

Aspen Technology Inc. and Subsidiaries Notes to Consolidated Financial Statements

(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) 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.

(c) Cash and Cash Equivalents

Cash and cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less.

(d) 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 2001, 2002 or 2003.

Available-for-sale investments as of June 30, 2002 and 2003 were as follows (in thousands):

	Contracted Maturity	June 30, 2002		June 30, 2003	
		Total Market Value	Total Amortized Cost	Total Market Value	Total Amortized Cost
<i>Cash and cash equivalents:</i>					
Cash and cash equivalents	N/A	\$21,835	\$21,835	\$22,412	\$22,412
Money market funds 0-3 months	11,736	11,736	29,155	29,155	
Total cash and cash equivalents		33,571	33,571	51,567	51,567
<i>Short-term investments:</i>					
Corporate and foreign bonds	4-12 months	13,389	13,381	—	—
Corporate and foreign bonds	1-2 years	5,160	5,151	—	—
Total short term investments		18,549	18,532	—	—
		\$52,120	\$52,103	\$51,567	\$51,567

Short-term investments totaling \$14.7 million and cash equivalents of \$0.5 million were held by the bank as compensating balances for outstanding letters of credit as of June 30, 2002 and 2003, respectively.

(e) Derivative Instruments and Hedging

The Company follows the provisions of 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 in fiscal 2001 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.

In addition, in May 2002, as part of the acquisition of Hyprotech, the Company initiated loans with two foreign subsidiaries. The two loans, denominated in British pounds and Canadian dollars, were intended to be a natural hedge against foreign currency risk associated with installment receivable contracts acquired with Hyprotech that were denominated in a currency other than their functional currency.

At June 30, 2003, the Company had effectively hedged \$3.2 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 to hedge foreign currency risk. The gross value of the long-term installments receivable that were denominated in foreign currency was \$16.1 million at June 30, 2002 and \$25.2 million at June 30, 2003. The installments receivable held as of June 2003 mature at various times through April 2009. 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 and installments 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 2001, 2002 and 2003 the net gain recognized in the consolidated statements of operations was not material. 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 2003, 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, 2003. The information is provided in U.S. dollar amounts, as presented in the Company's consolidated financial statements. The table presents the notional amount (at contract exchange rates) and the weighted average contractual foreign currency rates:

(In thousands)	Currency	Notional Amount	Estimated Fair Value*	Average Contract Rate
	British Pound Sterling	\$1,499	\$1,5680	.66
	Japanese Yen	1,219	1,127	121.48
	Euro	274	313	1.02
	Swiss Franc	250	258	1.40
Total		\$3,242	\$3,266	

Payments on the hedged receivables due during fiscal 2004 equal \$3.0 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, 2003. 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.

(f) Depreciation and Amortization

The Company provides for depreciation and amortization, primarily computed using the straight-line method, 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

(g) 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 revenues are 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 proportional performance 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. In accordance with the Emerging Issues Task Force (EITF) released Issue No. 01-14, "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred," reimbursement received for out-of-pocket expenses is recorded as revenue and not as a reduction of expenses.

(h) 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. In accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or otherwise Marketed", 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 \$4.1 million, \$4.6 million and \$5.1 million in fiscal 2001, 2002 and 2003, respectively. During fiscal 2003, the Company recorded an impairment charge associated with the capitalized computer software development costs of certain products (see Note 3(a)).

(i) 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.

(j) 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 reflect 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 debentures and 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	2001	2002	2003
Net income (loss) attributable to common shareholders	\$(20,375)	\$(83,466)	\$(170,017)
Basic weighted average common shares outstanding	29,941	32,308	38,476
Weighted average potential common shares	—	—	—
Diluted weighted average shares outstanding	29,941	32,308	38,476
Basic net income (loss) attributable to common shareholders per share	\$ (0.68)	\$ (2.58)	\$ (4.42)
Diluted net income (loss) attributable to common shareholders per share	\$ (0.68)	\$ (2.58)	\$ (4.42)

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	2001	2002	2003
Convertible debt	1,628	1,628	1,628
Convertible preferred stock	—	1,113	3,135
Obligation subject to common stock settlement	—	1,043	—
Preferred stock dividend, to be settled in common stock	—	23	184
Options, restricted stock and warrants	2,897	1,173	920
Total	4,525	4,980	5,867

(k) Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk are principally cash and cash equivalents, short-term 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, 2002 and 2003, the Company had no customers that represented 10% of total accounts and installments 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 it is probable that a loss has been incurred. Provisions are made based upon a specific review of all significant outstanding invoices. In determining these provisions, 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, foreign exchange contracts and 5 1/4% convertible subordinated debentures. 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.

In October 2002, management determined that the goodwill should be tested for impairment as a result of management's lowered revenue expectations and the overall decline in the Company's market value. An independent third party valued the Company's three reporting units: license, consulting services, and maintenance and training. The valuation was based on an income approach, using a five-year present value calculation of income, and a market approach, using comparable company valuations. Based on this analysis, it was determined that the full values of the goodwill associated with the license reporting unit and consulting services reporting unit were impaired. This resulted in a \$74.7 million aggregate impairment charge included on the accompanying consolidated statement of operations as goodwill impairment charge. It was also determined that the fair value of the maintenance and training reporting unit exceeded its carrying value, resulting in no impairment of its goodwill. The Company's next annual impairment test will occur on January 1, 2004.

The Company evaluates its long-lived assets, which include property and leasehold improvements, intangible assets and capitalized software development costs 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. Concurrent with the goodwill impairment test that was initiated in October 2002, the Company evaluated the realizability of its long-lived assets and recorded an impairment charge related to various long-lived assets. See Note 3 for discussion regarding restructuring and other charges.

Intangible assets subject to amortization consist of the following at June 30, 2002 and 2003 (in thousands):

Asset Class	Estimated Useful Life	June 30, 2002		June 30, 2003	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Acquired technology	3-5 years	\$53,469	\$13,683	\$44,352	\$17,980
Uncompleted contracts	4 years	1,936	957	1,936	1,619
Trade name	10 years	766	498	766	569
Other	3-12 years	166	94	246	186
		\$56,337	\$15,232	\$47,300	\$20,354

Aggregate amortization expense for intangible assets subject to amortization was \$3.5 million, \$5.3 million and \$7.4 million for the years ended June 30, 2001, 2002 and 2003, respectively, and is expected to be \$7.4 million, \$7.3 million, \$7.2 million, \$5.1 million and \$0.1 million in each of the next five fiscal years, respectively.

