. The table presents the notional amount (at contract exchange rates) and the weighted average contractual foreign currency rates:

Currency	*Notional Amount*	*Estimated Fair Value**	*Average Contract Rate*
(In thousands)			
Euro	*$2,817*	*$3,183*	*0.89*
British Pound Sterling	*2,615*	*2,736*	*1.46*
Japanese Yen	*2,528*	*2,368*	*118.61*
Swiss Franc	*526*	*574*	*1.62*
Singapore Dollar	*23*	*24*	*1.82*
Total	*$8,509*	*$8,885*	

Payments on the above receivables due during fiscal 2003 equal $6.9 million.

** The estimated fair value is based on the estimated amount at which the contracts could be settled based on the spot rates as of June 30, 2002. The market risk associated with these instruments resulting from currency exchange rate movements is expected to offset the market risk of the underlying installments being hedged. The credit risk is that the Company's banking counterparties may be unable to meet the terms of the agreements. The Company minimizes such risk by limiting its counterparties to major financial institutions. In addition, the potential risk of loss with any one party resulting from this type of credit risk is monitored. Management does not expect any loss as a result of default by other parties. However, there can be no assurances that the Company will be able to mitigate market and credit risks described above.*

(e) Depreciation and Amortization

The Company provides for depreciation and amortization, computed using the straight-line and declining balance methods, by charges to operations in amounts estimated to allocate the cost of the assets over their estimated useful lives, as follows:

Asset Classification	Estimated Useful Life
Building and improvements	7–30 years
Computer equipment	3–5 years
Purchased software	3 years
Furniture and fixtures	3–10 years
Leasehold improvements	Life of lease or asset, whichever is shorter

(f) Revenue Recognition

The Company recognizes revenue in accordance with Statement of Position (SOP) No. 97-2, "Software Revenue Recognition", as amended and interpreted. License revenue, including license renewals, consists principally of revenue earned under fixed-term and perpetual software license agreements and is 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 (VSOE) of fair value exists for all undelivered elements. The Company determines 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 the Company charges its customers when the Company sells its 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. Revenue 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, "Modification of SOP 97-2, 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. The Company has established sufficient VSOE for professional services, training and maintenance and support services. Accordingly, software license revenue is recognized under the residual method in arrangements in which software is licensed with professional services, training and maintenance and support services. The Company uses installment contracts as a standard business practice and has a history of successfully collecting under the original payment terms without making concessions on payments, products or services.

Maintenance and support services 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. The Company does not provide specified upgrades to its customers in connection with the licensing of its 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 revenue 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.

Installments receivable represent the present value of future payments related to the financing of noncancellable term and perpetual license agreements that provide for payment in installments, generally over a one- to five-year period. A portion of each installment agreement is recognized as interest income in the accompanying consolidated statements of operations. The interest rates utilized for the years ended June 30, 2000, 2001 and 2002 ranged from 7.0% to 9.0%.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements". SAB 101 provides guidance on the recognition, disclosure and presentation of revenue

in financial statements. The adoption of SAB 101 by the Company in the fourth quarter of the fiscal year ended June 30, 2001 did not have a material impact on the Company's financial position, results of operations or cash flows.

(g) Computer Software Development Costs

Certain computer software development costs are capitalized in the accompanying consolidated balance sheets. Capitalization of computer software development costs begins upon the establishment of technological feasibility. Historically, in accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or otherwise Marketed", the Company has defined the establishment of technological feasibility as the development of a working model. Beginning in May 2002, with the adoption of a new development process, the Company defines the establishment of technological feasibility as the completion of a detail program design. Amortization of capitalized computer software development costs is provided on a product-by-product basis using the straight-line method, beginning upon commercial release of the product and continuing over the remaining estimated economic life of the product, not to exceed three years. Total amortization expense charged to operations was approximately $3.1 million, $4.1 million and $4.6 million in fiscal 2000, 2001 and 2002 respectively.

(h) Foreign Currency Translation

The financial statements of the Company's foreign subsidiaries are translated in accordance with SFAS No. 52, "Foreign Currency Translation". The determination of functional currency is based on the subsidiaries' relative financial and operational independence from the Company. Foreign currency exchange gains or losses for certain wholly owned subsidiaries are credited or charged to the accompanying consolidated statements of operations since the functional currency of the subsidiaries is the U.S. dollar. Foreign currency transaction gains or losses are credited or charged to the accompanying consolidated statements of operations as incurred. Gains and losses from foreign currency translation related to entities whose functional currency is their local currency are credited or charged to the accumulated other comprehensive income (loss) account, included in stockholders' equity in the accompanying consolidated balance sheets.

(i) Net Income (Loss) per Share

Basic earnings per share was determined by dividing net income (loss) attributable to common shareholders by the weighted average common shares outstanding during the period. Diluted earnings per share was determined by dividing net income (loss) attributable to common shareholders by diluted weighted average shares outstanding. Diluted weighted average shares reflects the dilutive effect, if any, of potential common shares. To the extent their effect is dilutive, potential common shares include common stock options, restricted stock and warrants, based on the treasury stock method, convertible preferred stock, based on the if-converted method, and other commitments to be settled in common stock. The calculations of basic and diluted net income (loss) attributable to common shareholders per share and basic and diluted weighted average shares outstanding are as follows (in thousands, except per share data):

Years Ended June 30,	2000	2001	2002
Net income (loss) attributable to common shareholders	$ 5,428	$(20,375)	$(83,466)
Basic weighted average common shares outstanding	28,221	29,941	32,308
Weighted average potential common shares	2,564	—	—
Diluted weighted average shares outstanding	30,785	29,941	32,308
Basic net income (loss) attributable to common shareholders per share	$ 0.19	$ (0.68)	$ (2.58)
Diluted net income (loss) attributable to common shareholders per share	$ 0.18	$ (0.68)	$ (2.58)

The following dilutive effect of potential common shares was excluded from the calculation of dilutive weighted average shares outstanding as their effect would be anti-dilutive (in thousands):

Years Ended June 30,	2000	2001	2002
Convertible debt	1,628	1,628	1,628
Convertible preferred stock	—	—	1,113
Obligation subject to common stock settlement	—	—	1,043
Preferred stock dividend, to be settled in common stock	—	—	23
Options, restricted stock and warrants	—	2,897	1,173
Total	1,628	4,525	4,980

(j) Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions 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 results could differ from those estimates.

(k) Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk are principally cash and cash equivalents, investments, accounts receivable and installments receivable. The Company places its cash and cash equivalents and investments in highly rated institutions. Concentration of credit risk with respect to receivables is limited to certain customers (end users and distributors) to which the Company makes substantial sales. To reduce risk, the Company routinely assesses the financial strength of its customers, hedges specific foreign installments receivable and routinely sells its installments receivable to financial institutions with limited recourse and without recourse. As a result, the Company believes that the accounts and installments receivable credit risk exposure is limited. As of June 30, 2001 and 2002, the Company had no customers that represented 10% of total accounts receivable.

(l) Allowance for Doubtful Accounts

The Company makes judgments as to its 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, the Company analyzes its historical collection experience and current economic trends.

(m) Financial Instruments

Financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, installments receivable and foreign exchange contracts. The estimated fair value of these financial instruments approximates their carrying value and, except for accounts receivable and installments receivable, is based primarily on market quotes.

(n) Intangible Assets, Goodwill and Impairment of Long-Lived Assets

In June 2001 the Financial Accounting Standards Board (FASB) issued SFAS No. 142, "Goodwill and Other Intangible Assets". This statement supercedes Accounting Principles Board (APB) Opinion No. 17, "Intangible Assets", and applies to goodwill and intangible assets previously acquired. Under this statement, goodwill as well as certain other intangible assets determined to have an indefinite life are no longer being amortized. Instead, these assets are reviewed for impairment on a periodic basis.

Pursuant to this statement, the Company elected early adoption effective July 1, 2001. Accordingly, the Company stopped amortizing goodwill and acquired assembled workforce, now classified jointly as goodwill, associated with past acquisitions. The Company assessed these assets for impairment as of January 1, 2002 and believes that these assets are not impaired.

Intangible assets subject to amortization consist of the following at June 30, 2001 and 2002 (in thousands):

		June 30, 2001		June 30, 2002	
Asset Class	Estimated Useful Life	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Acquired technology	3–5 years	$27,714	$8,542	$53,469	$13,683
Uncompleted contracts	4 years	936	936	1,936	957
Trade name	10 years	766	425	766	498
Other	3–12 years	166	67	166	94
		$29,582	$9,970	$56,337	$15,232

Aggregate amortization expense for intangible assets subject to amortization was $1.4 million, $3.5 million and $5.3 million for the years ended June 30, 2000, 2001 and 2002 respectively, and is expected to be $9.8 million, $9.1 million, $9.0 million, $8.2 million and $4.8 million in each of the next five fiscal years respectively.

