QuickLinks -- Click here to rapidly navigate through this document

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15( ) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTER ENDED MARCH 31, 2003**

or

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

Commission file number 000-24786

Aspen Technology, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**04-2739697** (IRS Employer Identification No.)

Ten Canal Park, Cambridge, Massachusetts 02141
(Address of principal executive office and zip code)

(617) 949-1000
(Registrant's telephone number, including area code)

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

Indicate by check whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes o No ☒

As of May 12, 2003, there were 39,268,572 shares of the registrant's common stock (par value $.10 per share) outstanding.

PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

ASPEN TECHNOLOGY, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS

	March 31, 2003	June 30, 2002
	(Unaudited and in thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 53,414	$ 33,571
Short-term investments	—	18,549
Accounts receivable, net	77,716	95,418
Unbilled services	18,819	30,569
Current portion of long-term installments receivable, net	29,114	40,404
Deferred tax asset	2,929	2,929
Prepaid expenses and other current assets	14,494	18,699
Total current assets	196,486	240,139

Long-term installments receivable, net	68,829	68,318
Property and leasehold improvements, at cost	128,575	133,676
Accumulated depreciation and amortization	(93,053)	(82,873)
	35,522	50,803
Computer software development costs, net	15,885	13,810
Purchased intellectual property, net	2,002	27,626
Other intangible assets, net	29,194	41,105
Goodwill, net	14,287	84,258
Deferred tax asset	15,576	15,576
Other assets	5,867	6,708
	$ 383,648	$ 548,343
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 4,954	$ 5,334
Amount owed to Accenture	5,333	11,100
Accounts payable and accrued expenses	75,619	94,987
Unearned revenue	18,429	20,983
Deferred revenue	38,887	38,624
Total current liabilities	143,222	171,028
Long-term debt and obligations, less current maturities	4,084	5,885
5 1/4% Convertible subordinated debentures	86,250	86,250
Obligation subject to common stock settlement	5,006	1,810
Deferred revenue, less current portion	12,426	9,548
Deferred tax liability	14,496	15,003
Other liabilities	3,086	5,031
Stockholders' equity:		
Preferred stock		
Outstanding—60,000 shares as of March 31, 2003 and June 30, 2002	55,763	50,753
Common stock		
Outstanding—38,795,179 as of March 31, 2003 and 37,500,753 as of June 30, 2002	3,905	3,773
Additional paid-in capital	315,089	310,039
Accumulated deficit	(259,411)	(107,593)
Accumulated other comprehensive gain (loss)	234	(2,682)
Treasury stock, at cost	(502)	(502)
Total stockholders' equity	115,078	253,788
	$ 383,648	$ 548,343

The accompanying notes are an integral part of these financial statements.

ASPEN TECHNOLOGY, INC.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2003	2002	2003	2002
	(Unaudited and in thousands, except per share data)			
Software licenses	$ 34,883	$ 37,380	$ 101,310	$ 96,550
Service and other	44,846	46,086	138,642	140,102
Total revenues	79,729	83,466	239,952	236,652
Cost of software licenses	2,891	3,165	9,737	8,663
Cost of service and other	25,745	29,969	80,576	90,372
Selling and marketing	24,455	29,521	80,640	84,597
Research and development	15,727	19,585	49,469	55,413
General and administrative	8,893	8,678	27,637	23,620
Goodwill impairment charge	—	—	74,715	—
Restructuring and other charges	2,100	(500)	62,629	2,142

Total costs and expenses	79,811	90,418	385,403	264,807
Loss from operations	(82)	(6,952)	(145,451)	(28,155)
Other income (expense), net	64	(152)	(750)	(505)
Interest income, net	349	103	1,198	999
Income (loss) before benefit from income taxes	331	(7,001)	(145,003)	(27,661)
Benefit from income taxes	—	(2,100)	—	(8,299)
Net income (loss)	331	(4,901)	(145,003)	(19,362)
Accretion of preferred stock discount and dividend	(2,291)	(4,140)	(6,812)	(4,140)
Net loss applicable to common shareholders	$ (1,960)	$ (9,041)	$ (151,815)	$ (23,502)
Basic and diluted loss applicable to common shareholders per share	$ (0.05)	$ (0.28)	$ (3.96)	$ (0.74)
Basic and diluted weighted average shares outstanding	38,795	31,948	38,295	31,768

The accompanying notes are an integral part of these financial statements.

ASPEN TECHNOLOGY, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	Nine Months Ended March 31,	
	2003	2002
	(Unaudited and in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (145,003)	$ (19,362)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	22,611	17,214
Goodwill impairment charge	74,715	—
Asset impairments and write-offs under the restructuring and other charges	38,732	—
Gain on revaluation of intercompany loans denominated in foreign currencies	(1,124)	—
Research and development costs subject to common stock settlement	787	—
Amortization of deferred stock-based compensation	—	156
Loss on disposal of property and leasehold improvements	183	—
Deferred income taxes	(507)	(2,823)
Decrease in accounts receivable	20,006	5,695
Decrease (increase) in unbilled services	13,039	(2,629)
Decrease in installments receivable	11,694	19,315
Decrease (increase) in prepaid expenses and other current assets	4,462	(3,671)
Decrease in accounts payable and accrued expenses	(19,977)	(15,618)
Increase (decrease) in unearned revenue	(2,844)	2,574
Increase in deferred revenue	2,263	1,496
Net cash provided by operating activities	19,037	2,347
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and leasehold improvements	(4,286)	(7,651)
Proceeds from sale of property	—	1,725
Sale of investment securities	18,535	16,381
Decrease (increase) in other long-term assets	867	(1,233)
Increase in computer software development costs	(5,560)	(5,285)
Decrease in other long-term liabilities	(1,945)	—
Net cash provided by investing activities	7,611	3,937
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of Series B convertible preferred stock and common stock warrants, net of issuance costs	—	56,664
Issuance of common stock under employee stock purchase plans	3,295	5,637
Exercise of stock options	85	1,084

Payment of amount owed to Accenture	(5,767)	—
Payments of long-term debt and capital lease obligations	(5,033)	(2,747)
Net cash (used in) provided by financing activities	(7,420)	60,638
EFFECTS OF EXCHANGE RATE CHANGES ON CASH	615	(381)
INCREASE IN CASH AND CASH EQUIVALENTS	19,843	66,541
CASH AND CASH EQUIVALENTS, beginning of period	33,571	36,633
CASH AND CASH EQUIVALENTS, end of period	$ 53,414	$ 103,174

The accompanying notes are an integral part of these financial statements.

ASPEN TECHNOLOGY, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. Interim Condensed and Consolidated Financial Statements

In the opinion of management, the accompanying unaudited interim consolidated condensed financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for reporting on Form 10-Q. Accordingly, certain information and footnote disclosures required for complete financial statements are not included herein. It is suggested that these unaudited interim consolidated condensed financial statements be read in conjunction with the audited consolidated financial statements for the year ended June 30, 2002, which are contained in the Annual Report on 10-K of Aspen Technology, Inc. (the Company), as previously filed with the SEC. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial position, results of operations, and cash flows at the dates and for the periods presented have been included. The consolidated condensed balance sheet presented as of June 30, 2002 has been derived from the consolidated financial statements that have been audited by the Company's independent public accountants. The results of operations for the three- and nine-month periods ended March 31, 2003 are not necessarily indicative of the results to be expected for the full year.

2. 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 required to be recorded at market value in the financial statements. Unrealized gains and losses have been accounted for as a separate component of stockholders' equity within accumulated other comprehensive loss. Realized investment gains and losses were not material in the three- or nine- month periods ended March 31, 2003 and 2002. The Company did not hold any investments as of March 31, 2003. The Company does not use derivative financial instruments in its investment portfolio.

Cash equivalents totaling $12.9 million were held by the bank as compensating balances for outstanding letters of credit as of March 31, 2003.

3. 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 over a one-to five-year period. A portion of each installment agreement is recognized as interest income in the accompanying consolidated condensed statements of operations. The interest rates utilized for the three and nine months ended March 31, 2003 were 7.0% and 7.0% to 7.5%, respectively. In the three and nine months ended March 31, 2002, the rates utilized were 7.0% and 7.0% to 8.0%, respectively.

The Company has arrangements to sell its installments receivable to two financial institutions. The Company sold, with limited recourse, certain of its installment contracts for aggregate proceeds of approximately $16.6 million and $49.2 million during the three and nine months ended March 31, 2003, respectively. The financial institutions have certain recourse to the Company upon non-payment 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 March 31, 2003, the balance of the uncollected principal portion of all contracts sold was $132.7 million, with approximately $50 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 $5.6 million to $9.1 million. In addition, the Company is obligated to pay additional costs to the financial institutions in the event of default by the customer.

4. 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 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 recorded at 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.

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 assets that are denominated in currencies other than the U.S. dollar, primarily the British Pound, the Japanese Yen and the Euro. These foreign exchange contracts are entered into to hedge recorded installments receivable made in the normal course of business, and accordingly, are not speculative in nature. As part of its overall strategy to manage the level of exposure to the risk of foreign currency exchange rate fluctuations, the Company hedges the majority of its installments receivable denominated in foreign currencies.

At March 31, 2003, the Company had effectively hedged $7.1 million of installments receivable denominated in foreign currency. The Company does not hold or transact in financial instruments for purposes other than risk management. The gross value of the long-term installments receivable that were denominated in foreign currency was $29.3 million at March 31, 2003. The March 2003 installments receivable mature through April 2007. 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 or 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. A small portion of the forward foreign currency exchange contract is designated to hedge the future interest income of the related receivables. 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.

The following table provides information about the Company's foreign currency derivative financial instruments outstanding as of March 31, 2003. The information is provided in U.S. dollar amounts, as presented in the Company's consolidated condensed financial statements. The table presents the notional amount (at contract exchange rates), the estimated fair value and the weighted average contractual foreign currency rates (in thousands, except average contract rates):

	Notional Amount	Estimated Fair value	Average Contract Rate
Euro	$ 3,369	$ 3,504	1.00
Japanese Yen	1,767	1,695	121.18
British Pound Sterling	1,691	1,738	0.67
Swiss Franc	249	257	1.41
	$ 7,076	$ 7,194	

* The estimated fair value is based on the estimated amount at which the contracts could be settled based on the spot rates as of March 31, 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.

5. Stock-Based Compensation Plans

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 programs. The Company accounts for stock-based compensation for employees under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", and has elected the disclosure-only alternative under SFAS No. 123, as amended by SFAS No. 148. 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.

Had compensation cost for the Company's stock plans been determined based on the fair value at the grant dates, as prescribed in SFAS No. 123, the Company's net income (loss) attributable to

common shareholders, and net income (loss) attributable to common shareholders per share would have been as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2003	2002	2003	2002
Net loss attributable to common shareholders (in thousands)—				

As reported	$ (1,960)	$ (9,041)	$ (151,815)	$ (23,502)
Less: Stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	3,205	5,462	12,059	16,287
Pro forma	$ (5,165)	$ (14,503)	$ (163,874)	$ (39,789)
Net loss attributable to common shareholders per share—Basic and Diluted—				
As reported	$ (0.05)	$ (0.28)	$ (3.96)	$ (0.74)
Pro forma	(0.13)	(0.45)	(4.28)	(1.25)

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:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2003	2002	2003	2002
Risk free interest rates	2.78%	N/A	2.78–3.29%	3.91–4.39%
Expected dividend yield	None	N/A	None	None
Expected life	5 Years	N/A	5 Years	5 Years
Expected volatility	99%	N/A	99%	72%
Weighted average fair value per option	$2.17	N/A	$2.34	$8.00

The Company did not issue stock options during the three months ended March 31, 2002.