The changes in the carrying amount of the goodwill by reporting unit for the years ended June 30, 2002 and 2003 were as follows (in thousands):

Asset Class	Reporting Unit			Total
	License	Consulting Services	Maintenance and Training	
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
Purchase price adjustment —				
Hyprotech acquisition	1,407	88	264	1,759
Impairment charge	(69,323)	(5,392)	—	(74,715)
Goodwill acquired during fiscal 2003	2,358	147	442	2,947
Effect of exchange rates used for translation	3	8	73	84
Carrying amount as of June 30, 2003	\$ 2,358	\$ 147	\$11,828	\$14,333

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

	2001
Reported net income (loss) attributable to common shareholders	\$(20,375)
Add: Goodwill and acquired assembled workforce amortization	1,840
Adjusted net income (loss)	\$(18,535)
Basic and diluted income per common share	
Reported net income (loss)	\$ (0.68)
Goodwill and acquired assembled workforce amortization	0.06
Adjusted net income (loss)	\$ (0.62)

(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, 2002 and 2003 are as follows (in thousands):

	2002	2003
Unrealized gain (loss) on investments, net of tax	\$ 127	\$ —
Cumulative translation adjustment	(2,809)	(1,445)
Total accumulated other comprehensive income (loss)	\$(2,682)	\$(1,445)

(p) *Fair Value of Stock Options*

The Company issues stock options to its employees and outside directors and provides employees the right to purchase stock pursuant to stockholder approved stock option and employee stock purchase plans, which are described more fully in Note 10. The Company accounts for these plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations. No material stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation. For pro forma

disclosures, the estimated fair value of the options is amortized over the vesting period, typically four years, and the estimated fair value of the stock purchases is amortized over the six-month purchase period:

	2001	2002	2003
Net income (loss) attributable to common shareholders (in thousands)			
—As reported	\$(20,375)	\$ (83,466)	\$(170,017)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(25,654)	(21,734)	(14,566)
Pro forma	\$(46,029)	\$(105,200)	\$(184,583)
Net income (loss) attributable to common shareholders per share			
—Basic and diluted—			
As reported	\$ (0.68)	\$ (2.58)	\$ (4.42)
Pro forma	(1.54)	(3.26)	(4.80)

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:

	2001	2002	2003
Risk free interest rates	5.14-6.05%	3.91-4.39%	2.78-4.15%
Expected dividend yield	None	None	None
Expected life	5 Years	5 Years	5 Years
Expected volatility	101%	72%	125%
Weighted average fair value per option	\$16.97	\$8.00	\$2.63

(q) Income Taxes

Deferred income taxes are recognized based on temporary differences between the financial statement and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using the statutory tax rates and laws expected to apply to taxable income in the years in which the temporary differences are expected to reverse. Valuation allowances are provided against net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and the timing of the temporary differences becoming deductible. Management considers, among other available information, scheduled reversals of deferred tax liabilities, projected future taxable income, and other matters in making this assessment.

Income taxes are provided on undistributed earnings of foreign subsidiaries where such earnings are expected to be remitted to the U.S. parent company. The Company determines annually the amount of unremitted earnings of foreign subsidiaries to invest indefinitely in its non-U.S. operations. Unrecognized provisions for taxes on undistributed earnings of foreign subsidiaries, which are considered permanently invested, are not material to the Company's consolidated financial position or results of operations.

(r) Legal Fees

The Company accrues estimated future legal fees associated with outstanding litigation. Liabilities for loss contingencies arising from claims, assessments, litigation and other sources are recorded when it is probable that a liability has been incurred and the amount of the claim assessment or damages can be reasonably estimated.

(s) Recently Issued Accounting Pronouncements

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". This statement supercedes 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. All of the Company's prior restructuring actions will continue to be accounted for under EITF 94-3.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock Based Compensation—Transition and Disclosure, an amendment of FASB Statement No. 123." This Statement amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this pronouncement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The provisions of this statement are effective for fiscal years ending after December 31, 2002. The adoption of SFAS No. 148 did not have a material effect on the Company's consolidated financial position or results of operations.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This pronouncement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The provisions of this statement are effective for transactions that are entered into or modified after June 30, 2003. The Company does not expect that the adoption of SFAS No. 149 will have a material effect on its consolidated financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." This pronouncement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify certain financial instruments as liabilities. The provisions of this statement are effective for transactions that are entered into or modified after May 31, 2003. The Company does not expect that the adoption of SFAS No. 150 will have a material effect on its consolidated financial position or results of operations.

In November 2002, the FASB issued Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," which clarifies disclosure, recognition and measurement requirements related to certain guarantees. The disclosure requirements are effective for financial statements issued after December 15, 2002 and the recognition and measurement requirements are effective on a prospective basis for guarantees issued or modified after December 31, 2002. The adoption of FIN 45 had no impact on the Company's consolidated financial position and results of operations.

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities," which clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," relating to consolidation of certain entities. First, FIN 46 will require identification of the Company's participation in variable interest entities (VIE), which are defined as entities with a level of invested equity that is not sufficient to fund future activities to permit them to operate on a stand alone basis, or whose equity holders lack certain characteristics of a controlling financial interest. For entities identified as VIE, FIN 46 sets forth a model to evaluate potential consolidation based on an assessment of which party to the VIE, if any, bears a majority of the exposure to its expected losses, or stands to gain from a majority of its expected returns. FIN 46 also sets forth certain disclosure regarding interests in VIE that are deemed significant, even if consolidation is not required. The Company is currently in the process of determining the impact the adoption of FIN 46 may have on its consolidated financial position or results of operations; however, the Company does not expect that the adoption of this statement will have a material impact.