The changes in the carrying amount of the goodwill by reporting unit for the year ended June 30, 2002 were as follows (in thousands):

	Reporting Unit			
Asset Class	License	Consulting Services	Maintenance and Training	Total
Carrying amount as of June 30, 2001	$21,078	$ 944	$ 2,330	$24,352
Goodwill acquired during fiscal 2002	46,590	4,341	8,692	59,623
Effect of exchange rates used for translation	245	11	27	283
Carrying amount as of June 30, 2002	$67,913	$5,296	$11,049	$84,258

The pro forma effect on prior year earnings of excluding goodwill and acquired assembled workforce amortization expense, net of tax, is as follows:

	2000	2001	2002
Reported net income (loss) attributable to common shareholders	$5,428	$(20,375)	$(83,466)
Add back: Goodwill and acquired assembled workforce amortization	727	1,840	—
Adjusted net income (loss)	$6,155	$(18,535)	$(83,466)
Basic income per common share			
Reported net income (loss)	$ 0.19	$ (0.68)	$ (2.58)
Goodwill and acquired assembled workforce amortization	0.03	0.06	—
Adjusted net income (loss)	$ 0.22	$ (0.62)	$ (2.58)
Income per common share assuming full dilution			
Reported net income (loss)	$ 0.18	$ (0.68)	$ (2.58)
Goodwill and acquired assembled workforce amortization	0.02	0.06	—
Adjusted net income (loss)	$ 0.20	$ (0.62)	$ (2.58)

The Company evaluates its long-lived assets, which include property and leasehold improvements and intangible assets, for impairment as events and circumstances indicate that the carrying amount may not be recoverable and at a minimum at each balance sheet date. The Company evaluates the realizability of its long-lived assets based on profitability and undiscounted cash flow expectations for the related asset or subsidiary. See Note 3 for discussion regarding restructuring and other charges.

(o) Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Comprehensive income (loss) is disclosed in the accompanying consolidated statements of stockholders' equity. The components of accumulated other comprehensive income (loss) as of June 30, 2001 and 2002 are as follows (in thousands):

	2001	2002
Unrealized gain (loss) on investments, net of taxes	$ 324	$ 127
Cumulative translation adjustment	(5,075)	(2,809)
Total accumulated other comprehensive income (loss)	$(4,751)	$(2,682)

(p) Recently Issued 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 the Company 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. The Company does not expect that the adoption of SFAS No. 144 will have a material effect on its 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. The Company does not expect that the adoption of SFAS No. 145 will have a significant impact on its 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. The Company is currently evaluating the effect that the adoption of SFAS No. 146 will have on its consolidated financial position and results of operations.

(3) Restructuring and Other Charges

(a) Q4 FY02

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, and is broken-down as follows (in thousands):

	Closedown/ Consolidation of Facilities	Employee Severance, Benefits and Related Costs	Write-off of Assets	Total
Restructuring charge	$4,901	$ 8,285	$ 1,169	$14,355
Write-off of asset	—	—	(1,169)	(1,169)
Fiscal 2002 payments	—	(1,849)	—	(1,849)
Accrued expenses, June 30, 2002	$4,901	$ 6,436	$ —	$11,337

The Company expects that the remaining obligations will be paid-out by December 2010.

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 is an 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 the Company will no longer support and sell.*

(b) Q1 FY02

During August 2001, in light of further economic uncertainties, Company management made a decision to further reduce spending. This reduction primarily consisted of a reduction in worldwide headcount of approximately 100 employees, or 5% of the workforce, affecting such areas as sales and marketing, services, research and development, and general and administrative. As a result of these measures, the Company recorded a restructuring charge of $2.6 million in the quarter ending September 30, 2001, as follows (in thousands):

	Employee Severance, Benefits and Related Costs	Other	Total
Restructuring charge	$ 2,466	$ 176	$ 2,642
Fiscal 2002 payments	(2,457)	(157)	(2,614)
Adjustment	135	—	135
Accrued expenses, June 30, 2002	$ 144	$ 19	$ 163

The Company expects that the remaining obligations will be paid-out by September 2002.

The adjustment relates to the final settlement of employee severance obligations in excess of the original estimate.

(c) Q4 FY01

In the third quarter of fiscal 2001 the revenues realized by the Company were reduced from the Company's expectations as customers delayed spending in the widespread slowdown in information technology spending and the deferral of late-quarter purchasing decisions. Like many other software companies, the Company reduced its revenue expectations for the fourth quarter and for the fiscal year 2002 until revenue visibility and predictability improved. Based on these reduced revenue expectations Company management evaluated the business plan and made significant changes, resulting in a restructuring plan for the Company's operations. This restructuring plan included a reduction in headcount, a substantial decrease in discretionary spending and a sharpening of the Company's e-business focus to emphasize its marketplace solutions, and resulted in a pre-tax restructuring charge totaling $7.0 million. The restructuring charge is broken down as follows (in thousands):

	Closedown/ Consolidation of Facilities	Employee Severance, Benefits and Related Costs	Write-off of Assets	Total
Restructuring charge	$2,774	$ 3,148	$ 1,047	$ 6,969
Write-off of asset	—	—	(1,047)	(1,047)
Fiscal 2001 payments	(114)	(1,878)	—	(1,992)
Accrued expenses, June 30, 2001	2,660	1,270	—	3,930
Adjustments — revised assumptions	(800)	—	—	(800)
Fiscal 2002 payments	(723)	(1,217)	—	(1,940)
Accrued expenses, June 30, 2002	$1,137	$ 53	$ —	$ 1,190

The Company expects that the remaining obligations will be paid-out by March 2008.

Close-down/consolidation of facilities: *Approximately $2.8 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 one month to six years. The amount accrued reflects the Company's best estimate of the actual costs to buy out the leases in certain cases or the net cost to sublease the properties in other cases. Included in this amount is the write-off of certain assets, primarily leasehold improvements. The adjustments to the accrual that occurred in fiscal 2002 relate to revisions made to sub-lease assumptions.*

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

Write-off of assets: *Approximately $1.0 million of the restructuring and other charges relates to the impairment of an investment in certain e-business initiatives that the Company will no longer support as a direct consequence of the change in business plan.*

(d) Q4 FY99

In the fourth quarter of fiscal 1999, the Company experienced a significant slow down in certain of its businesses due to difficulties that customers in its core vertical markets of refining, chemicals and petrochemicals were experiencing. These markets were experiencing a significant decrease in pricing for their products, which significantly reduced their revenues and related cash inflows. In turn, these companies began to reduce their capital spending and lengthened the evaluation and decision-making cycle for purchases. The impact of this on the Company was dramatic, lowering license revenues from expected levels by a significant amount. Based on these reduced revenues, Company management made significant changes to the business plan, resulting in a restructuring plan. The restructuring plan resulted in a pre-tax restructuring charge totaling $17.9 million. The restructuring and other charges are broken down as follows (in thousands):

	Closedown/ Consolidation of Facilities	Employee Severance, Benefits and Related Costs	Write-off of Assets	Other	Total
Restructuring and other charges	$10,224	$ 4,324	$ 3,060	$ 259	$17,867
Write-off of assets, and other	(5,440)	—	(3,060)	(101)	(8,601)
Fiscal 1999 payments	(24)	(2,386)	—	(57)	(2,467)
Accrued expenses, June 30, 1999	4,760	1,938	—	101	6,799
Fiscal 2000 payments	(1,408)	(1,462)	—	(97)	(2,967)
Accrued expenses, June 30, 2000	3,352	476	—	4	3,832
Fiscal 2001 payments	(1,484)	(126)	—	—	(1,610)
Accrued expenses, June 30, 2001	1,868	350	—	4	2,222
Adjustment — revised assumptions	(250)	—	—	—	(250)
Fiscal 2002 payments	(1,243)	(350)	—	(4)	(1,597)
Accrued expenses, June 30, 2002	$ 375	$ —	$ —	$ —	$ 375

The Company expects that the remaining obligations will be paid-out by December 2004.

Close-down/consolidation of facilities: *Approximately $10.2 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 one month to six years. The amount accrued reflects the Company's best estimate of actual costs to buy out the leases in certain cases or the net cost to sublease the properties in other cases. Included in this amount is the write-off of certain assets, primarily building and leasehold improvements and adjustments to certain obligations that relate to the closing of facilities. The adjustment of the accrual during fiscal 2002 is due to a revision in some of the original sublease assumptions.*

Employee severance, benefits and related costs: *Approximately $4.3 million of the restructuring charge relates to the reduction in workforce. Approximately 200 employees, or 12% of the workforce, were eliminated as the Company rationalized its product and service offerings against customer needs in various markets.*

Write-off of assets: *Approximately $3.1 million of the restructuring and other charges relates to the write-off of certain assets that had been determined to be of no further value to the Company as a direct consequence of the change in the business plans that have been made as a result of the restructuring. These business plan changes are the result of management's assessment and rationalization of certain non-core products and activities acquired in recent years. The write-off was based on management's assessment of the current fair value of certain assets, including intangible assets, and their resale value, if any.*

(4) Acquisitions

(a) Acquisitions During Fiscal Year 2002

On May 31, 2002, the Company acquired Hyprotech Ltd. and related subsidiaries of AEA Technology plc (collectively, Hyprotech), a market leader in providing software and service solutions designed to improve profitability and operating performance for process industry clients by simulating plant design and operations. The Company acquired 100% of the outstanding capital of Hyprotech for a purchase price of approximately $106.1 million, consisting of $96.6 million in cash, $1.1 million in accrued exit costs, and $8.4 million in transaction costs. This acquisition was accounted for as a purchase, and accordingly, the results of operations from the date of acquisition are included in the Company's consolidated statements of operations commencing as of the acquisition date.