6. Net Income (Loss) Per Common Share

Basic income (loss) per common share is calculated by dividing net income (loss) applicable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per common share reflect the dilutive effect, if any, of potential common shares.

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2003	2002	2003	2002
Convertible debt	1,628	1,628	1,628	1,628
Convertible preferred stock	3,135	1,341	3,135	441
Obligation subject to common stock settlement	1,927	681	1,518	224
Preferred stock dividend, to be settled in common stock	114	3	102	1
Options, restricted stock and warrants	47	1,857	34	1,227
Total	6,851	5,510	6,417	3,521

7. Comprehensive Income (Loss)

The components of comprehensive income (loss) for the three and nine months ended March 31, 2003 and 2002 are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	2003	2002	2003	2002
Net Income (loss)	$ 331	$ (4,901)	$ (145,003)	$ (19,362)
Unrealized gain (loss) on investments	(122)	(141)	(127)	(247)
Foreign currency translation adjustment	729	(750)	3,043	79
Comprehensive gain (loss)	$ 938	$ (5,792)	$ (142,087)	$ (19,530)

8. Goodwill Adjustments and Impairment Charge

During the three months ended December 31, 2002, the Company made adjustments to the purchase price allocation associated with the Hyprotech acquisition, which was completed in May 2002. 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 a $1.8 million increase to goodwill. The Company intends to make final adjustments to the purchase price, as required, through May 2003.

The Company follows the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets". 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. 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 changes in the carrying amount of goodwill related to the maintenance and training reporting unit for the three months ended March 31, 2003 were as follows (in thousands):

	Reporting Unit			
	License	Consulting Services	Maintenance and Training	Total
Carrying amount as of December 31, 2002	$ —	$ —	$ 11,341	$ 11,341
Acquisition (see Note 13)	2,358	147	442	2,947
Effect of change in rates used for translation	—	—	(1)	(1)
Carrying amount as of March 31, 2003	$ 2,358	$ 147	$ 11,782	$ 14,287

9. Restructuring and Other Charges

(a) Q3 FY03

The restructuring and other charges, totaling $2.1 million in the accompanying consolidated condensed statements of operations for the three months ended March 31, 2003, consist of accrued professional service fees related to the ongoing FTC investigation as discussed in Note 11.

(b) Q2 FY03

In October 2002, the Company recorded restructuring and other charges totaling $60.5 million, consisting of $55.6 million of charges associated with the Company's October 2002 restructuring plan, and $4.9 million of accrued legal costs related to the ongoing FTC investigation as discussed in Note 11.

In October 2002, the Company initiated a plan to further reduce operating expenses in response to first quarter revenue results that were below expectations and general economic uncertainties. In addition, the Company revised its revenue expectations for the remainder of the fiscal year and beyond, primarily related to the Company's 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. As of March 31, 2003, there was $9.0 million remaining in accrued expenses relating to the remaining

severance obligations and lease payments. During the nine months ended March 31, 2003, the following activity was recorded (in thousands):

	Closedown/ Consolidation of Facilities	Employee Severance, Benefits, and Related Costs	Impairment/ Write-off of Assets	Total
Restructuring charge	$ 8,670	$ 8,169	$ 38,732	$ 55,571
Write-off/Impairment of assets	—	—	(38,732)	(38,732)
Payments	(69)	(4,769)	—	(4,838)
Accrued expenses, December 31, 2002	8,601	3,400	—	12,001
Payments	(1,416)	(1,631)	—	(3,047)
Accrued expenses, March 31, 2003	$ 7,185	$ 1,769	$ —	$ 8,954

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

Closedown/consolidation of facilities: Approximately $8.7 million of the restructuring charge related to the termination of facility leases and other lease related costs. The facility leases had remaining terms ranging from several months to eight years. The amount accrued was 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.

Employee severance, benefits and related costs: Approximately $8.2 million of the restructuring charge related to the reduction in headcount. 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/write-off of assets: Approximately $38.7 million of the restructuring charge related to charges associated with long-lived assets that were reviewed for impairment under the provisions of SFAS No. 144 and were either written-down to fair value or written-off due to the fact that they will no longer be utilized. The resulting charges included:

- 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 was used primarily in the development of manufacturing / supply chain software products, within the Company's 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.

- $13.2 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 fair values of those assets that had carrying values in excess of their 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 $1.9 million impairment charge related to assets and liabilities associated with certain products of which the Company is divesting itself. These assets had historically been considered to be part of the license line of business. As part of the cost reductions, management decided that the Company 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.

(c) Q4 FY02

In the fourth quarter of fiscal 2002, the Company initiated a plan to reduce its operating expenses and to restructure operations around its two primary product lines, engineering software and manufacturing/supply chain software. The Company reduced worldwide headcount by approximately 10% or 200 employees, closed-down and consolidated facilities, and disposed of certain assets, resulting in an aggregate restructuring charge of $14.4 million. As of March 31, 2003, there was $6.4 million remaining in accrued expenses relating to the remaining severance obligations and lease payments. During the three months ended March 31, 2003, the following activity was recorded:

	Closedown/ Consolidation of Facilities	Employee Severance, Benefits, and Related Costs	Total
Accrued expenses, December 31, 2002	$ 4,768	$ 2,798	$ 7,566
Payments	(329)	(801)	(1,130)
Accrued expenses, March 31, 2003	$ 4,439	$ 1,997	$ 6,436

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

(d) Q4 FY01

In the third quarter of fiscal 2001, the revenues realized by the Company were below the Company's expectations as customers delayed spending in the widespread slowdown in information technology spending and the deferral of late-quarter purchasing decisions. At that time, the Company also reduced its revenue expectations for the fourth quarter of fiscal year 2001 and for the fiscal year 2002. Based on the 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. The restructuring plan resulted in a pretax charge totaling $7.0 million. As of March 31, 2003, there was

$0.8 million remaining in accrued expenses relating to the restructuring. During the three months ended March 31, 2003, the following activity was recorded:

	Closedown/ Consolidation of Facilities
Accrued expenses, December 31, 2002	$ 915
Payments	(128)
Accrued expenses, March 31, 2003	$ 787

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

(e) Q4 FY99

In the fourth quarter of fiscal 1999, the Company undertook certain actions to restructure its business. The restructuring resulted from a lower than expected level of license revenues which adversely affected fiscal year 1999 operating results. The license revenue shortfall resulted primarily from delayed decision making driven by economic difficulties among customers in certain of the Company's core vertical markets. The restructuring plan resulted in a pre-tax restructuring charge totaling $17.9 million. As of March 31, 2003, there was $0.6 million remaining in the accrued expenses relating to the restructuring. During the three months ended March 31, 2003, the following activity was recorded:

	Closedown/ Consolidation of Facilities
Accrued expenses, December 31, 2002	$ 598
Payments	(37)
Accrued expenses, March 31, 2003	$ 561

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

10. 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. Under the alliance, the Company will pay $29.6 million for intellectual property and up to $7.4 million for services. The $29.6 million intellectual property obligation was partially settled with the payment of $18.5 million in common stock on June 9, 2002. In August 2002, the alliance agreements were amended to provide a payment schedule for the remaining $11.1 million. Under this revised payment schedule, the Company made cash payments totaling $5.8 million in the nine months ended March 31, 2003 and will make the remaining payments in installments of cash, due through July 2003. In addition, the unpaid balance of this obligation accrues interest at a rate of 1.5% per month and, as of March 31, 2003, was secured by a pledge of certain installments receivable not sold to financial institutions. As discussed in Note 8(b), during the three months ended December 31, 2002 it was determined that the intellectual property was impaired, which resulted in an impairment charge of $23.6 million.

Beginning July 1, 2002, the Company is obligated to pay Accenture a royalty on sales of certain software products over a four-year period. During the three and nine months ended March 31, 2003, the Company accrued $0.3 million and $0.8 million, respectively, associated with this royalty obligation.

11. Commitments and Contingencies

(a) FTC investigation

By letter of June 7, 2002, the FTC informed the Company that it was conducting an investigation into the competitive effects of the Company's recent acquisition of Hyprotech. The Company completed production of all requested documents in January 2003, and has presented marketing analyses and supporting arguments. The FTC may determine to challenge the acquisition through an administrative civil complaint seeking to declare the acquisition in violation of Section 7 of the Clayton Act or Section 5 of the FTC Act. If the FTC were to prevail in that challenge, it could seek to impose a wide variety of remedies, some of which may have a material adverse effect on the Company's ability to continue to operate under its current business plans. These potential remedies include divestiture of Hyprotech, as well as mandatory licensing of Hyprotech software products and the Company's other engineering software products to one or more of its competitors. The Company continues to cooperate fully with the FTC. During the quarters ended March 31, 2003 and December 31, 2002, the Company provided $2.1 million and $4.9 million, respectively, for estimated professional service fees associated with the FTC investigation.

(b) Litigation

On May 31, 2002, the Company acquired the capital stock of Hyprotech from AEA Technology plc. AEA Technology is engaged in arbitration proceedings in England over a contract dispute with KBC Advanced Technologies PLC, an English technology and consulting services company ("KBC"). The dispute remains in arbitration and concerns the characterization of certain technology for purposes of calculating royalties, plus other contractual rights, with respect to Hysys.Refinery. Hysys.Refinery was retained by AEA Technology with support for Hysys.Refinery to be provided by Hyprotech pursuant to a contract with AEA Technology. The Company indemnified AEA under the Sale and Purchase Agreement between AEA Technology plc and the Company dated May 10, 2002 against any costs, damages or expenses in respect of a claim brought by KBC alleging damages due to AEA's i) failure to comply with its contractual obligations after the acquisition, ii) breach of non-competition clauses with respect to activities occurring after the acquisition, iii) breach of certain obligations to KBC under its agreement by virtue of the acquisition, or iv) 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 now expect to receive one. The Company is working with AEA in the resolution of this matter.

On September 11, 2002, the Company and Hyprotech were sued by KBC in state district court in Houston, Texas on issues related to the technology subject to review in the arbitration proceeding. KBC has requested actual and exemplary damages, costs and interest. The Company believes the causes of action to be without merit and will defend the case vigorously. 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.

12. 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 (4.25% at March 31, 2003) plus $^{1}/_{2}$%, 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 Loan Arrangement expires in January 2005.

13. Acquisitions and dispositions

(a) Acquisition of salesforce

In January 2003, the Company acquired a portion of the salesforce of Soteica S.R.L. and bought-out 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 total purchase price of $3.0 million consists of the net present value of 12 quarterly payments of $0.3 million beginning in April 2003. 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 as follows (in thousands):

Description	Amount	Life
Marketing rights	$ 80	2 months
Goodwill	2,947	—
Total purchase price	$ 3,027	

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

(b) Sale of Aspen Metals product

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 $0.3 million, which was included in the restructuring and other charge for the three months ended December 31, 2002.

