

Revenues from service and other consist of consulting services, post-contract support on software licenses, training and sales of documentation. Revenues from service and other for fiscal 2003 decreased 2.1% to \$182.9 million from \$186.7 million for fiscal 2002, as compared to an increase of 4.0% in fiscal 2002 from \$179.5 million for fiscal 2001. This decline in revenue is reflective of a decrease in consulting revenue, partially offset by the inclusion of maintenance revenue associated with Hyprotech. The decline in consulting revenue primarily is related to the decline in demand for our manufacturing/supply chain software products, along with which we typically sell consulting projects.

Cost of Software Licenses

Cost of software licenses consists of royalties, amortization of previously capitalized software costs, costs related to delivery of software, including disk duplication and third-party software costs, printing of manuals and packaging. Cost of software licenses for fiscal 2003 increased 17.6% to \$13.9 million from \$11.8 million in fiscal 2002. Cost of software licenses remained consistent between 2002 and 2001, decreasing to \$11.8 million from \$11.9 million in fiscal 2001. Cost of software licenses as a percentage of revenues from software licenses represented 10.0%, 8.8%, and 8.0% for fiscal years 2003, 2002 and 2001, respectively. The increases between fiscal 2002 and 2003 was primarily the result of a royalty arrangement with Accenture, which was effective as of July 2002, under which we pay royalties on the licensing of certain manufacturing/supply chain products. The increase between fiscal 2001 and 2002 was result of decreased license revenue, and the largely fixed nature of the costs that are included in cost of software licenses.

Cost of Service and Other

Cost of service and other consists of the cost of execution of application consulting services, technical support expenses and the cost of training services. Cost of service and other for fiscal 2003 decreased 10.9% to \$106.9 million from \$120.0 million for fiscal 2002, as compared to an increase of 4.7% from \$114.6 million in fiscal 2001. Cost of service and other, as a percentage of revenues from service and other, was 58.4%, 64.3% and 63.8% for fiscal years 2003, 2002 and 2001, respectively. This decrease in absolute dollars between fiscal 2003 and 2002 is 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 between fiscal 2002 and 2003 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

Selling and marketing expenses for fiscal 2003 decreased 8.1% to \$105.9 million from \$115.2 million for fiscal 2002, as compared to an increase of 1.4% in fiscal 2002 from \$113.6 million in fiscal 2001. Selling and marketing expenses as a percentage of total revenues were 32.8%, 35.9% and 34.8% in fiscal years 2003, 2002 and 2001. The decrease between fiscal 2002 and 2003 is attributable to the headcount reductions reflected in the restructuring charges of May 2002 and October 2002, partially offset by costs associated with our October 2002 AspenWorld conference, which occurs bi-annually, the inclusion of costs associated with Hyprotech, increases in certain foreign-based sales expenses where currencies strengthened as compared to the US dollar, and an increase in sales commissions related to significantly higher license revenues in the three months ended September 30, 2002 as compared to the three months ended September 30, 2001. The increase in selling and marketing costs between fiscal 2001 and fiscal 2002 was primarily attributable to an expense base that increased in the initial part of fiscal 2002 to support an expected higher license revenue level, including our investment in additional headcount to support our initiatives in the areas of expanding partnerships, in addition to sales and marketing expenses contributed by Hyprotech in June 2002. Fiscal 2002 also included additional expenses as compared to fiscal 2001 relating to our plans to expand certain new business initiatives, including PetroVantage.