In November 2002, the EITF issued EITF No. 00-21, "Revenue Arrangements with Multiple Deliverables," which provides guidance on the timing and method of revenue recognition for sales arrangements that include the delivery of more than one product or service. EITF 00-21 is effective prospectively for arrangements entered into in fiscal periods beginning after June 15, 2003. The Company does not expect that the adoption of EITF No. 00-21 will have a material effect on its consolidated financial position or results of operations.

(s) *Reclassifications*

Certain amounts in the Company's consolidated balance sheets and consolidated statements of cash flows have been reclassified to conform to the current presentation.

(3) Restructuring and Other Charges

(a) *Fiscal 2003*

During fiscal 2003, the Company recorded \$81.2 million in restructuring and other charges. Of this amount, \$68.2 million is associated with an October 2002 restructuring plan, and \$13.0 million is accrued legal costs, related to the FTC challenge of the Company's acquisition of Hyprotech.

In October 2002, management initiated a plan to further reduce operating expenses in response to first quarter revenue results that were below expectations and to general economic uncertainties. In addition, management revised revenue expectations for the remainder of the fiscal year and beyond, primarily related to the manufacturing / supply chain product line, which has been effected the most by the current economic conditions. The plan to reduce operating expenses resulted in headcount reductions, consolidation of facilities, cancellation of certain internal capital projects and discontinuation of development and support for certain non-critical products. As a result of the discontinuation of development and support for certain products, coupled with the revised revenue expectations, certain long-lived assets were reviewed and determined to be impaired in accordance with SFAS No. 144. These actions resulted in an aggregate restructuring charge of \$55.6 million, recorded during the three months ended December 31, 2002. In June 2003, the Company reviewed its estimates to this plan and recorded a \$12.5 million increase to the accrual, primarily due to revisions of the facility sub-lease assumptions, as well as increases to severance and other costs. The components of the restructuring plan are as follows (in thousands):

	Closure/ Consolidation of Facilities	Employee Severance, Benefits, and Related Costs	Impairment of Assets and Disposition Costs	Total
Restructuring charge	\$17,347	\$10,028	\$40,728	\$68,103
Impairment of assets	—	—	(39,148)	(39,148)
Fiscal 2003 payments	(3,548)	(7,297)	—	(10,845)
Accrued expenses, June 30, 2003	\$13,799	\$ 2,731	\$ 1,580	\$18,110

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

Closure/consolidation of facilities: Approximately \$17.4 million of the restructuring charge relates to the termination of facility leases and other lease related costs. Of this amount, approximately \$8.7 million was recorded in the three months ended December 31, 2002 and approximately \$8.7 million was recorded as a result of the June 2003 increase to the accrual. The facility leases had remaining terms ranging from several months to eight years. The amount accrued is an estimate of the remaining obligation under the lease or actual costs to buy-out leases, reduced by expected income from the sublease of the underlying properties. The June 2003 increase to the accrual is primarily due to revised estimates related to sublease assumptions, as actual sub-lease rates have been significantly less than originally estimated and the Company has experienced delays contracting with sub-lessors.

Employee severance, benefits and related costs: Approximately \$10.0 million of the restructuring charge relates to the reduction in headcount. Of this amount, approximately \$8.2 million was recorded in the three months ended December 31, 2002, and approximately \$1.8 million was recorded as a result of the June 2003 increase to the accrual. Approximately 400 employees, or 20% of the workforce, were eliminated under the restructuring plan implemented by management. All geographic regions and business units were affected, including services, sales and marketing, research and development, and general and administrative.

Impairment of assets and disposition costs: Approximately \$40.7 million of the restructuring charge relates to charges associated with long-lived assets that were reviewed for impairment under the provisions of SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" and were either written-down to fair value or written-off due to the fact that the underlying assets will no longer be utilized. Of this amount, approximately \$38.7 million was recorded in the three months ended December 31, 2002 and approximately \$2.0 million was recorded as a result of the June 2003 increase to the accrual. The resulting charges include:

- ▶ A \$23.6 million impairment charge related to the intellectual property purchased from Accenture in February 2002. The fair value of this asset was determined by forecasting the future net cash flows associated with the asset and then was compared to its carrying value. This intellectual property is used primarily in the development of manufacturing / supply chain software products, within the license line of business. As noted above, the revenue expectations for the manufacturing / supply chain product line were significantly reduced by management, which prompted the review for impairment.
- ▶ \$13.8 million in impairment charges related to acquired technology, computer software development costs and purchased software. These assets were considered to be impaired because they will either no longer be used or their carrying values were in excess of their fair values. The assets that will no longer be used were identified by management's decisions to either discontinue future development efforts associated with certain products or discontinue internal capital projects. The carrying values of the remaining assets were compared to the fair values of those assets resulting in an impairment. The fair values were determined by forecasting the future net cash flows associated with the products. All of these assets were part of the license line of business.
- ▶ A \$3.3 million impairment charge related to assets and liabilities associated with certain products of which the Company is divesting. These assets have historically been considered to be part of the license line of business. As part of the cost reductions, management decided that we would no longer devote resources to the development or support of these products. The fair value of the related assets was determined from letters of intent to purchase the intellectual property.

(3) Restructuring and Other Charges

(b) Fiscal 2002—Fourth quarter

In the third quarter of fiscal 2002, revenues were lower than expectations as customers delayed spending due to the general weakness in the economy. The Company reduced revenue expectations for the fourth quarter and for the fiscal year 2003. Based upon the impact of these reduced revenue expectations, management evaluated the Company's current business and made significant changes, resulting in a restructuring plan for its 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):

	Closure/ 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
Fiscal 2003 payments	(695)	(4,748)	—	(5,443)
Accrued expenses, June 30, 2003	\$4,206	\$1,688	\$ —	\$5,894

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

Closure/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.

(c) Fiscal 2002—First quarter

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, effecting 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
Fiscal 2003 payments	(144)	(19)	(163)
Accrued expenses, June 30, 2003	\$ —	\$ —	\$ —

(d) Fiscal 2001

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. 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):

	Closure/ 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
Fiscal 2003 payments	(397)	(53)	—	(450)
Accrued expenses, June 30, 2003	\$ 740	\$ —	\$ —	\$ 740

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

Closure/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 of 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.