14. Segment Information

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", establishes standards for reporting information about operating segments in companies' financial statements. 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 lines 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 accounting policies of the line of business operating segments are the same as those described in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2002. 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
Three Months Ended March 31, 2003—				
Revenues from unaffiliated customers	$ 34,883	$ 25,237	$ 19,609	$ 79,729
Controllable expenses	15,023	18,684	3,075	36,782
Controllable margin(1)	$ 19,860	$ 6,553	$ 16,534	$ 42,947
Three Months Ended March 31, 2002—				
Revenues from unaffiliated customers	$ 37,380	$ 31,566	$ 14,520	$ 83,466
Controllable expenses	15,837	23,305	3,089	42,231
Controllable margin(1)	$ 21,543	$ 8,261	$ 11,431	$ 41,235
Nine Months Ended March 31, 2003—				
Revenues from unaffiliated customers	$ 101,310	$ 79,818	$ 58,824	$ 239,952
Controllable expenses	49,277	62,045	9,427	120,749
Controllable margin(1)	$ 52,033	$ 17,773	$ 49,397	$ 119,203
Nine Months Ended March 31, 2002—				
Revenues from unaffiliated customers	$ 96,550	$ 96,254	$ 43,848	$ 236,652
Controllable expenses	45,263	68,062	8,819	122,144

Controllable margin(1)	$ 51,287	$ 28,192	$ 35,029	$ 114,508

(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 (in thousands):

	Three Months Ending March 31,		Nine Months Ending March 31,	
	2003	2002	2003	2002
Total controllable margin for reportable segments	$ 42,947	$ 41,235	$ 119,203	$ 114,508
Selling and marketing	(20,921)	(22,072)	(69,414)	(64,288)
Research and development	—	(5,160)	—	(15,441)
General and administrative and overhead	(20,008)	(21,455)	(57,896)	(60,792)
Goodwill impairment losses	—	—	(74,715)	—
Restructuring and other charges	(2,100)	500	(62,629)	(2,142)
Interest and other income and expense, net	413	(49)	448	494
Income (loss) before benefit from income taxes	$ 331	$ (7,001)	$ (145,003)	$ (27,661)

15. Accounting Policies and Recent Accounting Pronouncements

During the three months ended December 31, 2002 the Company adopted a policy to accrue future legal fees associated with outstanding litigation. Previously, the Company had not encountered litigation that resulted in material defense costs, and thus the Company had no established policy. 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.

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

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

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). This interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also

clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN 45 are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45 did not have a significant impact on the Company's financial statements.

In December 2002, the FASB issued Statement No. 148, "Accounting for Stock Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123". This statement amends Statement 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, Statement 148 amends the disclosure requirements of Statement 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 Company adopted Statement 148 effective January 1, 2003 and has provided the disclosures required under Statement 148 in Note 5.

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

THE FOLLOWING DISCUSSION AND ANALYSIS OF OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS SHOULD BE READ IN CONJUNCTION WITH OUR CONSOLIDATED FINANCIAL STATEMENTS AND THE RELATED NOTES APPEARING ELSEWHERE IN THIS QUARTERLY REPORT ON FORM 10-Q AND IN OUR ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED JUNE 30, 2002. THIS DISCUSSION AND ANALYSIS CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS, UNCERTAINTIES AND ASSUMPTIONS. OUR ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THESE FORWARD-LOOKING STATEMENTS AS A RESULT OF A NUMBER OF FACTORS, INCLUDING THOSE SET FORTH UNDER "FACTORS THAT MAY AFFECT FUTURE RESULTS AND THE TRADING PRICE OF OUR COMMON STOCK" AND ELSEWHERE IN THIS QUARTERLY REPORT.

Overview

Since our founding in 1981, we have developed and marketed software and services to companies in the process industries. In addition to internally generated growth, we have acquired a number of businesses, including Hyprotech in the fourth quarter of fiscal 2002.

We acquired Hyprotech in a transaction accounted for as a purchase. Our operating results include the operating results of this acquisition only for periods subsequent to its date of acquisition.

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

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

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

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

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

Significant Events—Quarter Ended March 31, 2003

The restructuring and other charges, totaling $2.1 million in the accompanying consolidated condensed statements of operations for the three months ended March 31, 2003, consist of accrued professional service fees related to the ongoing FTC investigation into our acquisition of Hyprotech.

In January 2003, we acquired a portion of the salesforce of Soteica S.R.L. and bought-out 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 total purchase price of $3.0 million consists of the net present value of 12 quarterly payments of $0.3 million beginning in April 2003. 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 as follows (in thousands):

Description	Amount	Life
Marketing rights	$ 80	2 months
Goodwill	2,947	—
Total purchase price	$ 3,027	

In January 2003, we 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 (4.25% at March 31, 2003) plus $^{1}/_{2}$%, which may be reduced to the bank's prime rate upon the achievement of two consecutive quarters of net income. We are 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 our assets, and upon achieving certain net income targets, the collateral will be reduced to a lien on the accounts receivable. We are required to meet certain financial covenants, including minimum tangible net worth, minimum cash balances and an adjusted quick ratio. The Loan Arrangement expires in January 2005.

Summary of Restructuring Accruals

In October 2002, we initiated a plan to further reduce operating expenses in response to first quarter revenue results that were below our expectations and to general economic uncertainties. In addition, we revised our revenue expectations for the remainder of the fiscal year and beyond, primarily related to our 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. As of March 31, 2003, there was $9.0 million remaining in accrued expenses relating to the remaining severance obligations and lease payments. During the three months ended March 31, 2003, the following activity was recorded (in thousands):

	Closedown/ Consolidation of Facilities	Employee Severance, Benefits, and Related Costs	Impairment/ Write-off of Assets	Total
Restructuring charge	$ 8,670	$ 8,169	$ 38,732	$ 55,571
Write-off/Impairment of assets	—	—	(38,732)	(38,732)
Payments	(69)	(4,769)	—	(4,838)
Accrued expenses, December 31, 2002	8,601	3,400	—	12,001
Payments	(1,416)	(1,631)	—	(3,047)
Accrued expenses, March 31, 2003	$ 7,185	$ 1,769	$ —	$ 8,954

We expect that the remaining obligations will be paid-out by December 2010.

In the fourth quarter of fiscal 2002, we initiated a plan to reduce operating expenses and to restructure operations around our two primary product lines, engineering software and manufacturing/supply chain software. We reduced worldwide headcount by approximately 10% or 200 employees, closed-down and consolidated facilities, and disposed of certain assets, resulting in an aggregate restructuring charge of $14.4 million. As of March 31, 2003, there was $6.4 million remaining in accrued expenses relating to the remaining severance obligations and lease payments. During the three months ended March 31, 2003, the following activity was recorded:

	Closedown/ Consolidation of Facilities	Employee Severance, Benefits, and Related Costs	Total
Accrued expenses, December 31, 2002	$ 4,768	$ 2,798	$ 7,566
Payments	(329)	(801)	(1,130)
Accrued expenses, March 31, 2003	$ 4,439	$ 1,997	$ 6,436

We expect that the remaining obligations will be paid-out by December 2010.

In the third quarter of fiscal 2001, the revenues realized were below expectations as customers delayed spending in the widespread slowdown in information technology spending and the deferral of late-quarter purchasing decisions. At that time, we also reduced our revenue expectations for the fourth quarter of fiscal year 2001 and for the fiscal year 2002. Based on the reduced revenue expectations, management evaluated the business plan and made significant changes, resulting in a restructuring plan

for our operations. This restructuring plan included a reduction in headcount, a substantial decrease in discretionary spending and a sharpening of our e-business focus to emphasize our marketplace solutions. The restructuring plan resulted in a pretax charge totaling $7.0 million. As of March 31, 2003, there was $0.8 million remaining in accrued expenses relating to the restructuring. During the three months ended March 31, 2003, the following activity was recorded:

	Closedown/ Consolidation of Facilities

Accrued expenses, December 31, 2002	$	915
Payments		(128)
Accrued expenses, March 31, 2003	$	787

We expect that the remaining obligations will be paid-out by March 2008.

In the fourth quarter of fiscal 1999, we undertook certain actions to restructure our business. The restructuring resulted from a lower than expected level of license revenues which adversely affected fiscal year 1999 operating results. The license revenue shortfall resulted primarily from delayed decision making driven by economic difficulties among customers in certain of our core vertical markets. The restructuring plan resulted in a pre-tax restructuring charge totaling $17.9 million. As of March 31, 2003, there was $0.6 million remaining in the accrued expenses relating to the restructuring. During the three months ended March 31, 2003, the following activity was recorded:

		Closedown/ Consolidation of Facilities
Accrued expenses, December 31, 2002	$	598
Payments		(37)
Accrued expenses, March 31, 2003	$	561

We expect that the remaining obligations will be paid-out by December 2004.

Critical Accounting Estimates and Judgments

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

- Revenue recognition for both software licenses and fixed-fee consulting services,
- Impairment of long-lived assets, goodwill and intangible assets,
- Accounting for income taxes, and
- Allowance for doubtful accounts.

Revenue Recognition—Software Licenses

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

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

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

Revenue Recognition—Consulting Services

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

Impairment of Long-lived Assets, Goodwill and Intangible Assets

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", we review the carrying value of long-lived assets periodically, based upon the expected future operating cash flows of our business. These future cash flow estimates are based on historical results, adjusted to reflect our best estimate of future markets and operating conditions, and are continuously reviewed based on actual operating trends. Actual results may differ materially from these estimates.

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

During the three months ended December 31, 2002, we recorded charges related to the impairment of certain long-lived assets and intangible assets and a portion of our goodwill. The timing and size of future impairment charges involves the application of management's judgment and

estimates and could result in the write-off of all or substantially all of our long-lived assets, intangible assets and goodwill.

Accounting for Income Taxes

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

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

Allowance for Doubtful Accounts

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

Results of Operations

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

	Three Months Ended		Nine Months Ended	
	March 31, 2003	March 31, 2002	March 31, 2003	March 31, 2002
Revenues:				
Software licenses	43.8%	44.8%	42.2%	40.8%
Service and other	56.2	55.2	57.8	59.2
Total revenues	100.0	100.0	100.0	100.0
Expenses:				
Cost of software licenses	3.6	3.8	4.1	3.7
Cost of service and other	32.3	35.9	33.6	38.2
Selling and marketing	30.7	35.3	33.6	35.7
Research and development	19.7	23.5	20.6	23.4
General and administrative	11.2	10.4	11.5	10.0
Goodwill impairment loss	—	—	31.1	—
Restructuring and other charges	2.6	(0.6)	26.1	0.9
Total expenses	100.1	108.3	160.6	111.9

Income (loss) from operations	(0.1)	(8.3)	(60.6)	(11.9)
Other income (expense), net	0.1	(0.2)	(0.3)	(0.2)
Interest income, net	0.4	0.1	0.5	0.4
Income (loss) before provision for (benefit from) income taxes	0.4	(8.4)	(60.4)	(11.7)
Provision for (benefit from) income taxes	—	(2.5)	—	(3.5)
Net income (loss)	0.4	(5.9)	(60.4)	(8.2)
Accretion of preferred stock discount and dividend	(2.9)	(4.9)	(2.9)	(1.7)
Net income (loss) applicable to common stockholders	(2.5)%	(10.8)%	(63.3)%	(9.9)%

Comparison of the Three and Nine Months Ended March 31, 2003 and 2002

Total Revenues

Revenues are derived from software licenses and maintenance and other services. Total revenues for the three months ended March 31, 2003 decreased 4.5% to $79.7 million from $83.5 million in the three months ended March 31, 2002. Total revenues for the nine months ended March 31, 2003 increased 1.4% to $240.0 million from $236.7 million in the nine months ended March 31, 2002.

Total revenues from customers outside the United States were $47.1 million and $129.3 million, or 59.1% and 53.9% of total revenues, for the three and nine months ended March 31, 2003 respectively, as compared to $36.4 million and $100.5 million, or 43.6% and 42.5% of total revenues, for the three and nine months ended March 31, 2002. The geographical mix of license revenues can vary from quarter to quarter; however, for fiscal 2003, the overall geographical mix of revenues from customers outside the United States is expected to be relatively consistent with the nine months ended March 31, 2003.

Software License Revenues

Software license revenues represented 43.8% of total revenues for the three months ended March 31, 2003, as compared to 44.8% in the three months ended March 31, 2002. Revenues from software licenses for the three months ended March 31, 2003 decreased 6.7% to $34.9 million from $37.4 million in the three months ended March 31, 2002. This decrease primarily was due to the overall decline in demand for our manufacturing/supply chain products, offset by the inclusion of software license revenue associated with Hyprotech, which we acquired in May 2002.

