

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

**PROJECT SOFTWARE & DEVELOPMENT INC**

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-K

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1996  
(mark one)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

/  TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-23852

PROJECT SOFTWARE & DEVELOPMENT, INC.  
(Exact name of registrant as specified in its charter)

MASSACHUSETTS 04-2448516  
(State or other jurisdiction of (I.R.S. employer  
incorporation or organization) identification number)

20 UNIVERSITY ROAD, CAMBRIDGE, MASSACHUSETTS 02138  
(Address of principal executive offices, including zip code)  
(617) 661-1444  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:  
None  
Securities registered pursuant to Section 12(g) of the Act:  
Common Stock, \$.01 par value  
(Title of class)

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 12 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  /

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to the Form 10-K.

As of December 16, 1996, the aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately \$ 277,765,338.00 based on the last sale price of such stock on such date.

Number of shares outstanding of the Registrant's common stock as of the latest practicable date: 9,715,593 shares of common stock, \$.01 par value per share, as of December 16, 1996.

DOCUMENT INCORPORATED BY REFERENCE

Certain portions of the Company's Definitive Proxy Statement for its 1997 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

Total number of pages: \_\_\_\_\_  
Exhibit index is located on page: \_\_\_\_\_

PART I

ITEM 1. BUSINESS

GENERAL

Project Software & Development, Inc. ("PSDI" or the "Company") develops, markets and supports applications software used by businesses, government agencies and other organizations to assist them in maintaining high-value capital assets such as facilities, plants and production equipment. The Company's products are designed to enable customers to reduce down-time, control maintenance expenses, cut spare parts inventories and costs, improve purchasing efficiency and more effectively deploy productive assets, personnel and other resources.

## PRODUCTS

The Company's enterprise-wide client/server application products are MAXIMO(Copyright) and P/X(Copyright). MAXIMO, an asset maintenance management system, is the Company's principal product and its first client/server product. The client/server version of MAXIMO was first released in February 1991 and has been employed in production applications for more than five years. Revenues from licenses of MAXIMO have grown from \$1,406,000 in fiscal year 1991 to \$42,212,000 in fiscal year 1996. In fiscal 1996, the Company introduced a new suite of MAXIMO products: MAXIMO Enterprise, MAXIMO Workgroup and MAXIMO ADvantage. MAXIMO Enterprise, a new version of which was released in March 1996, is a client/server product, which runs on Oracle7 and SYBASE platforms and is intended for the high function, high usage segment of the maintenance management market. MAXIMO Workgroup, released in July 1996, is also a client/server product and runs on SQLBase and Oracle7 Workgroup Server and is intended for the mid-range segment of the maintenance management market. On March 1, 1996 the Company acquired Maintenance Automation Corporation ("MAC"). The product acquired as a result of the acquisition of MAC, Chief Advantage, was renamed MAXIMO ADvantage. MAXIMO ADvantage is intended as a point solution for the lower-end maintenance market. MAXIMO ADvantage supports Microsoft Access for the single user, PC LAN segment.

P/X, the Company's planning and cost system, was released in June 1992. Revenues from licenses of P/X grew from \$1,148,000 in fiscal year 1992 to \$3,219,000 in fiscal 1993 and \$3,604,000 in fiscal 1994. However, revenues from P/X licenses have declined to \$1,622,000 in fiscal 1995 and to \$871,000 in fiscal 1996. The decline in P/X revenues can be attributed to product performance issues, delays in releasing a new version of the product, diminished demand for high-end planning and cost solutions, increased competition, and the Company's declining focus on selling and marketing this product.

1

3

MAXIMO permits work orders to be generated and tracked electronically, and also to be linked to related information, such as labor and equipment records, job procedures, parts inventories and purchasing systems. Failure analysis using MAXIMO can assist in designing preventive maintenance procedures to reduce future equipment failure rates and downtime.

The Company's MAXIMO client/server products are designed to enable customers to take full advantage of the computing environment, and offer robust functionality, drawing upon the Company's established track record as a provider of large-scale applications critical to the operations of major industrial companies. MAXIMO Enterprise and Workgroup provide access to standard commercial SQL databases and incorporate a modular design and an open architecture which permits end users to customize their applications.

The Company's mainframe product is PROJECT/2, a scheduling and cost management package. This product was produced in an earlier technology phase. The Company will continue to support PROJECT/2, but will not actively sell PROJECT/2. The Company does not currently intend to develop significant new enhancements or features for PROJECT/2.

The Company has discontinued its practice of offering systems which include the computer hardware necessary to run its software. However, in isolated instances, upon customer request, the Company may resell one or more personal computers or peripheral equipment, such as bar code readers, in conjunction with a license of its products.

### MAXIMO ENTERPRISE AND WORKGROUP

MAXIMO Enterprise and Workgroup are comprised of a series of integrated modules, each of which is linked to the others and to a relational database management system. Each module includes one or more applications functions, including the following:

Work Order Management organizes maintenance work, including labor, parts and tools, and tracks actual usage and associated costs.

Asset Management tracks corporate assets, including facilities and equipment and their associated warranty, downtime, maintenance costs, failure history and performance data.

Spare Parts Inventory Control maintains spare parts inventory balances, tracks parts issued from stock and automatically reorders parts when minimum balances have been reached, including multiple stores for Enterprise.

Purchasing generates purchase requisitions and purchase orders, logs in received parts, analyzes vendor performance and

2

integrates with accounting applications, including invoice matching and multiple currency functionality for Enterprise.

Labor Management manages employee records and tracks employee attendance and time reporting, including productive and non-productive time such as travel and waiting for parts.

Planning and Scheduling schedules work orders based on availability of labor, parts and equipment and automatically generates routine preventive maintenance work orders based on time, meter frequencies or other criteria.

Work Manager creates and closes work orders, assigns labor to outstanding work, manages backlogs and tracks ongoing jobs in real time.

#### MAXIMO ADVANTAGE

The MAXIMO Advantage maintenance management system offers the following functionality:

Work and Labor Management creates, edits and closes new and existing work orders.

Planning & Scheduling controls labor and material resources, including contractor information. It assists in resource leveling manpower and balancing labor and material needs with availability.

Work Order Bar Code permits inputting of work order data using a barcode scanner.

Time Cards charges time to work orders, service requests/QUIK calls or time and materials accounts.

Inventory adds items, edits stock levels and sets reorder points to create purchase requisitions automatically. It also issues items to work orders, service requests, maintenance records or inventory accounts.

Inventory Bar Code allows the issuing of items and performance of physical inventory using a barcode scanner.

Preventive Maintenance allows the set up of PM schedules for equipment items or facilities. Work orders will be created automatically at the appointed time, complete with tools, supplies and procedures. PM schedules can also be based on meters, run time or usage.

Purchase Order allows the creation of purchase orders, including setting dollar-value approval levels.

MAXIMO Enterprise and Workgroup's database server functions are provided by a direct link to ORACLE, SYBASE and Centura Corporation's (Centura) SQLBase, widely-used commercial relational database management systems, employing industry-standard SQL commands. The Company is currently developing an interface to Microsoft Corporation's SQL Server database management system. MAXIMO accommodates database servers operating under Novell NLM, Windows NT and UNIX operating systems, and supports a variety of network operating systems, including Novell NetWare, Banyan VINES and IBM LAN Server for OS/2, and standard network communications protocols including TCP/IP and IPX/SPX. MAXIMO's use of a standard SQL database and support for a broad range of server platforms, network operating systems and communications protocols provides customers with the flexibility to match their computing resources to their needs, and facilitates the integration of data from other applications such as accounting and human resources.

MAXIMO Enterprise and Workgroup were built using a commercially-available application development tool set, SQLWindows from Centura Corporation. As a result, MAXIMO's "front-end" user interface, including screens, menus and help messages can readily be modified by the customer, using standard tools. In addition, tables, data structures and other elements of the "back-end" database can be modified by the customer using utilities provided by the Company. The customer is therefore not constrained by a proprietary system design, nor does the customer need to rely on outside consultants with special expertise or knowledge of programming languages in order to customize the system to fit its needs.

MAXIMO Advantage runs on the Microsoft Access database and run on stand-alone PC's, LANs and WANs. MAXIMO Advantage's open architecture supports connectivity to numerous applications, including predictive, energy or reliability centered management, vibrations analysis, accounting, estimating and purchasing systems.

MAXIMO Advantage was built using a commercially available application

development tool set, Visual Basic from Microsoft Corporation. The core of the software constituting MAXIMO Advantage was acquired by the Company through its acquisition of MAC. MAC's product, Chief Advantage, has been renamed MAXIMO Advantage and enhanced since the acquisition. The software architecture for PC-based MAXIMO Advantage is considerably different from the client/server architecture of MAXIMO Enterprise and Workgroup. Since its acquisition of MAC, the Company has incurred significant additional and unexpected costs to complete the development of MAXIMO Advantage to meet the quality and functionality standards demanded by the Company.

MAXIMO runs on personal computers and provides the maintenance worker with an intuitive, easily mastered graphical user interface employing mouse-driven "point and click" commands,

4

6

pull-down menus, icon bars and other standard features of Windows. MAXIMO permits the use of touch screens, bar code readers and other specialized input devices, providing for flexible and efficient data collection and input. An application launching feature provides access from within any MAXIMO module to other MAXIMO modules, as well as, to word processing, spreadsheet, graphics, computer-aided-design ("CAD") and other personal productivity tools provided by third parties.

P/X

P/X is a multi-user, multi-project planning and cost system. The key functions of P/X include planning and prioritizing tasks, multi-project scheduling and project management, cost/schedule integration, and graphical reporting. P/X is designed to run on personal computers under Microsoft Windows. P/X operates on network operating systems including Novell NetWare, Banyan VINES and Microsoft LAN Manager. Development efforts of the P/X product are focused on integrating the P/X scheduling functionality tightly with the MAXIMO product and on providing the scheduling features required for the markets supported by the MAXIMO product.

#### PRODUCT PRICING

The current United States list price for the minimum five-user configuration of MAXIMO Workgroup for use with Centura's SQLBase databases is approximately \$20,000, with an added fee of \$3,000 for each additional user. The current U.S. list price for the minimum ten-user configuration of MAXIMO Enterprise for use with ORACLE and SYBASE databases is approximately \$65,000, with an added fee of \$5,000 for each additional user. MAXIMO Enterprise application modules generally are bundled for an additional fee and not licensed separately. The current U.S. list price for a single configuration of MAXIMO Advantage is \$2,995 for use with Microsoft Corporation's Access database. The current U.S. list price for a five-user LAN version is \$3,995. A number of optional modules are available. Discounts from the Company's list prices may be made available for volume purchasers or for competitive or strategic reasons. OEM customers who purchase the Company's products in significant quantities receive discounts of 35% to 60%, depending upon the level of initial purchases and commitments. The Company also offers site-license arrangements to major accounts.

International pricing for the Company's products varies by territory, depending on the cost of localizing, marketing, selling and supporting the product. Generally, list prices outside North America exceed the comparable U.S. list prices by 15% or more. The Company's international distributors and agents receive discounts ranging from 35% to 50%.

5

7

The license fee for MAXIMO generally includes 90 days of technical support. At the time of initial licensing, customers typically purchase a support contract providing for an additional year of technical support, at a current U.S. list price generally equal to 15% to 20% of the applicable license fee. In most circumstances, customers also purchase installation, customization and training services, and in many instances customers subsequently license additional seats, platform upgrades or options. The total first-year revenues to the Company from a typical MAXIMO Enterprise and Workgroup implementation, including paid-up license fees and revenues from support contracts and installation, customization and training services, average from \$200,000 to \$250,000 and from \$50,000 to \$75,000, respectively. A large multi-site implementation can result in significantly larger first-year revenues.

#### CUSTOMER SUPPORT, SERVICE AND TRAINING

Because many of the Company's customers implement their client/server maintenance management products in complex, large-scale applications on which the success of their organizations depend, a high level of customer service and

technical support is critical to customer satisfaction. In addition, deployment of enterprise-wide applications in a heterogeneous client/server computing environment incorporating multiple operating systems, network operating systems and communications protocols can present customers with substantial technical challenges. The Company offers support and consulting services designed to assist customers in meeting these challenges and successfully implementing business solutions which realize the benefits promised by client/server computing. The Company believes that its approach to service and support has been and will continue to be a significant factor in the market acceptance of its products. Revenues from support and services accounted for 40.8 % of the Company's total revenues in fiscal year 1996, and the Company expects that recurring revenues from support and services will continue to account for a substantial portion of its total revenues.

Customer Support Programs. Subscribers to the Company's annual support contracts receive customer service and technical support by telephone (including dial-in diagnostics), fax, support on line via the Internet, and electronic bulletin board, receive a newsletter and periodic technical bulletins, receive a reduction in the rate to attend the Company's annual user group meetings and are entitled to receive periodic software updates. The Company believes that support contracts are a stable source of recurring revenue.

As of September 30, 1996, the Company employed a technical support, training and consulting and sales support staff of 160 employees, of whom 101 are based at the Company's headquarters in Cambridge, Massachusetts, and sales offices throughout the United States, 27 are located in Florida, and 32 operate out six

6

8

international technical response centers owned by the Company and are located in the United Kingdom, France, Germany, the Netherlands, Sweden and Australia. Telephone support calls are handled by applications software specialists, supported by a computerized call tracking and problem reporting system. The Company's network of international distributors and sales agents also provide first-level technical support, training and consulting services within their geographical territories.

Training. The Company conducts comprehensive training programs covering Company applications and concepts for its end users. Training is offered at the Company's headquarters in Cambridge, Massachusetts and at regional centers located in California, Florida, Maryland, Michigan, Texas, Australia, France, Germany, Sweden, the United Kingdom and the Netherlands. The Company also offers on-site training classes at customer sites as requirements dictate. The Company has found that most clients desire initial user training classes in connection with the license of a system and often attend subsequent advanced schools or send additional users to schools.

Implementation Consulting. The Company also provides consulting services, on a fee basis, to assist customers in planning and carrying out the deployment of the Company's solutions. In many cases, customers are able to install and implement MAXIMO systems and perform any necessary customization themselves with only limited assistance from the Company. In other cases, particularly where a complex, integrated solution or extensive customization is required, the Company provides extensive implementation planning, project management, network communications, system integration and custom modification services. The Company's professional services group has expert knowledge of the Company's products and tools, is familiar with the concepts and theories of maintenance and planning and cost analysis, and can draw upon experience in implementing systems addressing diverse applications on a number of different platforms in a wide range of industries worldwide.

Network Operations Group. The Company maintains a network operations group of 14 persons which provides technical support to assist customers in implementing MAXIMO in distributed computing environments involving one or more complex networks. These specialists in server and client hardware platforms, network operating systems and communications protocols supplement the applications and systems expertise of the Company's technical support staff. The network operations group helps customers plan complex network installations, troubleshoot and resolve conflicts arising from heterogeneous hardware configurations, communications protocols and network operating systems, and optimize network performance.

7

9

## CUSTOMERS

The Company's customers include electric, water and other utilities, educational, research and health care institutions, government agencies, hotels, casinos, airlines and railroads, as well as large, well known corporations in the manufacturing, oil and gas, construction, aerospace, defense, ship building,

telecommunications, data processing, computer, entertainment, banking, insurance, pharmaceutical, and other industries. The Company's products have been installed and are supported in major markets worldwide. Local language support is provided in many of these markets. MAXIMO has been installed at more than 4,000 sites by more than 800 companies, government agencies and other organizations. No customer has accounted for more than 10% of the Company's total revenue in any of its three most recent fiscal years.

#### SALES AND MARKETING

The Company markets its products in North America through a direct sales force of 48 persons operating out of its Cambridge, Massachusetts headquarters, and sales offices located in California, Colorado, Maryland, Michigan, New Jersey, New York, Oregon, Texas, Washington, and a tele-sales and tele-marketing force of 19 persons operating out of its Florida office. The Company serves the global needs of its customers with a sales force of 46 persons through a network of wholly-owned subsidiaries in Australia, Canada, France, Germany, the Netherlands, Sweden, and the United Kingdom and through distributors and sales agents in parts of Africa, Asia, Europe, the Middle East and South America. Approximately 41% of the Company's total revenues in fiscal 1996 were derived from sales outside the United States.

The Company markets its products through advertising campaigns in national trade periodicals, direct mail and seminar series. These efforts are supplemented by listings in relevant trade directories, exhibitions at trade shows and conference appearances. Initial leads are qualified by telemarketing before being turned over to either the direct sales force or tele-sales. MAXIMO Enterprise and Workgroup sales representatives work closely with technical sales personnel in each of the Company's sales offices throughout the sales process, although to a lesser degree for Workgroup.

The Company's direct and tele-sales personnel are compensated through salaries plus commissions based on annual quotas and also may receive quarterly bonuses. Sales management personnel receive salaries plus bonuses based on monthly, quarterly and annual revenue and contribution targets.

The sales cycle for MAXIMO, from the initial sales presentation to the issuance of a purchase order, typically ranges from 30 to 60 days for ADvantage, three to six months for

8

10

Workgroup and six to twelve months for Enterprise. The Company believes that customers generally choose MAXIMO based on the features it provides and upon a preference for the product architecture and ease of use. This results in a purchasing process that generally does not involve lengthy trials, reducing the number of sales calls and the level of support necessary to close a sale.

Delivery lead times for the Company's products are very short and, consequently, substantially all of the Company's software revenues in each quarter result from the orders received in the quarter. Accordingly, the Company only maintains a backlog for its consulting and training services and believes that its backlog at any point in time is not a reliable indicator of future sales and earnings. The absence of significant backlog may contribute to unpredictability in the Company's results of operations.

An important part of the Company's sales and marketing strategy is to build and maintain marketing relationships with companies that PSDI believes can assist it to penetrate new markets. The Company has agreements with ISSC (an affiliate of IBM) and ABB Service Worldwide (an affiliate of Asea Brown Boveri). The Company plans to work more closely with major systems integrators and to expand and leverage its relationships with engineering and construction firms and original equipment manufacturers ("OEMs") which incorporate the Company's products into facilities or systems developed by them through its MAXIMO Alliance Program. The Company has OEM arrangements with companies such as Honeywell Incorporated and Johnson Controls, Inc., under which these companies may integrate MAXIMO with their building controls systems.

#### PRODUCT DEVELOPMENT

As of September 30, 1996, the Company employed 81 professionals in product design, application development, technology research and quality assurance. The Company's product design group (consisting of 8 persons) is responsible for identifying application trends in the market and works closely with key customers to define and specify product requirements. The applications development group (consisting of 48 persons) is organized in groups focused on application functionality, user interface and output, and database and systems development. This group also works closely with the product design group to develop new products and functional modules, and maintains and enhances the functionality and useability of the Company's existing products. The technology research group investigates and researches new technologies that provide functionality that is targeted for commercial release in time frames ranging from several months to several years into the future. The Company's quality

assurance group (consisting of 31 persons) tests the Company's software for compliance with the functional and

9

11

technical specifications established by the product design group and confirms that it operates as expected with third-party operating systems, network operating systems and applications software, tests manufactured products, and prepares and updates user documentation and training manuals.

The Company's total product development expenses in 1996, 1995 and 1994 were \$7,653,000, \$6,639,000 and \$4,753,000, respectively. The Company capitalizes certain software development costs in accordance with Statement of Financial Accounting Standards No. 86, "Accounting for Costs of Computer Software to be Sold, Leased or Otherwise Marketed." Capitalized software costs are amortized over the estimated market life of the product (generally one to three years) and amounts amortized are included in the cost of software revenues. In fiscal year 1996, the Company capitalized \$634,000 of software development costs. There were no software development costs capitalized in 1995. In fiscal year 1994, the Company capitalized \$739,000 of software development costs. In fiscal years 1996, 1995 and 1994, the Company amortized \$948,000, \$1,120,000 and \$1,054,000, of software development costs, respectively.

The Company's client/server products consist primarily of internally developed software and the product acquired from MAC. In addition, the Company has incorporated in its products graphical user interfaces, applications development tools and database management systems developed by other vendors. The Company believes that its long-term relationships with key vendors of third-party software. In September 1994, the Company released a version of MAXIMO for use with the ORACLE database. In 1996, the Company released an application programming interface ("API") to ORACLE's accounting software. The Company is also a third-party reseller of Centura Corporation's SQLBase, and developed its MAXIMO product using applications tools developed by Centura Corporation which have subsequently been made commercially available by Centura Corporation. In May 1996, the Company released a version of MAXIMO Enterprise for use with the SYBASE database. The Company's relationships with these leading database management system vendors enable the Company's customers to take advantage of the latest developments in database technology. The Company also maintains ongoing relationships with other third-party software developers, such as Netronic Software GmbH (graphics and interface technology), XVT Software, Inc. (interface technology) and MITI (report generation). See "Licensed Technology."

The Company's product development efforts are currently focused on providing application enhancements for the MAXIMO product line (Enterprise, Workgroup and ADvantage). The Company also is in the process of developing a version of MAXIMO Enterprise that will utilize the Microsoft SQL Server database management system and standard application programming interfaces to enable other third-party applications software to be more easily integrated with the Company's products. In addition, the

10

12

technology research group is currently researching developing and incorporating into the MAXIMO product technologies that are emerging in conjunction with the Internet.

The computer industry is characterized by rapid technological advances, changes in customer requirements and frequent product introductions and enhancements. The Company's future success will depend upon its ability to enhance its current products and to develop and introduce new products that keep pace with technological developments, respond to evolving customer requirements and achieve market acceptance. In particular, the Company believes that it must continue to respond quickly to users' needs for broad functionality and multi-platform support and to advances in hardware and operating systems. Any failure by the Company to anticipate or respond adequately to technological development and customer requirements, or any significant delays in product development or introduction could result in a loss of competitiveness and revenues.

The Company has experienced delays in the introduction of new products and product enhancements. These delays have varied in duration depending on the scope of the project and the nature of the problems encountered. There can be no assurance, however, that the Company will be successful in developing and marketing new products or product enhancements on a timely basis or that the Company will not experience significant delays in the future, which could have a material adverse effect on the Company's results of operations. In addition, there can be no assurance that new products and product enhancements developed by the Company will achieve market acceptance.

COMPETITION



The market for applications software is intensely competitive and rapidly changing. In general, the Company competes on the basis of (1) product architecture, which includes distributed computing capability, access to commercial SQL databases, and ease of customization and integration with other applications; (2) functionality, which includes the breadth and depth of features and functions, and ease of use; (3) support and service, which includes the range and quality of technical support, training and consulting services, as well as the capability to provide these on a global basis; and (4) product pricing in relation to performance.