(e) Fiscal 1999

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):

	Closure/ 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
Fiscal 2003 net sublease receipts (lease payments)	147	—	—	—	147
Accrued expenses, June 30, 2003	\$ 522	\$ —	\$ —	\$ —	\$ 522

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

Closure/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 charge 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 and Dispositions

(a) Acquisitions and Dispositions During Fiscal Year 2003

In January 2003, the Company acquired a portion of the salesforce of Soteica S.R.L. and purchased the exclusive marketing rights held by Soteica. Soteica was a sales-agent of Hyprotech that held exclusive rights to market Hyprotech products in certain South and Latin American countries, including Argentina, Brazil, Mexico and Venezuela. The purchase price consists of 12 quarterly payments of \$0.3 million beginning in April 2003, the net present value of which is \$3.0 million. Allocation of the purchase price was based on an independent appraisal of the fair value of the net assets acquired.

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

Description	Amount	Life
Marketing rights	\$ 80	2 months
Goodwill	2,947	—
	3,027	
Net fair value of tangible assets acquired, less liabilities assumed	—	
Total purchase price	\$3,027	

Pro forma information related to this acquisition is not presented, as the effect of this acquisition is not material.

On January 31, 2003, the Company completed the sale of the assets and liabilities associated with the Aspen Metals products. These products were originally acquired by the Company in the December 2000 acquisition of Broner Systems. The Company will receive an aggregate of £300,000 (\$494,000 as of January 31, 2003), to be paid in four semi-annual installments from June 2003 to January 2005. The Company recorded a loss on the sale of the net assets of \$0.9 million, which was included in the restructuring and other charge as discussed Note 3.

(b) 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 \$105.0 million, consisting of \$96.6 million in cash 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	59,270	—
Acquired technology	23,800	5 years
Customer contracts	1,000	4 years
	98,970	
Net fair value of tangible assets acquired, less liabilities assumed	13,474	
	112,444	
Less—Deferred taxes	7,440	
Total purchase price	\$105,004	

In December 2002, the Company made adjustments to the purchase price allocation associated with the acquisition. These consisted of various adjustments to the opening balance sheet to accrue for certain obligations and contingencies and to write-off certain assets. These adjustments resulted in an approximately \$1.8 million increase to goodwill.

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):

	Year 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 fair 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.

(c) 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 fair 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 were 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 fair 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 fair 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.

(d) Purchase Price Allocation

Allocation of the purchase prices for all acquisitions was 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

In January 2003, the Company executed a Loan Arrangement with Silicon Valley Bank. This arrangement provides a line of credit of up to the lesser of (i) \$15.0 million or (ii) 70% of eligible domestic receivables, and a line of credit of up to the lesser of (i) \$10.0 million or (ii) 80% of eligible foreign receivables. The lines of credit bear interest at the bank's prime rate (4.00% at June 30, 2003) plus ½%, which may be reduced to the bank's prime rate upon the achievement of two consecutive quarters of net income. The Company is required to maintain a \$4.0 million compensating cash balance with the bank, or be subject to an unused line fee and collateral handling fees. The lines of credit will initially be collateralized by nearly all of the assets of the Company, and upon achieving certain net income targets, the collateral will be reduced to a lien on the accounts receivable. The Company is required to meet certain financial covenants, including minimum tangible net worth, minimum cash balances and an adjusted quick ratio. The Company capitalized \$0.3 million in costs associated with the origination of the Loan Arrangement, which are being amortized to interest expense over the life of the agreement. The Loan Arrangement expires in January 2005.

As of June 30, 2003, there were \$8.8 million in letters of credit outstanding under the line of credit, and there was \$15.7 million available for future borrowing. In August 2003, the Company executed an amendment to

the Loan Arrangement that adjusted the terms of certain financial covenants, and cured a default of the tangible net worth covenant as of June 30, 2003.

(6) Long-Term Obligations

Long-term obligations consist of the following at June 30, 2002 and 2003 (in thousands):

	2002	2003
Capital lease obligations due in various monthly installments of principal February 2005 plus interest, maturing through	\$ 7,594	\$ 3,050
Note payable to Soteica incurred in connection with salesforce acquisition, payable in quarterly installments of approximately \$273 plus interest at 6% per year	—	2,777
Note payable of a UK subsidiary due in monthly installments of approximately \$50 plus interest at 9% per year	992	847
Mortgage payable of a UK subsidiary due in annual installments of approximately \$91 plus interest at 6% per year	866	837
Note payable of a Belgian subsidiary that was divested during fiscal 2003	1,030	—
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 was convertible into approximately 7,500 shares of the Company's common stock at the option of the holder	74	—
Other obligations	109	—
	11,219	7,510
Less—Current portion	5,334	3,849
	\$ 5,885	\$ 3,661

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

Years Ending June 30	Amount
2004	\$ 3,849
2006	1,597
2006	1,039
2007	224
2008	183
Thereafter	618
	\$ 7,510

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

(7) 5 1/4% Convertible Subordinated Debentures

In June 1998, the Company sold \$86.3 million of 5 1/4% Convertible subordinated debentures (the Debentures) to qualified institutional buyers which mature on June 15, 2005. 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. The Company recorded interest expense associated with these debentures of \$5.1 million in each of the years ended June 30, 2001, 2002 and 2003.

(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. Under the alliance, the Company purchased a \$29.6 million nonexclusive perpetual license to certain intellectual property owned by Accenture and committed to purchase \$7.4 million in certain professional development services relating to the existing intellectual property. In addition, in consideration for the development work, the Company committed to pay Accenture a royalty on sales of the software relating to the alliance arrangement over a four-year period, beginning July 1, 2002.

The Company recorded the \$29.6 million intellectual property asset and a corresponding obligation subject to common stock settlement in the accompanying June 30, 2002 consolidated balance sheet. This liability was partially settled with the payment of \$18.5 million in common stock (1,642,672 shares) on June 9, 2002. The remaining \$11.1 million obligation was converted into a note bearing interest at 12% and secured by certain installments receivable not sold to financial institutions. The Company made principal payments of \$8.4 million during the year ended June 30, 2003. The June 30, 2003 principal balance of \$2.7 million was paid in August 2003.