Software license revenues represented 42.2% of total revenues for the nine months ended March 31, 2003, as compared to 40.8% in the nine months ended March 31, 2002. Revenues from software licenses for the nine months ended March 31, 2003 increased 4.9% to $101.3 million from $96.6 million in the nine months ended March 31, 2002. This increase for the comparable nine-month periods was due to a 54.2% increase in license revenue in the three months ended September 30, 2002, as compared to the three months ended September 30, 2001, and the inclusion of software license revenue associated with Hyprotech, offset by the overall decline in demand for our manufacturing/supply chain products. The 54.2% increase in the three months ended September 30, 2002 was due the negative impact of the September 11, 2001 attacks on the closure rate of license agreements in the final weeks of the three months ended September 30, 2001.

Service and Other Revenues

Revenues from service and other consist of consulting services, post contract support on software licenses, training and sales of documentation. Revenues from service and other for the three months ended March 31, 2003 decreased 2.7% to $44.8 million, from $46.1 million in the three months ended March 31, 2002. Revenues from service and other for the nine months ended March 31, 2003 decreased 1.0% to $138.6 million, from $140.1 million in the nine months ended March 31, 2002.

These decreases reflect a decline in revenues from our consulting business, partially offset by the inclusion in the three and nine months ended March 31, 2003 of service and other revenue associated with Hyprotech. The decline in consulting revenue primarily was related to the decline in demand for our manufacturing/supply chain software products, along with which we typically sell consulting projects. The decline is also due to reductions in headcount, offset by the inclusion of service and other revenue from Hyprotech.

Cost of Software Licenses

Cost of software licenses consists of royalties, amortization of previously capitalized software costs, costs related to the delivery of software, including disk duplication and third party software costs, printing of manuals and packaging. Cost of software licenses for the three months ended March 31, 2003 decreased 8.7% to $2.9 million, from $3.2 million in the three months ended March 31, 2002. Cost of software licenses for the nine months ended March 31, 2003 increased 12.4% to $9.7 million, from $8.7 million in the nine months ended March 31, 2002. Cost of software licenses as a percentage of revenues from software licenses was 8.3% and 9.6% for the three and nine months ended March 31, 2003, respectively, as compared to 8.5% and 9.0% for the three and nine months ended March 31, 2002, respectively.

The decrease and increase in software license costs in absolute dollars generally corresponds to the variable costs associated with the respective decrease and increase in software license revenue in the same periods.

Cost of Service and Other

Cost of service and other consists of the cost of execution of application consulting services, technical support expenses and the cost of training services. Cost of service and other for the three months ended March 31, 2003 decreased 14.1% to $25.7 million from $30.0 million in the three months ended March 31, 2002. Cost of service and other for the nine months ended March 31, 2003 decreased 10.8% to $80.6 million from $90.4 million in the nine months ended March 31, 2002. Cost of service and other as a percentage of service and other revenues was 57.4% and 58.1% in the three and nine months ended March 31, 2003, respectively, as compared to 65.0% and 64.5% in the three and nine months ended March 31, 2002.

This decrease in absolute dollars was due to the reductions in headcount reflected in the restructuring charges of May 2002 and October 2002. The decrease as a percentage of service and other revenues was due to the headcount reductions, as well as the increase of revenues from software maintenance as a percentage of service and other revenue, a service that provides higher margins than consulting services.

Selling and Marketing Expenses

Selling and marketing expenses for the three months ended March 31, 2003 decreased 17.2% to $24.5 million from $29.5 million in the three months ended March 31, 2002. Selling and marketing expenses for the nine months ended March 31, 2003 decreased 4.7% to $80.6 million from $84.6 million in the nine months ended March 31, 2002. As a percentage of total revenues, selling and marketing expenses were 30.7% and 33.6% for the three and nine months ended March 31, 2003, respectively, as compared to 35.3% and 35.7% for the three and nine months ended March 31, 2002, respectively.

The decrease in absolute dollars for the comparable three-month periods was attributable to the headcount reductions reflected in the restructuring charges of May 2002 and October 2002, offset by the amortization of costs associated with our October 2002 AspenWorld conference, the inclusion of Hyprotech costs in the three months ended March 31, 2003 and increases in certain foreign-based sales expenses where currencies strengthened as compared to the US Dollar. The decrease in absolute dollars for the comparable nine-month periods was also due to the abovementioned headcount reductions, AspenWorld costs, Hyprotech costs and foreign-based costs in the nine months ended March 31, 2003, offset by an increase in sales commissions related to higher license revenues in the three months ended September 30, 2002 as compared to the three months ended September 30, 2001.

Research and Development Expenses

Research and development expenses consist primarily of personnel and outside consultancy costs required to conduct our product development efforts. Capitalized research and development costs are amortized over the estimated remaining economic life of the relevant product, not to exceed three years. Research and development expenses during the three months ended March 31, 2003 decreased 19.7% to $15.7 million from $20.0 million in the three months ended March 31, 2002. Research and development expenses during the nine months ended March 31, 2003 decreased 10.7% to $49.5 million from $55.4 million in the nine months ended March 31, 2002. As a percentage of revenues, research and development costs were 19.7% and 20.6% for the three and nine months ended March 31, 2003, respectively, as compared to 23.5% and 23.4% for the three and nine months ended March 31, 2002, respectively.

The decrease in absolute dollars was attributable to the effect of reductions in headcount reflected in the restructuring charges of May 2002 and October 2002, partially offset by the inclusion in the three and nine months ended March 31, 2003 of costs associated with Hyprotech and increases in certain foreign-based research and development expenses where currencies strengthened as compared to the

---

US Dollar. We capitalized 11.5% and 15.2% of our total research and development costs during the three and nine months ended March 31, 2003, respectively. Of these amounts, 3.0% and 4.8%, respectively, related to development costs incurred by Accenture and the amortization of the purchased intellectual property. The remaining 8.5% and 10.4%, respectively, related to our internal development costs, as compared to 10.0% and 8.7% in the three and nine months ended March 31, 2002.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries of administrative, executive, financial and legal personnel, outside professional fees, and amortization of intangible assets. General and administrative expenses for the three months ended March 31, 2003 increased 2.5% to $8.9 million from $8.7 million for the three months ended March 31, 2002. General and administrative expenses for the nine months ended March 31, 2003 increased 17.0% to $27.6 million from $23.6 million for the nine months ended March 31, 2002. As a percentage of revenues, general and administrative costs were 11.2% and 11.5% for the three and nine months ended March 31, 2003, respectively, as compared to 10.4% and 10.0% for the three and nine months ended March 31, 2002, respectively.

These increases were attributable primarily to a higher level of amortization relating to other intangible assets arising from our acquisition of Hyprotech in May 2002 and the inclusion of Hyprotech costs in fiscal 2003, both offset by the effect of reductions in headcount reflected in the restructuring charges of May 2002 and October 2002.

Interest Income

Interest income is generated from the investment of excess cash in short-term and long-term investments and from the license of software pursuant to installment contracts. Under these installment contracts, we offer customers the option to make annual payments for term licenses instead of a single license fee payment at the beginning of the license term. Historically, a substantial majority of the engineering software customers have elected to license our products through installment contracts, while significantly all of our manufacturing/supply chain customers have selected perpetual licenses for which payment is generally made up-front. Included in the annual payments of the installment contracts is an implicit interest charge based upon the interest rate established by us at the time of the license. If the mix of sales moves away from installment contracts, the interest income from these contracts in future periods will be reduced. We sell a portion of the installment contracts to unrelated financial institutions. The interest earned by us on the installment contract portfolio in any period is the result of the implicit interest established by us on installment contracts and the size of the contract portfolio. Interest income was $2.0 million and $6.6 million for the three and nine months ended March 31, 2003, respectively, as compared to $1.5 million and $5.1 million for the three and nine months ended March 31, 2002. These increases primarily are due to the increase of installment contracts associated with Hyprotech, which we acquired in May 2002.

Interest Expense

Interest expense is generated from interest charged on our $5^1/4$% convertible debentures, notes payable and capital lease obligations. Interest expense was $1.7 million and $5.5 million for the three and nine months ended March 31, 2003, respectively, as compared to $1.4 million and $4.1 million for the three and nine months ended March 31, 2002. These increases primarily are due to interest on the amounts owed to Accenture and a general increase in the amount of capital leases.

Tax Rate

We did not record an income tax provision or benefit for the three or nine months ended March 31, 2003, as we provided a full valuation against the loss carryforwards that were generated

during the period. The effective tax rate for the three and nine months ended March 31, 2002 was approximately 30.0%.

Liquidity and Capital Resources

During the nine months ended March 31, 2003, our cash and cash equivalents balance increased by $19.8 million. Net cash provided by operations was $19.0 million due primarily to the decrease in accounts receivable and unbilled services, offset by the net loss and the decrease in accounts payable and accrued expenses. Net cash provided by investing activities was $7.6 million due to the sale of investment securities of $18.5 million, partially offset by capital purchases of $4.3 million and an increase in computer software development of $5.6 million. Net cash used in financing activities was $7.4 million, consisting primarily of $5.8 million in payments to Accenture and $5.0 million in payments on long-term debt and capital leases, offset by $3.3 million in proceeds from the issuance of common stock under our employee stock purchase plan. During the nine months ended March 31, 2003, we acquired $1.1 million of equipment and software by entering into capital lease arrangements.

Historically, we have had arrangements to sell long-term contracts to two financial institutions, General Electric Capital Corporation and Fleet Business Credit Corporation. These contracts represent amounts due over the life of existing term licenses. During the nine months ended March 31, 2003, installment contracts decreased by $10.8 million to $97.9 million, net of $49.2 million of installment contracts sold to the financial institutions. At March 31, 2003, the balance of the uncollected principal portion of the contracts sold to these two financial institutions was $132.7 million, with approximately $50 million in additional availability under the arrangements. We expect to continue to have the 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. At March 31, 2003 we had a partial recourse obligation that was within the range of $5.6 million to $9.1 million.

In January 2003, we 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 (4.25% at March 31, 2003) plus $^1/2$%, which may be reduced to the bank's prime rate upon the achievement of two consecutive quarters of net income. We are 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 our assets, and upon achieving certain net income targets, the collateral will be reduced to a lien on our accounts receivable. We are required to meet certain financial covenants, including minimum tangible net worth, minimum cash balances and an adjusted quick ratio. The Loan Arrangement expires in January 2005.

In February and March 2002, we issued and sold 40,000 shares of Series B-I convertible preferred stock and 20,000 shares of Series B-II convertible preferred stock, together with warrants to purchase 791,044 shares of common stock, for an aggregate purchase price of $60.0 million. The Series B preferred stock accrues dividends at an annual rate of 4% that is payable quarterly, commencing in June 30, 2002, in either cash or common stock, at our option (subject to our satisfaction of specified conditions set forth in our charter). On April 1, 2003, we issued 228,489 shares of common stock in satisfaction of this obligation for the three months ended March 31, 2003.