The market for asset maintenance software is fragmented by geography, hardware platform and industry orientation, and is characterized by a large number of competitors, none of which enjoys a dominant market position. Currently, MAXIMO Enterprise and Workgroup compete with products of a number of large vendors which have traditionally provided maintenance software running on mainframes and minicomputers, and are now offering systems for use in the client/server environment. MAXIMO Enterprise also

11

13

competes with integrated enterprise management systems which are provided by several large vendors and which include maintenance modules. MAXIMO ADVantage competes with a number of competitors, one of which is a public company, but most of which are small regional companies. The Company expects that in the future MAXIMO Enterprise and Workgroup may encounter competition from vendors of low cost maintenance systems designed initially for use by a single user or limited number of users, as vendors of these products upgrade their functionality in an attempt to enter the client/server market. The Company believes that the functionality of MAXIMO, its open product architecture and the Company's ability to provide global distribution and support have been significant factors in the competitive success of MAXIMO.

While the Company believes that MAXIMO has competed effectively to date, competition in its industry is likely to intensify as current competitors expand their product lines and new companies enter the market. To remain successful in the future, the Company must respond promptly and effectively to the challenges of technological change, evolving standards and its competitors' innovations by continually enhancing its own product and support offerings, as well as its marketing programs. There can be no assurance that the Company will continue to be able to compete successfully in the future.

#### PRODUCTION

The principal materials and components used in the Company's software products include computer media, user materials and training guides. The Company currently uses third-party vendors to print its user manuals, packaging and related materials, but duplicates program diskettes and CD-Roms in its manufacturing and distribution facility located in Watertown, Massachusetts. The Company then assembles the third party produced documentation with diskettes and CD-Roms and ships these directly from its manufacturing and distribution facility. To date, the Company has been able to obtain adequate supplies of all components and materials and has not experienced any material difficulties or delays in manufacture and assembly of its products or materials due to product defects.

#### PROPRIETARY RIGHTS AND LICENSES

The Company has registered its MAXIMO and P/X trademarks with the United States Patent and Trademark Office. Registrations with equivalent offices in many foreign countries in which it does business have been obtained or are in process.

The Company regards its software as proprietary and attempts to protect its rights with a combination of trademark, copyright and employee and third party non-disclosure agreements. Despite these precautions, it may be possible for unauthorized parties to copy or reverse-engineer portions of the Company's products.

12

14

While the Company's competitive position could conceivably be threatened by its inability to protect its proprietary information, the Company believes that copyright and trademark protection are less important to the Company's success than other factors such as knowledge, ability and experience of the Company's personnel, its name recognition and ongoing product development and support.

The Company's software products are usually licensed to customers under a perpetual, non-transferable, non-exclusive license that stipulates how many concurrent users may access the system. The Company relies on both "shrink wrap" licenses and negotiated agreements depending on various factors including the size, level of integration and term of the agreement. A shrink wrap license

agreement is a printed license agreement included with the packaged MAXIMO software that sets the terms and conditions under which the purchaser can use the product, and purports to bind the purchaser to such terms and conditions by its acceptance and purchase of the software. Certain provisions of the Company's shrink wrap licenses, including provisions protecting against unauthorized use, copying, transfer and disclosure of the licensed program, may be unenforceable under the laws of certain jurisdictions. In addition, the laws of some foreign countries do not protect the Company's proprietary rights to the same extent as do the laws of the United States.

MAXIMO(Copyright) and P/X(Copyright) are registered trademarks of the Company. Microsoft(Copyright) is a registered trademark and Windows(Trademark) is a trademark of Microsoft Corporation. This Annual Report on Form 10-K also includes other trademarks of the Company and trademarks of companies other than the Company.

#### LICENSED TECHNOLOGY

The Company licenses certain software programs from third-party developers and incorporates them into the Company's products. These licenses are non-exclusive worldwide licenses which terminate on varying dates. The Company believes that it will be able to renew non-perpetual licenses or that it will be able to obtain substitute products if needed.

The Company has entered into a non-exclusive license agreement with Centura Corporation that permits the Company to include certain Centura proprietary software products collectively called the "SQL System" in the Company's products. Under the terms of the agreement, the Company is required to pay fixed royalty fees to Centura. Centura may terminate the agreement on the occurrence of a material, uncured breach of the agreement by the Company. The Company has entered into a non-exclusive license agreement with Management Information Technology, Incorporated ("MITI") that grants the Company's end-users to the rights to a single-user, application specific SQR3 license to modify the standard reports delivered with

13

15

MAXIMO. Under the terms of the agreement, the Company is currently required to pay royalties to MITI based upon every system the Company sells with any SQR3 license. The Company may terminate the agreement at any time. MITI may terminate the agreement on the occurrence of a material, uncured breach of the agreement by the Company. Currently, these products are included in MAXIMO Enterprise and Workgroup. The Company has entered into a non-exclusive license agreement with Netronic Software GmbH ("Netronic") that permits the Company to incorporate certain graphic software programs into the Company's products. Under the terms of the agreement, the Company is currently required to pay royalties to Netronic. The Company may terminate the agreement at any time. Netronic may terminate the agreement on the occurrence of a material, uncured breach of the agreement by the Company.

#### EMPLOYEES

As of September 30, 1996, the Company had 414 full-time employees including 146 in sales, marketing and related services, 81 in product research, applications development, technology research, and quality assurance, 132 in customer support, training and consulting services, and 55 in finance and administration, human resources, manufacturing and facilities. The Company's employees are not represented by any collective bargaining organization, and the Company has never experienced a work stoppage. The Company believes that its relations with employees are good.

#### ITEM 2. PROPERTY

The Company's headquarters are located in Cambridge, Massachusetts in a leased facility consisting of approximately 45,000 square feet, at an average annual cost of approximately \$1,700,000, under a 13 year lease that expires on December 31, 1997. The Company also leases a 13,000 square foot manufacturing and distribution facility in Watertown, Massachusetts at an average annual cost of approximately \$100,000 under a lease expiring on May 31, 1998. The Company leases additional sales offices in California, Colorado, Connecticut, Florida, Georgia, Illinois, Maryland, Michigan, Missouri, New Hampshire, New Jersey, New York, Texas, Washington, and Oregon. The Company also leases offices for its international operations in Australia, Canada, France, Germany, Hong Kong, the Netherlands, Sweden, Thailand and the United Kingdom.

#### ITEM 3. LEGAL PROCEEDINGS

As of the date of this Annual Report on Form 10-K, the Company is not a party to any legal proceedings the outcome of which, in the opinion of management, would have a material adverse effect on the Company's results of operations or financial condition.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND STOCKHOLDER MATTERS

## STOCK INFORMATION

## Price Range of Common Stock

The Company's Common Stock is traded in the over-the-counter market and prices are quoted on the National Association of Securities Dealers Automated Quotation National Market System ("Nasdaq National Market") under the symbol PSDI. As of December 16, 1996, there were approximately 47 holders of record of the Company's Common Stock. This reflects the fact that most of the Company's stock is held in street names through one or more nominees.

The following table sets forth the high and low per share trading prices of the Company's Common Stock, as reported on the Nasdaq National Market consolidated reporting system for the year ended September 30, 1996.

&lt;TABLE&gt;

&lt;CAPTION&gt;

	FISCAL 1996	HIGH	LOW
<S>		<C>	<C>
	First Quarter	\$37.75	\$21.75
	Second Quarter	\$40.75	\$22.25
	Third Quarter	\$48.50	\$29.50
	Fourth Quarter	\$49.75	\$28.00

&lt;/TABLE&gt;

&lt;TABLE&gt;

&lt;CAPTION&gt;

	FISCAL 1995	HIGH	LOW
<S>		<C>	<C>
	First Quarter	\$12.17	\$8.83
	Second Quarter	\$17.67	\$9.50
	Third Quarter	\$20.67	\$14.17
	Fourth Quarter	\$33.75	\$19.38

&lt;/TABLE&gt;

Since 1983, the Company has not declared or paid cash dividends on its Common Stock, other than distributions to stockholders made with respect to fiscal years 1992 and 1993 to satisfy certain federal and state tax obligations of the stockholders attributable to the Company's S corporation status prior to October 1, 1993. The Company currently intends to retain any future earnings to finance growth and therefore does not anticipate paying cash dividends in the foreseeable future.

On June 15, the Company's Board of Directors declared a 3-for-2 stock split in the form of a dividend, which was paid to all holders of record on June 26, 1995. All share and per share data has been restated to reflect this stock split as though it occurred at the beginning of the period.

## ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data of the Company set forth below have been derived from the consolidated financial statements for the Company for the periods indicated. This selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations" and the Company's consolidated financial statements and the notes thereto included elsewhere herein.

&lt;TABLE&gt;

&lt;CAPTION&gt;

	YEAR ENDED SEPTEMBER 30.				
	1996	1995	1994	1993	1992
<S>	<C>	<C>	<C>	<C>	<C>

(in thousands, except share and per share data)

Revenues	\$ 73,329	\$50,372	\$36,753	\$ 29,978	\$ 26,870
Income from operations	14,606	8,438	4,702	1,857	1,157
Historical net income	\$ 10,046	\$ 5,629	\$ 2,315	\$ 1,265	\$ 891
Historical income per share	\$ 1.00	\$ 0.64	\$ 0.33	\$ 0.22	\$ 0.16
Pro forma data (unaudited):					
Pro forma net income(1)	--	--	\$ 2,601	\$ 1,277	\$ 552
Pro forma income per share (1)	--	--	\$ 0.37	\$ 0.22	\$ 0.10
Weighted number of common and common equivalent shares	10,052	8,846	6,942	5,811	5,724
Total Assets	83,476	64,960	28,713	13,899	13,395
Long-Term Obligations	628	962	1,333	2,718	692
Dividends Per Share	--	--	--	\$ 0.11	\$ 0.08

(1) From October 1, 1981 through September 30, 1993, the Company operated as an S corporation under Subchapter S of the Internal Revenue Code of 1986, as amended and comparable provisions of certain state tax laws. The pro forma adjustments for the fiscal years ended September 30, 1992 and 1993 reflect provisions for federal and state income taxes as if the Company has been subject to federal and state income taxation as a corporation during such periods, including the historical extraordinary benefit from utilization of foreign net operating loss carryforwards for the fiscal year ended September 30, 1992. For the three-month period ended December 31, 1993, the provision for income tax is adjusted to exclude the expense of the cumulative deferred tax provision required on termination of S corporation status.

(2) The consolidated financial statements of the Company for all periods presented include the results and balances of an acquisition accounted for as a pooling-of-interests.

17

19

#### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

##### OVERVIEW

The Company's revenues are derived primarily from two sources: software licenses and fees for services, including support contracts and training and consulting services. The Company has experienced a significant shift in the sources of its revenues as a result of its decision to concentrate its resources on the development and marketing of enterprise-wide asset maintenance management systems operating in a client/server environment. Prior to 1991, the Company's revenues were derived primarily from licenses of its project management software (consisting of character-based software designed to run on mainframe, minicomputers and personal computers), and, to a lesser extent, from sales of computer hardware. The Company acquired Maintenance Automation Corporation ("MAC") on March 1, 1996. MAC is a developer of maintenance management software for the single-user, PC LAN segment.

The Company released MAXIMO, its first client/server product, in 1991, and released P/X, its second client/server product, in 1992. In fiscal year ended September 30, 1991, revenues from client/server software constituted 11.4% of software revenues. By the fiscal year ended September 30, 1996, revenues from client/server software accounted for 88.6% of software revenues, of which 92.5% was attributable to the client/server versions of MAXIMO.

In fiscal 1996, the Company introduced a new suite of MAXIMO products: MAXIMO Enterprise, MAXIMO Workgroup and MAXIMO Advantage. MAXIMO Enterprise, a new version of which was released in March 1996, is a client/server product, which runs on Oracle7 and SYBASE platforms and is intended for the high function, high usage segment of the maintenance management market. MAXIMO Workgroup, released in July 1996, is also a client/server product and runs on SQLBase and Oracle Workgroup and is intended for the mid-range segment of the maintenance management market.

The product acquired as a result of the acquisition of MAC on March 1, 1996, MAXIMO Advantage, is intended for the lower-end maintenance market. MAXIMO Advantage supports Microsoft Access for the single user, PC LAN segment. The

Company has incurred significant additional and unexpected costs in completing development of MAXIMO ADvantage due to a delay in excess of six months in completing the release of this product. The delay was necessary to meet the quality expectations and functionality demanded by the Company. The Company has also restructured the tele-sales operation employed by MAC to improve the fluidity of the sales distribution channel. Further effecting MAXIMO ADvantage sales was the delay in availability of a CD-Rom based

18

20

multi-media evaluation kit. This evaluation kit became available in fiscal 1997. The Company believes that most of the additional expenses that need to be incurred in connection with the completion of the new release of MAXIMO ADvantage and the restructuring of the tele-sales distribution channel should be incurred by the end of the first six months of fiscal 1997. These unexpected costs and a shortfall in expected revenues resulted in a net operating loss of \$1,203,000 for MAC for fiscal 1996.

Revenues from licenses of P/X grew from \$1,148,000 in fiscal year 1992 to \$3,219,000 in fiscal year 1993 and \$3,604,000 in fiscal year 1994. However, P/X has not achieved market acceptance, and revenues from P/X software licenses declined to \$1,622,000 in fiscal year 1995 and \$871,000 in fiscal year 1996. This product is no longer actively marketed by the Company as a stand alone solution.

The sources of the Company's revenues from support and services have also shifted since the introduction of the Company's new generation of client/server products. Revenues from support and services relating to the Company's client/server products have increased, while those relating to the Company's mainframe and other software have declined. However, the decline in revenues from mainframe and other software support and services has been more gradual, due to customers' continued needs for support of installed mainframe and other systems. Support and services as a percentage of total revenues were 40.8%, 40.3% and 46.2%, for 1996, 1995, and 1994, respectively. The decline from fiscal 1994 is attributable to the shift in revenues generated from the Company's mainframe and other software to revenues generated from the Company's MAXIMO suite of products.

The Company experienced an increase in the average selling price of its MAXIMO client/server software licenses during fiscal 1996. The Company attributes this increase in part to licenses of a version of MAXIMO for use with the ORACLE and SYBASE database management systems. These client/server versions of MAXIMO have a higher entry price and are typically implemented in configurations involving a larger number of users, for whom additional license fees are paid. Larger software license contracts, if any, may have a significant impact on revenues for any quarter and could therefore result in significant fluctuations in quarterly revenues and operating results.

The Company's revenues attributable to its operations outside the United States are a significant portion of revenues. The Company expects that international revenues will continue to be a significant percentage of total revenues. As the percentage of the Company's total revenues which are derived from international operations and are conducted in foreign currencies grows, changes in the values of these foreign currencies relative to the United States dollar will affect the Company's results of

19

21

operations, and may contribute to fluctuations in the Company's results of operations. The functional currencies of the Company's international subsidiaries include the pound sterling, the French franc, the German deutschemark, the Dutch guilder, the Swedish krona, and the Australian and Canadian dollars, each of which has fluctuated significantly in relation to the United States dollar. In addition, the Company is exposed to potential losses as a result of transactions giving rise to accounts receivable in currencies other than the United States dollar or the functional currencies of its international subsidiaries. When the value of a foreign currency in which the accounts receivable of the Company are denominated changes between the date the account receivable is accrued and the date on which it is settled, the resulting gain or loss is recorded as a foreign currency transaction adjustment. The Company recorded foreign currency transaction losses of \$142,000, \$117,000 and \$76,000 for the fiscal years 1996, 1995 and 1994, respectively. The Company may in the future undertake currency hedging, although there can be no assurance that hedging transactions, if entered into, would materially reduce the effects of fluctuations in foreign currency exchange rates on the Company's results of operations.

To date, inflation has not had a material impact on the Company's financial results. There can be no assurance, however, that inflation may not adversely affect the Company's financial results in the future.

On December 27, 1995, the Company acquired the shares of its Swedish distributor, Planteringssystem och Datorer i Norden AB for the sum of \$517,000. In addition, the Company is obligated to pay the seller an earnout based on revenue target achievement for the fiscal year ended September 30, 1996. The total earnout at September 30, 1996 was \$147,000.

On March 1, 1996, the Company acquired certain assets and assumed specific liabilities of the IHS department of debis Systemhaus Standard - Software - Produkte GmbH for the sum of \$646,000. In addition, the Company will pay an earnout based on revenue target achievement for the twelve months ended December 31, 1996. The earnout is estimated to be \$216,000 at September 30, 1996.

On March 1, 1996, the Company acquired MAC in exchange for the issuance of 368,946 shares of the Company's common stock. MAC provides the Company an existing, although immature, tele-sales channel which has been restructured and can target entities and industries supplemental to those currently targeted by the Company's existing direct sales channel, such as real estate management, hotels and small education and medical facilities. MAC's product, CHIEF Advantage has been renamed MAXIMO Advantage and has been enhanced since the acquisition.

20

22

## Results of Operations

The following table sets forth, for the periods indicated, certain financial data as a percentage of total revenues:

&lt;TABLE&gt;

&lt;CAPTION&gt;

	Year Ended September 30.		
	1996	1995	1994
<S>	<C>	<C>	<C>
Revenues:			
Software	59.2%	59.7%	53.8%
Support and services	40.8	40.3	46.2
Total revenues:	100.0	100.0	100.0
Total cost of revenues	24.9	25.3	28.0
Gross margin	75.1	74.7	72.0
Operating expenses:			
Sales and marketing	33.3	32.8	33.7
Product development	10.4	13.2	12.9
General and administrative	10.2	12.0	12.6
Merger expenses	1.3	--	--
Total operating expenses:	55.2	58.0	59.2
Income from operations	19.9	16.7	12.8
Other income(expense), net	2.6	1.8	(0.2)
Income before income taxes	22.5	18.5	12.6
Historical income taxes	8.8	7.4	6.3
Historical net income	13.7%	11.1%	6.3%
Pro forma income taxes (1)			5.6
Pro forma net income			7.0%

&lt;/TABLE&gt;

(1) For the fiscal year ended September 30, 1994, the provision for income taxes is adjusted to exclude the expense of the cumulative deferred tax provision required on termination of S corporation status.

(2) All periods presented have been restated to include the results and balances of an acquisition accounted for as a pooling-of-interests.

Revenues

Total revenues increased 45.6% to \$73,329,000 in 1996 and 37.1% to \$50,372,000 in 1995 from \$36,753,000 in 1994. Prior year comparative revenues include only nine months of MAXIMO ADvantage revenues in fiscal 1995, as MAC's fiscal year was changed to coincide with the Company's. The growth in revenues is generated from the Company's MAXIMO software and related support and services. A significant portion of the Company's total revenues are derived from operations outside the United States. Revenues from sales outside the United States for 1996 increased 53.7% to \$29,734,000 or 40.5% of total revenues, compared to \$19,340,000 or 38.4% of total revenues in 1995 and \$14,576,000 or 39.7% of total revenues in 1994. The decrease in the percentage of total revenues generated outside the United

21

23

States in 1995 can be attributed primarily to a few large licenses of MAXIMO in the United States.

The Company's software revenues increased 44.3% to \$43,382,000 in 1996 and 51.9% to \$30,054,000 in 1995 from \$19,780,000 in 1994. Software revenues as a percentage of total revenues were 59.2%, 59.7% and 53.8% in 1996, 1995 and 1994, respectively. The progressive growth in software revenues is attributable to increases in the number of MAXIMO licenses, the number of users per license of MAXIMO and a few large MAXIMO Enterprise software license deals, combined with the release of the client/server versions of MAXIMO on SYBASE and Oracle. Revenues from licenses of MAXIMO and from related support and services increased 60.9% to \$66,710,000 or 91.0% of total revenues in 1996, compared to \$41,462,000 or 82.3% of total revenues in 1995 and \$24,817,000 or 67.5% of total revenues in 1994. Revenues from licenses of P/X and from related support and services decreased 13.7% to \$4,861,000 or 6.6% of total revenues in 1996, compared to \$5,630,000 or 11.2% of total revenues in 1995 and \$6,738,000 or 18.3% of total revenues in 1994. The decline in P/X revenues year over year occurred most significantly in P/X software license revenues and can be attributed to product performance issues, diminished demand for high-end planning and cost solutions, increased competition, and the Company's declining focus on selling and marketing this product.

Revenues from support and services increased 47.4% to \$29,947,000 in 1996 from \$20,318,000 in 1995 and 19.7% to \$20,318,000 in 1995 from \$16,973,000 in 1994. The increases year over year are attributable to increased sales of MAXIMO support contracts and consulting and training services, partially offset by declines in sales of support contracts and services relating to the Company's project management software. Support and services as a percentage of total revenues were 40.8%, 40.3% and 46.2%, for 1996, 1995 and 1994, respectively.

#### Cost of Revenues.

The total cost of revenues increased 43.4% to \$18,238,000 in 1996 and 23.7% to \$12,719,000 in 1995 from \$10,283,000 in 1994. Prior year comparative costs of revenues for 1995 include only nine months of MAC costs in fiscal 1995, as MAC's fiscal year was changed to coincide with the Company's. The total cost of revenues as a percentage of total revenues were 24.9%, 25.3% and 28.0% in 1996, 1995 and 1994, respectively.

Cost of software revenues consists of the amortization of capitalized software, royalties paid to vendors of third party software, the cost of software product packaging and media, and certain employee costs related to software duplication, packaging and shipping. Cost of software revenues increased 14.5% to

22

24

\$3,106,000 in 1996 and 20.2% to \$2,713,000 in 1995 from \$2,258,000 in 1994. In fiscal 1996, the Company changed the estimated useful life of its MAXIMO Enterprise product from three years to fifteen months to accurately reflect the lifecycles for new releases of this product. This change resulted in additional amortization expense of \$565,000. In fiscal 1995, the Company accelerated the amortization expense of its internally developed software related to its P/X product, which resulted in \$514,000 of additional expense. The increases year over year are also attributable to production costs associated with increased licenses of software. The cost of client/server software revenues as a percentage of client/server software revenues was 7.2%, 9.0% and 11.4% in 1996, 1995 and 1994, respectively. The decreases as a percentage of revenues were due primarily to economies resulting from increased sales volume.

Cost of support and services consists primarily of personnel costs for employees and the related costs of benefits and facilities. Cost of support and services revenues increased 51.2% to \$15,132,000 in 1996 from \$10,006,000 in 1995 and 24.7% to \$10,006,000 in 1995 from \$8,025,000 in 1994. Cost of support and services as a percentage of support and services revenues was 50.5%, 49.2%, and 47.3% in 1996, 1995 and 1994, respectively. In fiscal 1996, the increases as a percent of revenues are attributable to the hiring costs of third-party

consultants contracted with to perform services for the Company as a result of the increases in the number of licenses sold and the timing of hiring permanent employees. Also in fiscal 1996, the Company created a Business Solutions group whose goal is to do project management for large industry implementations in certain vertical markets. The increases year over year are also attributable to the costs of personnel to support international distributors in certain territories where the distributors performed a larger proportion of services without corresponding increases in service revenues to the Company.