This intellectual property asset is being amortized over its estimated life of five years. In October 2002, this asset was reviewed for impairment as discussed in Note 3, resulting in a charge of \$23.6 million. During fiscal

2002, the Company recorded \$2.0 million of amortization, of which \$1.0 was charged to research and development costs and \$1.0 million was capitalized as computer software development costs. During fiscal 2003, the Company recorded \$4.1 million of amortization, of which \$3.7 was charged to research and development costs and \$0.4 million was capitalized as computer software development costs.

Under the alliance agreement, the \$7.4 million in professional development services were to be paid in stock or, under certain circumstances, in cash at the Company's election. During fiscal 2002 and 2003, Accenture provided \$1.8 million and \$3.7 million in services, respectively, which were recorded on the accompanying consolidated balance sheet as obligation subject to common stock settlement. Of these amounts, \$0.9 million was charged to research and development costs and \$0.9 million was capitalized as computer software development costs in fiscal 2002, and \$1.1 million was charged to research and development costs and \$2.6 million was capitalized as computer software development costs in fiscal 2003. In August 2003, the Company paid \$7.4 million in cash in settlement of this obligation.

Under the alliance agreement, the Company pays a royalty to Accenture equal to 5% of the sales of manufacturing/supply chain products in certain markets over a four-year period, beginning July 1, 2002. The Company is committed to pay a minimum of \$9.0 million due as follows: \$1.7 million in fiscal 2003, \$3.5 million in fiscal 2004, and \$3.8 million in fiscal 2005. The Company is recognizing the royalty expense at the greater of the straight-line amortization of the minimum commitment over the four-year royalty period, or the actual royalties earned during the period. The Company recorded royalty expense of \$2.3 million in fiscal 2003.

(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.

In June 2003, the Company amended the terms of the Series B Preferred in conjunction with the proposed Series D preferred stock financing. This amendment gave the holders of the Series B Preferred the right to redeem their Series B Preferred shares for cash in certain circumstances that were outside of the Company's control. As a result of this redemption feature, the carrying value of the Series B Preferred was reclassified outside of stockholders' equity on the accompanying consolidated balance sheet. In August 2003, the Company repurchased all of the outstanding shares of Series B Preferred (see Note 20).

Each share of Series B Preferred stock was 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 was then convertible.

The Series B Preferred stock accrued dividends at an annual rate of 4% that were 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 years ended June 30, 2002 and 2003, the Company accrued \$0.9 million and \$2.4 million, respectively, associated with this dividend obligation, which was recorded in additional paid-in capital on the accompanying consolidated balance sheet. During fiscal 2003, the Company issued 731,380 shares of common stock in settlement of its dividend obligations through March 31, 2003. In July 2003, the Company issued 120,740 shares of common stock in settlement of its dividend obligations for the three months ended June 30, 2003.

Each share of Series B-I Preferred stock and Series B-II Preferred stock was 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 were convertible into approximately 2,002,974 and 1,132,503 shares of common stock, respectively.

Beginning on August 7, 2003 and August 28, 2003, holders of Series B-I Preferred stock and Series B-II Preferred stock, respectively, could have required that the Company redeem up to a total of 20,000 shares of Series B-I Preferred stock and 10,000 shares of Series B-II Preferred stock. Beginning on February 8, 2004 and February 28, 2004, holders of Series B-I Preferred stock and Series B-II Preferred stock, respectively, could have required that the Company redeem any or all of their remaining shares of Series B Preferred stock. Any such redemption could have been 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 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 was 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 in fiscal 2002. The remaining discount on the Series B Preferred stock was being accreted to its redemption value over the earliest period of redemption. For fiscal 2002 and 2003, the Company accreted \$2.2 million and \$6.8 million of Series B Preferred stock discount, respectively.

(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 shares of the Company's common stock. Warrants to purchase 1,260 shares have expired through June 30, 2003. All remaining warrants are currently exercisable with an exercise price of \$120.98 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 at an exercise price ranging from \$20.64 to \$23.99 per share, as noted above in Note 9. As of June 30, 2003, none of these warrants had been exercised. In August 2003, these warrants were exchanged for new warrants to purchase 791,044 shares of common stock at an exercise price of \$4.08 per share (see Note 20).

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, 2003, none of these warrants had been exercised, and during fiscal 2003 the second class of warrants to purchase up to 2,458,333 shares of common stock expired unexercised. In August 2003, the remaining warrants were canceled, and new warrants were issued to purchase 1,152,665 shares at an exercise price of \$9.76 per share in their place (see Note 20).

(c) Stock Options

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, 2003, there were 2,771,650 shares of common stock available for grant under the 2001 Plan.

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. 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 is 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, 2003, there were 1,204,530 shares of common stock available for grant under the 1995 Plan, and no shares available for grant under the 1995 Directors Plan or the 1996 Plan.

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.

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 2001, 2002 and 2003:

	Number of Shares	Weighted Average Exercise Price
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
Options granted	3,158,555	2.88
Options exercised	(56,934)	2.56
Options terminated	(1,678,484)	11.26
Outstanding, June 30, 2003	8,414,382	\$11.35
Exercisable, June 30, 2003	5,372,666	\$13.72

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, 2003:

Range of Exercise Prices	Options Outstanding at June 30, 2003	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable at June 30, 2003	Weighted Average Exercise Price
\$2.67-\$4.33	2,894,466	8.7	\$2.89	810,601	\$2.95
4.33-8.67	1,022,280	6.0	8.26	961,786	8.24
8.67-13.00	179,341	5.3	10.43	163,566	10.41
13.00-17.34	3,263,004	5.6	14.15	2,556,781	14.25
17.34-21.67	155,813	4.1	19.60	103,031	19.85
21.67-26.01	168,250	5.5	24.13	146,000	24.26
26.01-30.34	435,287	4.5	29.02	380,905	29.03
30.34-34.68	187,425	5.4	31.40	153,769	31.53
34.68-39.01	55,500	6.9	38.25	54,093	38.29
39.01-43.34	53,016	5.6	40.08	42,134	40.11
June 30, 2003	8,414,382	6.6	\$11.35	5,372,666	\$13.72
Exercisable, June 30, 2002				4,544,779	\$15.55
Exercisable, June 30, 2001				3,257,982	\$15.76

In August 2003, all employee stock options, with the exception of certain executive options, vested in full and became 100% exercisable, which resulted in a total of 8,356,882 exercisable shares immediately following the acceleration (see Note 20).