As of March 31, 2003, we had cash and cash-equivalents totaling $53.4 million. Our commitments as of March 31, 2003, consisted primarily of amounts owed to Accenture, capital lease obligations and leases on our headquarters and other facilities. Other than these, there were no other material

commitments for capital or other expenditures. Our obligations related to these items as of March 31, 2003 are as follows (in thousands):

	2003	2004	2005	2006	2007	Thereafter
Non-cancelable operating leases	$ 4,352	$ 12,932	$ 11,373	$ 11,480	$ 11,405	$ 45,888
Non-cancelable capital leases and debt obligations	1,334	4,016	689	312	300	568
Amounts owed to Accenture	4,000	1,333	—	—	—	—
Maturity of convertible debentures	—	—	86,250	—	—	—
Total commitments	$ 9,685	$ 18,281	$ 98,312	$ 11,792	$ 11,705	$ 46,456

We believe our current cash balances, availability of sales of our installment contracts, availability under the Silicon Valley Bank line of credit and cash flows from our operations will be sufficient to meet our working capital and capital expenditure requirements for at least the next 12 months. However, we may need to obtain additional financing thereafter or earlier, if our current plans and projections prove to be inaccurate or our expected cash flows prove to be insufficient to fund our operations because of lower-than-expected revenues, unanticipated expenses or other unforeseen difficulties. In addition, we may seek to take advantage of favorable market conditions by raising additional funds from time to time through public or private security offerings, debt financings, strategic alliances or other financing sources. We may undertake such a financing in order to, among other things, help us meet our contractual redemption obligations relating to our outstanding Series B preferred stock and to help us fund repayment of our convertible debentures due June 2005. Our ability to obtain additional financing will depend on a number of factors, including market conditions, our operating performance and investor interest. These factors may make the timing, amount, terms and conditions of any financing unattractive. They may also result in our incurring additional indebtedness or accepting stockholder dilution. If adequate funds are not available or are not available on acceptable terms, we may have to forego strategic acquisitions or investments, reduce or defer our development activities, or delay our introduction of new products and services. Any of these actions may seriously harm our business and operating results.

Factors that may Affect Future Results and the Trading Price of Our Common Stock

INVESTING IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD CAREFULLY CONSIDER THE RISKS AND UNCERTAINTIES DESCRIBED BELOW BEFORE PURCHASING OUR COMMON STOCK. THE RISKS AND UNCERTAINTIES DESCRIBED BELOW ARE NOT THE ONLY ONES FACING OUR COMPANY. ADDITIONAL RISKS AND UNCERTAINTIES MAY ALSO IMPAIR OUR BUSINESS OPERATIONS. IF ANY OF THE FOLLOWING RISKS ACTUALLY OCCUR, OUR BUSINESS, FINANCIAL CONDITION OR RESULTS OF OPERATIONS WOULD LIKELY SUFFER. IN THAT CASE, THE TRADING PRICE OF OUR COMMON STOCK COULD FALL, AND YOU MAY LOSE ALL OR PART OF THE MONEY YOU PAID TO BUY OUR COMMON STOCK.

Our lengthy sales cycle makes it difficult to predict quarterly revenue levels and operating results.

Because license fees for our software products are substantial and the decision to purchase our products typically involves members of our customers' senior management, the sales process for our solutions is lengthy and can exceed one year. Accordingly, the timing of our license revenues is difficult to predict, and the delay of an order could cause our quarterly revenues to fall substantially below expectations. Moreover, to the extent that we succeed in shifting customer purchases away from individual software products and toward more costly integrated suites of software and services, our sales cycle may lengthen, which could increase the likelihood of delays and cause the effect of a delay to become more pronounced. We have limited experience in forecasting the timing of sales of our

integrated suites of software and services. Delays in sales could cause significant shortfalls in our revenues and operating results for any particular period.

Fluctuations in our quarterly revenues, operating results and cash flow may cause the market price of our common stock to fall.

Our revenues, operating results and cash flow have fluctuated in the past and may fluctuate significantly in the future as a result of a variety of factors, many of which are outside of our control, including:

- our customers' purchasing patterns;
- the length of our sales cycle;
- changes in the mix of our license revenues and service revenues;
- the timing of introductions of new solutions and enhancements by us and our competitors;
- seasonal weakness in the first quarter of each fiscal year, primarily caused by a slowdown in business in some of our international markets;
- the timing of our investments in new product development;
- changes in our operating expenses; and
- fluctuating economic conditions, particularly as they affect companies in the chemicals, petrochemicals and petroleum industries.

We ship software products within a short period after receipt of an order and typically do not have a material backlog of unfilled orders for software products. Consequently, revenues from software licenses in any quarter are substantially dependent on orders booked and shipped in that quarter. Historically, a majority of each quarter's revenues from software licenses has come from license agreements that have been entered into in the final weeks of the quarter. Therefore, even a short delay in the consummation of an agreement may cause our revenues to fall below public expectations for that quarter.

Since our expense levels are based in part on anticipated revenues, we may be unable to adjust spending quickly enough to compensate for any revenue shortfall and any revenue shortfall would likely have a disproportionately adverse effect on our operating results. We expect that these factors will continue to affect our operating results for the foreseeable future. Because of the foregoing factors, we believe that period-to-period comparisons of our operating results are not necessarily meaningful and should not be relied upon as indications of future performance.

If, due to one or more of the foregoing factors or an unanticipated cause, our operating results fail to meet the expectations of public market analysts and investors in a future quarter, the market price of our common stock would likely decline. Since April 5, 2002, the date on which we preliminarily announced our estimated results for the three months ended March 31, 2002, through the close of business on May 12, 2003, the price per share of our common stock, as reported by the Nasdaq National Market, decreased from $17.37 to $3.15.

The Federal Trade Commission may challenge our acquisition of Hyprotech.

By letter of June 7, 2002, the Federal Trade Commission, or FTC, informed us that it was conducting an investigation into the competitive effects of our acquisition of Hyprotech. The FTC may determine to challenge the acquisition through an administrative civil complaint seeking to declare the acquisition in violation of Section 7 of the Clayton Act or Section 5 of the FTC Act. If the FTC were to prevail in that challenge, it could seek to impose a wide variety of remedies, some of which may

have a material adverse effect on our ability to continue to operate under our current business plans. These potential remedies include divestiture of Hyprotech, as well as mandatory licensing of Hyprotech software products and our other engineering software products to one or more of our competitors.

We can provide no assurance as to the outcome of the FTC's investigation. Any conclusion of this investigation in a manner adverse to us would have a material adverse effect on our business and results of operations. In addition, the cost to us of continuing to cooperate in the investigation or of defending any litigation or other proceeding that may result from the investigation, even if resolved in our favor, could be substantial. The continuance of the investigation or any commencement of litigation or any other proceeding would continue to divert the attention of our management. Uncertainties resulting from the continuation of this investigation or the initiation of litigation or other proceedings could harm our ability to compete in the marketplace. As of March 31, 2003, we have accrued $7.0 million of professional service fees associated with our cooperation in the investigation.

Because we derive a majority of our total revenues from customers in the cyclical chemicals, petrochemicals and petroleum industries, our operating results may suffer if these industries experience an economic downturn.

We derive a majority of our total revenues from companies in the chemicals, petrochemicals and petroleum industries. Accordingly, our future success depends upon the continued demand for manufacturing optimization software and services by companies in these process manufacturing industries. The chemicals, petrochemicals and petroleum industries are highly cyclical and highly reactive to the price of oil, as well as general economic conditions. In the past, worldwide economic downturns and pricing pressures experienced by chemical, petrochemical and petroleum companies have led to consolidations and reorganizations. These downturns, pricing pressures and restructurings have caused delays and reductions in capital and operating expenditures by many of these companies. These delays and reductions have reduced demand for products and services like ours. A recurrence of these industry patterns, as well as general domestic and foreign economic conditions and other factors that reduce spending by companies in these industries, could harm our operating results in the future.

If economic conditions and the markets for our products do not improve, sales of our product lines, particularly our manufacturing and supply chain product suites, will be adversely affected.

Adverse changes in the economy and continuing global uncertainty have caused delays and reductions in information technology spending by our customers and a consequent deterioration of the markets for our products and services, particularly our manufacturing and supply chain product suites. If these adverse economic conditions continue or worsen, we will experience further reductions, delays, and postponements of customer purchases that will negatively impact our revenue and operating results. If economic and political conditions and the market for our products do not improve and our revenues decline, our business could be harmed, and we may not be able to further reduce our costs to align them with these decreased revenues.

We may require additional capital.

We may need to raise additional capital in order to fund the continued development and marketing of our solutions. We expect our current cash balances, cash-equivalents, short-term investments, availability of sales of our installment contracts, availability under the Silicon Valley Bank lines of credit and cash flows from operations will be sufficient to meet our working capital and capital expenditure requirements for at least the next twelve months. However, we may need to obtain additional financing thereafter or earlier, if our current plans and projections prove to be inaccurate or our expected cash flows prove to be insufficient to fund our operations because of lower-than-expected revenues, unanticipated expenses or other unforeseen difficulties. An important part of our cash management program is the sale of receivables. Historically, we have had arrangements to sell

long-term contracts to two financial institutions, General Electric Capital Corporation and Fleet Business Credit Corporation. These contracts represent amounts due over the life of existing term licenses. During the nine months ended March 31, 2003, installment contracts decreased by $10.8 million to $97.9 million, net of $49.2 million of installment contracts sold to General Electric Credit Corporation and Fleet Business Credit Corporation. Our ability to continue these arrangements or replace them with similar arrangements is important to maintaining adequate funding. In addition, in August 2002, we amended several of the terms of our strategic alliance with Accenture, which will require us to make monthly cash payments totaling $11.1 million, $5.3 million of which is outstanding as of March 31, 2003 and payable in installments through July 2003, instead of the originally agreed-to stock payment in August 2002. Our ability to obtain additional financing will depend on a number of factors, including market conditions, our operating performance and investor interest. These factors may make the timing, amount, terms and conditions of any financing unattractive. They may also result in our incurring additional indebtedness or accepting stockholder dilution. In 2002, we issued convertible preferred stock and common stock warrants that contain anti-dilution provisions, rights of first refusal and other terms that may limit or impair our ability to raise additional funds through future financings. If adequate funds are not available or are not available on acceptable terms, we may have to forego strategic acquisitions or investments, reduce or defer our development activities, or delay our introduction of new products and services. Any of these actions may seriously harm our business and operating results.

If we do not compete successfully, we may lose market share.

Our markets are highly competitive. Our engineering software competes with products of businesses such as Simulation Sciences, a division of Invensys, Shell Global Solutions, ABB, MDC Technology, Cadcentre, WinSim, Inc. (formerly ChemShare) and Process Systems Enterprise Ltd. As we expand our engineering solutions into the collaborative Process asset Lifecycle Management (PLM) market we may see competition from companies that we have not typically competed against in the past, such as Agile, PTC, and EDS. Our manufacturing/supply chain software competes with products of companies such as Honeywell's Hi-Spec division, Invensys, ABB, Rockwell, i2 Technologies, Manugistics and certain components of SAP's supply chain offering. We also face competition in all three areas from large companies in the process industries that have developed their own proprietary software solutions.

Some of our current competitors have significantly greater financial, marketing and other resources than we have. In addition, many of our current competitors have established, and may in the future continue to establish, cooperative relationships with third parties to improve their product offerings and to increase the availability of their products to the marketplace. The entry of new competitors or alliances into our market could reduce our market share, require us to lower our prices, or both. Many of these factors are outside our control, and we may not be able to maintain or enhance our competitive position against current and future competitors.

If we fail to integrate the operations of the companies we acquire, we may not realize the anticipated benefits and our operating costs could increase.

We intend to continue to pursue strategic acquisitions that will provide us with complementary products, services and technologies and with additional personnel. The identification and pursuit of these acquisition opportunities and the integration of acquired personnel, products, technologies and businesses require a significant amount of management time and skill. There can be no assurance that we will identify suitable acquisition candidates, consummate any acquisition on acceptable terms or successfully integrate any acquired business into our operations. Additionally, in light of the consolidation trend in our industry, we expect to face competition for acquisition opportunities, which may substantially increase the cost of any potential acquisition.

We have experienced in the past, and may experience again in the future, problems integrating the operations of a newly acquired company with our own operations. Acquisitions also expose us to potential risks, including diversion of management's attention, failure to retain key acquired personnel, assumption of legal or other liabilities and contingencies, and the amortization of acquired intangible assets. Moreover, customer dissatisfaction with, or problems caused by, the performance of any acquired products or technologies could hurt our reputation.