#### Sales and Marketing Expenses.

Sales and marketing expenses increased 47.5% to \$24,422,000 in 1996 and 33.6% to \$16,555,000 in 1995 from \$12,395,000 in 1994. Prior year comparative sales and marketing expenses for 1995 include only nine months of MAC expenses in fiscal 1995, as MAC's fiscal year was changed to coincide with the Company's. The increases year over year are primarily due to increases in the number of sales personnel, sales commissions, travel and lodging expenses, and an increase in advertising costs and the restructuring of the MAC tele-sales operation. Sales and marketing expenses as a percentage of total revenues were 33.3%, 32.8% and 33.7% in 1996, 1995, and 1994, respectively. The increase as a percentage of revenues for fiscal 1996 is due primarily to increases in sales commissions paid to both the geographic sales representatives and in some cases the industry oriented vertical sales representative, therefore decreasing the

23

25

margin on the sale. The decrease as a percentage of revenues for fiscal 1995 was due primarily to the increased productivity of the Company's sales and marketing staffs combined with increased sales of the Company's MAXIMO product by distributors.

#### Product Development Expenses.

Product development expenses increased 15.3% to \$7,653,000 in 1996 and 39.7% to \$6,639,000 in 1995 from \$4,753,000 in 1994. Prior year comparative product development expenses for 1995 include only nine months of MAC expenses in fiscal 1995, as MAC's fiscal year was changed to coincide with the Company's. The increase for fiscal 1996 is primarily due to the engagement of additional employees and third party consultants who worked on the new client/server release of MAXIMO during the first six months of the year, offset by the capitalization of the software costs related to the product, as no software costs were capitalized for fiscal 1995. Capitalization of software costs were \$634,000, \$0 and \$739,000 in fiscal 1996, 1995 and 1994, respectively. During fiscal 1996, the Company spent progressively more of its development expenditures on MAXIMO such that virtually all of its development dollars were incurred on the MAXIMO product line by the end of the year. Product development expenses as a percentage of total revenues were 10.4%, 13.2%, and 12.9% in 1996, 1995, and 1994, respectively. The decreases as a percentage of revenues in fiscal 1996 are attributable to the delays in planned hires of new development staff until the later half of fiscal 1996 and capitalization of internal software developments costs in 1996 versus no capitalization of expenses in 1995.

#### General and Administrative Expenses.

General and administrative expenses include the cost of the Company's finance, human resources, information services and administrative operations. Prior year comparative general and administrative expenses for 1995 include only nine months of MAC expenses in fiscal 1995, as MAC's fiscal year was changed to coincide with the Company's. General and administrative expenses increased 23.7% to \$7,445,000 in 1996 and 30.3% to \$6,021,000 in 1995 from \$4,620,000 in 1994. The increase in fiscal 1996 is primarily due to goodwill amortization for the purchase of two international distributors, expenses related to professional fees in connection with growth of the Company, as well as, increases in insurance premiums resulting from the second public offering in July 1995. The increase in fiscal 1995 was primarily due to an increase in the provision for bad debt expenses in proportion to the increase in receivables. General and administrative expenses as a percentage of total revenues were 10.2%, 12.0% and 12.6% in 1996, 1995, and 1994, respectively. The decrease as a percentage of revenues in fiscal 1996 is attributable to salary reductions due to the departure of several MAC executives and administrative employees, and the ability of the Company to manage a larger

24

26

revenue base without commensurate increases in general and administrative expenses.

#### Other Income/Expense.

Interest income increased to \$1,971,000 in 1996 from \$1,104,000 in 1995



and \$235,000 in 1994. Prior year comparative expenses include only nine months of MAC expenses in fiscal 1995, as MAC's fiscal year was changed to coincide with the Company's. The increases are attributable to interest earned on cash equivalents and marketable securities purchased with the net proceeds of the Company's public offering in 1995 and initial public offering in 1994. Interest expense was \$38,000 in 1996, \$49,000 in 1995 and \$303,000 in 1994. The decrease in 1995 was attributable to the retirement of subordinated debt in 1994 in conjunction with the Company's initial public offering and the buyout of certain capital equipment leases. Other income (expense), net, decreased to \$42,000 in 1996 from \$136,000 in 1995, compared to net income of \$11,000 in 1994. The decrease in 1996 is primarily attributable to an increase in income derived from the MAXIMO Users Group Conference, offset by foreign currency translation losses. The increase in 1995 is attributable to foreign currency translation losses.

#### Provision for Income Taxes.

The Company's effective tax rates were 39.1%, 39.8% and 50.2% in 1996, 1995 and 1994, respectively. The Company's pro forma effective tax rate was 44.0% in 1994. The pro forma tax rate excludes the effect of \$286,000 of cumulative deferred taxes required to be recorded on termination of Subchapter S corporation status. The decrease in the effective tax rate for fiscal 1996 can be attributed to the use of a Foreign Sales Corporation partially offset by non-deductible merger expenses. The decrease in the effective tax rate for fiscal year 1995 can be attributed primarily to a reduction in foreign withholding taxes. At September 30, 1996, the Company had net operating loss carryforwards of approximately \$1,259,000 and \$94,000 of credit carryforwards in certain foreign jurisdictions.

#### LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 1996, the Company had cash and cash equivalents of approximately \$9,097,000 and working capital of \$53,289,000. Cash provided by operations for fiscal year 1996 was \$2,691,000, generated primarily by income earned for the period and depreciation, offset by the increase in accounts receivable and the acquisition costs in connection with the purchase of our Swedish and German distributors. Cash used in investing activities totaled \$5,041,000, primarily for the purchase computer equipment, office equipment and capitalization of internal software costs, and purchases of marketable securities. Cash provided by financing activities was \$2,120,000, generated

25

27

by proceeds from exercises of employee stock options, offset by the repayment of MAC's equipment loans and amounts borrowed on their line of credit.

As of September 30, 1996, the Company's principal commitments consisted primarily of an office lease for its headquarters and leases of computer equipment and motor vehicles. The Company leases its facilities and certain equipment under non-cancelable operating lease agreements that expire at various dates through March 1999.

In March 1996, the Company extended its \$5,000,000 unsecured line of credit with Chase Manhattan Bank, N.A., which will expire on March 31, 1997. The Company believes that its current cash balances combined with cash flow from operations and credit available under its bank line of credit will be sufficient to meet its working capital and capital expenditure requirements through at least September 30, 1997.

#### FLUCTUATIONS IN QUARTERLY OPERATING RESULTS; SEASONALITY

The Company generally ships its product upon receipt of orders and maintains no significant backlog. As a result, revenues from license fees in any quarter are substantially dependent on orders booked and shipped in that quarter. A delay in or loss of orders can cause significant variations in quarterly operating results. In addition, the Company's revenues and operating results have fluctuated historically, due to the number and timing of product introductions and enhancements, the budgeting and purchasing cycles of customers and the timing of large orders, the timing of product shipments and the timing of marketing and product development expenditures. Large software license contracts may have a significant impact on revenues for any quarter and could therefore result in significant fluctuations in quarterly revenues and operating results. The Company's revenues and income from operations typically grow at a lower rate or decline in the first quarter of each fiscal year. In addition, revenues are typically higher in the fourth quarter than in other quarters of the year, reflecting the Company's fiscal year end and a sales commission policy that bases rewards on achievement of annual quotas. As a result of these factors, the Company has experienced, and may in the future experience, significant period-to-period fluctuations in revenues and operating results.

#### FACTORS OF FUTURE PERFORMANCE

Further information on factors that could affect the Company's business and financial results are included in the Company's Annual Report on Form 10-K

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information with respect to exhibits and financial statement schedules are included in Part IV item 14(a) (1) and (2).

## Quarterly Financial Data (Unaudited)

The company believes that period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as an indication of future performance.

(in thousands, except per share amounts)

<TABLE>

<CAPTION>

1996 Quarter	Dec.31,	Mar. 31,	June 30,	Sep. 30,	Year Ended
-----	-----	-----	-----	-----	-----
Ended:	1995	1996	1996	1996	1996
-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
Total revenues	\$16,187	\$16,376	\$18,151	\$22,615	\$73,329
Income from operations	3,213	2,676	3,720	4,997	14,606
Income before income taxes	3,634	2,993	4,207	5,663	16,497
Provision for income taxes	1,507	1,546	1,457	1,941	6,451
Net income	2,127	1,447	2,750	3,722	10,046
Net income per share	\$ 0.21	\$ 0.14	\$ 0.27	\$ 0.37	\$ 1.00

</TABLE>

<TABLE>

<CAPTION>

1995 Quarter	Dec.31,	Mar. 31,	June 30,	Sep. 30,	Year Ended
-----	-----	-----	-----	-----	-----
Ended:	1994	1995	1995	1995	1995
-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
Total revenues	\$10,277	\$11,628	\$13,633	\$14,834	\$50,372
Income from operations	1,702	1,663	2,412	2,661	8,438
Income before income taxes	1,826	1,860	2,476	3,195	9,357
Provision for income taxes	728	854	942	1,204	3,728
Net income	1,099	1,006	1,534	1,991	5,629
Net income per share	\$ 0.13	\$ 0.12	\$ 0.18	\$ 0.20	\$ 0.64

</TABLE>

The consolidated financial statements of the Company for all periods presented include the results and balances of an acquisition accounted for as a pooling-of-interests.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

## PART III

(ITEMS 10,11,12,13)

In accordance with general instruction G(3) to Form 10-K, information required by Part III is incorporated by reference from the Company's definitive Proxy Statement for its 1997 Annual Meeting of Stockholders to be filed, pursuant to Regulation 14A, within 120 days after the end of the Company's fiscal year ended September 30, 1996.

## PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

The financial statements and schedules filed as part of this Report are listed in the following Index to Financial Statements and Schedules. The exhibits filed as part of this Report are listed in the accompanying Index to Exhibits.

(a) The following documents are filed as a part of this Report:

1. Consolidated Financial Statements. The following Consolidated Financial Statements of the Company are filed as part of this report:

<TABLE> <CAPTION>	PAGE
<S>	<C>
Report of Independent Accountants .....	35
Consolidated Balance Sheets - September 30, 1996 and 1995 .....	36
Consolidated Statements of Operations - Years Ended September 30, 1996, 1995 and 1994 .....	37
Consolidated Statements of Cash Flows - Years Ended September 30, 1996, 1995 and 1994 .....	38
Consolidated Statements of Stockholders' Equity - Years Ended September 30, 1996, 1995 and 1994 .....	39
Notes to Consolidated Financial Statements .....	40

</TABLE>

2. Financial Statement Schedules. The following financial statement schedules of Project Software & Development, Inc. for the Years Ended September 30, 1996, 1995 and 1994 are filed as part of this Report and should be read in conjunction with the Consolidated Financial Statements of the Company.

SCHEDULE	PAGE
-----	----
II Valuation and Qualifying Accounts.....	56

Schedules not listed above have been omitted because they are not applicable or are not required, or the information required to be set forth therein is included in the Consolidated Financial Statements or Notes thereto.

3. Exhibits.

Exhibits 10.3 through 10.5 include the Company's compensatory plans or arrangements required to be filed as exhibits pursuant to Item 14(c) of Form 10-K.

3. Instruments Defining the Rights of Security-Holders

3.1 Amended and Restated Articles of Organization of the Company (included as Exhibit 3.3 to the Company's Registration Statement on Form S-1, Registration

31

No. 33-76420, and incorporated herein by reference)

3.2 Restated By-Laws of the Company, as amended

9. Voting Trust Agreements

9.1 1996 Daniels Voting Trust Agreement dated August 19, 1996 among Susan H. Daniels, Robert L. Daniels and Robert L. Daniels, as Trustee

10. Material Contracts

10.1 Underwriting Agreement, dated July 13, 1995, by and among the Company, Robertson, Stephens & Company, L.P., Montgomery Securities and First Albany Corporation, as representatives of the several underwriters and certain shareholders of the Company named in Schedule B thereto. (included as Exhibit 10.1 to the Company's Registration Statement on Form S-1, Registration No.33-76420, and incorporated herein by reference)

10.2 Forms of Lock-Up Agreements (included as Exhibit 10.4 to the Company's Registration Statement on Form S-1, Registration

No.33-76420, and incorporated herein by reference)

10.3 1996 Executive Bonus Plan (included as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 1995, Commission File No. 0-23852 and incorporated herein by reference)

10.5 Amended and Restated 1994 Incentive and Nonqualified Stock Option Plan, as approved by the stockholders of the Company by written consent dated April 15, 1994 (included as Exhibit 10.16 to the Company's Registration Statement on Form S-1, Registration No.33-76420, and incorporated herein by reference)

10.6 1994 Employee Stock Purchase Plan, as amended

10.7 Agreement and Plan of Merger, dated as of March 1, 1996, by and among the Company, Toolbox Acquisition Corp., Maintenance Automation Corporation, Johnson Controls, Inc., Eli G. Katz, Phyllis S. Katz, Mitchell B. Knecht, Heidi D. Knecht, Nicholas E. Meola, Naomi R. Meola, Johnson Controls, Inc. and Eli G. Katz, as agent (included

30

32

as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996, File No. 0-23852, and incorporated herein by reference)

10.8 Escrow Agreement, dated as of March 1, 1996, by and among the Company, Toolbox Acquisition Corp., Maintenance Automation Corporation, Johnson Controls, Inc., Eli G. Katz, Phyllis S. Katz, Mitchell B. Knecht, Heidi D. Knecht, Nicholas E. Meola, Naomi R. Meola, Johnson Controls, Inc. and Eli G. Katz, as agent (included as Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996, File No. 0-23852, and incorporated herein by reference)

10.9 Registration Rights Agreement, dated as of March 1, 1996, by and among the Company, Toolbox Acquisition Corp., Maintenance Automation Corporation, Johnson Controls, Inc., Eli G. Katz, Phyllis S. Katz, Mitchell B. Knecht, Heidi D. Knecht, Nicholas E. Meola, Naomi R. Meola, Johnson Controls, Inc. and Eli G. Katz, as agent (included as Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996, File No. 0-23852, and incorporated herein by reference)

10.10 Directors and Officers Liability and Company Reimbursement Policy for the Company issued by Lexington Insurance Company for the period of March 18, 1996 through March 18, 1997 (included as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996, File No. 0-23852, and incorporated herein by reference)

10.11 Directors and Officers Liability and Company Reimbursement Policy for the Company issued by Zurich Insurance Company for the period of March 18, 1996 through March 18, 1997 (included as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996, File No. 0-23852, and incorporated herein by reference)

10.12 Form of PSDI 1994 Authorized Value Added Reseller Agreement (included as Exhibit 10.22 to the Company's Registration Statement on Form S-1, Registration No. 33-76420, and incorporated herein by reference)

31

33

10.13 Reseller Agreement dated May 20, 1994 between the Company and Oracle Corporation (included as Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, Commission File No. 0-23852, and incorporated herein by reference)

10.14 Employee Separation Agreement dated as of July 31, 1996 between the Company and Dean F. Goodermote

11. Statements re computation of per share earnings

11.1 Statement re computation of per share earnings

- 21. Subsidiaries of the registrant
  - 21.1 Subsidiaries of the Company
- 23. Consents of experts and counsel
  - 23.1 Consent of Coopers & Lybrand L.L.P.
- 27. Financial Data Schedule
  - 27.1 Financial Data Schedule
- 99. Certain Factors
  - 99. Certain Factors - Certain factors concerning the Company dated December 27, 1996 concerning certain cautionary statements of the Company to be taken into account in conjunction with the consideration and review of the Company's publicly-disseminated documents and oral statements (including oral statements made by others on behalf of the Company) that include forward-looking information.

(b) Reports on Form 8-K

During the three months ended September 30, 1996, the Company filed a current Report on Form 8-K dated August 19, 1996 which, in Item 5, described the restructuring of the Company's management and certain additional actions, including By-Law amendments, taken by vote of the Board of Directors. A copy of the Company's By-Laws, as amended, was filed under Item 7.

32

34

The Company will furnish a copy of any exhibit listed to requesting stockholders upon payment of the Company's reasonable expense in furnishing those materials.

33

35

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Dated: December 27, 1996.

PROJECT SOFTWARE & DEVELOPMENT, INC.

By: /s/ Paul D. Birch

-----  
 Paul D. Birch  
 Executive Vice President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<TABLE>

<S> /s/ Dean F. Goodermote ----- Dean F. Goodermote	<C> Chairman of the Board	<C> December 27, 1996
/s/ Paul D. Birch ----- Paul D. Birch	Executive Vice President, Chief Financial officer and Treasurer (Co-Principal Executive officer, Principal Financial and Accounting Officer)	December 27, 1996
/s/ Norman E. Drapeau, Jr ----- Norman E. Drapeau Jr.	Co-Principal Executive officer	December 27, 1996
/s/ Robert L. Daniels ----- Robert L. Daniels	Director	December 27, 1996

/s/ Charles S. Jones

Director

December 27, 1996

-----  
Charles S. Jones

-----  
Michael D. Marvin

Director

December 27, 1996

-----  
William G. Nelson

Director

December 27, 1996

</TABLE>

34

36

REPORT OF INDEPENDENT ACCOUNTANTS

We have audited the consolidated financial statements and the financial statement schedule of Project Software & Development, Inc. and its subsidiaries listed in the index on page 29 of this Form 10-K. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Project Software & Development, Inc. and its subsidiaries as of September 30, 1996 and 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 30, 1996 in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information required to be included therein.

Coopers & Lybrand L.L.P.

Boston, Massachusetts  
November 8, 1996

35

37

PROJECT SOFTWARE & DEVELOPMENT, INC.  
CONSOLIDATED BALANCE SHEETS

<TABLE>  
<CAPTION>

ASSETS	SEPTEMBER 30,	SEPTEMBER 30,
	----- 1996 ----	----- 1995 ----
	(IN THOUSANDS, EXCEPT SHARE DATA)	
	<C>	<C>
Current assets:		
Cash and cash equivalents	\$ 9,097	\$ 9,346
Marketable securities	36,798	36,025
Accounts receivable, trade, less allowance for doubtful accounts of \$1,954 in 1996 and \$1,346 in 1995	27,030	13,922
Prepaid expenses	1,410	1,267
Other assets	748	425
Deferred income taxes	892	452
	-----	-----
Total current assets	75,975	61,437
	-----	-----
Property and equipment, net	4,174	2,391
Computer software costs, net	787	789

Goodwill, net	1,832	--
Deferred income taxes	675	314
Other assets	33	29
	-----	-----
Total assets	\$83,476	\$64,960
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 8,384	\$ 5,116
Accrued compensation	5,007	3,714
Income taxes payable	248	603
Deferred income taxes	5	--
Deferred revenue	9,042	6,601
Line of credit	--	325
Leased equipment obligation	--	28
Current maturities of long-term debt	--	67
	-----	-----
Total current liabilities	22,686	16,454
	-----	-----

Deferred income taxes	168	277
Deferred rent	85	158
Deferred revenue	375	469
Long-term debt, less current maturities included	--	58

Commitments and contingencies

Preferred stock, \$.01 par value;1,000,000 authorized, none issued and outstanding	--	--
Common stock, \$.01 par value;15,350,000 authorized; and outstanding 9,702,549 and 9,566,712 for 1996 and 1995, respectively	97	96
Additional paid-in capital	45,324	42,725
Retained earnings	14,538	4,492
Cumulative translation adjustment	49	159
Net unrealized gain on marketable securities	154	72
	-----	-----
Total stockholders' equity	60,162	47,544
	-----	-----
Total liabilities and stockholders' equity	\$83,476	\$64,960
	=====	=====

</TABLE>

The accompanying notes are an integral part of the consolidated financial statements.

PROJECT SOFTWARE & DEVELOPMENT, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>  
<CAPTION>

	YEAR ENDED SEPTEMBER 30,		
	1996	1995	1994
	-----	-----	-----
	(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)		
<S>	<C>	<C>	<C>
Revenues:			
Software	\$ 43,382	\$ 30,054	\$ 19,780
Support and services	29,947	20,318	16,973
	-----	-----	-----
Total revenues	73,329	50,372	36,753
	-----	-----	-----
Cost of revenues:			
Software	3,106	2,713	2,258
Support and services	15,132	10,006	8,025
	-----	-----	-----
Total cost of revenues	18,238	12,719	10,283
	-----	-----	-----
Gross margin	55,091	37,653	26,470
Operating expenses:			
Sales and marketing	24,422	16,555	12,395
Product development	7,653	6,639	4,753
General and administrative	7,445	6,021	4,620

Merger expenses	965	--	--
Total operating expenses	40,485	29,215	21,768
Income from operations	14,606	8,438	4,702
Interest income	1,971	1,104	235
Interest (expense)	(38)	(49)	(303)
Other income (expense), net	(42)	(136)	11
Income before income taxes	16,497	9,357	4,645
Provision for income taxes	6,451	3,728	2,330
Net income	\$ 10,046	\$ 5,629	\$ 2,315
Historical income per share	\$ 1.00	\$ 0.64	\$ 0.33
Pro forma data:			
Historical provision for income taxes	--	--	2,330
Pro forma - decrease to historical taxes	--	--	(286)
Total taxes	--	--	2,044
Pro forma net income	--	--	2,601
Pro forma income per share	\$ --	\$ --	\$ 0.37
Weighted number of common and common equivalent shares	10,051,908	8,845,746	6,942,422

</TABLE>

The accompanying notes are an integral part of the consolidated financial statements.

37

39

PROJECT SOFTWARE & DEVELOPMENT, INC  
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>  
<CAPTION>

	YEAR ENDED SEPTEMBER 30,		
	1996	1995	1994
	----	----	----
<S>	<C>	<C>	<C>
(IN THOUSANDS)			
Cash flows from operating activities:			
Net income	\$ 10,046	\$ 5,629	\$ 2,315
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,662	2,391	1,997
Loss on sale and disposal of property and equipment	17	42	11
Amortization of discount on marketable securities	331	172	--
Deferred rent	(73)	(34)	(11)
Deferred taxes	(908)	(735)	217
Changes in operating assets and liabilities, net of effect of acquisitions:			
Accounts receivable	(12,935)	(4,871)	(590)
Prepaid expenses	(90)	(519)	(75)
Other assets	144	54	(35)
Accounts payable	2,209	1,577	590
Accrued compensation	1,361	2,522	516
Income taxes payable	(347)	(227)	622
Deferred revenue	2,374	2,613	(614)
Net cash provided by operating activities	4,791	8,614	4,943

Cash flows from investing activities:



Acquisitions of businesses, net of cash	(1,837)	--	--
Acquisitions of property and equipment	(3,204)	(2,007)	(621)
Proceeds from sale of property and equipment	6	5	37
Additions to computer software costs	(1,084)	(83)	(821)
Purchases of marketable securities	(191,574)	(148,609)	--
Sales of marketable securities	190,552	112,484	--
	-----	-----	-----
Net cash used in investing activities	(7,141)	(38,210)	(1,405)
	-----	-----	-----
Cash flows from financing activities:			
Payments on leased equipment	(29)	(413)	(176)
(Payments)/Borrowings on line of credit, net	(325)	244	(8)
Payment of subordinated notes	--	--	(917)
(Payments)/ Borrowings on long-term notes, net	(124)	35	43
Repayment of shareholders	--	--	(143)
Proceeds from issuance of common stock, net of issuance costs	--	23,552	11,470
Proceeds from exercise of stock options including related tax benefit	2,600	915	--
Dividend distribution	--	--	(116)
	-----	-----	-----
Net cash provided by financing activities	2,122	24,333	10,153
	-----	-----	-----
Effect of exchange rate changes on cash	(21)	2	(25)
	-----	-----	-----
Net (decrease)/increase in cash and cash equivalents	(249)	(5,261)	13,666
Cash and cash equivalents, beginning of year	9,346	14,607	941
	-----	-----	-----
Cash and cash equivalents, end of year	\$ 9,097	\$ 9,346	\$ 14,607
	=====	=====	=====

</TABLE>

The accompanying notes are an integral part of  
the consolidated financial statements.