(d) 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 174,463, 313,337 and 759,771 shares during fiscal 2001, 2002 and 2003, respectively. As of June 30, 2003, there were 1,103,065 shares available for future issuance under the 1998 Employee Stock Purchase Plan as amended. In addition, on July 1, 2003, the Company issued 519,790 shares under the 1998 Employee Stock Purchase Plan.

(e) 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.

The Company amended the Rights Plan in June 2003 so that the terms of the Rights Plan would not be applicable to the securities issued as part of the Series D preferred financing or to any securities issued in the future pursuant to the preemptive rights granted as part of this financing (see Note 20 for a description of the financing).

(f) 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 was 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.

(g) 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). In November 2002, the Board of Directors of the Company elected to terminate the PetroVantage Plan and grant options to purchase the Company's common stock under the Company's 2001 Plan. The options to purchase the Company's stock exchanged for the PetroVantage options were granted at an exercise price of \$2.21. In accordance with FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation (an Interpretation of APB Opinion No. 25)," the Company did not record any compensation expense, as the aggregate intrinsic value and the ratio of the exercise price to the market value of the options remained unchanged. The terms of the new options were substantially similar to the PetroVantage options.

(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		
	2001	2002	2003
Domestic	\$(26,757)	\$(56,597)	\$ (92,488)
Foreign	(2,350)	(18,164)	(68,345)
Total	\$(29,107)	\$(74,761)	\$(160,833)

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		
	2001	2002	2003
Federal—			
Current	\$ (3,433)	\$ —	\$ —
Deferred	(5,255)	—	—
State—			
Current	(219)	142	—
Deferred	(1,035)	—	—
Foreign—			
Current	1,210	1,366	—
Deferred	—	896	—
	\$ (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		
	2001 Benefit	2002 Provision	2003
Federal tax at statutory rate	\$(9,896)	\$(25,419)	\$(54,683)
State income tax, net of federal tax benefit	(828)	94	—
Tax effect resulting from foreign goodwill impairment	—	—	17,129
Tax effect resulting from foreign activities	1,572	8,438	6,108
Tax credits generated	(2,871)	(3,660)	(522)
Permanent differences, net	630	(234)	48
Acquisition costs	239	—	—
Valuation allowance	2,422	23,185	31,920
Provision for (benefit from) income taxes	\$(8,732)	\$ 2,404	\$ —

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

	June 30	
	2002	2003
Deferred tax assets:		
Revenue related	\$ (8,106)	\$ 248
US Income tax credits	20,470	19,028
US operating losses carryforward	23,403	20,942
Restructuring items	6,040	27,056
Nondeductible reserves and accruals	8,429	12,839
Intangible assets	(4,736)	2,140
Other temporary differences	(45)	10,756
	45,455	93,009
Valuation allowance	(26,950)	(76,249)
	18,505	16,760
Deferred tax liabilities: ⁽¹⁾		
Revenue related	(21,534)	(8,584)
Nondeductible reserves and accruals	(1,226)	(4,983)
Intangible assets	4,563	—
Other temporary differences	3,194	—
Foreign losses carryforward	—	309
	(15,003)	(13,258)
	\$ 3,502	\$ 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 2004 through 2024. 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 \$27.0 million and \$76.2 million as of June 30, 2002 and 2003, respectively.

(12) Operating Leases

The Company leases its facilities and various office equipment under noncancelable operating leases with terms in excess of one year. Rent expense charged to operations was approximately \$10.5 million, \$12.3 million and \$13.9 million for the years ended June 30, 2001, 2002 and 2003, respectively. Future minimum lease payments under these leases as of June 30, 2003 are as follows (in thousands):

	<i>Amount</i>
Years Ending June 30, 2004	\$ 16,747
2005	14,411
2006	12,526
2007	11,956
2008	10,887
Thereafter	34,808
	\$101,335

(13) Sale of Installments Receivable

Installments receivable represent the present value of future payments related to the financing of noncancelable 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, 2001, 2002, and 2003 ranged from 7.0% to 9.0%.

The Company has arrangements to sell certain of its installments receivable to two financial institutions. The Company sold, with limited recourse, certain of its installment contracts for aggregate proceeds of \$42.7 million and \$66.7 million during fiscal 2002 and 2003, 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. Collections of these receivables reduce the Company's recourse obligations, as defined. 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, 2003, there was approximately \$45 million of additional availability under the arrangements. The Company expects that there will be continued ability to sell installments receivable, as the collection of the sold receivables will reduce the outstanding balance and the availability under the arrangements can be increased. The Company's potential recourse obligation related to these contracts is within the range of \$4.1 million to \$5.7 million. 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 complaint*

On August 7, 2003, the Federal Trade Commission, or FTC, announced that it has authorized its staff to file a civil administrative complaint alleging that the acquisition of Hyprotech in May 2002 was anticompetitive and seeking to declare the acquisition in violation of Section 5 of the FTC Act and Section 7 of the Clayton Act. An administrative law judge will adjudicate the complaint in a trial-type proceeding if the Company does not reach a settlement with the FTC prior to the conclusion of this proceeding. Any decision of the administrative law judge may be appealed to the commissioners of the FTC by either the FTC staff or the Company. Upon appeal, the commissioners will issue their own decision and order after reviewing legal briefs and hearing oral arguments. If the FTC commissioners rule against the Company, it may file a petition for review in a federal circuit court of appeals. If the court of appeals affirms the FTC's ruling, then the court will enter its own order

of enforcement. Any decision of the court of appeals may be appealed by either the FTC, or by the Company, to the U.S. Supreme Court. The Company disagrees with the FTC that the acquisition of Hyprotech is anticompetitive and intends to defend the proceedings vigorously.