In particular, on May 31, 2002, we purchased the capital stock of Hyprotech Ltd. and related subsidiaries of AEA for £66.2 million (or $96.6 million, based on the exchange rate as of May 9, 2002, the date of the agreement) in cash. The Hyprotech business operates globally and is the second largest acquisition we have made. The integration of the personnel, products and technologies of Hyprotech will require significant management time and skill, and our inability to complete the acquisition effectively and efficiently could cause our operating results to suffer.

We funded the Hyprotech acquisition substantially from the proceeds of convertible preferred stock and common stock financings effected in 2002. We may issue additional equity securities or incur long-term indebtedness to finance future acquisitions. The issuance of equity securities could result in dilution to existing stockholders, while the use of cash reserves or significant debt financing could reduce our liquidity and weaken our financial condition.

Our operating results may be harmed if our restructuring plans and cost reduction measures do not achieve the anticipated results or cause undesirable consequences.

Since the fourth quarter of fiscal 1999, we have implemented restructuring plans and cost reduction measures, which have included, among other things, significant workforce reductions. Because of the nature and extent of the restructuring actions we have taken to date, we may be unable to initiate additional, significant restructuring measures in future periods. If we fail to achieve the desired results of our restructuring plans and our cost reduction measures, we may suffer material harm to our business.

Our recent cost reduction initiative may yield unintended consequences, such as attrition beyond our planned reduction in workforce and reduced employee morale. In addition, the recent trading levels of our stock have decreased the value of our stock options granted to employees under our stock option plans. As a result of these factors, our employees may seek alternate employment. Attrition beyond our planned reduction in workforce could have a material adverse effect on our financial performance.

If we do not continue to make the technological advances required by the marketplace, our business could be seriously harmed.

Enterprises are requiring their application software vendors to provide greater levels of functionality and broader product offerings. Moreover, competitors continue to make rapid

---

technological advances in computer hardware and software technology and frequently introduce new products, services and enhancements. We must continue to enhance our current product line and develop and introduce new products and services that keep pace with the technological developments of our competitors. Our business and operating results could suffer if we cannot successfully respond to the technological advances of others or if our new products or product enhancements and services do not achieve market acceptance.

We must also satisfy increasingly sophisticated customer requirements. Under our business plan, we are investing significantly in the development of new business process products that are intended to anticipate and meet the emerging needs of our target market. We are focusing significantly on development of these products, which means we will not invest as substantially in the continued enhancement of our current products. We cannot assure you that our new product development will result in products that will meet market needs and achieve market acceptance.

Moreover, a portion of our product development for enterprise solutions in the foreseeable future is expected to be conducted through co-development arrangements with Accenture LLP that we entered into in February 2002. Our business and operating results will be harmed if this co-development arrangement does not result in our being able to deliver timely products sought by companies in the process industries.

If we are unable to successfully market our products to senior executives of potential customers, our revenue growth may be limited.

With the development of our integrated manufacturing/supply chain solutions and the new solutions we are developing with Accenture, we are increasingly focused on selling the strategic value of our technology to the highest executive levels of customer organizations, typically the chief executive officer, chief financial officer or chief information officer. We have limited experience in selling and marketing at these levels. If we are not successful at selling and marketing to senior executives, our revenue growth and operating results could suffer.

If we are unable to develop relationships with strategic partners, our revenue growth may be harmed.

An element of our growth strategy is to strategically partner with a few select third-party implementation partners who market and integrate our products. The most significant of these partnerships is our joint marketing and development alliance with Accenture. If we do not adequately train a sufficient number of systems integrator partners, or if potential partners focus their efforts on integrating or co-selling competing products to the process industries, our future revenue growth could be limited and our operating results could be harmed. If our partners fail to implement our solutions for our customers properly, the reputations of our solutions and our company could be harmed and we might be subject to claims by our customers. We intend to continue to establish business relationships with technology companies to accelerate the development and marketing of our solutions. To the extent that we are unsuccessful in maintaining our existing relationships and developing new relationships, our revenue growth may be harmed.

We may suffer losses on fixed-price engagements.

We derive a substantial portion of our total revenues from service engagements and a significant percentage of these engagements have been undertaken on a fixed-price basis. We bear the risk of cost overruns and inflation in connection with fixed-price engagements, and as a result, any of these engagements may be unprofitable. In the past, we have had cost overruns on fixed-price service engagements. In addition, to the extent that we are successful in shifting customer purchases to our integrated suites of software and services and we price those engagements on a fixed-price basis, the

size of our fixed-price engagements may increase, which could cause the impact of an unprofitable fixed-price engagement to have a more pronounced impact on our operating results.

Our business may suffer if we fail to address the challenges associated with international operations.

We derived approximately 50% of our total revenues from customers outside the United States in each of the past three fiscal years. We anticipate that revenues from customers outside the United States will continue to account for a significant portion of our total revenues for the foreseeable future. Our operations outside the United States are subject to additional risks, including:

- unexpected changes in regulatory requirements, exchange rates, tariffs and other barriers;
- political and economic instability;
- difficulties in managing distributors and representatives;
- difficulties in staffing and managing foreign subsidiary operations;
- difficulties and delays in translating products and product documentation into foreign languages;
- difficulties and delays in negotiating software licenses compliant with U.S. accounting revenue recognition requirements; and
- potentially adverse tax consequences.

The impact of future exchange rate fluctuations on our operating results cannot be accurately predicted. In recent years, we have increased the extent to which we denominate arrangements with international customers in the currencies of the countries in which the software or services are provided. From time to time we have engaged in, and may continue to engage in, hedges of a significant portion of installment contracts denominated in foreign currencies. Any hedging policies implemented by us may not be successful, and the cost of these hedging techniques may have a significant negative impact on our operating results.

We may not be able to protect our intellectual property rights, which could make us less competitive and cause us to lose market share.

We regard our software as proprietary and rely on a combination of copyright, patent, trademark and trade secret laws, license and confidentiality agreements, and software security measures to protect our proprietary rights. We have registered or have applied to register several of our significant trademarks in the United States and in certain other countries. We generally enter into non-disclosure agreements with our employees and customers, and historically have restricted access to our software products' source codes, which we regard as proprietary information. In a few cases, we have provided copies of the source code for some of our products to customers solely for the purpose of special product customization and have deposited copies of the source code for some of our products in third-party escrow accounts as security for ongoing service and license obligations. In these cases, we rely on non-disclosure and other contractual provisions to protect our proprietary rights.

The steps we have taken to protect our proprietary rights may not be adequate to deter misappropriation of our technology or independent development by others of technologies that are substantially equivalent or superior to our technology. Any misappropriation of our technology or development of competitive technologies could harm our business, and could force us to incur substantial costs in protecting and enforcing our intellectual property rights. The laws of some countries in which our products are licensed do not protect our products and intellectual property rights to the same extent as the laws of the United States.

We may have to defend against intellectual property infringement claims, which could be expensive and, if we are not successful, could disrupt our business.

Third parties may assert patent, trademark, copyright and other intellectual property rights to technologies that are important to us. In such an event, we may be required to incur significant costs in litigating a resolution to the asserted claims. The outcome of any litigation could require us to pay damages or obtain a license to a third party's proprietary rights in order to continue licensing our products as currently offered. If such a license is required, it might not be available on terms acceptable to us, if at all.

Our software is complex and may contain undetected errors.

Like many other complex software products, our software has on occasion contained undetected errors or "bugs." Because new releases of our software products are initially installed only by a selected group of customers, any errors or "bugs" in those new releases may not be detected for a number of months after the delivery of the software. These errors could result in loss of customers, harm to our reputation, adverse publicity, loss of revenues, delay in market acceptance, diversion of development resources, increased insurance costs or claims against us by customers.

We may be subject to significant expenses and damages because of liability claims.

The sale and implementation of certain of our software products and services, particularly in the areas of advanced process control and optimization, may entail the risk of product liability claims. Our software products and services are used in the design, operation and management of manufacturing processes at large facilities, and any failure of our software could result in significant claims against us for damages or for violations of environmental, safety and other laws and regulations. Our agreements with our customers generally contain provisions designed to limit our exposure to potential product liability claims. It is possible, however, that the limitation of liability provisions in our agreements may not be effective as a result of federal, state or local laws or ordinances or unfavorable judicial decisions. A substantial product liability claim against us could harm our operating results and financial condition.

Implementation of our products can be difficult and time-consuming, and customers may be unable to implement our products successfully or otherwise achieve the benefits attributable to our products.

Our products are intended to work with complex business processes. Some of our software, such as customized scheduling applications and integrated supply chain products, must integrate with the existing computer systems and software programs of our customers. This can be complex, time-consuming and expensive. As a result, some customers may have difficulty in implementing or be unable to implement these products successfully or otherwise achieve the benefits attributable to these products. Customers may also make claims against us relating to the functionality, performance or implementation of this software. Delayed or ineffective implementation of the software products or related services may limit our ability to expand our revenues and may result in customer dissatisfaction, harm to our reputation and may result in customer unwillingness to pay the fees associated with these products.

If we are not successful in our management transition or in attracting and retaining management team members and other highly qualified individuals in our industry, we may not be able to successfully implement our business strategy.

Our ability to establish and maintain a position of technology leadership in the highly competitive e-business software market depends in large part upon our ability to attract and retain highly qualified managerial, sales and technical personnel. We have historically relied on the services of Lawrence B. Evans, our principal founder and our Chairman, President and Chief Executive Officer. On October 1, 2002, David L. McQuillin, became our Chief Executive Officer. McQuillin had been serving as one of our co-chief operating officer and had not previously served as the chief executive officer of a publicly traded corporation. Most of our executive officers have not entered into an employment agreement

with us. In the future, we may experience the departure of other senior executives due to competition for talent from start-ups and other companies. Our future success depends on a successful management transition and will also depend on our continuing to attract, retain and motivate highly skilled employees. Competition for employees in our industry is intense. We may be unable to retain our key employees or attract, assimilate or retain other highly qualified employees in the future. We have from time to time in the past experienced, and we expect to continue to experience in the future, difficulty in hiring and retaining highly skilled employees with appropriate qualifications.

Our common stock may experience substantial price and volume fluctuations.

The equity markets have from time to time experienced extreme price and volume fluctuations, particularly in the high technology sector, and those fluctuations have often been unrelated to the operating performance of particular companies. In addition, factors such as our financial performance, announcements of technological innovations or new products by us or our competitors, as well as market conditions in the computer software or hardware industries, may have a significant impact on the market price of our common stock. Since April 5, 2002, the date on which we preliminarily announced our estimated results for the three months ended March 31, 2002, the price per share of our common stock, as reported by the Nasdaq National Market, decreased from $17.90 to a low of $0.59 on October 11, 2002. On May 12, 2003, the last reported sale price of our common stock on the Nasdaq National Market was $3.15.

In the past, following periods of volatility in the market price of a public companies securities, securities class action litigation has often been instituted against companies. This type of litigation could result in substantial costs and a diversion of management's attention and resources.

Our common stockholders may experience further dilution and the price of our common stock may decline as a result of our convertible preferred stock and common stock financings.

In 2002, we issued convertible preferred stock, together with warrants to purchase 791,044 shares of common stock. We currently have outstanding 40,000 shares of Series B-I convertible preferred stock and 20,000 shares of Series B-II convertible preferred stock.

Each share of Series B-I and B-II convertible preferred stock is convertible into a number of shares of common stock equal to the stated value, which initially is $1,000, divided by a conversion price of $19.97 in the case of the Series B-1 convertible preferred stock and $17.66 in the case of the Series B-2 convertible preferred stock, subject to antidilution and other adjustments for events affecting our capital structure. If we issue additional shares of common stock, or instruments convertible or exchangeable for common stock, at an effective net price less than the lesser of (a) $17.75, in the case of the Series B-I convertible preferred stock, or $15.69 in the case of the Series B-II convertible preferred stock and (b) the then-applicable conversion price for such series, the conversion price for that series will be reduced to equal that effective net price. These adjustments do not apply to the issuance of common stock or such instruments in specified firm commitment underwritten public offerings, strategic arrangements, mergers or acquisitions, and grants and purchases of securities pursuant to equity incentive plans.