38

40

PROJECT SOFTWARE & DEVELOPMENT, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED SEPTEMBER 30, 1996, 1995 AND 1994

<TABLE>

<CAPTION>

(in thousands, except share data)	Common Stock		Additional Paid-in Capital	Accumulated Earnings (Deficit)	Cumulative Translation Adjustment	Net Unrealized Gains on Marketable Securities	Total Stockholders Equity
	Shares Issued	Amount					
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at September 30, 1993 .....	5,355,005	\$54	\$ 5,719	(\$ 3,117)	(\$ 28)		\$ 2,628
Adjustment for pooling of interests .....	339,520	3	25	(335)			(307)
Balance restated .....	5,694,525	57	5,744	(3,452)	(28)		2,321
Transactions of pooled company .....	29,426	1	396				397
Issuance of common stock, net of issuance cost of \$805 .....	2,250,006	22	11,028				11,050
Exercise of warrants .....	299,250	3	1,103				1,106
Net income .....				2,315			2,315
Translation adjustment .....					137		137
Balance at September 30, 1994 .....	8,273,207	83	18,271	(1,137)	109		17,326
Issuance of common stock, net of issuance cost of \$470 .....	1,207,500	12	23,540				23,552
Stock options exercised and related tax benefit, employee stock purchases...	86,005	1	914				915
Net income .....				5,629			5,629
Translation adjustment .....					50		50
Net unrealized gain on							

marketable securities .....						\$ 72	72
Balance at							
September 30, 1995 .....	9,566,712	96	42,725	4,492	159	72	47,544
Stock options exercised and related tax benefit, employee stock purchases...	135,837	1	2,599				2,600
Net income .....				10,046			10,046
Translation adjustment .....					(110)		(110)
Net unrealized gain on marketable securities .....						82	82
Balance at							
September 30, 1996 .....	9,702,549	\$97	\$45,324	\$ 14,538	\$ 49	\$ 154	\$ 60,162

</TABLE>

The accompanying notes are an integral part of the consolidated financial statements.

39

41

PROJECT SOFTWARE & DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Business

The Company's primary business is the development, marketing, sales and support of applications software used by business, government and other organizations to improve the productivity of facilities, plants and production equipment.

Basis of Presentation

The consolidated financial statements include the accounts of Project Software & Development, Inc. ("PSDI") and its majority-owned subsidiaries (collectively, the "Company"). All intercompany accounts and transactions have been eliminated. The consolidated financial statements of the Company for all periods presented in this report include the results and balances of an acquisition accounted for as pooling-of-interests.

Income per Share

Income per share is computed for each period based upon the weighted average number of common shares outstanding and dilutive common stock equivalents (using the treasury stock method). For purposes of this calculation, stock options are considered common stock equivalents in periods in which they have a dilutive effect. All share and per share data has been restated to account for businesses acquired as pooling of interests.

Pro forma adjustments to net income include an adjustment to exclude the expense of the cumulative deferred tax provision required on termination of S Corporation status. Fully diluted and primary income per share data are the same for each period presented.

Depreciation and Amortization

Property and equipment are stated at cost.

Depreciation is computed over the estimated useful lives of the assets as follows:

<TABLE>

<CAPTION>

Description	Estimated Useful Life
-----	-----
Computer equipment.....	3 years
Vehicles.....	3 years
Furniture and fixtures.....	5 years

</TABLE>

Leasehold improvements are amortized on the straight-line method over the shorter of their estimated useful life or term of the lease. Maintenance and repairs are charged to expense as incurred and betterments are capitalized. Upon retirement or sale, the cost of the assets disposed of and the related accumulated depreciation are removed from the accounts and any resulting gain or

loss is included in the determination of net income.

40

42

PROJECT SOFTWARE & DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Goodwill

The excess cost over net assets of acquired companies is being amortized over five years using the straight-line method of amortization.

Computer Software Costs

Computer software costs consist of internally developed and purchased or licensed software. Development costs incurred in the research and development of new software products and enhancements to existing products are expensed in the period incurred unless they qualify for capitalization under Statement of Financial Accounting Standards No. 86, "Accounting for the Cost of Computer Software to Be Sold, Leased or Otherwise Marketed." These costs are amortized on a straight-line basis over the estimated useful or market life of the software (generally, one to three years). In fiscal 1996, the Company changed the estimated useful life of its MAXIMO Enterprise product from three years to fifteen months to accurately reflect the lifecycles for new releases of this product. This change resulted in additional amortization expense of \$565,000. In fiscal 1995, the Company accelerated the amortization expense of its internally developed software related to its P/X product, which resulted in \$514,000 of additional expense.

Income Taxes

As of October 1, 1981, PSDI elected to become a Subchapter S corporation for federal income tax reporting purposes. Under this election, PSDI passed through to its stockholders as individual taxpayers, on a pro rata basis, each item of income (loss), deduction and tax credit. Accordingly, no federal income tax provision was required for PSDI. In those states that did not recognize Subchapter S status, state taxes were provided for and foreign taxes were provided where appropriate. On October 1, 1993, PSDI terminated its status as a Subchapter S corporation. (see Note B).

In 1993, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109), which requires an asset and liability approach for accounting and reporting for income taxes. SFAS 109 also requires a valuation allowance against net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. As permitted under SFAS 109, prior years' financial statements were not restated. The adoption of SFAS 109 did not have a material impact on the Company's financial position or results of operations.

The Company has not provided for the U.S. income tax on earnings of its foreign subsidiaries as it considers these earnings to be permanently reinvested. At September 30, 1996, the undistributed earnings of foreign subsidiaries were \$1,219,000.

41

43

PROJECT SOFTWARE & DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Revenue Recognition

The Company licenses its software products upon contract execution and shipment, provided that no significant vendor obligations remain outstanding and collection of the resulting receivable is deemed probable. Insignificant vendor obligations, if any, remaining after contract execution and shipment are accounted for either by deferring a pro rata portion of revenue for the remaining tasks or by accruing the costs related to the remaining obligations.

The revenue from maintenance contracts is recognized ratably over the term of the agreement, generally one year. Revenues from services and system implementations are recognized as the services are performed. Revenue from hardware sales is recognized upon shipment. To date, the Company's warranty and product return expenses have been immaterial.

Deferred Revenue

Deferred revenue includes revenues from fixed fee license agreements with payment terms greater than one year and maintenance contracts billed in advance.

## Foreign Currency

Assets and liabilities are translated at current exchange rates at the balance sheet dates. The translation adjustments made on translation of the balance sheet are recorded as a separate component of stockholders' equity. Revenues and expenses are translated into U.S. dollars at average exchange rates. Foreign currency transaction gains and losses are included in determining net income. The Company recorded losses of \$142,000, \$117,000 and \$76,000 for 1996, 1995 and 1994, respectively.

## Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with original maturities of three months or less to be cash equivalents. Cash equivalents consist primarily of money market funds, which are stated at cost, which approximates market.

## Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentration of credit risk consist primarily of temporary cash investments and accounts receivables.

The Company restricts investment of temporary cash investments to financial institutions with high credit standing. The Company has not experienced any losses on these investments to date. Credit risk on trade receivables is minimized as a result of the diverse nature of the Company's customer base. As of September 30, 1995, the Company had a receivable due from the U.S. Government, which represented 13% of the Company's accounts receivable balance. The Company collected all amounts due on this receivable in the normal course of business. The Company has not experienced significant losses related to accounts receivable from

42

44

PROJECT SOFTWARE & DEVELOPMENT, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

individual customers or groups of customers in a particular industry or geographic area. Due to these factors, no additional credit risk beyond amounts provided for collection losses is believed inherent in the Company's accounts receivable.

## Marketable Securities

In 1994, the Company adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS 115). The Company's marketable securities are classified as available-for-sale and are stated at their fair market value. The fair market value of marketable securities was determined based on quoted market prices. Unrealized gains and losses on securities classified as available-for-sale are reported as a separate component of stockholder's equity.

## Accounting Standards

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation" for fiscal years beginning after December 15, 1995. SFAS No. 123 prescribes accounting and reporting standards for all stock-based compensation plans, including employee stock options, restricted stock, and stock appreciation rights. SFAS No. 123 does not require companies to change their existing accounting for employee stock options under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" (the intrinsic value method) but requires pro forma disclosures of what net income and earnings per share would have been had the new fair value method been used. The Company has elected to continue following present accounting rules under APB Opinion No. 25 and will adopt the new disclosure provisions of SFAS No. 123 beginning in fiscal year 1997.

## Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

43

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

## B. INCOME TAXES:

The components of income before income taxes and extraordinary item and the historical related provision for income taxes consist of the following:

&lt;TABLE&gt;

&lt;CAPTION&gt;

(in thousands)	Year Ended September 30,		
	1996	1995	1994
<S>	<C>	<C>	<C>
Income before income taxes and extraordinary items:			
United States .....	\$ 15,484	\$ 8,240	\$ 3,531
Foreign .....	1,013	1,117	1,114
	-----	-----	-----
	\$ 16,497	\$ 9,357	\$ 4,645
	=====	=====	=====

(Liability Method)

## Current taxes:

Federal .....	5,291	3,146	1,188
State .....	1,075	765	317
Foreign .....	757	347	345
Foreign withholding taxes..	233	206	266
	-----	-----	-----
	\$ 7,356	\$ 4,464	\$ 2,116
	-----	-----	-----

## Deferred taxes:

Federal .....	(382)	(561)	233
State .....	(63)	(134)	4
Foreign .....	(460)	(41)	(23)
	-----	-----	-----
	(905)	(736)	214
	-----	-----	-----
Total .....	\$ 6,451	\$ 3,728	\$ 2,330
	=====	=====	=====

&lt;/TABLE&gt;

The provision for income taxes on a pro forma basis is as follows:

&lt;TABLE&gt;

&lt;CAPTION&gt;

Liability Method (in thousands)	Year Ended September 30,
	1994
<S>	<C>
Current taxes:	
Federal .....	1,188
State .....	317
Foreign .....	345
Foreign withholding taxes .....	266
	-----
	\$ 2,116
	=====
Deferred taxes:	
Federal .....	(53)
State .....	4
Foreign .....	(23)
	(72)
	-----
Total .....	\$ 2,044
	=====

&lt;/TABLE&gt;

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

The reconciliation of the Company's historical income tax provision to the statutory federal tax rate is as follows:

	Year Ended September 30,		
	-----		
	1996	1995	1994
	----	----	----
<S>	<C>	<C>	<C>
Statutory federal tax rate .....	35.0%	34.0%	34.0%
State taxes, net of federal tax benefit .....	4.3	5.0	4.6
Foreign withholding taxes .....	1.4	0.4	5.8
Utilization of net operating loss carryforwards .....	(0.3)	(1.3)	(3.7)
Effect of termination of S corporation status .....	--	--	6.2
Other .....	(1.3)	1.7	3.3
	----	----	----
	39.1%	39.8%	50.2%
	=====	=====	=====

&lt;/TABLE&gt;

The components of the historical deferred tax provision are:

	Year Ended September 30,	
	-----	
(in thousands)	1996	1995
	----	----
<S>	<C>	<C>
Depreciation .....	\$ 47	\$ (69)
Allowance for Doubtful Accounts .....	(283)	(188)
Software Capitalization .....	(121)	(434)
Net Operating Losses .....	(564)	--
Other .....	16	(80)
	----	----
	\$ (905)	\$ (771)
	=====	=====

&lt;/TABLE&gt;

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

The components of the deferred tax assets and liabilities are as follows:

	Year Ended September 30,	
	-----	
(in thousands)	1996	1995
	----	----
<S>	<C>	<C>
Deferred Tax Assets:		
Deferred Revenue .....	\$ 112	\$ 157
Allowance for Doubtful Accounts .....	633	350
Accrued Vacation .....	101	61
Other .....	157	198
Net Operating Loss Carryforwards .....	585	451
Valuation Allowance .....	(21)	(451)
	----	----
	\$ 1,567	\$ 766
	=====	=====
Deferred Tax Liabilities:		
Software Capitalization .....	\$ 141	\$ 262
Other Liabilities .....	32	15
	----	----
	\$ 173	\$ 277
	----	----
Net Deferred Tax Asset .....	\$ 1,394	\$ 489

</TABLE>

=====

=====

At September 30, 1996, the Company had approximately \$397,000 of net operating loss carryforwards and \$94,000 of credit carryforwards in certain foreign jurisdictions. The foreign net operating loss carryforwards have an indefinite life. Domestic net operating loss carryforwards at September 30, 1996, were approximately \$862,000 and will expire in the year 2011.

The French tax authorities are examining the French income tax returns for the fiscal years ended 1989 through 1991. The French tax authorities have proposed an adjustment for which the Company is in disagreement and has protested. Management does not believe that any additional tax liability for such periods which might arise out of such examination would have a material adverse effect on the results of operations or financial position of the Company.

C. ACQUISITIONS:

On December 27, 1995, the Company acquired the shares of its Swedish distributor, Planteringssystem och Datorer I Norden AB for the sum of \$517,000. In addition, the Company is obligated to pay the seller an earnout based on revenue target achievement for the fiscal year ended September 30, 1996. The total earnout at September 30, 1996 was \$147,000. The transaction was accounted for using the purchase method of accounting. The resulting goodwill is being amortized on a straight-line basis over 5 years. This acquisition was deemed to be immaterial for presentation of pro forma information.

On March 1, 1996, the Company acquired certain assets and assumed specific liabilities of the HIS department of debis Systemhaus Standard - Software - Produkte GmbH for the sum of \$646,000. In addition, the Company will pay an earnout based on

PROJECT SOFTWARE & DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

revenue target achievement for the twelve months ended December 31, 1996. The earnout is estimated to be \$260,000 at September 30, 1996. The transaction was accounted for using the purchase method of accounting. The resulting goodwill is being amortized on a straight-line basis over 5 years. This acquisition was deemed to be immaterial for presentation of pro forma information.

On March 1, 1996, the Company acquired the outstanding common stock of Maintenance Automation Corporation ("MAC"), a developer of PC-based maintenance management software, in exchange for the issuance of 368,946 shares of common stock. The transaction has been accounted for as a pooling-of-interests. Costs of the acquisition were \$965,000. The Company's consolidated financial statements for all periods presented have been restated to include MAC. MAC's fiscal year for financial reporting purposes was changed from December 31 to September 30 for the period ended September 30, 1995. MAC's results of operations for the nine-month period ended September 30, 1995 and twelve-months ended December 31, 1994 have been included in the Company's 1995 and 1994 results, respectively. Accordingly, MAC's operations for the months ended October through and including December 1994 have not been included in the Company's September 30, 1995 results. Revenues and net income for MAC for October through and including December 1994 were \$1,083,000 and \$78,300, respectively, and have been included in the Company's September 30, 1994 results.

The following information shows revenue and net income of the separate companies during the periods preceding the combination. Adjustments recorded to conform the accounting policies of the companies were not material to the consolidated financial statements.

<TABLE>  
<CAPTION>

	Quarter Ended December 31,	Year Ended September 30,	
	-----	-----	-----
(in thousands)	1995	1995	1994
	-----	-----	-----
<S>	<C>	<C>	<C>
Revenue:			
PSDI .....	\$ 14,215	\$ 46,293	\$ 33,604
MAC .....	1,972	4,079	3,149
	-----	-----	-----

Combined .....	\$ 16,187	\$ 50,372	\$ 36,753
	-----	-----	-----
Historical Net Income (loss):			
PSDI .....	\$ 2,402	\$ 6,322	\$ 2,706
MAC .....	(275)	(693)	(391)
	-----	-----	-----
Combined .....	\$ 2,127	\$ 5,629	\$ 2,315
	-----	-----	-----

</TABLE>

47

49

PROJECT SOFTWARE & DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

D. LEASED EQUIPMENT OBLIGATION:

The Company acquired computer equipment and vehicles under capital lease agreements which expire at various dates through December 31, 1996. The capitalized cost of the leased equipment and vehicles was \$199,000 and \$279,000 with related accumulated amortization of \$183,000 and \$239,000 at September 30, 1996 and 1995, respectively.

E. MARKETABLE SECURITIES:

Marketable equity and debt securities available for current operations are classified in the balance sheet as current assets. It is the Company's intention that all securities held at the balance sheet date will be sold within one year based upon historical experience to date. Dividend and interest income, including amortization of premium and discount arising at acquisition, are included in other income. The unrealized holding gains and (losses) for the year ended September 30, 1996 were \$359,000 and \$(275,000), respectively. The unrealized holding gains and (losses) for the year ended September 30, 1995 were \$80,000 and \$(8,000), respectively. As of September 30, 1996, all marketable securities were classified as available for sale and include the following:

<TABLE>

<CAPTION>

(in thousands)	Amortized Cost	Fair Market Value
	-----	-----
<S>	<C>	<C>
1996:		
U.S. Government securities	\$17,000	\$17,412
Tax exempt municipal securities	19,267	19,186
Corporate debt securities	200	200
	-----	-----
	\$36,467	\$36,798
	=====	=====

</TABLE>

<TABLE>

<CAPTION>

(in thousands)	Amortized Cost	Fair Market Value
	-----	-----
<S>	<C>	<C>
1995:		
U.S. Government securities	\$15,987	\$16,116
Tax exempt municipal securities	11,164	11,209
Corporate debt securities	200	200
Repurchase agreement	8,500	8,500
	-----	-----
	\$35,851	\$36,205
	=====	=====

</TABLE>

48

50

PROJECT SOFTWARE & DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

F. PROPERTY AND EQUIPMENT:

Property and equipment are stated at cost and consist of the following:



<TABLE>  
<CAPTION>

(in thousands)	Year Ended September 30,	
	1996	1995
<S>	<C>	<C>
Computer equipment .....	\$ 8,686	\$ 6,712
Vehicles .....	397	397
Furniture and fixtures .....	3,372	2,317
Leasehold improvements .....	1,980	1,907
	-----	-----
	14,435	11,333
Less accumulated depreciation and amortization.....	(10,261)	(8,942)
	-----	-----
	\$ 4,174	\$ 2,391
	=====	=====

</TABLE>

Depreciation and amortization expense was \$1,459,000, \$1,149,000 and \$866,000 for 1996, 1995 and 1994, respectively.

G. GOODWILL

The Company's excess of purchase cost over the fair value of net assets purchased of businesses acquired was \$2,100,000 for 1996. Amortization expense was \$268,000 for 1996. There were no businesses acquired in 1995 or 1994.

H. ACCRUED COMPENSATION:

A summary of accrued compensation consists of the following:

<TABLE>  
<CAPTION>

(in thousands)	Year Ended September 30,	
	1996	1995
<S>	<C>	<C>
Accrued bonus .....	\$1,778	\$1,884
Accrued 401(k) Company contribution .....	133	201
Accrued payroll .....	140	11
Accrued sales commissions .....	2,547	1,333
Accrued vacation pay .....	409	285
	-----	-----
	\$5,007	\$3,714
	=====	=====

</TABLE>

I. COMMITMENTS AND CONTINGENCIES:

The Company leases its office facilities under operating lease agreements which expire at various dates through September 30, 2006. The Company pays all insurance, utilities, and pro rated

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

portions of any increase in certain operating expenses and real estate taxes. The Company has an option to extend the lease for its headquarters for two successive five-year periods. Rent expense under these leases aggregated \$3,033,000, \$2,649,000 and \$2,662,000 for 1996, 1995 and 1994 respectively.

The operating leases provide for minimum aggregate future rentals as of September 30, 1996 as follows:

<TABLE>

(in thousands)	<C>
<S>	<C>
1997 .....	\$2,557
1998 .....	1,120
1999 .....	538
2000 .....	358
2001 and thereafter .....	1,547

-----  
\$6,120  
=====

</TABLE>

At September 30, 1996, the Company is also obligated to pay \$480,000 in 1997 under guaranteed royalty arrangements.

The Company is not party to any legal proceedings the outcome of which, in the opinion of management, would have a material adverse effect on the Company's operations or financial condition.

J. EMPLOYEE BENEFITS:

Cash or Deferred Plan

The PSDI Cash or Deferred Plan (the "Plan") is a defined contribution plan available to substantially all of PSDI's domestic employees. The Plan was established in 1988 under Section 401(a) of the Internal Revenue Code. Under the Plan, employees may make voluntary contributions based on a percentage of their pretax earnings.

Effective January 1, 1993, the Plan was amended to provide for both a guaranteed and a discretionary contribution made by PSDI. Amounts charged to expense for this Plan in 1996, 1995 and 1994 were \$40,000, \$237,000, and \$107,000, respectively.

Incentive and Nonqualified Stock Option Plan

On March 10, 1994, the Board of Directors of the Company adopted the 1994 Incentive and Nonqualified Stock Option Plan (the "Option Plan") that provided for the grant of 900,000 nonqualified and incentive stock options to directors and employees. On January 25, 1996, the Board of Directors of the Company voted to increase the number of shares of Common Stock that may be issued from 900,000 to 1,800,000. The exercise price of Incentive Options must be at least equal to the fair market value on the date of grant. The exercise price of Nonqualified Options must not be less than 85% of the fair market value on the date of grant. These options vest in equal annual installments over periods of two to four years, commencing on December 31, 1994.