The purchase price was allocated to the fair market value of assets acquired and liabilities assumed, as follows (in thousands):

Description	Amount	Life
Purchased in-process research and development	$ 14,900	—
Goodwill	57,512	—
Acquired technology	23,800	5 years
Customer contracts	1,000	4 years
	97,212	
Net book value of tangible assets acquired, less liabilities assumed	16,284	
	113,496	
Less — Deferred taxes	7,440	
Total purchase price	$106,056	

The following table represents selected unaudited pro forma combined financial information for the Company and Hyprotech, assuming the companies had combined at the beginning of fiscal 2001 (in thousands, except per share data):

Years Ended June 30,	2001	2002 (1)
Pro forma revenue	$375,701	$366,426
Pro forma net income (loss)	(21,327)	(69,811)
Pro forma net income (loss) applicable to common shareholders	(21,327)	(76,112)
Pro forma earnings (loss) per share applicable to common shareholders	$ (0.63)	$ (2.12)
Pro forma weighted average common shares outstanding	34,108	35,912

(1) Does not reflect the charge for in-process research and development

Pro forma results are not necessarily indicative of either actual results of operations that would have occurred had the acquisition been made at the beginning of fiscal 2001 or of future results.

On April 30, 2002, the Company acquired 100% of Richardson Engineering Services, Inc. (Richardson) and Skelton & Plummer Project Engineering, PTY Limited (S&P). Richardson is a provider of construction cost estimation software and data, while the group of employees acquired from S&P will expand the scope of sales and service in sub-Saharan Africa.

These acquisitions were accounted for as purchase transactions, and accordingly, the results of operations from the dates of acquisition are included in the Company's consolidated condensed statements of operations commencing as of the acquisition dates. Total purchase price for these acquisitions was approximately $3.2 million, consisting of $3.1 million in cash and $0.1 million in acquisition-related costs.

The purchase prices were allocated to the fair market value of assets acquired and liabilities assumed, as follows (in thousands):

Description	Amount	Life
Goodwill	$2,112	—
Acquired technology	1,510	5 years
	3,621	
Net book value of tangible assets acquired, less liabilities assumed	(445)	
Total purchase price	$3,176	

Pro forma information related to these acquisitions is not presented, as the effect of these acquisitions was not material.

(b) Acquisitions During Fiscal Year 2001

On August 29, 2000, the Company acquired ICARUS Corporation and ICARUS Services Limited (together, ICARUS), a market leader in providing software that is used by process manufacturing industries to estimate plant capital costs and evaluate project economics. The Company acquired 100% of the outstanding shares and options to purchase shares of ICARUS for a purchase price of approximately $24.9 million, consisting of $12.4 million in shares of the Company's stock, $9.0 million in cash and $2.1 million in promissory notes, and $1.4 million in transaction costs. This acquisition was accounted for as a purchase, and accordingly, the results of operations from the date of acquisition are included in the Company's consolidated statements of operations commencing as of the acquisition date.

The purchase price was allocated to the fair market value of assets acquired and liabilities assumed, as follows (in thousands):

Description	Amount	Life
Purchased in-process research and development	$ 5,000	—
Goodwill	7,011	6 years
Acquired technology	7,000	6 years
Other intangibles	300	2 years
	19,311	
Net book value of tangible assets acquired, less liabilities assumed	8,340	
	27,651	
Less — Deferred taxes	2,701	
Total purchase price	$24,950	

In the second quarter of fiscal 2001, the Company acquired the outstanding stock of Broner Systems (Broner) and certain assets of an Internet-based trading company. These acquisitions were accounted for as purchase transactions, and accordingly, the results of operations from the dates of acquisition are included in the Company's consolidated condensed statements of operations commencing as of the acquisition dates. Total purchase price for these acquisitions was approximately $10.9 million, consisting of $9.5 million in cash, $0.9 million in shares of the Company stock and $0.5 million in acquisition-related costs. Broner specializes in advanced planning and scheduling software specifically designed for the metals industry.

The purchase prices were allocated to the fair market value of assets acquired and liabilities assumed, as follows (in thousands):

Description	Amount	Life
Purchased in-process research and development	$ 2,615	—
Acquired technology	4,400	3–5 years
Goodwill	2,631	5–7 years
Other intangibles	780	3 years
	10,426	
Net book value of tangible assets acquired, less liabilities assumed	1,904	
	12,330	
Less — Deferred taxes	1,434	
Total purchase price	$10,896	

On June 15, 2001, the Company acquired the technology assets of the Houston Consulting Group and the process applications division of CPU, a New Orleans-based consulting firm. These acquisitions were accounted for as purchase transactions, and accordingly, the results of operations from the dates of acquisition are included in the Company's consolidated condensed statements of operations commencing as of the acquisition dates. Total purchase price for these acquisitions was approximately $20.3 million, consisting of $17.5 million in shares of the Company's stock, $1.2 million in cash, $0.8 million in stock options held by employees, as valued under the provisions of FIN 44, and $0.8 million in acquisition-related costs.

The purchase prices were allocated to the fair market value of assets acquired and liabilities assumed, as follows (in thousands):

Description	Amount	Life
Purchased in-process research and development	$ 2,300	—
Goodwill	9,856	5 years
Acquired technology	7,900	3–5 years
Other intangibles	500	3 years
	20,556	
Net book value of tangible assets acquired, less liabilities assumed	(273)	
Total purchase price	$20,283	

Pro forma information related to these acquisitions is not presented, as the effect of these acquisitions was not material.

(c) Acquisitions During Fiscal Year 2000

On June 1, 2000, the Company acquired Petrolsoft Corporation and subsidiary (Petrolsoft), a supplier of web-enabled supply chain software for the downstream petroleum industry. The Company exchanged 2,641,101 shares of its common stock for all of the outstanding shares of Petrolsoft. The Company placed 132,054 of these shares into escrow as security for indemnification obligations of Petrolsoft relating to representation, warranties and other matters, as defined. This merger was accounted for as a pooling-of-interests. Accordingly, the consolidated financial statements of the Company for fiscal 2000 had been restated to give retroactive effect to the combination of Petrolsoft. The Company incurred approximately $1.5 million of expenses related to this acquisition, which were charged to operations in the year ended June 30, 2000. Prior to the acquisition, Petrolsoft was an S-Corporation and subject only to certain state franchise taxes. As such, the consolidated financial statements reflect the historical Petrolsoft dividends that were distributed to the S-Corporation shareholders in accordance with Petrolsoft's historical policy in order to meet the shareholders' personal income tax obligations.

The following information details the results of operations of the Company and Petrolsoft for the year ended June 30, 2000 (in thousands, except for per share data):

Revenue	
The Company	*$263,460*
Petrolsoft	*4,633*
Combined	*$268,093*
Net income (loss)	
The Company	*$ 5,591*
Petrolsoft	*(163)*
Combined	*$ 5,428*
Net income (loss) per share	
Diluted	
The Company	*$ 0.20*
Petrolsoft	*$ (0.06)*
Combined	*$ 0.18*
Net income (loss) per share	
Basic	
The Company	*$ 0.22*
Petrolsoft	*$ (0.06)*
Combined	*$ 0.19*

On June 8, 2000, the Company acquired M2R, SA (M2R), a leading provider of manufacturing execution software for the life sciences and consumer packaged goods-related industries. The Company acquired 100% of the outstanding shares of M2R for a purchase price of approximately $2.1 million. This acquisition was accounted for as a purchase, and accordingly, the results of operations from the date of acquisition are included in the Company's consolidated statements of operations. Pro forma information related to this acquisition is not presented as it is not material. The purchase price was allocated to the fair market value of assets acquired and liabilities assumed as follows (in thousands):

Description	*Amount*	*Life*
Acquired technology	*$1,230*	*3 years*
Goodwill	*946*	*5 years*
	2,176	
Net book value of tangible assets acquired, less liabilities assumed	*184*	
	2,360	
Less — Deferred taxes	*275*	
Total purchase price	*$2,085*	

(d) Purchase Price Allocation

Allocation of the purchase prices for all acquisitions were based on estimates of the fair value of the net assets acquired. The fair market value of significant intangible assets acquired was based on independent appraisals. In making each of these purchase price allocations, the Company 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 the Company and its 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 costs 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, market growth rates and risks related to the impact of potential changes in future target markets.