The Series B-I and B-II convertible preferred stock accrues dividends at an annual rate of 4% that is payable quarterly, commencing June 30, 2002, in either cash or common stock, at our option (subject to our satisfaction of specified conditions set forth in our charter). From August 6, 2003 until February 6, 2004, for the Series B-I convertible preferred stock, and from August 28, 2003 until February 17, 2004, for the Series B-II convertible preferred stock, holders may require that we redeem up to a total of 20,000 shares of Series B-I convertible preferred stock and 10,000 shares of Series B-II convertible preferred stock if the average closing price of the common stock for the 20 consecutive trading days immediately preceding August 7, 2003 and August 28, 2003, respectively, or any date

thereafter is below the then-applicable conversion price. Beginning on February 8, 2004 and February 28, 2004, holders of Series B-I convertible preferred stock and Series B-II convertible preferred stock, respectively, may require that we redeem any or all of their shares. We will be required to redeem all of the then-outstanding Series B-I and B-II convertible preferred stock on February 7, 2009 at a price equal to the stated value plus all accrued but unpaid dividends. In each instance, the redemption price may be paid in cash, stock or both, at our option. The stock payment will consist of either common stock or Series C preferred stock, subject to our satisfaction of specified conditions set forth in our charter.

In May 2002, we sold 4,166,665 shares of common stock, together with five-year warrants to purchase up to 750,000 shares of common stock, in a private placement. If we issue additional shares of common stock, or instruments convertible or exchangeable for common stock, in specified transactions at an effective net price less than the exercise price of any of the five-year warrants, then the exercise price of the warrants will be adjusted pursuant to a weighted average anti-dilution formula. As the result of these and other provisions, these warrants may be exercised at a price per share that may be less than the then-current market price of the stock, which may cause dilution to our existing common stockholders.

As a result of these and other provisions of the Series B-I and B-II convertible preferred stock and the warrants issued in the preferred and common stock financings, the Series B-I and B-II convertible preferred stock may be converted, and the warrants may be exercised, at a price per share that may be less than the then-current market price of the common stock, which may cause substantial dilution to our existing common stockholders. If the conversion price of the Series B-I and B-II convertible preferred stock or the exercise price of the warrants decreases as a result of antidilution provisions, the number of shares of common stock issuable in connection with any dividends conversion or redemption could increase significantly.

As part of our obligations under these financings, we registered for public resale by the holders of the Series B-I and B-II convertible preferred stock and common stock issued in the financings a total of 13,776,392 shares of common stock, including shares issuable upon conversion of the Series B-I and B-II convertible preferred stock and exercise of the warrants and shares that may become issuable as a result of antidilution provisions. If all of these registered shares were to be issued (disregarding limitations on the right of a holder to acquire shares of common stock upon the conversion of Series B-I or B-II convertible preferred stock or the exercise of warrants if the conversion or exercise would result in this holder beneficially owning more than 4.99% of our outstanding common stock without first providing us proper notice), these shares would represent 35.1% shares of our common stock issued and outstanding as of May 12, 2003. Any sale of these shares of common stock into the public market could cause a decline in the trading price of our common stock.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

Information relating to quantitative and qualitative disclosure about market risk is set forth under the caption "Notes to Consolidated Condensed Financial Statements," [2., 3. and 4.] and below under the captions "Investment Portfolio" and "Foreign Exchange Hedging."

Investment Portfolio

We do not use derivative financial instruments in our investment portfolio. We place our investments in instruments that meet high credit quality standards, as specified in our investment policy guidelines; the policy also limits the amount of credit exposure to any one issuer and the types of instruments approved for investment. We do not expect any material loss with respect to our investment portfolio. The following table provides information about our investment portfolio. For

investment securities, the table presents principal cash flows and related weighted average interest rates by expected maturity dates.

Principal (Notional) Amounts by Expected Maturity in U.S. Dollars($)

	Fair Value at 12/31/2002	FY2003
Cash Equivalents	$ 53,414	$ 53,414
Weighted Average Interest Rate	0.68%	0.68%
Investments	$ —	$ —
Weighted Average Interest Rate	—%	—%
Total Portfolio	$ 53,414	$ 53,414
Weighted Average Interest Rate	0.68%	0.68%

Impact of Foreign Currency Rate Changes

During the first nine months of fiscal 2003, the U.S. dollar generally weakened against the Canadian, Asia/Pacific and European currencies. The translation of the parent company's intercompany receivables and foreign entities assets and liabilities did not have a material impact on our consolidated results. Foreign exchange forward contracts are only purchased to hedge certain customer accounts and installment receivable amounts denominated in a foreign currency.

Foreign Exchange Hedging

We enter into foreign exchange forward contracts to reduce our exposure to currency fluctuations on customer accounts receivables denominated in foreign currency. The objective of these contracts is to neutralize the impact of foreign currency exchange rate movements on our operating results. We do not use derivative financial instruments for speculative or trading purposes. We had $7.1 million of foreign exchange forward contracts denominated in British, Japanese, Swiss, Netherlands, and Euro currencies, which represented underlying customer accounts receivable transactions at March 31, 2003. At each balance sheet date, the foreign exchange forward contracts and the related installments receivable denominated in foreign currency are revalued based on the current market exchange rates. Resulting gains and losses are included in earnings or deferred as a component of other comprehensive income. These deferred gains and losses are recognized in income in the period in which the underlying anticipated transaction occurs. Gains and losses related to these instruments for the nine months ended March 31, 2003 were not material to our financial position. We do not anticipate any material adverse effect on our consolidated financial position, results of operations, or cash flows resulting from the use of these instruments. However, we cannot assure you that these strategies will be effective or that transaction losses can be minimized or forecasted accurately.

The following table provides information about our foreign exchange forward contracts at March 31, 2003. The table presents the value of the contracts in U.S. dollars at the contract exchange rate as of the contract maturity date. The average contract rate approximates the weighted average contractual foreign currency exchange rate and the forward position in U.S. dollars approximates the fair value of the contract at March 31, 2003.

Forward Contracts to Sell Foreign Currencies for U.S. Dollars Related to Customer Installments Receivable:

Currency	Average Contract Rate	Forward Amount in U.S. Dollars (in thousands)		Contract Origination Date	Contract Maturity Date
Euro	1.00	$	3,369	Various: Mar 01—Mar 03	Various: Apr 03—May 04
Japanese Yen	121.18		1,767	Various: Jul 01—Mar 03	Various: May 03—Aug 04
British Pound Sterling	0.67		1,691	Various: Jul 01—Mar 03	Various: Apr 03—Jul 04
Swiss Franc	1.41		249	Various: Aug 02—Mar 03	Various: Jun 03—Mar 04
Total		$	7,076		

Item 4. ***Controls and Procedures***

(a) *Evaluation of disclosure controls and procedures.* Based on their evaluation of our disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934) as of a date within 90 days of the filing date of this quarterly report, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and are operating in an effective manner.

(b) *Changes in internal controls.* There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their most recent evaluation.

PART II. OTHER INFORMATION

Item 1. ***Legal Proceedings***

By letter of June 7, 2002, the FTC informed us that it was conducting an investigation into the competitive effects of our recent acquisition of Hyprotech. We completed production of all requested documents in January 2003, and have presented marketing analyses and supporting arguments. We continue to cooperate fully with the FTC.

We cannot be certain whether the FTC might seek any relief from us or the nature of any such relief that might be sought. The FTC may determine to challenge the acquisition through an administrative civil complaint seeking to declare the acquisition in violation of Section 7 of the Clayton Act or Section 5 of the FTC Act. If the FTC were to prevail in that challenge, it could seek to impose a wide variety of remedies, some of which may have a material adverse effect on our ability to continue to operate under our current business plans. These potential remedies include divestiture of Hyprotech, as well as mandatory licensing of Hyprotech software products and our other engineering software products to one or more of our competitors.

On May 31, 2002, we 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 the characterization of certain technology for purposes of calculating royalties, plus other contractual rights with respect to Hysys.Refinery. Hysys.Refinery was retained by AEA with support for Hysys.Refinery to be provided by Hyprotech pursuant to a contract with AEA. We 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 now expect to receive one. The Company is working with AEA in the resolution of this matter.

On September 11, 2002, we and Hyprotech were sued by KBC in state district court in Houston, Texas on issues related to the technology subject to review in the arbitration proceeding. KBC has requested actual and exemplary damages, costs and interest. We believe the causes of action to be without merit and will defend the case vigorously. We have filed a counterclaim against KBC requesting actual and punitive damages and attorney fees. A trial date has been set for January 19, 2004.

Item 2. ***Changes in Securities and Use of Proceeds***

In accordance with the terms of our Series B preferred stock, on January 2, 2003 and April 1, 2003, we elected to issue to the holders of our Series B preferred stock a total of 196,971 and 228,489 shares of our common stock in payment of the dividends accrued in the amounts of $0.6 million on our Series B preferred stock for the quarterly dividend periods ended December 31, 2002 and March 31, 2003, respectively. The issuance of these dividend shares was made in reliance on Section 4(2) of the Securities Act of 1933, as amended, which provides an exemption from the registration provisions of the Securities Act for sales by an issuer not involving a public offering. We have registered these dividend shares for resale under the Securities Act on a shelf registration statement on Form S-3 (registration no. 333-90066).

Item 6. ***Exhibits and Reports on Form 8-K***

(a) ***Exhibits***

Exhibit Number	Description
10.1	Third Amendment, effective as of March 28, 2003, to the Letter Agreement by and between Aspen Technology, Inc. and Fleet Business Credit, LLC (formerly Sanwa Business Credit Corporation).
99.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, is attached hereto as Exhibit 99.1.

(b) ***Reports on Form 8-K***

On April 29, 2003, we filed a Form 8-K with respect to our press release announcing our financial results for the three and nine months ended March 31, 2003.

SIGNATURE

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

ASPEN TECHNOLOGY, INC.