50

52

PROJECT SOFTWARE & DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Stock option activity is summarized as follows:

<TABLE>

<CAPTION>

	Number of Shares -----	Price Range -----
<S>	<C>	<C>
1994		
Granted	541,500	\$ 5.67 - \$ 6.33
Canceled	(8,100)	\$ 5.67 - \$ 6.33
Outstanding at September 30, 1994	533,400	\$ 5.67 - \$ 6.33
Available for grant at September 30, 1994	366,600	
1995		
Granted	303,750	\$15.50 - \$18.00
Canceled	(17,820)	\$ 5.67 - \$18.00
Exercised	(75,200)	\$ 5.67 - \$ 6.33
Outstanding at September 30, 1995	744,130	\$ 5.67 - \$18.00
Exercisable at September 30, 1995	70,450	\$ 5.67 - \$ 6.33
Available for grant at September 30, 1995	80,670	
1996		
Granted	322,850	\$23.75 - \$31.00
Canceled	(10,868)	\$ 5.67 - \$31.00
Exercised	(126,708)	\$ 5.67 - \$18.00
Outstanding at September 30, 1996	929,404	\$ 5.67 - \$31.00
Exercisable at September 30, 1996	167,812	\$ 5.67 - \$18.00
Available for grant at September 30, 1996	668,688	

Employee Stock Purchase Plan

On March 10, 1994, the Board of Directors of the Company adopted the 1994 Employee Stock Purchase Plan that provides for a maximum issuance of 225,000 shares of Common Stock for purchase by eligible employees at 85% of the lower of the fair market value of the Company's Common Stock on either the first or last day of the annual offering period. No compensation expense is recorded in connection with the plan. During fiscal year ended 1996, employees purchased 9,129 shares at a price of \$14.73. During fiscal year ended 1995, employees purchased 10,800 shares at a price of \$5.81.

PROJECT SOFTWARE & DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

K. STOCKHOLDERS' EQUITY:

Preferred Stock

On March 11, 1994, the issuance of up to 1,000,000 shares of preferred stock, \$0.01 par value was authorized. The Board of Directors has the authority to issue the preferred stock in one or more series and to fix rights, preferences, privileges and restrictions, including dividends, and the number of shares constituting any series and the designation of such series.

Stock Splits

On March 11, 1994, the Company effected a 3.5-for-1 stock split of its outstanding Common Stock and the authorized number of Common Stock was increased to 15,350,000. On June 15, 1995, the Company's Board of Directors declared a 3-for-2 stock split in the form of a stock dividend, which was paid on July 6, 1995 to holders of a record on June 26, 1995. All share and per share data has been restated to reflect these stock splits as though they had occurred at the beginning of the initial period presented.

Common Stock

On April 28, 1994, the Company completed its initial public offering ("IPO") and sold 2,250,000 shares of Common Stock, receiving net proceeds of approximately \$11,000,000, after underwriting discounts and other expenses of the offering. Simultaneously with the closing of the IPO, all outstanding warrants were exercised for 299,250 shares of Common Stock.

On July 18, 1995, the Company completed a public offering of 1,207,500 shares of Common Stock at a price of \$21.00 per share. The net proceeds of the offering to the Company, after underwriting discounts and other expenses, were approximately \$23,550,000.

L. DEBT AND CREDIT AGREEMENTS:

In March 1996, the Company extended its \$5,000,000 unsecured line of credit agreement with Chase Manhattan Bank, N.A. which will expire on March 31, 1997. There was no outstanding balance on this line of credit at September 30, 1996.

PSDI UK Limited has a line of credit agreement authorized to a limit of pounds sterling 200,000, payable upon demand with interest at the bank's base rate plus 2 1/4%. The line of credit is collateralized by all business assets of PSDI UK Limited. There was no outstanding balance on the PSDI UK Limited line of credit at September 30, 1996 and 1995.

During 1995, Maintenance Automation Corporation had a line of credit agreement with a bank which provided for borrowings up to a maximum of \$475,000 with interest payable at the prime rate plus 2%. The amounts outstanding on this line of credit at September 30, 1995 was \$325,000. The Company paid all outstanding amounts

PROJECT SOFTWARE & DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

due on this line in March 1996 and terminated this line of credit agreement.

M. SUPPLEMENTAL CASH FLOW DISCLOSURES:

Cash paid for interest and taxes were as follows:

<TABLE>  
<CAPTION>

(in thousands)	Year Ended September 30,		
	1996	1995	1994
<S>	<C>	<C>	<C>
Interest .....	\$ 38	\$ 49	\$ 303
Income taxes .....	6,175	3,393	1,141

During 1994, included in interest expense is \$105,000 of prepayment penalty related to the subordinated notes.

Non-cash financing activities were as follows:

<TABLE>  
<CAPTION>

(in thousands)	Year Ended September 30,		
	1996	1995	1994
<S>	<C>	<C>	<C>
Capital lease obligations .....	\$ --	\$395	\$ 402
Warrants exercised in exchange for subordinated notes .....	--	--	1,083
Exercise of mandatorily redeemable warrants .....	--	--	21

Acquisitions of businesses were as follows:

<TABLE>  
<CAPTION>

(in thousands)	Year Ended September 30,		
	1996	1995	1994
<S>	<C>	<C>	<C>
Fair value of assets acquired ...	\$2,729	\$ --	\$ --
Fair value of liabilities assumed	892	--	--
Net cash payments .....	\$1,837	\$ --	\$ --

PROJECT SOFTWARE & DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

N. GEOGRAPHIC DATA AND MAJOR CUSTOMERS:

A summary of the Company's operations by geographical area was as follows:

<TABLE>  
<CAPTION>

(in thousands)	Year Ended September 30,		
	1996	1995	1994
<S>	<C>	<C>	<C>
Revenues:			
The Americas			
US .....	\$ 43,595	\$ 31,032	\$ 22,177
Canada .....	2,089	1,615	1,372
Export sales .....	3,091	2,307	1,452
Intercompany revenues .	8,676	5,878	3,259
	\$ 57,451	\$ 40,832	\$ 28,260
Europe .....	20,224	13,138	9,724
Asia/Pacific .....	4,330	2,280	2,028
Consolidating eliminations..	(8,676)	(5,878)	(3,259)

	\$ 73,329	\$ 50,372	\$ 36,753
Income (loss) from operations:			
US .....	13,671	7,338	3,484
Canada .....	56	361	254
Europe .....	756	659	954
Asia/Pacific .....	147	19	(121)
Consolidating eliminations ..	(24)	61	131
	\$14,606	\$ 8,438	\$ 4,702
Cash and cash equivalents:			
US .....	3,657	6,764	13,135
Canada .....	151	483	136
Europe .....	4,846	1,747	905
Asia/Pacific .....	443	352	431
	\$ 9,097	\$ 9,346	\$ 14,607
Accounts receivable, net:			
US .....	13,940	8,939	5,237
Canada .....	498	414	375
Europe .....	10,207	4,002	3,311
Asia/Pacific .....	2,385	567	413
	\$ 27,030	\$ 13,922	\$ 9,336
Identifiable assets:			
US .....	60,979	56,593	22,388
Canada .....	662	922	532
Europe .....	18,828	6,398	4,866
Asia/Pacific .....	3,005	1,045	933
Consolidated eliminations ..	2	2	(7)
	\$ 83,476	\$ 64,960	\$ 28,712

</TABLE>

54

56

PROJECT SOFTWARE & DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

The Company operates in one business segment: software business applications. The Company has subsidiaries in foreign countries which sell the Company's products and services in their respective geographic areas from which the sales are made. Intercompany revenues primarily represent shipments of software to international subsidiaries and are eliminated from consolidated revenues. Income (loss) from operations excludes interest income, interest expense, provision for income taxes and transaction gains and losses.

No single customer accounted for 10% or more of total revenues in the year ended September 30, 1996, 1995 and 1994.

O. RELATED PARTY TRANSACTIONS:

The Company leases its corporate headquarters pursuant to a 13 year lease which expires on December 31, 1997, from a partnership in which the Founder and Director of the Company has a 1.69% limited partnership interest. Rent payments to the partnership for 1996, 1995 and 1994 totaled \$1,650,000 \$1,480,000 and \$1,661,000, respectively. The base rent payable under this lease currently is substantially in excess of market rates. The Company believes that the base rent payable under the lease represented a market rent at the time the lease was established.

P. COMPUTER SOFTWARE COSTS:

Computer software costs consists of the following:

<TABLE>

<CAPTION>

(in thousands)	Year Ended September 30,	
	1996	1995
<S>	<C>	<C>
Purchased software .....	\$ 480	\$ 301

Purchased and licensed software for development.....	494	223
Internally developed software .....	5,012	4,378
	-----	-----
	5,986	4,902
Less accumulated amortization .....	(5,199)	(4,113)
	-----	-----
	\$ 787	\$ 789
	-----	-----

</TABLE>

Amortization expense for 1996, 1995 and 1994 was \$1,078,000, \$1,239,000 and \$1,130,000, respectively.

55

57

PROJECT SOFTWARE & DEVELOPMENT, INC.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

<TABLE>  
<CAPTION>

COL. A	COL. B	COL. C		COL. D	COL. E
-----	-----	-----		-----	-----
		ADDITIONS			
		-----			
	BALANCE AT	CHARGED TO	CHARGED TO		BALANCE
	BEGINNING	COSTS AND	OTHER ACCOUNTS	DEDUCTIONS	END OF
	OF PERIOD	EXPENSES			PERIOD
	-----	-----	-----	-----	-----
<S>	<C>	<C>		<C>	<C>
YEAR ENDED SEPTEMBER 30, 1996	\$1,346,000	\$1,040,000		\$432,000	\$1,954,000
Allowance for doubtful accounts					
YEAR ENDED SEPTEMBER 30, 1995					
Allowance for doubtful accounts	\$ 854,000	\$1,409,000		\$917,000	\$1,346,000
YEAR ENDED SEPTEMBER 30, 1994					
Allowance for doubtful accounts	\$ 430,000	\$ 802,000		\$378,000	\$ 854,000

</TABLE>

56

58

EXHIBIT INDEX

<TABLE>  
<CAPTION>

EXHIBIT NO.	DESCRIPTION	PAGE
---	-----	----
<S>	<C>	
3.1	Amended and Restated Articles of Organization of the Company (included as Exhibit 3.3 to the Company's Registration Statement on Form S-1, Registration No. 33-76420, and incorporated herein by reference)	
3.2	Restated By-Laws of the Company, as amended	
9.1	1996 Daniels Voting Trust Agreement dated August 19, 1996 among Susan H. Daniels, Robert L. Daniels and Robert L. Daniels, as Trustee	
10.1	Underwriting Agreement, dated July 13, 1995, by and among the Company, Robertson, Stephens & Company, L.P., Montgomery Securities and First Albany Corporation, as representatives of the several underwriters and certain shareholders of the Company named in Schedule B thereto. (included as Exhibit 10.1 to the Company's Registration Statement on Form S-1, Registration No. 33-76420, and incorporated herein by reference)	
10.2	Forms of Lock-Up Agreements (included as Exhibit 10.4 to the Company's Registration Statement on Form S-1, Registration No. 33-76420, and incorporated herein by reference)	
10.3	1996 Executive Bonus Plan (included as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 1995, Commission File No. 0-23852 and incorporated herein by reference)	
10.5	Amended and Restated 1994 Incentive and	

Nonqualified Stock Option Plan, as approved by the stockholders of the Company by written consent dated April 15, 1994 (included as Exhibit 10.16 to the Company's Registration Statement on Form S-1, Registration No. 33-76420, and incorporated herein by reference)

- 10.6 1994 Employee Stock Purchase Plan, as amended
- 10.7 Agreement and Plan of Merger, dated as of March 1, 1996, by and among the Company, Toolbox Acquisition Corp., Maintenance Automation Corporation, Johnson Controls, Inc., Eli G. Katz, Phyllis S. Katz, Mitchell B. Knecht, Heidi D. Knecht, Nicholas E. Meola, Naomi R. Meola, Johnson Controls, Inc. and Eli G. Katz, as agent (included as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996,

</TABLE>

59

<TABLE>

<S>

<C>

- 10.8 File No. 0-23852, and incorporated herein by reference)  
Escrow Agreement, dated as of March 1, 1996, by and among the Company, Toolbox Acquisition Corp., Maintenance Automation Corporation, Johnson Controls, Inc., Eli G. Katz, Phyllis S. Katz, Mitchell B. Knecht, Heidi D. Knecht, Nicholas E. Meola, Naomi R. Meola, Johnson Controls, Inc. and Eli G. Katz, as agent (included as Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996, File No. 0-23852, and incorporated herein by reference)
- 10.9 Registration Rights Agreement, dated as of March 1, 1996, by and among the Company, Toolbox Acquisition Corp., Maintenance Automation Corporation, Johnson Controls, Inc., Eli G. Katz, Phyllis S. Katz, Mitchell B. Knecht, Heidi D. Knecht, Nicholas E. Meola, Naomi R. Meola, Johnson Controls, Inc. and Eli G. Katz, as agent (included as Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996, File No. 0-23852, and incorporated herein by reference)
- 10.10 Directors and Officers Liability and Company Reimbursement Policy for the Company issued by Lexington Insurance Company for the period of March 18, 1996 through March 18, 1997 (included as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996, File No. 0-23852, and incorporated herein by reference)
- 10.11 Directors and Officers Liability and Company Reimbursement Policy for the Company issued by Zurich Insurance Company for the period of March 18, 1996 through March 18, 1997 (included as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996, File No. 0-23852, and incorporated herein by reference)
- 10.12 Form of PSDI 1994 Authorized Value Added Reseller Agreement (included as Exhibit 10.22 to the Company's Registration Statement on Form S-1, Registration No. 33-76420, and incorporated herein by reference)
- 10.13 Reseller Agreement dated May 20, 1994 between the Company and Oracle Corporation (included as Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, Commission File No. 0-23852, and incorporated herein by reference)
- 10.14 Employee Separation Agreement dated as of July 31, 1996 between the Company and Dean F. Goodermote

</TABLE>

60

<TABLE>

<S>

<C>

- 11.1 Statement re computation of per share earnings

21.1	Subsidiaries of the Company
23.1	Consent of Coopers & Lybrand L.L.P.
27.1	Financial Data Schedule
99.	Certain Factors

</TABLE>



BY-LAWS  
-----  
of  
PROJECT SOFTWARE & DEVELOPMENT, INC.  
-----

ARTICLE I  
-----  
Articles of Organization  
-----

The name and purposes of the Corporation shall be as set forth in the Articles of Organization. These By-Laws, the powers of the Corporation and its Directors and Stockholders, and all matters concerning the conduct and regulation of the business of the Corporation, shall be subject to such provisions in regard thereto, if any, as are set forth in the Articles of Organization. All references in these By-Laws to the Articles of Organization shall be construed to mean the Articles of Organization of the Corporation as from time to time amended or restated.

ARTICLE II  
-----  
Fiscal Year  
-----

Except as from time to time otherwise determined by the Directors, the fiscal year of the Corporation shall begin on the first day of October in each year and end on the last day of September next following.

ARTICLE III  
-----  
Meetings of Stockholders  
-----

Section 3.1. Annual Meetings.  
-----

The annual meeting of Stockholders shall be held on the second Tuesday in February of each year (or if that be a legal holiday in the place where the meeting is to be held, on the next succeeding full business day) at 10:00 a.m. unless a different hour is fixed by the Board of Directors or the President. The purposes for which the annual meeting is to be held, in addition to those prescribed by law, by the Articles of Organization or these By-Laws, may be specified by the Board of Directors or the President. If no annual meeting has been held on the date fixed above, or by adjournment therefrom, a special

meeting in lieu thereof may be held and any action taken at such special meeting shall have the same force and effect as if taken at the annual meeting.

Notwithstanding any other provision in these By-Laws, the Board of Directors may change the date, time and location of any annual or special meeting of the Stockholders (other than a special meeting called upon the written application of Stockholders (a "Meeting Requested by Stockholders")) prior to the time for such meeting, including, without limitation, by

2

postponing or deferring the date of any such annual or special meeting (other than a Meeting Requested by Stockholders) previously called or by cancelling any special meeting previously called (other than a Meeting Requested by Stockholders).

Section 3.2. Special Meetings.

-----

(a) Subject to the rights of the holders of any class or series of preferred stock of the Corporation, special meetings of the Stockholders entitled to vote may be called by the Board of Directors or the Chairman of the Board of Directors or the President.

(b) If the Corporation shall not have a class of voting stock registered under the Securities Exchange Act of 1934, as amended, special meetings of the Stockholders entitled to vote shall be called by the Clerk, or in case of the death, absence, incapacity or refusal of the Clerk, by any other officer, upon written application of one or more Stockholders who are entitled to vote and who hold at least ten percent (10%) in interest of the capital stock entitled to vote at the meeting.

(c) If the Corporation shall have a class of voting stock registered under the Securities Exchange Act of 1934, as amended, special meetings of the Stockholders entitled to vote shall be called by the Clerk, or in case of the death, absence, incapacity or refusal of the Clerk, by any other officer, upon written application of one or more Stockholders who are entitled to vote and who hold at least eighty percent (80%) in interest of the capital stock entitled to vote at the meeting.

Section 3.3. Place of Meetings.

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All meetings of the Stockholders shall be held at the principal office of the Corporation in Massachusetts, unless a different place within Massachusetts or, if permitted by the Articles of Organization, elsewhere within the United States is designated by the President or by a majority of the Directors acting

by vote or by written instrument or instruments signed by them. Any adjourned session of any meeting of the Stockholders shall be held at such place within Massachusetts or, if permitted by the Articles of Organization, elsewhere within the United States as is designated in the vote of adjournment.

Section 3.4. Notice of Meetings.

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A written notice of the place, date and hour of all meetings of Stockholders stating the purposes of the meeting shall be given at least ten (10) days before the meeting to each Stockholder entitled to vote thereat and to each Stockholder who is otherwise entitled by law, the Articles of Organization or these By-Laws to such notice, by leaving such notice with him or at his residence or usual place of business, or by mailing it, postage prepaid, and addressed to such Stockholder at his address as it appears in the records of the Corporation. Such notice shall be given by the Clerk, or in case of the death, absence, incapacity, or refusal of the Clerk, by any other officer or by a

person designated either by the Clerk, by the person or persons calling the meeting or by the Board of Directors. If notice is given by mail, such notice shall be deemed given when dispatched. If notice is not given by mail and is given by leaving such notice at the Stockholder's residence or usual place of business, it shall be deemed given when so left. Whenever notice of a meeting is required to be given to a Stockholder under any provision of law, of the Articles of Organization, or of these By-laws, a written waiver thereof, executed before or after the meeting by such Stockholder or his attorney thereunto authorized, and filed with the records of the meeting, shall be deemed equivalent to such notice. Every Stockholder who is present at a meeting (whether in person or by proxy) shall be deemed to have waived notice thereof. A waiver of notice of any meeting need not specify the purposes of such meeting.

Section 3.5. Notice of Stockholder Business at a Meeting of the

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Stockholders.

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The following provisions of this Section 3.5 shall apply to the conduct of business at any meeting of the Stockholders. (As used in this Section 3.5, the term annual meeting shall include a special meeting in lieu of an annual meeting.)

(a) At any meeting of the Stockholders, only such business shall be conducted as shall have been brought before the meeting (i) pursuant to the Corporation's notice of meeting, (ii) by or at the direction of the Board of

Directors or (iii) by any Stockholder of the Corporation who is a Stockholder of record at the time of giving of the notice provided for in paragraph (b) of this Section 3.5, who is entitled to vote at such meeting and who complies with the notice procedures set forth in paragraph (b) of this Section 3.5.

(b) For business to be properly brought before any meeting of the Stockholders by a Stockholder pursuant to clause (iii) of paragraph (a) of this Section 3.5, the Stockholder must have given timely notice thereof in writing to the Clerk of the Corporation. To be timely, a Stockholder's notice must be delivered to or mailed to and received at the principal executive offices of the Corporation (i) in the case of an annual meeting, not less than sixty (60) days prior to the date specified in Section 3.1 above for such annual meeting, regardless of any postponements, deferrals or adjournments of that meeting to a later date; provided, however, that if a special meeting in lieu of annual meeting of stockholders is to be held on a date prior to the date specified in Section 3.1 above, and if less than seventy (70) days' notice or prior public disclosure of the date of such special meeting in lieu of annual meeting is given or made, notice by the Stockholder to be timely must be so delivered or received not later than the close of business on the tenth (10th) day following the earlier of the date on which notice of the date of such special meeting in lieu of annual meeting was mailed or the day on which public disclosure was made of the date

-3-

4

of such special meeting in lieu of annual meeting; and (ii) in the case of a special meeting (other than a special meeting in lieu of an annual meeting), not later than the tenth (10th) day following the earlier of the day on which notice of the date of the scheduled meeting was mailed or the day on which public disclosure was made of the date of the scheduled meeting. A Stockholder's notice to the Clerk shall set forth as to each matter the Stockholder proposes to bring before the meeting (w) a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting, (x) the name and address, as they appear on the Corporation's books, of the Stockholder proposing such business, the name and address of the beneficial owner, if any, on whose behalf the proposal is made, and the name and address of any other Stockholders or beneficial owners known by such Stockholder to be supporting such proposal, (y) the class and number of shares of the Corporation which are owned beneficially and of record by such Stockholder of record, by the beneficial owner, if any, on whose behalf the proposal is made and by any other Stockholders or beneficial owners known by such Stockholder to be supporting such proposal, and (z) any material interest of such Stockholder of record and/or of the beneficial owner, if any, on whose behalf the proposal is made, in such proposed business and any material interest of any other Stockholders or beneficial owners known by such Stockholder to be supporting such proposal in

such proposed business, to the extent known by such Stockholder.

(c) Notwithstanding anything in these By-Laws to the contrary, no business shall be conducted at a meeting except in accordance with the procedures set forth in this By-Law. The person presiding at the meeting shall, if the facts warrant, determine that business was not properly brought before the meeting and in accordance with the procedures prescribed by these By-Laws, and if he should so determine, he shall so declare at the meeting and any such business not properly brought before the meeting shall not be transacted. Notwithstanding the foregoing provisions of this By-Law, a Stockholder shall also comply with all applicable requirements of the Securities Exchange Act of 1934, as amended (or any successor provision), and the rules and regulations thereunder with respect to the matters set forth in this By-Law.

(d) This provision shall not prevent the consideration and approval or disapproval at the meeting of reports of officers, Directors and committees of the Board of Directors, but, in connection with such reports, no new business shall be acted upon at such meeting unless properly brought before the meeting as herein provided.

-4-

5

Section 3.6. Quorum.

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At any meeting of the Stockholders, a quorum shall consist of a majority in interest of all stock issued and outstanding and entitled to vote at the meeting; except that if two or more classes or series of stock are outstanding and entitled to vote on any matter as separate classes or series, then in case of each such class or series a quorum for that matter shall consist of a majority in interest of all stock of that class or series issued, outstanding and entitled to vote, except when a larger quorum is required by law, by the Articles of Organization or by these By-Laws. Stock owned directly or indirectly by the Corporation, if any, shall not be deemed outstanding for this purpose. Any meeting of the Stockholders may be adjourned from time to time to any other time and to any other place by a majority of the votes properly cast upon the question, whether or not a quorum is present, and the meeting may be held as adjourned without further notice. Any business which could have been transacted at any meeting of the Stockholders as originally called may be transacted at any adjournment thereof.