(5) Line of Credit

The Company maintains 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 the Company's 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. 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, the Company was not in compliance with certain of the above mentioned covenants. Subsequently, the Company 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.

(6) Long-Term Obligations

Long-term obligations consist of the following at June 30, 2001 and 2002 (in thousands):

	2001	2002
Capital lease obligations related to the purchase of property and equipment due in various monthly installments of principal plus interest at interest rates ranging from 6.0% to 10.3% per year, maturing through February 2005	$ —	$ 7,594
Mortgage payable of a UK subsidiary due in annual installments of approximately $91 plus interest at 6% per year	885	866
Note payable of a Belgian subsidiary with annual installments of approximately $126 through June 2012, plus interest ranging from 8.5% to 10%, payable in June 2010, 2011, and 2012	989	1,030
Note payable of a UK subsidiary due in monthly installments of approximately $50 plus interest at 9% per year	—	992
Mortgages payable of a U.S. subsidiary due in aggregate monthly installments of $3 plus interest of 5.3% and 9.5% per year	—	366
Note payable to the former Richardson owners, due in fiscal 2003, interest payable at an annual rate of 12%	—	188
Convertible Debenture of a Belgian subsidiary due in fiscal 2003, interest payable at an annual rate of 6%. This note is convertible into approximately 7,500 shares of the Company's common stock at the option of the holder	189	74
Credit arrangement of a Belgian subsidiary with a bank	211	—
Promissory note due to former ICARUS shareholder in August 2001, interest payable at an annual rate equal to prime rate	2,095	—
Other obligations	69	109
	4,438	11,219
Less — Current portion	2,539	5,334
	$1,899	$ 5,885

Maturities of these long-term obligations are as follows (in thousands):

Years Ending June 30,	Amount
2003	$ 5,334
2004	4,016
2005	689
2006	312
2007	300
Thereafter	568
	$11,219

The mortgage payable of the UK subsidiary and the capital lease obligations are collateralized by the property and equipment to which they relate.

(7) 5¼% Convertible Subordinated Debentures

In June 1998, the Company sold $86.3 million of 5¼% Convertible subordinated debentures (the Debentures) to qualified institutional buyers which mature on June 15, 2005. The Company has determined the fair value of the debentures based on the current trading prices to be $68.1 million at June 30, 2002. The Debentures are convertible into shares of the Company's common stock at any time prior to June 15, 2005, unless previously redeemed or repurchased, at a conversion price of $52.97 per share, subject to adjustment in certain events. Interest on the Debentures is payable on June 15 and December 15 of each year. The Debentures are redeemable in whole or part at the option of the Company at any time on or after June 15, 2001 at the following redemption prices expressed as a percentage of principal plus accrued interest through the date of redemption:

12 Months Beginning June 15 of	Redemption Price
2001	103.00%
2002	102.25%
2003	101.50%
2004	100.75%

In the event of a change of control, as defined, each holder of the Debentures may require the Company to repurchase its Debentures, in whole or in part, for cash or, at the Company's option, for common stock (valued at 95% of the average last reported sale prices for the 5 trading days immediately preceding the repurchase date) at a repurchase price of 100% of the principal amount of the Debentures to be repurchased, plus accrued interest to the repurchase date. The Debentures are unsecured obligations subordinate in right of payment to all existing and future senior debt of the Company, as defined, and effectively subordinate in right of payment to all indebtedness and other liabilities of the Company's subsidiaries. The Company has filed a shelf registration statement in respect of the Debentures and common stock issuable upon conversion thereof.

In connection with this financing, the Company incurred approximately $3.9 million of issuance costs. These costs have been classified as other assets in the accompanying consolidated balance sheets and are being amortized, as interest expense, over the term of the Debentures.

(8) Strategic Alliance

On February 8, 2002 the Company entered into a strategic alliance with Accenture, focused on creating solutions for manufacturing and supply chain execution by chemical and petroleum manufacturers. The Company will work with Accenture to jointly market and promote the developed solutions in the chemicals and petroleum markets and Accenture will become a strategic implementation partner for these solutions. The Company purchased a nonexclusive perpetual license to certain intellectual property owned by Accenture and will purchase certain professional development services relating to the existing intellectual property, over the term of the agreement. The Company will pay $29.6 million for the intellectual property and up to

$7.4 million for the services. Under the original terms of the agreement, these obligations were to be settled with the Company's stock, based upon the 10-day average price of the stock as follows: $18.5 million on June 9, 2002, $11.1 million on August 30, 2002 and $7.4 million on July 1, 2003. In addition, in consideration for the development work, beginning July 1, 2002, the Company will pay Accenture a royalty on sales of the software relating to the alliance arrangement over a four-year period.

The Company recorded a $29.6 million obligation subject to common stock settlement and a corresponding intellectual property asset in the accompanying June 30, 2002 consolidated balance sheet. This asset is being amortized over its estimated life of five years. During fiscal 2002, the Company recorded $2.0 million of amortization, of which $1.0 million was charged to research and development costs and $1.0 million was capitalized as computer software development costs.

Additionally, based on the Accenture services provided during fiscal 2002, the Company recorded a $1.8 million long-term obligation, which is included in long-term debt and obligations on the accompanying March 31, 2002 consolidated condensed balance sheet. Of this amount, $0.9 million was charged to research and development costs and $0.9 million was capitalized as computer software development costs.

In contemplation of the Company's issuance of these shares of common stock, Accenture and the Company entered into a registration rights agreement, under which the Company agreed to register the common stock for sale by Accenture under the Securities Act of 1933 and a stockholder agreement relating to, among other things, the voting and transfer of those shares.

On June 9, 2002, the Company issued 1,642,672 shares of common stock to Accenture, in settlement of the first payment of $18.5 million.

Subsequent to year-end, the Company entered into agreements to amend, effective as of August 16, 2002, several of the existing terms of its strategic alliance with Accenture. Among the amended terms, it was agreed that the Company would pay the $11.1 million of licensing fees in a series of cash installments, rather than by a single cash payment or issuance of common stock on August 30, 2002. Accordingly, $1.1 million of this amount was paid in August 2002 and the remaining $10.0 million will be paid in installments due from November 2002 through July 2003. The unpaid balance of this obligation accrues interest at the rate of 1.5% per month and is secured by a pledge of the Company's patents and software.

(9) Preferred Stock

The Company's Board of Directors is authorized, subject to any limitations prescribed by law, without further stockholder approval, to issue, from time to time, up to an aggregate of 10,000,000 shares of preferred stock in one or more series. Each such series of preferred stock shall have such number of shares, designations, preferences, voting powers, qualifications and special or relative rights or privileges, which may include, among others, dividend rights, voting rights, redemption and sinking fund provisions, liquidation preferences and conversion rights, as shall be determined by the Board of Directors in a resolution or resolutions providing for the issuance of such series. Any such series of preferred stock, if so determined by the Board of Directors, may have full voting rights with the common stock or limited voting rights and may be convertible into common stock or another security of the Company.

In February and March 2002, the Company sold 40,000 shares of Series B-I convertible preferred stock (Series B-I Preferred), and 20,000 shares of Series B-II convertible preferred stock (Series B-II Preferred and collectively with Series B-I Preferred, the Series B Preferred) together with (i) warrants to purchase 507,584 shares of common stock at an initial exercise price of $23.99 per share; and (ii) warrants to purchase 283,460 shares of common stock at an initial exercise price of $20.64 per share, to three institutional investors for an aggregate purchase price of $60.0 million. The Company received approximately $56.6 million in net cash proceeds after closing costs.

Each share of Series B Preferred stock is entitled to vote on all matters in which holders of common stock are entitled to vote, receiving a number of votes equal (subject to certain limitations) to the number of shares of common stock into which it is then convertible.

The Series B Preferred stock accrues dividends at an annual rate of 4% that are payable quarterly, commencing June 30, 2002, in either cash or common stock, at the Company's option (subject to the satisfaction of specified conditions). During the year ended June 30, 2002, the Company accrued $0.9 million associated with this dividend obligation, which was recorded in

additional paid-in capital on the accompanying consolidated balance sheet. On July 1, 2002, the Company issued 116,452 shares of common stock in settlement of its dividend obligations through June 30, 2002.