It is too early to determine the likely outcome of the FTC's challenge. Because of the length of the appeals process, the outcome of this matter may not be determined for several years. If the FTC were to prevail in this challenge, it could seek to impose a wide variety of remedies, some of which would have a material adverse effect on the Company's ability to continue to operate under its current business plan and on its results of operations. These potential remedies include the divestiture of Hyprotech, as well as mandatory licensing of Hyprotech software products and other engineering software products to one or more of the Company's competitors. As of June 30, 2003, the Company had accrued \$13.0 million to cover the cost of (1) professional service fees associated with its cooperation in the FTC's investigation since its commencement on June 7, 2002, and (2) estimated future professional services fees relating to the initial administrative proceeding and any subsequent appeals.

(b) Litigation

On May 31, 2002, the Company acquired the capital stock of Hyprotech from AEA Technology plc. AEA 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 alleged breaches by each party of an agreement to develop and market a product known as HYSYS.Refinery. The Company indemnified AEA under the Sale and Purchase Agreement with AEA dated May 10, 2002 against any costs, damages or expenses in respect of a claim brought by KBC alleging damages due to AEA's (a) failure to comply with its contractual obligations after the acquisition, (b) breach of non-competition clauses with respect to activities occurring after the acquisition, (c) breach of certain obligations to KBC under its agreement by virtue of the acquisition, or (d) execution of the acquisition agreement. On March 31, 2003, the arbitrator delivered a partial decision in the arbitration, as a result of which the Company has not received any request under the indemnification agreement, nor does the Company expect to receive one. Subsequently, AEA and KBC each issued a notice to the other terminating the contract between them. The Company expects that the arbitrator will determine whether either party had proper grounds for such termination notice. The Company is working with AEA in the resolution of this matter. It is too early to determine the likely outcome of this matter.

In addition, on September 11, 2002, KBC filed a separate complaint in state district court in Houston, Texas against the Company and Hyprotech. KBC's claim alleges tortious interference with contract and existing business relations, tortious interference with prospective business relationships, conversion of intellectual property and civil conspiracy. KBC has requested actual and exemplary damages, costs and interest. The Company has filed a counterclaim against KBC requesting actual and punitive damages and attorney fees. A trial date has been set for January 19, 2004. On August 25, 2003, KBC filed an additional complaint in the state district court in Houston, Texas against the Company and Hyprotech alleging breach of non-compete provisions and requesting injunctive relief preventing sale of its product, Aspen.Refsys. The Company believes the causes of action to be without merit and will defend the case vigorously. On September 15, 2003, the court set aside the injunction pending resolution of the arbitration in London.

(c) Other

The Company has entered into agreements with two 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 of control. Payment under these agreements would consist of a lump sum equal to approximately three times each executive's annual taxable compensation. The agreements also provide that the payments 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. The Company has entered into a substantially similar agreement with a third executive officer, except that payment under this agreement would consist of a lump sum equal to approximately (i)

twice this executive's annual taxable compensation if he is terminated within the first year following a change of control and (ii) this executive's annual taxable compensation if he is terminated within the second or third year following a change of control.

The Company has also entered into agreements with four executive officers, providing for severance payments in the event that the executive is terminated by the Company other than for cause. Payments under one of these agreements consist of continuation of base salary for a period of 18 months, payments under two of these agreements consist of continuation of base salary for a period of 12 months, and payments under the fourth agreement consist of continuation of base salary for a period of six months.

(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, including making 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, 2001, 2002 and 2003, the Company made matching contributions of approximately \$1.3 million, \$1.3 million and \$0.1 million, respectively.

(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 \$0.3 million on August 6, 1993, which represents a 25% equity interest in the joint venture as of June 30, 2003.

In November 1993, the Company invested approximately \$0.1 million 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 \$0.1 million. In fiscal 2001, 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 \$0.2 million.

In August 2001, the Company entered into a joint venture in Japan with a third party. The joint venture operates 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 \$0.9 million as of June 30, 2003. In fiscal 2003, the Company decided that it will not continue to invest in this joint venture, and wrote-off the remaining value of the investment.

The Company is accounting for the above three investments using the equity method. The net investments of approximately \$1.2 million and \$0.7 million are included in other assets in the accompanying consolidated balance sheets as of June 30, 2002 and 2003, respectively. In the accompanying consolidated statements of operations for the years ended June 30, 2001, 2002, and 2003, the Company has recognized income of approximately \$0.2 million, and losses of approximately \$0.2 million and \$0.5 million, respectively, as its portion of the income (loss) from these joint ventures. The Company does not have any commitments to provide additional funding to these entities.

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 \$5.0 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 impairment is included in the accompanying consolidated statement of operations for fiscal 2001.

In November 2000, the Company invested \$0.6 million 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, 2003, the Company has determined that an other than temporary impairment has not occurred. This investment is included in other assets in the accompanying consolidated balance sheet as of June 30, 2002 and 2003.

In December 2000, the Company made a \$3.0 million investment in e-Catalysts, Inc. (e-Catalysts). This investment entitled the Company to a 33% interest in e-Catalysts and had been accounted for using the equity method. In connection with the restructuring plan in the fourth quarter of fiscal 2001 (see Note 3(d)), the Company determined that an other than temporary impairment in the value of the asset had occurred. The amount of such impairment was included in the restructuring charge recorded by the Company in the fourth quarter of 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 \$5.0 million in cash. This investment entitled the Company to a minority interest in Optimum and was accounted for using the cost method. 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 an other than temporary impairment in the value of the asset had incurred, and the remaining investment of \$8.7 million was written-off.

(17) Accrued Expenses and Other Liabilities

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

	June 30	
	2002	2003
Royalties and outside commissions	\$ 4,034	\$14,677
Acquisition-related	8,180	13,005
Payroll and payroll-related	15,920	12,998
Restructuring and other charges	6,056	12,257
Payable to financing companies	9,923	4,332
Income taxes	4,914	536
Amount owed to AEA Technology plc (former parent of Hyprotech)	3,142	—
Other	18,957	15,667
	\$71,126	\$73,472

Other liabilities in the accompanying consolidated balance sheets consist of the following (in thousands):

	June 30	
	2002	2003
Restructuring and other charges	\$ 7,009	\$13,009
Royalties and outside commissions	5,031	3,000
	\$12,040	\$16,009

(18) Related Party Transactions

A director of the Company provided advisory services to the Company as a director of PetroVantage during fiscal 2002 and 2003. The Company made payments of \$32,000 to the director as compensation for services rendered during fiscal 2002 and no payments in fiscal 2003. Separately, during fiscal 2003, the director provided general consulting services to the Company, for which the Company made payments totaling approximately \$230,000 during the year.