Section 3.7. Action by Vote.

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When a quorum is present at any meeting, a plurality of the votes properly cast for election to any office shall elect to such office, and a majority of the votes properly cast (or if there are two or more classes of stock entitled to vote as separate classes, then in the case of each such class, a majority of the stock of that class present or represented and entitled to vote and voting) upon any question other than an election to an office shall decide the question, except when a larger vote is required by law, by the Articles of Organization or by these By-Laws. No ballot shall be required for any election unless requested by a Stockholder present or represented at the meeting and entitled to vote in the election. The Corporation shall not directly or indirectly vote any share of its stock. Nothing in this section shall be construed to limit the right of the Corporation to vote any shares of stock held directly or indirectly by it in a fiduciary capacity.

Section 3.8. Voting.

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Stockholders entitled to vote shall have one vote for each share of stock entitled to vote held by them of record according to the records of the Corporation and a proportionate vote for a fractional share, unless otherwise provided or required by law, the Articles of Organization or these By-Laws. The vote for each share of jointly-held stock shall be cast in accordance with the decision of a majority of the Stockholders jointly holding said share.

-5-

6

Section 3.9. Action by Consent.

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Any action required or permitted to be taken at any meeting of the Stockholders may be taken without a meeting if all Stockholders entitled to vote on the matter consent to the action in writing and the written consents are filed with the records of the meetings of Stockholders. Such consents shall be treated for all purposes as a vote at a meeting.

Section 3.10. Proxies.

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Stockholders entitled to vote may vote either in person or by proxy in writing dated not more than six (6) months before the meeting named therein, which proxies shall be filed with the Clerk or other person responsible to record the proceedings of the meeting before being voted. Unless otherwise specifically limited by their terms, such proxies shall entitle the holders thereof to vote at any adjournment of such meeting but shall not be valid after the final adjournment of such meeting. Proxies need not be sealed or attested.

Notwithstanding the foregoing, a proxy coupled with an interest sufficient in law to support an irrevocable power, including, without limitation, an interest in the stock or in the Corporation generally, may be made irrevocable if it so provides, need not specify the meeting to which it relates, and shall be valid and enforceable until the interest terminates, or for such shorter period as may be specified in the proxy. A proxy with respect to stock held in the name of two or more persons shall be valid if executed by any one of them unless at or prior to exercise of the proxy the Corporation receives a specific written notice to the contrary from any one of them. A proxy purporting to be executed by or on behalf of a Stockholder shall be deemed valid unless challenged at or prior to its exercise and the burden of proving invalidity shall rest on the challenger.

Section 3.11. Conduct of Business.  
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The Chairman of the Board of Directors or his designee, or, if there is no Chairman of the Board or such designee, then the President or his designee, or, if the office of President shall be vacant, then a person appointed by a majority of the Board of Directors, shall preside at any meeting of Stockholders as the chairman of the meeting. In addition to his powers pursuant to Section 3.5(c), the person presiding at any meeting of Stockholders shall determine the order of business and the procedures at the meeting, including such regulation of the manner of voting and the conduct of discussion as seem to him in order.

-6-

7

ARTICLE IV  
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Directors  
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Section 4.1. Powers.  
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The business of the Corporation shall be managed by a Board of Directors who shall have and may exercise all the powers of the Corporation except as otherwise reserved to the Stockholders by law, by the Articles of Organization or by these By-Laws. In the event of a vacancy in the Board of Directors, the remaining Directors, except as otherwise provided by law, may exercise the powers of the full Board until the vacancy is filled. Without limiting the generality of the foregoing, the Board of Directors shall have the power, unless otherwise provided by law, to purchase and to lease, pledge, mortgage and sell all property of the Corporation (including to issue or sell the stock of the Corporation) and to make such contracts and agreements as they deem

advantageous, to fix the price to be paid for or in connection with any property or rights purchased, sold, or otherwise dealt with by the Corporation, to borrow money, issue bonds, notes and other obligations of the Corporation, and to secure payment thereof by mortgage or pledge of all or any part of the property of the Corporation. The Board of Directors may determine the compensation of Directors. The Board of Directors or such officer or committee as the Board of Directors may designate, may determine the compensation and duties, in addition to those prescribed by these By-Laws, of all officers, agents and employees of the Corporation.

Section 4.2. Enumeration, Election, and Term of Office.  
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The Board of Directors, which shall be not less than three Directors, shall be composed of such number as shall be fixed from time to time by vote of a majority of the entire Board of Directors; provided, however, that no decrease in the number comprising the entire Board of Directors made pursuant to this Section 4.2 shall shorten the term of any incumbent director. The Board of Directors shall be divided into three classes, as nearly equal in number as possible. The Directors need not be stockholders. At each annual meeting of stockholders, the successors to the class of directors whose term expires at that meeting shall be elected to hold office for a term continuing until the annual meeting held in the third year following the year of their election and until their successors are duly elected and qualified or until their earlier resignation, death or removal; provided, that in the event of failure to hold such an annual meeting or to hold such election at such meeting, the election of directors may be held at any special meeting of the stockholders called for that purpose. Directors, except those appointed by the Board of Directors to fill vacancies, shall be elected by a plurality vote of the stockholders, voting by ballot either in person or by proxy. As used in these By-Laws, the expression "entire Board of Directors" means the number of directors in office at a particular time.

Section 4.3. Nomination of Directors.  
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The following provisions of this Section 4.3 shall apply to the nomination of persons for election to the Board of Directors at any meeting of stockholders.

- (a) Nominations of persons for election to the Board of Directors of the Corporation may be made (i) by or at the direction of the Board of



Directors or (ii) by any Stockholder of the Corporation who is a Stockholder of record at the time of giving of notice provided for in paragraph (b) of this Section 4.3, who is entitled to vote for the election of Directors at the meeting and who complies with the notice procedures set forth in paragraph (b) of this Section 4.3.

- (b) Nominations by Stockholders shall be made pursuant to timely notice in writing to the Clerk of the Corporation. To be timely, a Stockholder's notice shall be delivered to or mailed to and received at the principal executive offices of the Corporation, not less than sixty (60) days prior to the date specified in Section 3.1 above for the annual meeting, regardless of any postponements, deferrals or adjournments of that meeting to a later date; provided, however, that if a special meeting in lieu of annual meeting of stockholders is to be held on a date prior to the date specified in Section 3.1 above, and if less than seventy (70) days' notice or prior public disclosure of the date of such special meeting in lieu of annual meeting is given or made, notice by the Stockholder to be timely must be so delivered or received not later than the close of business on the tenth (10th) day following the earlier of the day on which notice of the date of such special meeting in lieu of annual meeting was mailed or the day on which public disclosure was made of the date of such special meeting in lieu of annual meeting. Such Stockholder's notice shall set forth (x) as to each person whom the Stockholder proposes to nominate for election or reelection as a Director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, or pursuant to any other then existing statute, rule or regulation applicable thereto (including such person's written consent to being named in the proxy statement as a nominee and to serving as a Director if elected); (y) as to the Stockholder giving the notice (1) the name and address, as they appear on the Corporation's books, of such Stockholder and (2) the class and number of shares of the Corporation which are beneficially owned by such Stockholder and also which are owned of record

-8-

9

by such Stockholder; and (Z) as to the beneficial owner, if any, on whose behalf the nomination is made, (1) the name and address of such person and (2) the class and number of shares of the Corporation which are beneficially owned by such person. The Corporation may require any proposed nominee to furnish such other information as may reasonably be required by the Corporation to determine the eligibility of such

proposed nominee as a Director. At the request of the Board of Directors, any person nominated by the Board of Directors for election as a Director shall furnish to the Clerk of the Corporation that information required to be set forth in a Stockholder's notice of nomination which pertains to the nominee.

- (c) No person shall be eligible to serve as a Director of the Corporation unless nominated in accordance with the procedures set forth in this By-Law. The person presiding at the meeting shall, if the facts warrant, determine that a nomination was not made in accordance with the procedures prescribed by these By-Laws, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded. Notwithstanding the foregoing provisions of this By-Law, a Stockholder shall also comply with all applicable requirements of the Securities Exchange Act of 1934, as amended (or any successor provision), and the rules and regulations thereunder with respect to the matters set forth in this By-law.

Section 4.4. Regular Meetings.

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Regular meetings of the Board of Directors may be held at such times and places within or without The Commonwealth of Massachusetts as the Board of Directors may fix from time to time and, when so fixed, no notice thereof need be given, provided that any Director who is absent when such times and places are fixed shall be given notice of the fixing of such times and places. The first meeting of the Board of Directors following the annual meeting of the Stockholders may be held without notice immediately after and at the same place as the annual meeting of the Stockholders or the special meeting held in lieu thereof. If in any year a meeting of the Board of Directors is not held at such time and place, any action to be taken may be taken at any later meeting of the Board of Directors with the same force and effect as if held or transacted at such meeting.

Section 4.5. Special Meetings.

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Special meetings of the Directors may be held at any time and at any place designated in the call of the meeting, when called by the President or the Treasurer or by one or more Directors, reasonable notice thereof being given to each Director

by the Clerk or an Assistant Clerk, or by the officer or one of the Directors

calling the meeting.

Section 4.6. Notice.

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It shall be reasonable and sufficient notice to a Director to send notice by mail at least forty-eight (48) hours or by telegram or facsimile at least twenty-four (24) hours before the meeting addressed to him at his usual or last known business or residence address or to give notice to him in person or by telephone at least twenty-four (24) hours before the meeting. Notice of a meeting need not be given to any Director if a written waiver of notice, executed by him before or after the meeting, is filed with the records of the meeting, or to any Director who attends the meeting without protesting prior thereto or at its commencement the lack of notice to him. Neither notice of a meeting nor a waiver of a notice need specify the purposes of the meeting.

Section 4.7. Quorum; Action at a Meeting.

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At any meeting of the Directors, a quorum for any election or for the consideration of any question shall consist of a majority of the Directors then in office. Whether or not a quorum is present any meeting may be adjourned from time to time by a majority of the votes properly cast upon the question, and the meeting may be held as adjourned without further notice. When a quorum is present at any meeting, the votes of a majority of the Directors present shall be requisite and sufficient for election to any office and shall decide any question brought before such meeting, except in any case where a larger vote is required by law, by the Articles of Organization or by these By-Laws.

Section 4.8. Action by Consent.

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Any action required or permitted to be taken at any meeting of the Directors may be taken without a meeting if all the Directors consent to the action in writing and the written consents are filed with the records of the meetings of the Directors. Such consent shall be treated for all purposes as a vote of the Directors at a meeting.

Section 4.9. Committees.

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The Board of Directors, by vote of a majority of the Directors then in office, may elect from its number an Executive Committee or other committees, composed of such number of its members as it may from time to time determine (but in any event not less than two), and may delegate thereto some or all of its powers except those which by law, by the Articles of Organization, or by these By-Laws may not be delegated. Except as the Board of Directors may otherwise determine, any such committee may make rules for the conduct of its business, but

unless otherwise provided by the Board of Directors or in such rules, its business shall be conducted so far as possible in the same manner as is provided by these By-Laws for the Board of Directors. All members of such committees shall hold such offices at the pleasure of the Board of Directors. The Board of Directors may abolish any such committee at any time. Any committee to which the Board of Directors delegates any of its powers or duties shall keep records of its meetings and shall upon request report its action to the Board of Directors. The Board of Directors shall have power to rescind any action of any committee, but no such rescission shall have retroactive effect.

Section 4.10. Telephone Conference Meetings.

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Any member of the Board of Directors or any committee thereof may participate in a meeting of such Board of Directors or committee thereof by means of a conference telephone (or similar communications equipment) call, by means of which all persons participating in the meeting can hear each other at the same time, and participation by such means shall constitute presence in person at a meeting.

ARTICLE V

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Officers and Agents

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Section 5.1. Enumeration; Qualification.

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The officers of the Corporation shall be a Chief Executive Officer, a President, a Treasurer, a Clerk, and such other officers, if any, as the incorporators at their initial meeting, or the Directors from time to time, may in their discretion elect or appoint. The Corporation may also have such agents, if any, as the incorporators at their initial meeting, or the Directors from time to time, may in their discretion appoint. None of the officers of the Corporation need be a resident of Massachusetts if the Corporation has a resident agent appointed for the purpose of service of process. Any two or more offices may be held by the same person. Any officer may be required by the Directors to give bond for the faithful performance of his duties to the Corporation in such amount and with such sureties as the Directors may determine. The premiums for such bonds may be paid by the Corporation,

Section 5.2. Powers.

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Subject to law, to the Articles of Organization and to the other provisions of these By-Laws, each officer shall have, in addition to the duties and powers herein set forth, such duties and powers as are commonly incident to his office and such duties and powers as the Directors may from time to time designate.

12

Section 5.3. Election.

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The President, the Treasurer and the Clerk shall be elected annually by the Directors at their first meeting following the annual meeting of the Stockholders or special meeting in lieu thereof. Other officers, if any, may be elected or appointed by the Board of Directors at said meeting or at any other time.

Section 5.4. Tenure.

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Except as otherwise provided by law or by the Articles of Organization or by these By-Laws, the President, the Treasurer and the Clerk shall hold office until the first meeting of the Directors following the next annual meeting of the Stockholders or special meeting in lieu thereof and until their respective successors are chosen and qualified, and each other officer shall hold office until the first meeting of the Directors following the next annual meeting of the Stockholders and until their respective successors are chosen and qualified, unless a different period shall have been specified by the terms of his election or appointment, or in each case until he sooner dies, resigns, is removed, or becomes disqualified. Each agent shall retain his authority at the pleasure of the Directors.

Section 5.5. Chairman and Vice Chairman of the Board.

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The Board of Directors may annually elect a Chairman and may annually elect a Vice Chairman of the Board. Unless the Board of Directors otherwise provides, the Chairman of the Board shall be the Chief Executive Officer of the Corporation and shall preside, when present, at all meetings of the Stockholders, of the Board of Directors, and of any committee of the Board of Directors to which he shall have been elected.

Section 5.6. Chief Executive Officer.

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The Chief Executive Officer shall, subject to the direction of the Board of Directors, have general supervision and control of the Corporation's business.

Section 5.7. President and Vice President.  
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The President shall have such powers and shall perform such duties as the Board of Directors may from time to time designate and shall serve as the Chief Executive Officer of the Corporation if there is no Chairman of the Board. Unless otherwise provided by the Board of Directors, he shall preside, when present, at all meetings of the Stockholders and of the Board of Directors if a Chairman of the Board has not been elected or if the Chairman of the Board does not attend such meetings.

Any Vice President shall have such powers and shall perform such duties as the Board of Directors or the Chief Executive Officer may from time to time designate.

-12-

13

Section 5.8. Treasurer and Assistant Treasurer.  
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The Treasurer shall, subject to the direction of the Board of Directors, have general charge of the financial affairs of the Corporation and shall cause to be kept accurate books of account. He shall have custody of all funds, securities and valuable documents of the Corporation, except as the Board of Directors may otherwise provide.

Any Assistant Treasurer shall have such powers and perform such duties as the Board of Directors or the Chief Executive Officer may from time to time designate.

Section 5.9. Clerk and Assistant Clerks.  
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The Clerk shall keep a record of the meetings of Stockholders. In the event there is no Secretary or he is absent, the Clerk or an Assistant Clerk shall keep a record of the meetings of the Board of Directors. In the absence of the Clerk from any meeting of Stockholders, an Assistant Clerk if one be elected, otherwise a Temporary Clerk designated by the person presiding at the meeting, shall perform the duties of the Clerk.

Section 5.10. Secretary.

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The Secretary, if one be elected or appointed, shall keep a record of the meetings of the Board of Directors. In the absence of the Secretary, the Clerk and any Assistant Clerk, a Temporary Secretary shall be designated by the person presiding at such meeting to perform the duties of the Secretary.

ARTICLE VI

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Resignations, Removals and Vacancies  
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Section 6.1. Resignations.  
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Any Director or officer may resign at any time by delivering his resignation in writing to the President or the Clerk or to a meeting of the Directors. Such resignation shall take effect at such time as is specified therein, or if no such time is so specified then upon delivery thereof.

Section 6.2. Removals.  
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(a) At any meeting of the Stockholders called for the purpose any Director may be removed from office with or without cause by the vote of a majority of the shares issued, outstanding and entitled to vote in the election of Directors. At any meeting of the Board of Directors any Director may be removed from office for cause by vote of a majority of the Directors then in office. A Director may be removed for cause only after a reasonable notice and opportunity to be heard before the body proposing to remove him.

-13-

14

(b) The Directors may remove any officer from office with or without cause by vote of a majority of the Directors then in office. An officer may be removed for cause only after a reasonable notice and opportunity to be heard before the body proposing to remove him. The Directors may terminate or modify the authority of any agent or employee.

(c) Except as the Directors may otherwise determine, no Director or officer who resigns or is removed shall have any right to any compensation as such Director or officer for any period following his resignation or removal, or any right to damages on account of such removal whether his compensation be by the month or by the year or otherwise, provided, however, that the foregoing

provision shall not prevent such Director or officer from obtaining damages for breach of any contract of employment legally binding upon the Corporation.

Section 6.3. Vacancies.  
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Subject to the Articles of Organization, any vacancy in the Board of Directors, including a vacancy resulting from an enlargement of the Board, may be filled by vote of a majority of the Directors then in office or, in the absence of such election by the Directors, by the Stockholders at a meeting called for the purpose; provided, however, that, subject to the provisions of Section 4.3 of these By-Laws, any vacancy resulting from action by the Stockholders may be filled by the Stockholders at the same meeting at which such action was taken by them.

If the office of any officer becomes vacant, the Directors may elect or appoint a successor by vote of a majority of the Directors present at the meeting at which such election or appointment is made.

Each such successor shall hold office for the unexpired term of his predecessor and until his successor shall be elected or appointed and qualified, or until he sooner dies, resigns, is removed or becomes disqualified.

ARTICLE VII  
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Stock  
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Section 7.1. Issue of Authorized Unissued Capital Stock.  
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Any unissued capital stock from time to time authorized under the Articles of Organization may be issued by vote of the Directors. No such stock shall be issued unless the cash, so far as due, or the property, services or expenses for which it was authorized to be issued, has been actually received by, or conveyed or rendered to, the Corporation, or is in its possession as surplus.

Section 7.2. Certificates of Stock.  
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Each Stockholder shall be entitled to a certificate in a form selected by the Board of Directors stating the number and the class and the designation of



the series, if any, of the shares held by him, except that the Board of Directors may provide by resolution that some or all of any or all classes and series of shares of the Corporation shall be uncertificated shares, to the extent permitted by law. Such certificate shall be signed by the President or a Vice President and the Treasurer or an Assistant Treasurer. Such signatures may be facsimiles if the certificate is signed by a transfer agent, or by a registrar, other than a Director, officer or employee of the Corporation. In case any officer who has signed or whose facsimile signature has been placed on such certificate shall have ceased to be such officer before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer at the time of its issue.

Every certificate for shares of stock subject to any restriction on transfer pursuant to the Articles of Organization, these By-Laws, or any agreement to which the Corporation is a party shall have the restriction noted conspicuously on the certificate and shall also set forth on the face or back either the full text of the restriction or a statement of the existence of such restriction and a statement that the Corporation will furnish a copy thereof to the holder of such certificate upon written request and without charge. Every certificate issued when the Corporation is authorized to issue more than one class or series of stock shall set forth on its face or back either the full text of the preferences, voting powers, qualifications and special and relative rights of the shares of each class and series authorized to be issued or a statement of the existence of such preferences, powers, qualifications, and rights, and a statement that the Corporation will furnish a copy thereof to the holder of such certificate upon written request and without charge.

Section 7.3. Transfers.

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Subject to the restrictions, if any, imposed by the Articles of Organization, these By-Laws or any agreement to which the Corporation is a party, shares of stock shall be transferred on the books of the Corporation only by the surrender to the Corporation or its transfer agent of the certificate representing such shares properly endorsed or accompanied by a written assignment of such shares or by a written power of attorney to sell, assign or transfer such shares, properly executed, with necessary transfer stamps affixed, and with such proof that the endorsement, assignment or power of attorney is genuine and effective as the Corporation or its transfer agent may reasonably require. Except as may be otherwise required by law, the Corporation shall be entitled to treat the record holder of stock as shown on its books as the owner of such stock for all

purposes, including the payment of dividends and the right to vote with respect thereto, regardless of any transfer, pledge or other disposition of such stock, until the shares have been transferred on the books of the Corporation in accordance with the requirements of these By-Laws. It shall be the duty of each Stockholder to notify the Corporation of his post office address.

Section 7.4. Lost, Mutilated or Destroyed Certificates.  
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Except as otherwise provided by law, the Board of Directors may determine the conditions upon which a new certificate of stock may be issued in place of any certificate alleged to have been lost, mutilated, or destroyed. It may, in its discretion, require the owner of a lost, mutilated or destroyed certificate, or his legal representative, to give a bond, sufficient in its opinion, with or without surety, to indemnify the Corporation against any loss or claim which may arise by reason of the issue of a certificate in place of such lost, mutilated, or destroyed stock certificate.

Section 7.5. Transfer Agent and Registrar.  
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The Board of Directors may appoint a transfer agent or a registrar or both for its capital stock of any class or series thereof and require all certificates for such stock to bear the signature or facsimile thereof of any such transfer agent or registrar.

Section 7.6. Setting Record Date and Closing Transfer Records.  
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The Board of Directors may fix in advance a time not more than sixty (60) days before: (i) the date of any meeting of the Stockholders; or (ii) the date for the payment of any dividend or the making of any distribution to Stockholders; or (iii) the last day on which the consent or dissent of Stockholders may be effectively expressed for any purpose, as the record date for determining the Stockholders having the right to notice and to vote at such meeting or any adjournment thereof, or the right to receive such dividend or distribution, or the right to give such consent or dissent. If a record date is set, only Stockholders of record on the record date shall have such right, notwithstanding any transfer of stock on the books of the Corporation after the record date. Without fixing such record date, the Board of Directors may close the transfer records of the Corporation for all or any part of such sixty (60) day period.

If no record date is fixed and the transfer books are not closed, then the record date for determining Stockholders having the right to notice of or to vote at a meeting of Stockholders shall be at the close of business on the day next preceding the day on which notice is given, and the record date for determining Stockholders for any other purpose shall be at the close of

business on the day on which the Board of Directors acts with respect thereto.

ARTICLE XIII

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Miscellaneous Provisions

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Section 8.1. Execution of Papers.

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All deeds, leases, transfers, contracts, licenses, bonds, notes, releases, checks, drafts and other obligations authorized to be executed on behalf of the Corporation shall be signed by the Chief Executive Officer, President or the Treasurer except as the Directors may generally or in particular cases otherwise determine.

Section 8.2. Voting of Securities.