Each share of Series B-I Preferred stock and Series B-II Preferred stock is convertible into a number of shares of common stock equal to its stated value (initially $1,000 per share) divided by a conversion price of $19.97 and $17.66 respectively. As a result, the shares of Series B-I Preferred and Series B-II Preferred stock initially are convertible into approximately 2,002,974 and 1,132,503 shares of common stock respectively. If the Company issues additional shares of common stock, or instruments convertible or exchangeable for common stock, at an effective net price less than the lesser of (a) $17.75, with respect to the Series B-I Preferred stock, or $15.69 with respect to the Series B-II Preferred stock, and (b) the then-applicable conversion price, the conversion price for the Series B-I Preferred and Series B-II Preferred stock will be reduced to equal that effective net price. These adjustments do not apply to the issuance of common stock or such instruments in specified firm commitment underwritten public offerings, strategic arrangements, mergers or acquisitions, and grants and purchases of securities pursuant to equity incentive plans. Such rights to adjustment were waived with respect to the sale of Common Stock as discussed in Note 10(a). In addition, the conversion prices of the Series B Preferred stock are subject to equitable adjustment in the event of stock splits, stock dividends, distributions, subdivisions or combinations affecting common stock.

The Company may require holders to convert their shares of Series B Preferred stock into common stock if the closing price of the common stock has exceeded 135% of the conversion price for 20 consecutive trading days at any time after the effective date of a registration statement covering the common stock issuable upon conversion.

The Series B Preferred stock is subject to mandatory redemption on February 7, 2009. Beginning on August 7, 2003 and August 28, 2003, holders of Series B-I Preferred stock and Series B-II Preferred stock respectively, may require that the Company redeem up to a total of 20,000 shares of Series B-1 Preferred stock and 10,000 shares of Series B-II Preferred stock if the average closing price of the common stock for the 20 consecutive trading days immediately preceding August 7, 2003 or August 28, 2003 or any date thereafter is below the then-applicable conversion price. Beginning on February 8, 2004 and February 28, 2004, holders of Series B-I Preferred stock and Series B-II Preferred stock respectively, may require that the Company redeem any or all of their remaining shares of Series B Preferred stock. Any such redemption may be made in cash or stock, at the Company's option (subject to the satisfaction of specified conditions set forth in the Company's charter), at a price equal to the stated value, initially $1,000 per share, plus accrued but unpaid dividends. 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 the event of a specified change of control, a holder either may require that the Company redeem shares of Series B Preferred stock at a price equal to 115% of the stated value, plus accrued but unpaid dividends, or may elect to convert shares of Series B Preferred stock into the consideration that the holder would have received had the holder converted the shares of Series B Preferred stock into common stock immediately before the change of control event. If the holder elects to have its Series B Preferred stock redeemed, the Company may either pay the redemption price in cash or elect to have the successor entity issue to the holder a new series of preferred stock with a stated value equal to the redemption price and containing terms substantially equivalent to the terms of the Series B Preferred stock.

The Company allocated the net consideration received from the sale of the Series B Preferred stock between the Series B Preferred stock and the warrants on the basis of the relative fair values at the date of issuance, allocating $8.0 million to the warrants. The warrants are exercisable at any time prior to the fifth anniversary of their issue date. The fair value of the common shares into which the Series B Preferred Stock is convertible on the date of issuance exceeded the proceeds allocated to the Series B Preferred Stock by $3.2 million, resulting in a beneficial conversion feature that was recognized as an increase in additional paid-in-capital and as a discount to the Series B Preferred Stock. This additional discount was immediately accreted through a charge to accumulated deficit. The remaining discount on the Series B Preferred stock is being accreted to its redemption value over the earliest period of redemption. For fiscal 2002, the Company accreted $2.2 million of Series B Preferred stock discount.

(10) Common Stock

(a) Common Stock Financing

In May 2002, the Company issued and sold 4,166,665 shares of common stock together with warrants to purchase common stock to a group of institutional investors and two individuals, for an aggregate purchase price of $50 million. The net proceeds from this transaction were $48.0 million. The Company 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.

(b) Warrants

In connection with the August 1997 acquisition of NeuralWare, Inc., the Company converted warrants to purchase NeuralWare common stock into warrants to purchase 10,980 and 6,618 shares of the Company's common stock respectively. Warrants to purchase 1,259 shares have expired through June 30, 2002. All remaining warrants are currently exercisable with exercise prices that range between $61.73 and $135.80 per share.

In connection with the February and March 2002 sales of Series B convertible preferred stock, the Company issued warrants to purchase 791,044 shares of common stock, as noted above in Note 9. As of June 30, 2002, none of these warrants had been exercised.

In connection with the May 2002 sale of common stock to private investors, the Company issued warrants to purchase up to 3,208,333 shares of common stock, as noted above in Note 10(a). As of June 30, 2002, none of these warrants had been exercised, and subsequent to June 30, 2002 the second class of warrants to purchase up to 2,458,333 shares of common stock expired unexercised.

(c) Stock Options

In November 1995, the Board of Directors approved the establishment of the 1995 Stock Option Plan (the 1995 Plan) and the 1995 Directors Stock Option Plan (the 1995 Directors Plan), which provided for the issuance of incentive stock options and nonqualified options. Under these plans, the Board of Directors may grant stock options to purchase up to an aggregate of 3,827,687 (as adjusted) shares of common stock. Shares available for grant under these plans were increased on July 1, 1996 and 1997 by an amount equal to 5% of the outstanding shares as of the preceding June 30. In December 1997, the shareholders approved an amendment to the 1995 Plan. The amendment provides for three annual increases in the number of shares for which options may be granted, beginning July 1, 1998 by an amount equal to 5% of the outstanding shares on the preceding June 30. On July 1, 1999 and 2000, the number of shares available under the 1995 Plan were increased by 1,247,711 shares and 1,442,398 shares respectively. On December 7, 1999, the number of shares available under the 1995 Directors Plan were increased by 200,000. In December 1996, the shareholders of the Company approved the establishment of the 1996 Special Stock Option Plan (the 1996 Plan). This plan provides for the issuance of incentive stock options and nonqualified options to purchase up to 500,000 shares of common stock. The exercise price of options are granted at a price not less than 100% of the fair market value of the common stock on the date of grant. Stock options become exercisable over varying periods and expire no later than 10 years from the date of grant. As of June 30, 2002, there were 274,973, 58,135 and 12,827 shares of common stock available for grant under the 1995 Plan, the 1995 Directors Plan and the 1996 Plan respectively.

In connection with the acquisition of Petrolsoft during fiscal 2000, the Company assumed the Petrolsoft option plan (the Petrolsoft Plan). Under the Petrolsoft Plan, the Board of Directors of Petrolsoft was entitled to grant either incentive or nonqualified stock options for a maximum of 264,110 shares of common stock to eligible employees, as defined. No future grants are available under the Petrolsoft Plan.

In December 2000, the shareholders approved the establishment of the 2001 Stock Option Plan (the 2001 Plan), which provides for the issuance of incentive stock options and nonqualified options. Under the 2001 Plan, the Board of Directors may grant stock options to purchase up to an aggregate of 4,000,000 shares of common stock. At July 1, 2002 and July 1, 2003, the 2001 Plan will be expanded to cover an additional 5% of the outstanding shares on the preceding June 30, rounded down to the nearest number divisible by 10,000. In no event, however, may the number of shares subject to incentive

options under the 2001 Option Plan exceed 8,000,000 unless the 2001 Plan is amended, and approved, by the shareholders. As of June 30, 2002, there were 3,407,707 shares of common stock available for grant under the 2001 Plan. The following is a summary of stock option activity under the 1995 Plan, the 1995 Directors Plan, the 1996 Plan, the Petrolsoft Plan (as converted into options to purchase the Company's stock) and the 2001 Plan in fiscal 2000, 2001 and 2002:

	Number of Shares	Weighted Average Exercise Price
Outstanding, July 1, 1999	5,356,089	$14.11
Options granted	2,142,942	12.58
Options exercised	(868,412)	9.05
Options terminated	(309,811)	12.68
Outstanding, June 30, 2000	6,320,808	14.32
Options granted	1,649,666	17.97
Options exercised	(978,751)	12.11
Options terminated	(181,086)	15.42
Outstanding, June 30, 2001	6,810,637	15.37
Options granted	707,210	13.29
Options exercised	(185,625)	8.73
Options terminated	(340,977)	16.36
Outstanding, June 30, 2002	6,991,245	$15.29
Exercisable, June 30, 2002	4,576,844	$15.55

The following tables summarize information about stock options outstanding and exercisable under the 1995 Plan, the 1995 Directors' Plan, the 1996 Plan, the Petrolsoft Plan and the 2001 Plan at June 30, 2002:

Range of Exercise Prices	Options Outstanding at June 30, 2002	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable at June 30, 2002	Weighted Average Exercise Price
$ 2.67 – $4.33	167,680	1.3	$ 3.17	167,680	$ 3.17
4.33 – 8.67	1,230,231	7.0	8.25	820,096	8.17
8.67 – 13.00	208,764	6.6	10.51	144,197	10.50
13.00 – 17.34	4,064,717	6.7	14.12	2,505,354	14.30
17.34 – 21.67	211,188	8.2	19.87	91,282	20.19
21.67 – 26.01	285,000	7.1	23.67	207,250	23.75
26.01 – 30.34	490,474	5.6	29.08	412,308	29.04
30.34 – 34.68	211,675	6.7	31.41	146,766	31.66
34.68 – 39.01	55,500	7.9	38.25	36,218	38.28
39.01 – 43.34	66,016	6.4	40.34	45,693	40.34
June 30, 2002	6,991,245	6.6	$15.29	4,576,844	$15.55
Exercisable, June 30, 2001				3,257,982	$15.76
Exercisable, June 30, 2000				2,840,369	$14.70

(d) Fair Value of Stock Options

SFAS No. 123, "Accounting for Stock-Based Compensation", requires the measurement of the fair value of stock options to be included in the statement of income or disclosed in the notes to financial statements. The Company has determined that it will continue to account for stock-based compensation for employees under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", and elect the disclosure-only alternative under SFAS No. 123.