(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, 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
Year ended June 30, 2003—				
Revenues from unaffiliated customers	\$139,859	\$103,741	\$79,121	\$322,721
Controllable expenses	65,394	81,943	12,361	159,698
Controllable margin⁽¹⁾	\$ 74,465	\$ 21,798	\$66,760	\$163,023

(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		
	2001	2002	2003
<i>(In thousands)</i>			
Total controllable margin for reportable segments	\$169,567	\$157,712	\$163,023
Selling and marketing	(96,467)	(89,953)	(91,357)
Research and development	(12,587)	(20,248)	—
General and administrative and overhead	(73,204)	(82,650)	(77,379)
Goodwill impairment charge	—	—	(74,715)
Restructuring and other charges	(6,969)	(16,083)	(81,162)
Charges for in-process research and development	(9,915)	(14,900)	—
Interest and other income and expense	5,468	284	757
Write-off of investments	(5,000)	(8,923)	—
Income (loss) before provision for (benefit from) income taxes	\$(29,107)	\$(74,761)	\$(160,833)

Geographic Information:

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

	Years Ended June 30		
	2001	2002	2003
United States	51.2%	54.2%	46.6%
Europe	27.7	28.4	30.2
Japan	5.3	5.1	3.9
Other	15.8	12.3	19.3
	100.0%	100.0%	100.0%

During the years ended June 30, 2001, 2002 and 2003 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, 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
Year ended June 30, 2003—					
Revenues	\$235,373	\$106,725	\$12,876	\$ (32,253)	\$322,721
Identifiable assets	\$528,304	\$ 64,917	\$(6,959)	\$(266,789)	\$319,473

(20) Subsequent Events—Preferred Stock Financing and Shareholder Vote

In August 2003, the Company issued and sold 300,300 shares of Series D-1 convertible preferred stock (Series D-1 Preferred), along with warrants to purchase up to 6,006,006 shares of common stock at a price of \$3.33 per share, in a private placement to several investment partnerships managed by Advent International Corporation for an aggregate purchase price of \$100.0 million. Concurrently, the Company paid cash of \$30.0 million and issued 63,064 shares of Series D-2 convertible preferred stock (Series D-2 Preferred), along with warrants to purchase up to 1,261,280 shares of common stock at a price of \$3.33 per share, to repurchase all of the outstanding Series B-I and B-II convertible preferred stock. In addition the Company exchanged existing warrants to purchase 791,044 shares of common stock at an exercise price ranging from \$20.64 to \$23.99 held by the Series B Preferred holders, for new warrants to purchase 791,044 shares of common stock at an exercise price of \$4.08.

Each share of Series D-1 and D-2 Preferred (together the Series D Preferred) is entitled to vote on all matters in which holders of common stock are entitled to vote, receiving a number of votes equal to the number of shares of common stock into which it is then convertible. In addition, holders of Series D-1 Preferred, as a separate class, are entitled to elect a certain number of directors, based on a formula as defined. Initially, the Series D-1 Preferred holders are entitled to elect two directors.

The Series D Preferred earns cumulative dividends at an annual rate of 8%, that are payable when and if declared by the Board of Directors, in cash or, subject to certain conditions, common stock.

Each share of Series D Preferred is initially convertible at any time into a number of shares of common stock equal to its stated value divided by the then-effective conversion price. The stated value is initially \$333.00 per share and is subject to adjustment in the event of any stock dividend, stock split, reverse stock split, recapitalization, or any like occurrences. The initial conversion price is \$3.33 per share. As a result, each share of Series D Preferred initially is convertible into 100 shares of common stock, and in the aggregate, the Series D Preferred are convertible into 36,336,400 shares of common stock. The Series D Preferred have anti-dilution rights that will adjust the conversion ratio downwards in the event that the Company issues certain additional securities at a price per share less than the conversion price then in effect.

The Series D Preferred is subject to redemption at the option of the holders as follows: 50% on or after August 14, 2009 and 50% on or after August 14, 2010. The shares will be redeemed for cash at a price of \$333.00 per share, plus accumulated but unpaid dividends.

As a result of the Series D Preferred financing, anti-dilution provisions were triggered on the warrants to purchase shares of common stock that had been issued in connection with the May 2002 sale of common stock to private investors. These warrants initially provided for the purchase of 750,000 shares of common stock at an exercise price of \$15.00, and now have been amended to purchase 1,152,665 shares at an exercise price of \$9.76 per share.

As a result of the Series D Preferred financing, certain provisions were triggered in the employee stock option plans, resulting in full vesting of all employee stock options, with the exception of certain executives who waived this acceleration for options less than \$10.00. Immediately following the acceleration there were a total of 8,356,882 exercisable and outstanding options.

At the August 2003 stockholder meeting, it was voted to: 1) give the board of directors discretion to effect a one-for-two or a one-for-three reverse stock split at any time prior to January 31, 2004, 2) increase the number of authorized shares of common stock to 210,000,000 shares, 3) reduce the per share par value of the common stock to \$0.001 per share, and 4) increase the number of shares of common stock reserved under the Company's 1995 Director Stock Option Plan to 800,000 shares.

(In Thousands)	September 30, 2002	December 30, 2002	March 31, 2003	June 30, 2003
Net income (loss)	\$(12,967)	\$(136,888)	\$(1,960)	\$(18,202)
Adjustments to net loss:				
Restructuring charge, net of tax effect	—	135,244	2,100	18,533
Preferred stock discount and dividend accretion	2,234	2,287	2,291	2,372
Pro forma net income (loss)	\$(10,733)	643	2,431	2,703
Weighted average shares outstanding - basic and diluted	37,994	39,560	40,938	41,051
Earnings Per Share	(\$0.28)	\$0.02	\$0.06	\$0.07