By: /s/ DAVID L. MCQUILLIN

David L. McQuillin
President and Chief Executive Officer

Date: May 15, 2003

By: /s/ LISA W. ZAPPALA

Lisa W. Zappala
Senior Vice President and
Chief Financial Officer

Date: May 15, 2003

CERTIFICATIONS

I, David L. McQuillin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aspen Technology, Inc.;

2. based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of Aspen Technology, Inc. as of, and for, the periods presented in this quarterly report;

4. Lisa W. Zappala, the Senior Vice President and Chief Financial Officer of Aspen Technology, Inc., and I:

   - are responsible for establishing and maintaining disclosure controls and procedures (as defined for purposes of Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended) for Aspen Technology, Inc.;

   - have designed such disclosure controls and procedures to ensure that material information relating to Aspen Technology, Inc., including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report was prepared;

   - have evaluated the effectiveness of the disclosure controls and procedures of Aspen Technology, Inc as of a date within 90 days prior to the filing date of this quarterly report; and

   - have presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on the required evaluation as of that date;

5. Ms. Zappala and I have disclosed to the auditors of Aspen Technology, Inc. and to the audit committee of the board of directors of Aspen Technology, Inc.:

- all significant deficiencies in the design or operation of internal controls that could adversely affect the ability of Aspen Technology, Inc. to record, process, summarize and report financial data and have identified for such auditors any material weaknesses in internal controls; and
- any fraud, whether or not material, that involves management or other employees who have a significant role in the internal controls of Aspen Technology, Inc.; and

6. Ms. Zappala and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

/s/ DAVID L. MCQUILLIN

David L. McQuillin
President and Chief Executive Officer
(principal executive officer)

I, Lisa W. Zappala, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aspen Technology, Inc.;

2. based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of Aspen Technology, Inc. as of, and for, the periods presented in this quarterly report;

4. David L. McQuillin, the President and Chief Executive Officer of Aspen Technology, Inc., and I:

- are responsible for establishing and maintaining disclosure controls and procedures (as defined for purposes of Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended) for Aspen Technology, Inc.;
- have designed such disclosure controls and procedures to ensure that material information relating to Aspen Technology, Inc., including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report was prepared;
- have evaluated the effectiveness of the disclosure controls and procedures of Aspen Technology, Inc. as of a date within 90 days prior to the filing date of this quarterly report; and
- have presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on the required evaluation as of that date;

5. Mr. McQuillin and I have disclosed to the auditors of Aspen Technology, Inc. and to the audit committee of the board of directors of Aspen Technology, Inc.:

- all significant deficiencies in the design or operation of internal controls that could adversely affect the ability of Aspen Technology, Inc. to record, process, summarize and report financial data and have identified for such auditors any material weaknesses in internal controls; and
- any fraud, whether or not material, that involves management or other employees who have a significant role in the internal controls of Aspen Technology, Inc.; and

6. Mr. McQuillin and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

/s/ LISA W. ZAPPALA

Lisa W. Zappala
Senior Vice President and Chief Financial Officer
(principal financial and accounting officer)

QuickLinks

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 10.1

THIRD AMENDMENT TO LETTER AGREEMENT

This Third Amendment ("*Amendment*") is entered into by and between Aspen Technology, Inc. ("Aspen") and Fleet Business Credit, LLC, formerly Sanwa Business Credit Corporation ("*FBC*") effective as of the 28th day of March, 2003.

WHEREAS, Aspen and FBC are parties to that certain letter agreement dated as of March 25, 1992, as amended by a First Amendment to Letter Agreement dated as of March 3, 1994, a Second Amendment to Letter Agreement dated as of January 1, 1997, and a Direct Finance Addendum to Letter Agreement dated as of March 29, 1999 (as amended, the "Letter Agreement"); and

WHEREAS, Aspen and FBC wish to amend the Letter Agreement as hereinafter provided;

NOW THEREFORE, in consideration of the premises and for other good and valuable consideration the receipt of which is hereby acknowledged, Aspen and FBC hereby agree as follows:

A. *Amendment.* The Letter Agreement is hereby amended as follows:

1. Paragraph 1(p) is deleted in its entirety and replaced by the following:

   (p) 'Software' means software products licensed by you or one of your affiliates, including without limitation Hyprotech Company, under license agreements with Obligors, provided that if one of your affiliates is the licensor under the Contract, the rights of licensor to the Payments under the Contract, and rights of enforcement with respect to such Payments, have been assigned by the licensor to you.

2. Paragraph 1 is further amended by the addition of the new definition:

   (q) 'Support' means services, such as maintenance, support, training, installation and special applications development, which are provided to an Obligor by you or one of your affiliates, including without limitation Hyprotech Company, provided that if one of your affiliates is the service provider under the Contract, the rights of the service provider to the Payments under the Contract related to such services, and rights of enforcement with respect to such Payments, have been assigned by the service provider to you.

3. Paragraph 3 is amended by adding the following language at its end:

   This Agreement is intended by the parties as an agreement for the sale of Payments and rights in supporting obligations and other related assets. However, as a precaution in case it is determined that this Agreement is an agreement for the making of a loan or loans, then as collateral security for the payment of all sums and amounts due hereunder, you grant us a security interest in and to the Payments due and to become due under Contracts purchased by us, due and to become due both during the first year of the Contract and thereafter, the Contracts, the Obligor Guaranties and other supporting obligations, all general intangibles and accounts related to the Payments, and all proceeds of any of the foregoing.

   You hereby irrevocably authorize us at any time and from time to time to file in any Uniform Commercial Code jurisdiction any initial financing statements and amendments thereto that (a) describe the above collateral regardless of whether any particular asset comprising the Collateral falls within the scope of Article 9 of the Uniform Commercial Code of such jurisdiction as amended from time to time and (b) contain any other information required by Part 5 of Article 9 of the Uniform Commercial Code of such jurisdiction for the sufficiency or filing office acceptance of any financing statement or amendment, including whether you are an organization, the type of organization and any organization identification number issued to you. You agree to furnish any such information to us promptly upon request. You also ratify the authorization for us to have filed in any Uniform Commercial Code jurisdiction any like initial financing statements or amendments if filed prior to the date hereof. In addition to the foregoing, you agree to deliver to

---

   us such financing statements and other documents and take such actions as we may consider necessary in order to establish and maintain our rights under this Agreement and valid and perfected security interests in the above collateral free of all other liens, claims and rights of third parties.

4. Paragraph 4(a) is deleted in its entirety and replaced by the following:

   You are a corporation duly organized, validly existing and in good standing under the laws of the state of Delaware and you are qualified to do business in each state or jurisdiction where such qualification in necessary. Your organizational identification number with the State of Delaware is 2859683. You are properly licensed and in compliance with fictitious name statutes in the Commonwealth of Massachusetts and in each state where you do business. You shall deliver to us evidence of good standing, valid existence, proper licensing and compliance upon our reasonable written request.

5. Paragraph 4(d) is deleted in its entirety and replaced by the following:

   Your financial statements included in the reports required to be filed by you under the Securities Exchange Act of 1934, as amended (the "SEC Reports"), complied, as of the respective dates of such reports, in all material respects with applicable accounting requirements and the rules and regulations of the Securities and Exchange Commission with respect thereto as in effect at the time of filing. Such financial statements were prepared in accordance with United States generally accepted accounting principles applied on a consistent basis during the periods involved ("GAAP"), except as may be otherwise specified in such financial statements or the notes thereto, and fairly present in all material respects your financial position and that of your consolidated subsidiaries as of and for the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal year-end audit adjustments and the absence of footnotes. Since the date of the financial statements included within the SEC Reports, except as disclosed in the SEC Reports, there has been no material adverse change in your financial condition.

6. Paragraph 4(e) is deleted in its entirety and replaced by the following:

You have disclosed in your SEC Reports or delivered to us in writing summaries of any material litigation or government proceedings pending against you. Other than any liability incident to the litigation or proceedings so disclosed by you, you have no contingent liabilities that have not been provided for or disclosed in the financial statements referred to in paragraph 4(d).

7. Paragraph 4(f) is deleted in its entirety and replaced by the following:

Your chief executive office and principal place of business is located at Ten Canal Park, Cambridge, MA 02141. You shall immediately report to us any change in either your state of organization or organization number.

8. Paragraph 5(g) is deleted in its entirety and replaced by the following:

(g) At the time of our purchase of the Contract, you have informed us in writing of all agreements, written or verbal, entered into between you (including any of your subsidiaries) and the Obligor or any other party in connection with the Contract and/or the Software or Support and of all agreements between you and any of your subsidiaries relating to the right to license, relicense or sublicense the Software covered by the Contract, and fully executed copies (all original copies if requested by us) of all those agreements will be delivered to us simultaneously with delivery of the Contract;

9. The word "and" at the end of Paragraph 5(q) is hereby deleted, the period at the end of paragraph 5(r) is hereby deleted and the following new paragraphs 5(s) and 5(t) are added:

(s) The Contract is in the form attached as Exhibit A to the Third Amendment to Letter Agreement (or in the form furnished by you from time pursuant to paragraph 6(k)), except as specifically approved in writing by us; and

---

(t) The Payments under the Contract that we are purchasing arise only from the licensing of Software during a term set forth in the Contract and the provision of Support during the first year of the term of the Contract, except as specifically approved in writing by us.

10. Paragraph 6(a) is deleted in its entirety and replaced by the following:

(a) Furnish or make available to us all quarterly reports on Form 10-Q and all annual reports on Form 10-K required to be filed by you with the Securities and Exchange Commission and, from time to time, any additional financial information as we may reasonably request;

11. The word "and" at the end of Paragraph 6(g) is hereby deleted, the period at the end of paragraph 6(h) is hereby deleted and the following new paragraphs 6(i), 6(j) and 6(k) are added:

(i) (A) Upon our request, allow an assignment or transfer of Obligor's rights and obligations under any Contract with respect to the Software and Support to a third party, at no additional charge, subject only to any site, term, user number and/or similar restrictions specified in the Contract and such third party's agreement to be bound by the terms of the Contract that are effective against Obligor and (B) not consent to Obligor's assignment of its rights as licensee of the Software under any Contract without our prior written consent, unless Obligor agrees to remain jointly and severally liable for all duties and obligations of the licensee under such Contract;

(j) Upon our written request in the event of non-payment or breach of the Contract by the Obligor, terminate the Obligor's license and right to use and receive the Software financed under the Contract and cease providing any related Support to the extent permitted under the terms of the Contract and any other agreement relating to such Support, and take such further steps to enforce such termination as we may reasonably request; and

(k) Furnish us with a copy of any revision to your standard form of Contract attached as Exhibit A to the Third Amendment to Letter Agreement immediately upon such revision becoming effective.

12. The first sentence of subparagraph 11(a) is hereby amended and restated as follows:

In the event of an Obligor Default under any Contract purchased by us before March 28, 2003, and upon our request in writing that you indemnify us with respect to such Contract, you will, for Domestic Contracts, within ten (10) days after receipt of our request, and for International Contracts, within five (5) days after receipt of our request, pay to us an indemnity amount equal to the Net Contract Balance of the defaulted Contract, computed as of the time of your payment.

B. *Severability.*

Any provision of this Amendment which is prohibited by or is unlawful or unenforceable under any applicable law of any jurisdiction, such provision shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof; provided, however, that any such prohibition in any jurisdiction shall not invalidate such provision in any other jurisdiction; provided, further, that where the provisions of any such applicable law may be waived, they hereby are waived by Aspen and FBC to the full extent permitted by applicable law to the end and that this Amendment shall be deemed to be a valid and binding agreement in accordance with its terms.

C. *Counterparts; Exhibit.*

This Amendment may be executed in any number of counterparts, and each such counterpart shall be deemed to be an original, but all such counterparts together shall constitute one and the same Amendment. Attached hereto as Exhibit A are, collectively, Aspen's Software License and Service Agreement Cover Page, version number 02/2003, Software License and Maintenance Terms and Conditions, version number 02/2003, and Amendment to Software License Agreement, version number 2/2003.

D. *Governing Law.*

This Amendment shall be construed and governed according to the laws of (but not the choice of law rules of) the State of Illinois.

E. *Binding Effect.*

This Amendment shall be binding upon and inure to the benefit of Aspen and FBC and their respective successors and assigns. Except as hereby amended, the Letter Agreement shall otherwise remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have caused their duly authorized officers to execute this Amendment, effective as of the 28th day of March, 2003.

ASPEN TECHNOLOGY, INC.

By: /s/ LISA W. ZAPPALA

Title: Senior Vice President and CFO

FLEET BUSINESS CREDIT, LLC

By: /s/ JEFFREY M. MIHALIK

Title: First Vice President

QuickLinks

Exhibit 99.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report on Form 10-Q of Aspen Technology, Inc. (the "Company") for the period ended March 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, David L. McQuillin, the President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2003

/s/ DAVID L. MCQUILLIN

David L. McQuillin
President and Chief Executive Officer
(principal executive officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report on Form 10-Q of Aspen Technology, Inc. (the "Company") for the period ended March 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Lisa W. Zappala, the Senior Vice President and Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2003

/s/ LISA W. ZAPPALA

Lisa W. Zappala
Senior Vice President and Chief Financial Officer
(principal financial and accounting officer)

QuickLinks