Had compensation cost for the Company's option plans been determined based on the fair value at the grant dates, as prescribed in SFAS No. 123, the Company's net income (loss) attributable to common shareholders, and net income (loss) attributable to common shareholders per share would have been as follows:

	2000	2001	2002
Net income (loss) attributable to common shareholders (in thousands) —			
As reported	$ 5,428	$(20,375)	$ (83,466)
Pro forma	(18,117)	(46,029)	(105,200)
Net income (loss) attributable to common shareholders per share —			
Diluted —			
As reported	$ 0.18	$ (0.68)	$ (2.58)
Pro forma	(0.59)	(1.54)	(3.26)
Basic —			
As reported	$ 0.19	$ (0.68)	$ (2.58)
Pro forma	(0.64)	(1.54)	(3.26)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants during the applicable period:

	2000	2001	2002
Risk free interest rates	5.73 – 6.71%	5.14 – 6.05%	3.91 – 4.39%
Expected dividend yield	None	None	None
Expected life	5 Years	5 Years	5 Years
Expected volatility	86%	101%	72%
Weighted average fair value per option	$11.05	$16.97	$8.00

(e) Employee Stock Purchase Plans

In October 1997, the Company's Board of Directors approved the 1998 Employee Stock Purchase Plan, under which the Board of Directors may grant stock purchase rights for a maximum of 1,000,000 shares through September 30, 2007. In December 2000, the shareholders voted to increase the number of shares eligible under the 1998 Employee Stock Purchase Plan to 3,000,000 shares.

Participants are granted options to purchase shares of common stock on the last business day of each semi-annual payment period for 85% of the market price of the common stock on the first or last business day of such payment period, whichever is less. The purchase price for such shares is paid through payroll deductions, and the current maximum allowable payroll deduction is 10% of each eligible employee's compensation. Under the plan, the Company issued 384,864 shares, 174,463 shares and 313,337 shares during fiscal 2000, 2001 and 2002 respectively. As of June 30, 2002, there were 1,862,836 shares available for future issuance under the 1998 Employee Stock Purchase Plan as amended. In addition, on July 1, 2002, the Company issued 313,055 shares under the 1998 Employee Stock Purchase Plan.

(f) Stockholder Rights Plan

During fiscal 1998, the Board of Directors of the Company adopted a Stockholder Rights Agreement (the Rights Plan) and distributed one Right for each outstanding share of Common Stock. The Rights were issued to holders of record of Common Stock outstanding on March 12, 1998. Each share of Common Stock issued after March 12, 1998 will also include one Right, subject to certain limitations. Each Right when it becomes exercisable will initially entitle the registered holder to purchase from the Company one one-hundredth (1/100th) of a share of Series A Preferred Stock at a price of $175.00 (the Purchase Price).

The Rights will become exercisable and separately transferable when the Company learns that any person or group has acquired beneficial ownership of 15% or more of the outstanding Common Stock or on such other date as may be designated by the Board of Directors following the commencement of, or first public disclosure of an intent to commence, a tender or exchange offer for outstanding Common Stock that could result in the offeror becoming the beneficial owner of 15% or more of the outstanding Common Stock. In such circumstances, holders of the Rights will be entitled to purchase, for the Purchase Price, a number of hundredths of a share of Series A Preferred Stock equivalent to the number of shares of Common Stock

(or, in certain circumstances, other equity securities) having a market value of twice the Purchase Price. Beneficial holders of 15% or more of the outstanding Common Stock, however, would not be entitled to exercise their Rights in such circumstances. As a result, their voting and equity interests in the Company would be substantially diluted if the Rights were to be exercised.

The Rights expire in March 2008, but may be redeemed earlier by the Company at a price of $.01 per Right, in accordance with the provisions of the Rights Plan.

(g) Restricted Stock

In fiscal 2001, restricted stock covering 94,500 shares of the Company's common stock was issued. The restricted stock is subject to vesting terms whereby the entire amount will vest upon the earlier of seven years from the date of grant or the attainment of certain performance goals, as defined.

Consideration of $3.00 per share was received for these shares, resulting in deferred compensation of $1.5 million based on the fair market value on the date of issuance of the restricted stock. Of this deferred compensation, $0.1 million and $0.2 million were expensed in fiscal 2001 and fiscal 2002 respectively. The consideration received was in the form of secured promissory notes from the holders of the restricted stock. These notes are subject to interest at an annual rate of 5.07%, are due seven years from the date of issuance and are secured by the restricted stock. The interest under these notes is subject to full recourse against the personal assets of the holders of the restricted stock.

In May 2002, the holders of the restricted stock were terminated from their employment with the Company. At the time of termination, the performance goals had not been attained, and none of the restricted stock had vested. In accordance with the terms of the restricted stock agreements, the Company repurchased the stock at the original purchase price of $3.00 per share. The Company recorded an entry to reverse the $1.2 million of unamortized deferred compensation and $0.3 million of the previously recognized compensation expense associated with the stock.

(h) Subsidiary Stock Options

In November 2001, the Board of Directors of PetroVantage, Inc. approved the establishment of the 2001 Stock Incentive Plan of PetroVantage, Inc. (the PetroVantage Plan). PetroVantage, Inc. is a wholly owned subsidiary of the Company, with 16,000,000 shares issued and outstanding as of June 30, 2001 and 2002. The PetroVantage Plan provides for the issuance of incentive stock options and nonqualified options of PetroVantage, Inc. Under the PetroVantage Plan the Board of Directors may grant stock options to purchase up to an aggregate of 4,000,000 shares of PetroVantage, Inc. common stock, representing 20% of the total potential shares outstanding. As of June 30, 2002, there were 1,603,000 shares of PetroVantage, Inc. common stock available for grant under the PetroVantage Plan. Since its inception, all options granted under the PetroVantage Plan were granted at fair market value on the date of grant. The following is a summary of stock option activity under the PetroVantage Plan in fiscal 2002:

	Number of Shares of PetroVantage	Weighted Average Exercise Price
Options granted	2,544,500	$0.19
Options terminated	(147,500)	0.19
Outstanding June 30, 2002	2,397,000	$0.19
Exercisable June 30, 2002	989,892	$0.19

(11) Income Taxes

The Company accounts for income taxes under the provisions of SFAS No. 109, "Accounting for Income Taxes". Under the liability method specified by SFAS No. 109, a deferred tax asset or liability is measured based on the difference between the financial statement and tax bases of assets and liabilities, as measured by the enacted tax rates.

Income (loss) before provision for (benefit from) income taxes consists of the following (in thousands):

Years Ended June 30,	2000	2001	2002
Domestic	$5,824	$(26,757)	$(56,597)
Foreign	1,928	(2,350)	(18,164)
Total	$7,752	$(29,107)	$(74,761)

The provisions for (benefit from) income taxes shown in the accompanying consolidated statements of operations are composed of the following (in thousands):

Years Ended June 30,	2000	2001	2002
Federal —			
Current	$ 223	$(3,433)	$ —
Deferred	544	(5,255)	—
State —			
Current	1,441	(219)	142
Deferred	(1,092)	(1,035)	—
Foreign —			
Current	1,208	1,210	1,366
Deferred	—	—	896
	$ 2,324	$(8,732)	$2,404

The provision for (benefit from) income taxes differs from that based on the federal statutory rate due to the following (in thousands):

Years Ended June 30,	2000 Provision	2001 Benefit	2002 Provision
Federal tax at statutory rate	$ 2,634	$(9,896)	$(25,419)
State income tax, net of federal tax benefit	230	(828)	94
Tax effect resulting from foreign activities	349	1,572	8,438
Tax credits generated	(1,882)	(2,871)	(3,660)
Permanent differences, net	599	630	(234)
Acquisition costs	394	239	—
Valuation allowance	—	2,422	23,185
Provision for (benefit from) income taxes	$ 2,324	$(8,732)	$ 2,404

The components of the net deferred tax asset (liability) recognized in the accompanying consolidated balance sheets are as follows (in thousands):

June 30,	2001	2002
Deferred tax assets	$ 32,356	$ 37,419
Deferred tax liabilities	(13,418)	(33,917)
	$ 18,938	$ 3,502

The approximate tax effect of each type of temporary difference and carryforward is as follows (in thousands):

June 30,	2001	2002
Deferred tax assets:		
Revenue related	$ (2,503)	$ (8,106)
US Income tax credits	15,443	20,470
US operating losses carryforward	1,020	23,403
Restructuring items	5,178	6,040
Nondeductible reserves and accruals	5,490	8,429
Intangible assets	(3,647)	(4,736)
Other temporary differences	1,722	(45)
	22,703	45,455
Valuation allowance	(3,765)	(26,950)
	18,938	18,505
Deferred tax liabilities:[1]		
Revenue related	—	(21,534)
Nondeductible reserves and accruals	—	(1,226)
Intangible assets	—	4,563
Other temporary differences	—	3,194
	—	(15,003)
	$18,938	$ 3,502

(1) The Company recorded a $14.5 million deferred tax liability associated with the acquisition of Hyprotech.