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Except as the Directors may generally or in particular cases otherwise specify, the Chief Executive Officer, President or the Treasurer may on behalf of the Corporation vote or take any other action with respect to shares of stock or beneficial interest of any other corporation, or of any association, trust or firm, of which any securities are held by this Corporation, and may appoint any person or persons to act as proxy or attorney-in-fact for the Corporation, with or without power of substitution, at any meeting thereof.

Section 8.3. Corporate Seal.

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The seal of the Corporation shall be a circular die with the name of the Corporation, the word "Massachusetts" and the year of its incorporation cut or engraved thereon, or shall be in such other form as the Board of Directors may from time to time determine.

Section 8.4. Corporate Records.

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The original, or attested copies, of the Articles of Organization, By-Laws and records of all meetings of the incorporators and Stockholders, and the stock and transfer records, which shall contain the names of all Stockholders and the record address and the amount of stock held by each, shall be kept in Massachusetts at the principal office of the Corporation, or at an office of its

transfer agent or of its Clerk or of its Resident Agent. Said copies and records need not all be kept in the same office. They shall be available at all reasonable times to the inspection of any Stockholder for any proper purpose but not to secure a list of Stockholders or other information for the purpose of selling said list or information or copies thereof or of using the same for a purpose other than in the interest of the applicant, as a Stockholder, relative to the affairs of the Corporation.

18

Section 8.5. Evidence of Authority.  
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A certificate by the Clerk or Secretary or an Assistant or temporary Clerk or Secretary as to any matter relative to the Articles of Organization, By-Laws, records of the proceedings of the incorporators, Stockholders, Board of Directors, or any committee of the Board of Directors, or stock and transfer records or as to any action taken by any person or persons as an officer or agent of the Corporation, shall as to all persons who rely thereon in good faith be conclusive evidence of the matters so certified.

Section 8.6. Right to Repurchase.  
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Except as otherwise provided by law, the Articles of Organization or by these By-Laws (including any amendments thereto), the Corporation, through its Board of Directors, shall have the right and power to repurchase any of its outstanding shares at such price and upon such terms as may be agreed upon between the Corporation and the selling Stockholder(s), or the predecessor(s) in interest thereof.

Section 8.7. Dividends.  
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Unless otherwise required by the Massachusetts Business Corporation Law or the Articles of Organization, the Board of Directors may declare and pay dividends upon the shares of capital stock of the Corporation, which dividends may be paid either in cash, securities of the Corporation or other property.

Section 8.8. Ratification.  
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Any action taken on behalf of the Corporation by the Directors or any officer or representative of the Corporation which requires authorization by the

Stockholders or the Directors of the Corporation shall be deemed to have been authorized if subsequently ratified by the Stockholders entitled to vote or by the Directors, as the case may be, at a meeting held in accordance with these By-laws.

Section 8.9. Reliance Upon Books, Records and Reports.  
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Each Director or officer of the Corporation shall be entitled to rely on information, opinions, reports or records, including financial statements, books of account and other financial records, in each case presented by or prepared by or under the supervision of (i) one or more officers or employees of the Corporation whom the Director or officer reasonably believes to be reliable and competent in the matters presented, (ii) counsel, public accountants or other persons as to matters which the Director or officer reasonably believes to be within such person's professional or expert competence, or (iii) in the case of a Director, a duly constituted committee of the Board of Directors upon which he does not serve, as to matters within its

-18-

19

delegated authority, which committee the Director reasonably believes to merit confidence, but he shall not be considered to be acting in good faith if he has knowledge concerning the matter in question that would cause such reliance to be unwarranted. The fact that a Director or officer so performed his duties shall be a complete defense to any claim asserted against him by reason of his being or having been a Director or officer of the Corporation, except as expressly provided by statute.

Section 8.10. Control Share Acquisition.  
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Until such time as this section shall be repealed or these By-Laws shall be amended to provide otherwise, including, without limitation, during any time that the Corporation shall be an "issuing public corporation" as defined in Chapter 110D of the Massachusetts General Laws, the provisions of Chapter 110D of the Massachusetts General Laws shall not apply to "control share acquisitions" of the Corporation within the meaning of said Chapter 110D.

ARTICLE IX  
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Amendments  
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Except as otherwise provided in the Articles of Organization, these By-Laws may be amended or repealed in whole or in part by the affirmative vote of the

holders of eighty percent (80%) of the shares of each class of the capital stock at the time outstanding and entitled to vote at any annual or special meeting of Stockholders, provided that notice of the substance of the proposed amendment is stated in the notice of such meeting. If authorized by the Articles of Organization, the Directors may make, amend or repeal the By-Laws, in whole or in part, except with respect to any provision thereof which by law, the Articles of Organization or the By-Laws required action by the Stockholders. Not later than the time of giving notice of the meeting of Stockholders next following the making, amending or repealing by the Directors of any By-Law, notice thereof stating the substance of such change shall be given to all Stockholders entitled to vote on amending the By-Laws. Any By-Law adopted, amended or repealed by the Directors may be repealed, amended or reinstated by the affirmative vote of the holders of eighty percent (80%) of the shares of each class of the capital stock at the time outstanding and entitled to vote on amending the By-Laws.

1996 DANIELS VOTING TRUST AGREEMENT  
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THIS AGREEMENT made effective as of the 19th day of August, 1996, by and among Susan H. Daniels ("SHD"), Robert L. Daniels ("RLD"; RLD and SHD being hereinafter referred to from time to time collectively as the "Stockholders"), and Robert L. Daniels, as trustee of the voting trust created by this voting trust agreement (the "Trustee").

WHEREAS, the Stockholders, among others, entered into a Voting Trust Agreement dated April 29, 1994 (the "1994 Voting Trust Agreement"), which was subsequently amended and restated by agreement dated as of December 1, 1995, and was terminated as a result of RLD's resignation as Chairman and Chief Executive Officer of Project Software & Development, Inc. (the "Corporation") on August 19, 1996; and

WHEREAS, RLD and SHD own, beneficially, 1,097,629 and 1,091,129 shares of the common stock, \$.01 par value, of the Corporation, respectively, which were subject to the terms of the 1994 Voting Trust, as amended and restated; and

WHEREAS, the Stockholders desire to make said shares subject to this 1996 Daniels Voting Trust Agreement ("Agreement");

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. NAME. The trust created by this Agreement shall be known as the 1996 Daniels Voting Trust.

2. Transfer of Stock to the Trustee.  
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(a) The RLD Shares and SHD Shares deposited in trust with the Trustee under this Agreement, together with all other shares of capital stock of the Corporation deposited from and after the date hereof with the Trustees under this Agreement, whether pursuant to this Section 2(a) or by reason of the payment of dividends by the corporation in capital stock of the Corporation, the offering of subscription rights by the Corporation to the holders of its capital stock, a reorganization or recapitalization of the Corporation or otherwise, are hereinafter referred to as the "Restricted Securities." The Trustee shall hold the Restricted Securities subject to the terms of this Agreement.

(b) All certificates for Restricted Securities transferred and delivered

to the Trustee pursuant to this Agreement shall be surrendered by the Trustee to the Corporation and shall be cancelled on the books of the Corporation, and new certificates therefor shall be issued by the Corporation to the Trustee in the name of "Robert L. Daniels, as Trustee under the 1996 Daniels Voting Trust." All certificates representing Restricted Securities issued to the Trustee under this Agreement shall have endorsed thereon, in addition to any other legends thereon, a legend in substantially the following form:

2

The securities represented by this certificate are subject to restrictions on voting and transfer set forth in a Voting Trust Agreement dated as of August 19, 1996 between Susan H. Daniels and Robert L. Daniels, individually and as Trustee.

3. Voting Trust Certificates.  
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(a) Upon delivery to the Trustee by each Stockholder of the certificate or certificates for their respective Restricted Securities, together with all necessary instruments of transfer, such Stockholder shall be deemed to be the beneficial owner of the number of Restricted Securities so deposited with the Trustee (the "Beneficial Shares"), which beneficial ownership shall be evidenced by a voting trust certificate or certificates (the "Voting Trust Certificates"), and the Trustee shall issue and deliver or cause to be delivered to such Stockholder a Voting Trust Certificate for the number of Restricted Securities so deposited and transferred by such Stockholder. All such Voting Trust Certificates shall be in substantially the form of Exhibit A hereto.

(b) Each registered holder of a Voting Trust Certificate shall be entitled to receive copies of all notices of meetings, annual or period reports to stockholders or other materials distributed by the Corporation generally to the holders of any class of securities of which any outstanding shares constitute Restricted Securities ("Stockholder Information"), and the Trustee shall, upon his receipt from the Corporation of any Stockholder Information in respect of Restricted Securities held subject to this Agreement, promptly mail copies of such Stockholder Information to each such holder of a Voting Trust Certificate at his or her address as shown on the books of the Trustee. Each Stockholder acknowledges and agrees that the rights and powers of the Trustee hereunder, including, without limitation, those rights and powers set forth in Section 11 below, shall not be affected by any failure of the Trustee to comply with the provisions of this subsection 3(b).



4. Provisions Regarding Transfer of Beneficial Shares.  
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(a) During the term of this Agreement, neither Stockholder shall, except as otherwise permitted by Section 4(b) and 4A below, sell, assign, convey, pledge, encumber, hypothecate, subject to any call, option or agreement to purchase or otherwise transfer any of the Beneficial Shares standing in his or her name, or any interest therein, or agree or purport to do any of the foregoing.

(b) Notwithstanding the foregoing, the following transactions shall not be deemed to be prohibited by this Section 4 (each a "Permitted Transfer"):

- (i) A transfer by either Stockholder made for estate planning purposes to a trust for the benefit of such Stockholder or of any member of his or her family or directly to any member of his or her family; PROVIDED, however, that any Beneficial Shares so transferred shall remain subject to this Voting Trust Agreement for as long as such Agreement remains in force.
- (ii) Subject to Section 4(d) below, a transfer of Beneficial Shares by either Stockholder in a BONA FIDE transfer for value to a third party unaffiliated with the transferor (a "Sale"), in which event the transferee shall hold the Beneficial Shares so transferred free of the Voting Trust created hereby and shall be entitled to receive from the Corporation a certificate registered in such name as the transferee shall designate. The Trustee hereby agrees to issue and deliver to the Corporation or its transfer agent such certificates and

-2-

3

instructions and to take such other action as may be necessary on his part to effect the Sale and registration in the name of a permitted transferee pursuant to this subsection 4(b)(ii).

- (iii) A pledge of Beneficial Shares to a bank or other financial institution as collateral security for the obligations of either Stockholder under an arrangement with such bank or financial institution in which the Stockholder simultaneously establishes both put and call positions with respect to the Common Stock of the Corporation (a "Collateralized Collar") shall be deemed to constitute a Sale pursuant subsection 4(b)(ii) above. Upon receipt by the Trustee of written notice from the Stockholder

that he or she intends to enter into a Collateralized Collar, setting forth the terms of such Collateralized Collar, such Stockholder shall be entitled to receive a certificate representing the pledged shares registered in such name as he or she shall designate and free of any restrictive legend (except as otherwise required by law). The bank or other financial institution, and any of its transferees, shall hold the pledged shares free of the Voting Trust and any other restrictions on transfer or voting of the pledged shares created by this agreement.

(c) It shall be a further condition to any transfer made pursuant to subsection 4(b)(i) above that the transferee, if not already a party to this Agreement, shall execute and deliver to the Trustee an instrument in form and substance satisfactory to the Trustee evidencing the agreement of such transferee to become a party to and be bound by this Agreement. SHD agrees, as a further condition to any transfer made by her pursuant to subsection 4(b)(iii) above, that to the extent that she has the power to direct the voting of any shares of Common Stock held by any bank or other financial institution pursuant to a Collateralized Collar she will direct that such shares be voted in accordance with the written instructions of the Voting Trustee, provided, that such bank or financial institution shall not have any obligation to determine independently whether any such direction given by SHD is in conformity with any instructions of the Voting Trustee.

(d) Notwithstanding the foregoing, and except as otherwise set forth in subsection 4(e) and (f) below, the aggregate number of shares of Common Stock transferred by SHD by Sale (including Beneficial Shares transferred pursuant to subsection 4(b)(ii) or (iii) above) during any calendar quarter prior to the termination or expiration of this Agreement shall not exceed the greater of (i) 27,500, or (ii) the aggregate number of shares of Common Stock transferred by Sale by RLD or by any donee of RLD (including Beneficial Shares transferred pursuant to subsection 4(b)(ii) or (iii) above) during such quarter (the "Limitation Amount"). The Limitation Amount shall be adjusted for any stock dividend, stock dividend, stock split, consolidation, reverse stock split, consolidation, reclassification or other similar transaction effected by the Corporation with respect to its Common Stock after the date hereof. Subject to subsection 4(f) below, in the event that the number of Beneficial Shares actually transferred by SHD pursuant to subsection 4(b)(ii) or (iii) above during any calendar quarter is less than the Limitation Amount in respect of such calendar quarter, then the unused balance of the Limitation Amount shall be carried forward to the next calendar quarter and the Limitation Amount for such subsequent calendar quarter shall be increased by the amount of such unused balance. The limitation set forth in this paragraph (the "Volume Limitation") shall terminate and be of no further force and effect upon the earlier to occur of the following:

- (i) If the Average Share Price, (as hereinafter defined), determined as of the last day of any of the eighteen-month periods beginning on January 1, 1996; July

1, 1997; January 1, 1999; January 1, 2002; and July 1, 2003 and January 1, 2005 (each a "Measurement Period"), shall not have increased at a 10% compound annual rate in comparison to the Average Share Price determined as of the first day of such Measurement Period; or

(ii) The fifth anniversary of the date hereof; PROVIDED, that

(iii) in the event of the death of SHD prior to such fifth anniversary, the Volume Limitation shall (to the extent terminated pursuant to subsection 4(d)(i) above) be reinstated and, notwithstanding the provisions of such subsection, shall continue in force as to all SHD Shares then subject to this Agreement and the trust created hereby until the occurrence of such fifth anniversary.

For purposes of this paragraph, the "Average Share Price" determined as of any date shall mean the average of the closing prices of the Common Stock, as reported by the NASDAQ National Market, or by such other automated quotation system or national or regional stock exchange on which the Common Stock is then publicly traded, on each of the twenty (20) business days preceding such date (adjusted as necessary to give effect to any stock split, reverse stock split, stock dividend, recapitalization or other similar transaction affecting the Common Stock occurring during the relevant Measurement Period).

(e) RLD agrees that, if, at any time prior to the fifth anniversary of the date of this Agreement and thereafter during the lifetime of SHD, any public offering of the Corporation's Common Stock that includes shares to be sold for the account of selling stockholders (a "Secondary Offering") shall be effected and if any shares shall be included in such Secondary Offering for the account of RLD (whether constituting Beneficial Shares or not), then in such event RLD will use his best efforts to cause to be included in the Secondary Offering such number of the SHD Shares as SHD may request in writing within twenty (20) days of the receipt from the Company of written notice that it intends to effect such Secondary Offering (the "Registrable SHD Shares"). Unless all the Registrable SHD shares are included in the Secondary Offering, the number of shares to be included for the account of RLD in such Secondary Offering shall not exceed the number of Registrable SHD shares or such lesser number of shares as is actually included in the Secondary Offering for the account of SHD.

The Stockholders acknowledge that they have been advised that their sales of Common Stock may be required to be aggregated for purposes of the

volume limitations of Rule 144 promulgated by the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended ("Rule 144"). Each Stockholder agrees that he or she (i) will notify the other in writing prior to any Sale of Common Stock (including any transfer of Beneficial Shares pursuant to subsection 4(b)(ii) or (iii) above, and whether or not such Sales is subject to Rule 144), and (ii) will not, without the prior written consent of the other, effect any such Sale of Common Stock that would cause the aggregate number of shares of Common Stock so transferred by such Stockholder during any three-month period to exceed one-half of the aggregate number that would be permitted to be sold by both Stockholders during such three-month period under Rule 144(e). The Stockholders further acknowledge that they have been advised that each collateralized option written by them in connection with the establishment of a Collateralized Collar pursuant to subsection 4(b)(iii) above may be deemed to constitute a separate sale of the underlying shares for purposes of the volume limitations of Rule 144, and agree that each such option will be counted as a separate Sale for purposes of the Limitation Amount referred to in subsection 4(d) above.

-4-

5

(f) In the event that during any calendar quarter the number of Beneficial Shares transferred by SHD pursuant to subsection 4(b)(ii) and (iii) above exceeds the number of Beneficial Shares transferred by RLD pursuant to such subsection during such quarter (including, in each case, any Beneficial Shares sold in a Secondary Offering), then on the first day of the calendar quarter there shall automatically be released from the trust created hereby and distributed to RLD in his own name a number of Beneficial Shares that is equal to such excess.

(g) The Trustee shall keep a record of Voting Trust Certificates and shall be entitled to rely conclusively upon said record as to the identity and address of the holders of Voting Trust Certificates. The Trustee may treat the registered holder of each Voting Trust Certificate as the owner thereof and of the Beneficial Shares evidenced thereby for all purposes whatsoever, but the Trustee shall not be required to deliver certificates for Restricted Securities as required hereunder without the surrender of the corresponding Voting Trust Certificates. In addition, the Trustee shall not be required to recognize any transfer of any Voting Trust Certificate or Beneficial Share not made in accordance with the provisions hereof unless the person claiming such ownership shall produce indicia of title satisfactory to the Trustee and shall deposit with the Trustee an indemnity satisfactory to the Trustee.

(h) If any Voting Trust Certificate is lost, stolen, mutilated, damaged

or destroyed, the Trustee shall issue a duplicate of such certificate upon receipt of: (i) evidence of such fact satisfactory to him, (ii) an indemnity satisfactory to him; (iii) the existing certificate, if mutilated or damaged; and (iv) the Trustee's reasonable fees and expenses in connection with the issuance of a replacement Voting Trust Certificate.

4A SALES OF BENEFICIAL SHARES IN CERTAIN CIRCUMSTANCES. Notwithstanding any other provision of this Agreement to the contrary, the parties hereto may sell their entire respective interests in the Beneficial Shares as follows:

(A) A sales of the entire interest of the Beneficial Shares approved by the Stockholders in connection with a tender or exchange offer for all the common shares of the Company (collectively a "Takeover");

(B) A Sale of the entire interest of the Beneficial Shares in connection with a Takeover by any party hereto for a price, which a Qualified Investment Bank has opined is fair from a financial point of view. A Qualified Investment Bank is any investment bank mutually acceptable to the parties hereto. The parties hereto agree not to unreasonably withhold their approval of any investment bank proposed by either of them; provided, however, that any party who wishes to sell his or her entire interest in Beneficial Shares at a price approved as fair by a Qualified Investment Bank shall be required to offer in writing to sell his or her entire interest in Beneficial Shares to the other party hereto (the "Offer") for a period of ten (10) business days at the price approved as fair by the Qualified Investment Bank or such higher price, if any, as may be offered in connection with the Takeover prior to acceptance of the Offer in writing (the "Buy-Out Option"). If the consideration offered in connection with any Takeover includes securities, the securities shall be valued for purposes of this Buy-Out Option by the Qualified Investment Bank as of the date of the Offer. The Offer shall be accepted only by a writing, delivered to the selling Stockholder's address for notice within the ten (10)

-5-

6

business day period, unconditionally committing to consummate the purchase within thirty (30) days or less of the acceptance.

5. ASSENT TO AGREEMENT. Every person from time to time holding a Voting

Trust Certificate or Certificates, whether a Stockholder or one claiming through or under a Stockholder, by the fact of such person's acceptance of such Voting Trust Certificate or Certificates, shall be deemed to have assented and agreed to all of the provisions of this Agreement.

6. Dividends.  
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(a) Prior to the expiration or earlier termination of this Agreement, the holders of Voting Trust Certificates shall be entitled to receive payments equal to the cash dividends, if any, received by the Trustee from the Corporation, ratably in proportion to their respective number of Beneficial Shares then outstanding. In lieu of receiving such cash dividends and paying the same to the holders of Voting Trust Certificates, the Trustee may instruct the Corporation in writing to pay such cash dividends directly to the holders of Voting Trust Certificates. Upon such instructions being given by the Trustee to the Corporation, and unless explicitly limited or until revoked by the Trustee, all liability of the Trustee with respect to such cash dividends shall terminate. The Trustee may at any time revoke such instructions and by written notice to the Corporation direct it to make dividend payments to the Trustee. The Corporation shall not be liable to any holder of Voting Trust Certificates or to any person claiming to be entitled to any such cash dividends by reason of following ny written instructions of the Trustee.

(b) If any dividend in respect of Restricted Securities owned of record by the Trustee is paid, in whole or in part, in capital stock of the Corporation, then (i) the Trustee shall hold, subject to the terms of this Agreement, the certificate or certificates for shares of such stock which are received by him on account of such dividend; and (ii) the holder of each Voting Trust Certificate shall be entitled to receive a Voting Trust Certificate issued under this Agreement for the number of shares of capital stock received as such dividend in respect of such holder's Beneficial Shares.

(c) Holders entitled to receive the dividends above shall be those registered as holders of Voting Trust Certificates on the books of the Trustee at the close of business on the record date fixed by the Corporation for determining those holders of its capital stock entitled to receive such dividends or, if the Corporation has fixed no such record date, then on the date fixed by the Trustee for the purpose of determining the holders of Voting Trust Certificates entitled to receive such payment or distribution, those registered as such at the close of business on the date so fixed by the Trustee; PROVIDED, that if no such record date is set by the Corporation or the Trustee, then in such event the record date for determining shall be the close of business on the day preceding such payment of distribution.

7. SUBSCRIPTION RIGHTS. In case any stock or other securities of the Corporation are offered for subscription to the holders of Restricted Securities deposited hereunder, the Trustee, promptly upon receipt of notice of such offer, shall mail a copy thereof to each of the holders of Voting Trust Certificates. Upon receipt by the Trustee of a request from any registered holder of a Voting Trust Certificate or Certificates to subscribe on such holder's behalf,

accompanied by the sum of money required to pay for such stock or securities or a promise to pay such sum, the Trustee shall make such subscription and payment, or a promise to make payment, and instruct the Corporation to issue to the Trustee certificates for such shares of securities so subscribed for in the name of "Robert L. Daniels, as Trustee under the 1996 Daniels Voting Trust." Upon receiving from the

7

Corporation the certificates for shares or securities so subscribed for, the Trustee shall issue to such purchasing holder a Voting Trust Certificate in respect thereof.