The tax credits and net operating loss carryforwards expire at various dates from 2003 through 2023. The Tax Reform Act of 1986 contains provisions that may limit the net operating loss and tax credit carryforwards available to be used in any given year in the event of significant changes in ownership, as defined. Due to the uncertainty surrounding the realization and timing of these tax attributes, the Company has recorded a valuation allowance of approximately $3.8 million and $27.0 million as of June 30, 2001 and 2002 respectively.

(12) Operating Leases

The Company leases its facilities and various office equipment under noncancellable operating leases with terms in excess of one year. Rent expense charged to operations was approximately $7.5 million, $10.5 million and $12.3 million for the years ended June 30, 2000, 2001 and 2002 respectively. Future minimum lease payments under these leases as of June 30, 2002 are as follows (in thousands):

	Amount
Years Ending June 30, 2003	$ 17,407
2004	12,932
2005	11,373
2006	11,480
2007	11,405
Thereafter	45,888
	$110,485

(13) Sale of Installments Receivable

The Company has arrangements to sell its installments receivable to two financial institutions. These arrangements provide for the sale of up to a maximum of $160.0 million, subject to approval by the institutions, to be outstanding at any one time. The Company sold, with limited recourse, certain of its installment contracts for aggregate proceeds of $55.6 million and $42.7 million during fiscal 2001 and 2002 respectively. The financial institutions have certain recourse to the Company upon nonpayment by the customer under the installments receivable. The amount of recourse is determined pursuant to the provisions of the Company's contracts with the financial institutions and varies depending on whether the customers under the installment contracts are foreign or domestic entities. Collections of these receivables reduce the Company's recourse obligation. Generally, no gain or loss is recognized on the sale of the receivables, due to the consistency of the discount rates used by the Company and the financial institutions.

At June 30, 2002, the balance of the uncollected principal portion of the contracts sold was approximately $111.4 million. The Company's potential recourse obligation related to these contracts is approximately $7.2 million as of June 30, 2002. In addition, the Company is obligated to pay additional costs to the financial institutions in the event of default by the customer.

(14) Commitments and Contingencies

(a) FTC Investigation

By letter of June 7, 2002, the FTC informed the Company that it was conducting an investigation into the competitive effects of its recent acquisition of Hyprotech. Because this investigation is in its early stages, the Company cannot be certain whether the FTC might seek any relief or the nature of any such relief that might be sought. The FTC may determine to challenge the acquisition through an administrative civil complaint seeking to declare the acquisition in violation of Section 7 of the Clayton Act or Section 5 of the FTC Act. If the FTC were to prevail in that challenge, it could seek to impose a wide variety of remedies, some of which may have a material adverse effect on the Company's ability to continue to operate under its current business plans. These potential remedies include divestiture of Hyprotech, as well as mandatory licensing of Hyprotech software products and the Company's other engineering software products to one or more of its competitors.

(b) Litigation

On May 31, 2002, the Company acquired Hyprotech from AEA Technology plc. AEA Technology is engaged in arbitration proceedings in England over a contract dispute with KBC Advanced Technologies PLC, an English technology and consulting services company. The dispute remains in arbitration and concerns the characterization of certain technology for purposes of calculating royalties, plus other contractual rights with respect to Hysys.Refinery. Hysys.Refinery was retained by AEA Technology with support for Hysys.Refinery to be provided by Hyprotech pursuant to a contract with AEA Technology. On September 11, 2002 the Company and Hyprotech were sued by KBC Advanced Technologies in state district court in Houston, Texas on issues related to the technology subject to review in the arbitration proceeding. KBC Advanced Technologies has requested actual and exemplary damages, costs and interest. The Company believes the causes of action to be without merit and will defend the case vigorously.

(c) Other

The Company has entered into agreements with six executive officers providing for the payment of cash and other benefits in certain events of their voluntary or involuntary termination within three years following a change in control. Payment under these agreements would consist of a lump sum equal to approximately three years of each executive's annual taxable compensation. The agreements also provide that the payment would be increased in the event that it would subject the officer to excise tax as a parachute payment under the federal tax code. The increase would be equal to the additional tax liability imposed on the executive as a result of the payment.

(15) Retirement and Profit Sharing Plans

The Company maintains a defined contribution retirement plan under Section 401(k) of the Internal Revenue Code covering all eligible employees, as defined. Under the plan, a participant may elect to defer receipt of a stated percentage of his or her compensation, subject to limitation under the Internal Revenue Code, which would otherwise be payable to the participant for any plan year. The Company may make discretionary contributions to this plan. During 1997, the plan was modified to

provide, among other changes, for the Company to make matching contributions equal to 25% of pretax employee contributions up to a maximum of 6% of an employee's salary. During the fiscal years ended June 30, 2000, 2001 and 2002, the Company made matching contributions of approximately $1.0 million, $1.3 million and $1.3 million respectively.

Petrolsoft also maintained a defined contribution (401k) retirement plan covering all full-time employees. Under its plan, a participant may elect to defer receipt of a stated percentage of his or her compensation, subject to limitation under the Internal Revenue Code, which would otherwise be payable to the participant for any plan year. The plan provided for Petrolsoft to make matching contributions equal to 25% of pretax employee contributions up to a maximum of 6% of an employee's salary. During the fiscal year ended June 30, 2000, Petrolsoft made matching contributions of approximately $14,000. This plan was merged with the Company's plan as of July 1, 2000.

Petrolsoft also maintained a profit sharing plan for its employees whereby all eligible employees may receive a Board determined percentage of Petrolsoft's taxable operating profits based on their employment tenure. During the fiscal year ended June 30, 2000, the total amount paid by Petrolsoft to its employees was approximately $61,000. This plan was terminated as of June 1, 2000.

The Company does not provide postretirement benefits to any employees as defined under SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions".

(16) Joint Ventures and Other Investments

In May 1993, the Company entered into an Equity Joint Venture agreement with China Petrochemical Technology Company to form a limited liability company governed by the laws of the People's Republic of China. This joint venture has the nonexclusive right to distribute the Company's products within the People's Republic of China. The Company invested $300,000 on August 6, 1993, which represents a 25% equity interest in the joint venture as of June 30, 2002.

In November 1993, the Company invested approximately $100,000 in a Cyprus-based company, representing approximately a 14% equity interest. In December 1995, the Company exercised its option to increase its equity interest to 22.5%, acquiring additional shares for approximately $125,000. In August 2000, a third party invested in the entity and purchased a portion of the existing shareholders' equity interests. As a result of this transaction, the Company's equity interest increased to 31.58% and the Company recorded a gain on the sale of a portion of its interest of $225,000.

The Company is accounting for the above two investments using the equity method. The net investments of approximately $519,000 and $815,000 are included in other assets in the accompanying consolidated balance sheets as of June 30, 2001 and 2002 respectively. In the accompanying consolidated statements of operations for the years ended June 30, 2000, 2001, and 2002, the Company has recognized approximately $4,000, $195,000 and $296,000 respectively, as its portion of the income from these joint ventures.

In March 2000, the Company and e-Chemicals entered into a Stock Purchase Agreement whereby the Company acquired 833,333 shares of e-Chemicals non-voting Series E Preferred Stock for $6.00 per share. This $5 million investment entitled the Company to a minority interest in e-Chemicals and was accounted for using the cost method. During the second quarter of fiscal 2001, the Company deemed this investment in the stock of e-Chemicals to be worthless and, as a result, this investment was written off. This write-off is included in the accompanying consolidated statement of operations for fiscal 2001.

During the quarter ended June 30, 2000, the Company made a $2.0 million investment in Extricity, a related party (see Note 18). This investment entitled the Company to a minority interest in Extricity and was initially accounted for using the cost method. In the fourth quarter of fiscal 2001 Extricity was purchased by Peregrine Systems (Peregrine), a publicly-traded company. In connection with this purchase, the Company's investment was converted into 94,510 shares of Peregrine. The Company sold 85,059 of these shares in June 2001 and recorded a gain of $430,000 at that time. The remaining 9,451 shares held in Peregrine were placed in escrow as per the terms of the purchase agreement between Extricity and Peregrine.

In November 2000, the Company invested $600,000 in a global chemical B2B e-commerce site supporting major chemical companies in Asia. This investment entitles the Company to a minority interest in the B2B company and is accounted for using the cost method and, accordingly, is being valued at cost unless a permanent impairment in its value occurs or the

investment is liquidated. As of June 30, 2002, the Company has determined that a permanent impairment has not occurred. This investment is included in other assets in the accompanying consolidated balance sheet as of June 30, 2001 and 2002.

In December 2000, the Company made a $3.0 million investment in e-Catalysts, Inc. (e-Catalysts), a neutral marketplace for all trading partners in the catalyst industry including raw material suppliers, manufacturers, service providers and end users. This investment entitled the Company to a 33% interest in e-Catalysts and has been accounted for using the equity method. In connection with the restructuring plan in the fourth quarter of fiscal 2001 (see Note 3(b)), the Company assessed its e-business strategy and elected to no longer support e-Catalysts. The decision to cease financial support for e-Catalysts resulted in an impairment in the value of the asset. The amount of such impairment was included in the restructuring charge recorded by the Company in the fourth quarter of fiscal 2001. Before the impairment, the Company recorded its portion of a $100,000 loss in the accompanying consolidated statements of operations in fiscal 2001.

In March 2001, the Company made an initial $8.3 million investment in Optimum Logistics Ltd. (Optimum), an Internet-based open logistics system for bulk materials. This investment consisted of 219,515 shares of the Company's stock, valued at $5.7 million on the date of the transaction, plus $2.6 million in cash. Subsequently, the Company provided additional funding in fiscal 2001 and 2002 totaling $2.4 million in cash. This investment entitled the Company to a minority interest in Optimum and was accounted for using the cost method and, accordingly, was being valued at cost unless a permanent impairment in its value occurs or the investment is liquidated. In March 2002, due to Optimum's failure to achieve a third-party financing milestone, 58,540 shares of stock, valued at $2.1 million, were released from escrow and returned to the Company. In June 2002, the Company determined that a permanent impairment in the value of the asset had occurred, and the remaining investment of $8.7 million was written-off.

In August 2001, the Company entered into a joint venture in Japan with a third party. The joint venture will operate in Japan and Korea and is designed to allow the Company to penetrate those markets more quickly than it could on its own, by using joint resources to sell licenses and to deploy those licenses using the local based services of the joint venture employees. The Company has a 50% ownership in this joint venture and has invested $868,000 as of June 30, 2002, with a commitment to invest an additional $333,000 to fund operations in the future. This investment is being accounted for using the equity method. The net investment of approximately $391,000 is included in other assets in the accompanying consolidated balance sheet as of June 30, 2002. In the accompanying consolidated statement of operations for the year ended June 30, 2002, the Company recognized approximately $477,000, as its portion of the loss from this joint venture.

(17) Accrued Expenses

Accrued expenses in the accompanying consolidated balance sheets consist of the following (in thousands):

June 30,	2001	2002
Income taxes	$ 8,418	$ 4,914
Payroll and payroll-related	12,008	15,920
Royalties and outside commissions	2,382	4,034
Restructuring and other charges	6,152	13,065
Payable to financing companies	12,902	9,923
Acquisition costs	—	8,180
Amount owed to AEA Technology plc (former parent of Hyprotech)	—	3,142
Other	13,983	18,957
	$55,845	$78,135

(18) Related Party Transactions

A director of the Company provided advisory services to the Company as a director of PetroVantage during fiscal 2002. The Company made payments of $32,000 to the director as compensation for services rendered during fiscal 2002.

Smart Finance & Co., a company of which a former director of the Company is the President, provided advisory services to the Company in fiscal 2000 and 2001, for which payments of approximately $118,000 and $30,000, respectively, were made as compensation for services rendered.

On September 30, 1999, the Company entered into a "Software License Distribution and Strategic Relationship" agreement with Extricity, a leading provider of business-to-business e-commerce software. The Company partnered with Extricity to deliver e-commerce solutions that will enhance integration and automate the flow of information between disparate supply chain and enterprise resource planning systems and customers, suppliers and trading partners. The President and Chief Executive Officer of Extricity is the spouse of one of the Company's former directors. During fiscal 2000 the Company paid $1.3 million in prepaid royalty fees to Extricity; an additional $0.7 million was paid in July 2000. The remaining asset related to this prepaid royalty was written-off as part of the Q4 FY02 restructuring plan.

(19) Segment and Geographic Information

The Company follows the provisions of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", which establishes standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments in interim financial reports issued to stockholders. It also established standards for disclosures about products and services, and geographic areas. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is the Chief Executive Officer of the Company.

The Company is organized geographically and by line of business. The Company has three major line of business operating segments: license, consulting services and maintenance and training. The Company also evaluates certain subsets of business segments by vertical industries as well as by product categories. While the Executive Management Committee evaluates results in a number of different ways, the line of business management structure is the primary basis for which it assesses financial performance and allocates resources.

The license line of business is engaged in the development and licensing of software. The consulting services line of business offers implementation, advanced process control, real-time optimization and other consulting services in order to provide its customers with complete solutions. The maintenance and training line of business provides customers with a wide range of support services that include on-site support, telephone support, software updates and various forms of training on how to use the Company's products.

The accounting policies of the line of business operating segments are the same as those described in the summary of significant accounting policies. The Company does not track assets or capital expenditures by operating segments. Consequently, it is not practical to show assets, capital expenditures, depreciation or amortization by operating segments.

The following table presents a summary of operating segments (in thousands):

	License	Consulting Services	Maintenance and Training	Total
Year ended June 30, 2000 —				
Revenues from unaffiliated customers	$132,843	$ 91,133	$44,117	$268,093
Controllable expenses	46,315	69,343	10,757	126,415
Controllable margin[1]	$ 86,528	$ 21,790	$33,360	$141,678
Year ended June 30, 2001 —				
Revenues from unaffiliated customers	$147,448	$122,821	$56,655	$326,924
Controllable expenses	55,059	88,860	13,438	157,357
Controllable margin[1]	$ 92,389	$ 33,961	$43,217	$169,567
Year ended June 30, 2002 —				
Revenues from unaffiliated customers	$133,913	$127,719	$58,972	$320,604
Controllable expenses	60,869	90,421	11,602	162,892
Controllable margin[1]	$ 73,044	$ 37,298	$47,370	$157,712

(1) The Controllable Margins reported reflect only the expenses of the line of business and do not represent the actual margins for each operating segment since they do not contain an allocation for selling and marketing, general and administrative, development and other corporate expenses incurred in support of the line of business.

Profit Reconciliation:

Years Ended June 30,	2000	2001	2002
(In thousands)			
Total controllable margin for reportable segments	$141,678	$169,567	$157,712
Selling and marketing	(72,258)	(96,467)	(89,953)
Research and development	(877)	(12,587)	(20,248)
General and administrative and overhead	(63,414)	(73,204)	(82,650)
Costs related to acquisitions	(1,547)	—	—
Restructuring and other charges	—	(6,969)	(16,083)
Charges for in-process research and development	—	(9,915)	(14,900)
Interest and other income and expense	4,170	5,468	284
Write-off of investments	—	(5,000)	(8,923)
Income (loss) before provision for (benefit from) income taxes	$ 7,752	$ (29,107)	$ (74,761)

Geographic Information:

Domestic and export sales as a percentage of total revenues are as follows:

Years Ended June 30,	2000	2001	2002
United States	54.6%	51.2%	54.2%
Europe	27.5	27.7	28.4
Japan	4.8	5.3	5.1
Other	13.1	15.8	12.3
	100.0%	100.0%	100.0%

During the years ended June 30, 2000, 2001 and 2002 there were no customers that individually represented greater than 10% of the Company's total revenue.

Revenues, income (loss) from operations and identifiable assets for the Company's North American, European and Asian operations are as follows (in thousands). The Company has intercompany distribution arrangements with its subsidiaries. The basis for these arrangements, disclosed below as transfers between geographic locations, is cost plus a specified percentage for services and a commission rate for sales generated in the geographic region.

	North America	Europe	Asia	Eliminations	Consolidated
Year ended June 30, 2000 —					
Revenues	$232,616	$59,456	$16,206	$ (40,185)	$268,093
Identifiable assets	$386,081	$54,982	$11,456	$(103,456)	$349,063
Year ended June 30, 2001 —					
Revenues	$280,499	$72,332	$22,148	$ (48,055)	$326,924
Identifiable assets	$400,794	$49,907	$16,956	$(113,691)	$353,966
Year ended June 30, 2002 —					
Revenues	$272,776	$77,865	$18,504	$ (48,541)	$320,604
Identifiable assets	$479,454	$97,561	$12,943	$(176,014)	$413,944