8. DISSOLUTION OF THE CORPORATION. In the event of the dissolution or liquidation of the Corporation, whether voluntary or involuntary, or any other return of capital to the holders of securities of the Corporation, the Trustee shall receive the moneys, securities, rights or property to which the holders of the Restricted Securities held hereunder are entitled, and shall distribute the same among the registered holders of the Voting Trust Certificates ratably in accordance with their respective number of Beneficial Shares then outstanding, or the Trustee may in his discretion deposit such moneys, securities, rights or property with any bank or trust company doing business in the United States, with authority and instructions to distribute the same as above provided, and upon such deposit all further obligations or liabilities of the Trustee in respect of such moneys, securities, rights or property so deposited shall terminate.

9. Reorganization or Recapitalization of the Corporation.  
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(a) In case the Corporation is merged into or consolidated with another corporation or entity, or all or substantially all of the assets of the Corporation are transferred to another corporation or entity, then in connection with such merger, consolidation or transfer (i) the term "Corporation" for all purposes of this Agreement shall be taken to include such successor corporation or entity: (ii) the Trustee shall receive and hold under this Agreement any stock of such successor corporation or entity which is received on account of his ownership as Trustee hereunder of the Restricted Securities held hereunder prior to such merger, consolidation or transfer; and (iii) the Trustee may, in his discretion, substitute for voting Trust Certificates, new voting trust certificates in appropriate form, and the terms "Common Stock" and "Restricted Securities" as used herein shall be taken to include any shares of stock which may be received by the Trustee in lieu of all or part of the shares of Common Stock or the Restricted Securities, respectively.

(b) In the event that the Corporation shall effect a stock split, reverse stock split, consolidation, reclassification or other similar transaction in respect of any class of its capital stock constituting Restricted Securities held by the Trustee hereunder, the Trustee shall issue to the holders of Voting Trust Certificates additional or substitute Voting Trust Certificates representing such number and class of Beneficial Shares as are issuable in respect of such Restricted Securities by reason of such transaction; provided, in the case of substitute Voting Trust Certificates, that there shall have been surrendered to the Corporation for cancellation the original Voting Trust Certificate of Certificates in respect of which such substitute Voting Trust Certificates are to be issued. In the event that the Restricted Securities include securities of more than one class or series, the Trustee may cause Voting Trust Certificates designated as belonging to more than one class or series to be issued to the holder of Beneficial Shares so that each such Voting Trust Certificate corresponds to Restricted Securities of a particular class or series.

10. ADDITIONS TO TRUST PROPERTY. From time to time the Trustee may, in his discretion, receive additional certificates for Restricted Securities either from a Stockbroker or from any other stockholder of the Corporation who becomes a signatory hereto, and all such certificates shall be treated as if originally transferred and deposited hereunder. Upon any such receipt of addition certificates for Restricted Securities, the Trustee shall cause additional Voting Trust Certificates representing beneficial interests in such Restricted Securities to be issued to the beneficial owners of such Restricted Securities to reflect the transfer and deposit of such Restricted Securities in trust hereunder.

-7-

8

11. Rights and Powers of the Trustee: Death of Disability.  
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(a) The Trustee shall have full legal title to, and be the record owner of, the Restricted Securities held hereunder. The Trustee may, but shall not be obliged to, deposit any stock certificate representing Restricted Securities with a bank, securities firm or other financial institution for safekeeping in the name of the Trustee as record owner.

(b) Until the actual delivery to the holder of Voting Trust Certificates of stock certificates representing Restricted Securities issued in exchange therefor, and until the surrender of the Voting Trust Certificates for



cancellation upon such delivery, the Trustee shall have the right, subject to the provisions of this paragraph, (i) to exercise, in person or by his nominee or proxy, all voting rights and powers in respect of all Restricted Securities held hereunder, (ii) to take part in or consent to any corporate or stockholders' action of any kind whatsoever, and (iii) to file applications with, and otherwise deal with, any Federal or state regulatory agencies with respect to all matters arising out of or relating to the Restricted Securities. The right to vote shall include the right to vote in favor of, or against, or to withhold any vote in respect of, any resolution or proposed action of any character whatsoever which may be presented at any meeting or which may require the consent of stockholders of the Corporation, as the Trustee, in his sole discretion, shall deem appropriate.

(c) Notwithstanding the provisions of paragraph 11(b), in the event the Corporation shall seek the approval of its shareholders for any proposal for a merger, liquidation, dissolution or consolidation of the Corporation (the "Proposed Transaction"), the power of the Trustee to vote the Restricted Securities shall be subject to the following limitation..

- (i) If both Stockholders agree, the Trustee shall vote all such securities with respect to the Proposed Transaction in accordance with such agreement;
- (ii) If the Stockholders do not agree and a Qualified Investment Bank has opined that the consideration offered in the Proposed Transaction is fair from a financial point of view, the Trustee shall vote the Restricted Securities in accordance with the directions of the Stockholders, in proportion to their beneficial ownership interests; provided, however, that the Stockholder choosing to support such Proposed Transaction shall be required to offer in writing to sell his or her entire interest in the Restricted Securities to the other Stockholders (the "Offer") for a period of ten (10) business days before the date on which such vote is to be taken at the consideration offered in the Proposed Transaction (the "Buy-Out Option"). If the consideration offered includes securities, the securities shall be valued for purposes of this Buy-Out Option by the Qualified Investment Bank as of the date of the Offer. The Offer shall be accepted only by a writing, delivered to the selling Stockholder's address for notice within the ten (10) business day period, unconditionally committing to consummate the purchase within thirty (30) days or less of the acceptance.

(d) In the event that the Trustee should die or suffer a Disability during the term of this Agreement, his executor (in case of death) or legal representative (in case of Disability) shall serve as Trustee hereunder. The term "Disability" shall mean, for purposes of this Agreement, (i) the adjudication of the Trustee by a court of competent jurisdiction as an incompetent, or (ii) the imposition by a court of competent jurisdiction of a conservatorship over the affairs of the Trustee.

12. Compensation of the Trustee.  
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(a) The Trustee shall serve without compensation. The Trustee and each of his agents shall be reimbursed by the owners of the Beneficial Shares ratably according to the respective number of Beneficial Shares then outstanding for all out-of-pocket expenses reasonably incurred by him or any of them in the performance of his or their respective duties under this Agreement.

(b) Nothing contained herein shall disqualify or incapacitate the Trustee from serving the Corporation or any of its subsidiaries as an officer, director or agent acting in any other capacity, holding any shares of any class of stock in the Corporation or any such subsidiary, becoming a creditor of the Corporation or any such subsidiary, or in any other way dealing with or receiving compensation from the Corporation or any such subsidiary, becoming a creditor of the Corporation or any such subsidiary, or in any other way dealing with or receiving compensation from the Corporation or any such subsidiary.

13. Standard of Liability  
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(a) The Trustee hereunder shall not under any circumstances or in any event be held liable (as stockholder, Trustee or otherwise) or accountable out of his personal assets by reason of any error of judgment or mistake of fact or law or other mistake, if such Trustee was acting in good faith, or in reliance on the opinion of qualified legal counsel (who may be counsel for the Corporation) selected in good faith, nor shall the Trustee be held liable by reason of the act or omission of any agent, proxy, attorney, co-trustee, or person to whom he may reasonably delegate his powers hereunder; PROVIDED, that where any provision of this Agreement by its terms applies equally to RLD and to SHD, nothing in the preceding sentence shall be deemed to authorize the Trustee to interpret or apply such provision in an inconsistent manner where the interests of RLD and SHD, respectively, are concerned.

(b) Without limiting the generality of the foregoing, each Stockholder acknowledges that he or she has been advised that he or she individually will be responsible for filing any reports required pursuant to Section 16 of the Securities Exchange Act of 1934 ("Section 16") in respect of his or her beneficial ownership of Restricted Securities and acknowledges and agrees that the Trustee in his capacity as such shall have no duty or responsibility with respect to compliance by either Stockholder with Section 16 or with any other

requirements of federal or state securities law relating to beneficial ownership or transfer of any Restricted Securities or Beneficial Shares.

(c) In no event shall the Trustee have any liability whatsoever, whether arising in contract, in tort or otherwise, to any Stockholder, holder of a Voting Trust Certificate or other person arising out of any vote or consent lawfully cast or given by him, or withheld by him, in respect of any Voting Stock held subject to this Agreement.

14. CERTIFICATE OF TRUSTEE. Any certificate in writing executed by the Trustee setting forth the existence of any fact the existence of which is necessary to authorize the execution of any instrument or the taking of any action by the Trustee, or setting forth any other facts in relation to the trust created hereby, shall, as to all persons acting in good faith in reliance thereon, be conclusive evidence of the truth of the statements made in such certificate and of the existence of the facts therein stated to exist.

15. AMENDMENTS. This Agreement may be amended only by a written instrument signed by (i) all of the registered holders of Voting Trust Certificates then outstanding, and (ii) the Trustee. Any amendment shall be sent to all holders of Voting Trust Certificates by the Trustee.

16. SALE AND TRANSFER OF RESTRICTED SECURITIES. Except pursuant to a Permitted Transfer, the Trustee shall not sell, hypothecate, pledge, assign or otherwise transfer legal title to any Restricted Securities held hereunder.

17. Term and Termination: Distribution of Trust Property; Provisions for  
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Voting.  
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(a) The Restricted Securities held pursuant to this Agreement shall be released from the trust created hereby and distributed to the Stockholders upon the satisfaction of certain conditions, as follows:

(i) Upon the expiration or termination of this Agreement and the trust created hereby pursuant to subsection 17(d) or (e) below, all Restricted Securities shall be distributed to the registered holders of the Voting Trust Certificates representing such Restricted Securities, and each such holder shall be entitled to receive from the Corporation a certificate representing such

Restricted Securities registered in the name of such holder.

- (ii) Notwithstanding the foregoing, the Trustee shall make no distribution pursuant to Section 17(a)(i) to SHD or to any transferee of SHD in a transfer pursuant to subsection 4(b)(i) above unless there shall have been delivered to RLD in his individual capacity the irrevocable proxy and transfer restriction agreement of SHD or of such transferee in the form attached hereto as Exhibit A (each a "Proxy").

(b) Following the expiration or termination of this Agreement and the delivery to RLD of the foregoing Proxy or Proxies, SHD and any transferee of SHD (other than an Unrestricted Transferee, as defined in subsection 17(b)(i) below) (each a "Restricted Transferee"), shall be entitled to sell, assign, convey, pledge, encumber, hypothecate, subject to any call, option or agreement to purchase or otherwise transfer any Restricted Securities or any interest therein, on the following conditions:

- (i) SHD and any Restricted Transferee may transfer Restricted Securities free of the Proxy and any other restrictions set forth in this Agreement, on the condition that any such transfer shall be made in a transaction and to a person permitted by subsection 4(b)(ii) or (iii) above (each an "Unrestricted Transferee"). Without limiting the generality of the foregoing sentence, the term "Unrestricted Transferee" shall also include a transferee unaffiliated with SHD who purchases Restricted Securities for value in a BONA FIDE transaction with a bank or financial institution which is selling such Restricted Securities pursuant to the exercise of its rights as a secured party with respect to Restricted Securities pledged to it as collateral security in a transaction effected in compliance with subsection 17(b)(ii) below. The Corporation will issue, or will cause its transfer agent to issue, a certificate or certificates representing the Restricted Securities so transferred registered in the name of such Unrestricted Transferee free of the restrictions set forth herein and the

-10-

11

legend referred to in subsection 17(c) below, PROVIDED that (i) the Transferee effecting such transfer shall have certified to the Corporation in writing that the condition set forth in the preceding sentence has been met, and (ii) any certificate issued to SHD or such Restricted Transferee to represent the balance of

any Restricted Securities not so transferred shall remain subject to the Proxy and bear the legend set forth in subsection 17(c) below.

- (ii) SHD and any Restricted Transferee may transfer Restricted Securities in a transaction not meeting the conditions set forth in subsection 17(b) (i) above only on the condition that the transferee of SHD or such Restricted Transferee shall have delivered to RLD a Proxy and transfer restriction agreement in the form attached hereto as Exhibit B (and shall be deemed to be a "Restricted Transferee" for purposes of this Agreement).

(c) Any certificate representing restricted Securities issued to SHD or any Restricted Transferee of SHD shall have endorsed thereon, in addition to any other required legends, a legend in substantially the following form:

The securities represented by this certificate are subject to restrictions on transfer and upon voting set forth in an Irrevocable Proxy dated \_\_\_\_\_, 199\_, delivered by the original holder of this certificate.

(d) This Agreement and the trust created hereby shall expire upon the soonest to occur of (i) the written agreement of all holders of outstanding Voting Trust Certificates and the Trustee, or (ii) the fifth anniversary of the date hereof.

(e) In addition, this Agreement and the trust created hereby, and the restrictions on voting and transfer provided in subsections 17(b) and (c) above (as evidenced by any Proxy delivered to RLD hereunder or otherwise), shall terminate and be of no further force and effect upon the earliest to occur of the following:

- (i) when RLD shall cease to be the beneficial owner of at least 920,000 shares of Common Stock or when SHD and any Restricted Transferees of SHD shall cease to be the beneficial owners of an aggregate of at least 230,000 shares of Common Stock (in each case as adjusted for any stock dividend, stock split, consolidation, reverse stock split, reclassification or other similar transaction effected by the Corporation with respect to its Common Stock after the date hereof);
- (ii) upon the death of RLD;
- (iii) the Corporation is acquired by way of the sale of all or substantially all its assets or a merger or consolidation of the Corporation with any other corporation or entity (other than a merger or consolidation which would result in the voting securities of the Corporation outstanding immediately prior thereto continuing to represent, either by remaining outstanding or by being converted into voting securities of the surviving entity, more than 50% of the combined voting power of the voting securities of the Corporation or such surviving entity

12

or a merger or consolidation effected to implement a recapitalization or reincorporation of the Corporation in which no material change in voting control of the Corporation takes place).

18. Notices and Distributions.  
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(a) Unless otherwise specifically provided in this Agreement, any notice to or communication with the holders of Voting Trust Certificates shall be deemed to be sufficiently given or made if in writing and given by prepaid, first class, registered or certified mail, or by a nationally recognized overnight delivery service, or by personal delivery, to such holders at their addresses appearing on the books of the Trustee. Any notice to the Trustee hereunder shall be sufficient if in writing and given by first class, registered or certified mail, or by a nationally recognized overnight delivery service, or by personal delivery, as follows:

If to SHD:

Susan H. Daniels  
33 Circuit Road  
Brookline, Massachusetts 02167

If to RLD:

Robert L. Daniels  
4 Heartbreak Hill  
Ipswich, Massachusetts 01938

Every notice given shall in the case of mailing, or personal delivery, when actually delivered and in the case of the effective, overnight delivery service, on the business day following its dispatch by means of such service.

(b) All distributions of cash, securities or other property hereunder by the Trustee to the holders of Voting Trust Certificates may be made, in the discretion of the Trustee in person, by mail, or where appropriate, by wire transfer to any bank or fund account of which the receiving holder has notified the Trustee in the manner provided for herein.

(a) This Agreement shall be governed by, and construed and enforced in accordance with, the substantive laws of The Commonwealth of Massachusetts, without reference to its principles of conflict of law.

(b) If any provision of this Agreement shall be determined to be invalid, illegal or otherwise unenforceable by any court of competent jurisdiction, the validity, legality and enforceability of the other provisions of this Agreement shall not be affected thereby. Any invalid, illegal or unenforceable provision of this Agreement shall be severable, and after any such severance, all other provisions hereof shall remain in full force and effect.

-12-

13

(c) This Agreement shall be binding upon, and shall inure to the benefit of, the parties hereto and their heirs, legal representatives, successors and permitted assigns. This Agreement may not be assigned by any party without the written consent of each other party.

(d) This Agreement and the documents referred to in it and to be delivered pursuant to it constitute the entire agreement of the parties pertaining to its subject matter and supersede all prior agreements, understandings negotiations and discussions of the parties, whether written or oral, with respect to the subject matter hereof.

(e) The headings contained in this Agreement are for reference only and shall not affect the meaning or interpretation of this Agreement.

(f) This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same agreement.

(g) The rights and remedies of the parties hereto shall be cumulative and in addition to all other rights and remedies such parties may have, at law, in equity, by contract or otherwise.

(h) The parties hereto agree to execute such further instruments and to take such further actions as may reasonably be necessary to carry out the intent of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as an instrument under seal as of the date first above written.

/s/ ROBERT L. DANIELS

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Robert L. Daniels, individually

SUSAN H. DANIELS

-----  
Susan H. Daniels

ROBERT L. DANIELS

-----  
Robert L. Daniels, as Trustee  
and not individually



PROJECT SOFTWARE & DEVELOPMENT, INC.  
1994 EMPLOYEE STOCK PURCHASE PLAN

1. PURPOSE.

The Project Software & Development, Inc. 1994 Employee Stock Purchase Plan (the "Plan") is intended to provide a method whereby employees of Project Software and Development, Inc. (the "Company") will have an opportunity to acquire an ownership interest (or increase an existing ownership interest) in the Company through the purchase of shares of the Common Stock of the Company. It is the intention of the Company that the Plan qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code of 1986, as amended (the "Code"). The provisions of the Plan shall, accordingly, be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code.

2. DEFINITIONS.

(a) "Compensation" means, for the purpose of any Offering pursuant to this Plan, base pay in effect as of the Offering Commencement Date (as hereinafter defined). Compensation shall not include any deferred compensation other than contributions by an individual through a salary reduction agreement to a cash or deferred plan pursuant to Section 401(k) of the Code or to a cafeteria plan pursuant to Section 125 of the Code.

(b) "Board" means the Board of Directors of the Company.

(c) "Committee" means the Compensation Committee of the Board.

(d) "Common Stock" means the common stock, \$.01 par value per share, of the Company.

(e) "Company" shall also include any Parent or Subsidiary of Project Software & Development, Inc. designated by the Board, unless the context otherwise requires.

(f) "Employee" means any person who is customarily employed at least 20 hours per week and more than five months in a calendar year by the Company.

(g) "Parent" shall mean any present or future corporation which is or would constitute a "parent corporation" as that term is defined in Section 424 of the Code.

(h) "Subsidiary" shall mean any present or future corporation which is or would constitute a "subsidiary corporation" as that term is defined in Section 424 of the Code.

### 3. ELIGIBILITY.

(a) Participation in the Plan is completely voluntary. Participation in any one or more of the offerings under the Plan shall neither limit, nor require, participation in any other offering.

(b) Each employee shall be eligible to participate in the Plan on the first Offering Commencement Date, as hereafter defined, following the completion of three (3) full calendar months of continuous service with the Company. Notwithstanding the foregoing, no employee shall be granted an option under the Plan:

(i) if, immediately after the grant, such employee would own stock, and/or hold outstanding options to purchase stock, possessing 5% or more of the total combined voting power or value of all classes of stock of the Company or any Parent or Subsidiary; for purposes of this Paragraph the rules of Section 424(d) of the Code shall apply in determining stock ownership of any employee; or

(ii) which permits his rights to purchase stock under all Section 423 employee stock purchase plans of the Company and any Parent or Subsidiary to exceed \$25,000 of the fair market value of the stock (determined at the time such option is granted) for each calendar year in which such option is outstanding; for purposes of this Paragraph, the rules of Section 423(b)(8) of the Code shall apply.

### 4. OFFERING DATES.

The right to purchase stock hereunder shall be made available by a series of six-month offerings (the "Offering" or "Offerings") to employees eligible in accordance with Paragraph 3 hereof. The Committee will, in its discretion, determine the applicable date of commencement ("Offering Commencement Date") and termination date ("Offering Termination Date") for each Offering. Participation in any one or more of the Offerings under the Plan shall neither limit, nor require, participation in any other Offering.

### 5. PARTICIPATION.

Any eligible employee may become a participant by completing a payroll deduction authorization form provided by the Company and filing it with the office of the Company's Treasurer 20 days prior to an applicable Offering Commencement Date, as

determined by the Committee pursuant to Paragraph 4. A participant who obtains shares of Common Stock in one Offering will be deemed to have elected to participate in each subsequent Offering, provided such participant is eligible to participate during each such subsequent Offering and provided that such participant has not specifically elected not to participate in such subsequent Offering. Such participant will also be deemed to have authorized the same payroll deductions under Paragraph 6 hereof for each such subsequent Offering as in the immediately preceding Offering; provided however, that, during the enrollment period prior to each new Offering, the participant may elect to change such participant's payroll deductions by submitting a new payroll deduction authorization form.

#### 6. PAYROLL DEDUCTIONS.

(a) At the time a participant files his authorization for a payroll deduction, he shall elect to have deductions made from his pay on each payday during any Offering in which he is a participant at a specified percentage of his Compensation as determined on the applicable Offering Commencement Date; said percentage shall be in increments of one percent up to a maximum percentage of ten percent.

(b) Payroll deductions for a participant shall commence on the applicable Offering Commencement Date when his authorization for a payroll deduction becomes effective and subject to the last sentence of Paragraph 5 shall end on the Offering Termination Date of the Offering to which such authorization is applicable unless sooner terminated by the participant as provided in Paragraph 10.

(c) All payroll deductions made for a participant shall be credited to his account under the Plan. A participant may not make any separate cash payment into such account.

(d) A participant may withdraw from the Plan at any time during the applicable Offering period.

#### 7. GRANTING OF OPTION.

(a) Except as set forth in Paragraph 7(c) hereof, on the Offering Commencement Date of each Offering, a participating employee shall be deemed to have been granted an option to purchase a maximum number of shares of the Common Stock equal to an amount determined as follows: 85% of the market value per share of the Common Stock on the applicable Offering Commencement Date shall be divided into an amount equal to the percentage of the employee's Compensation which he has elected to have withheld (but no more than 10%) multiplied by the

employee's Compensation over the Offering period. Such market value per share of the

-3-

4

Common Stock shall be determined as provided in clause (i) of Paragraph 7(b).

(b) The option price of the Common Stock purchased with payroll deductions made during each such Offering for a participant therein shall be the lower of:

(i) 85% of the closing price per share on the Offering Commencement Date as reported by a nationally recognized stock exchange, or, if the Common Stock is not listed on such an exchange, as reported by the National Association of Securities Dealers Automated Quotation System ("Nasdaq") National Market System or, if the Common Stock is not listed on the Nasdaq National Market System, 85% of the mean of the bid and asked prices per share on the Offering Commencement Date or, if the Common Stock is not traded over-the-counter, 85% of the fair market value on the Offering Commencement Date as determined by the Committee; and

(ii) 85% of the closing price per share on the Offering Termination Date as reported by a nationally recognized stock exchange, or, if the Common Stock is not listed on such an exchange, as reported by the Nasdaq National Market System or, if the Common Stock is not listed on the Nasdaq National Market System, 85% of the mean of the bid and asked prices per share on the Offering Termination Date or, if the Common Stock is not traded over-the-counter, 85% of the fair market value on the Offering Termination Date as determined by the Committee.

#### 8. EXERCISE OF OPTION.

(a) Unless a participant gives written notice to the Treasurer of the Company as hereinafter provided, his option for the purchase of Common Stock with payroll deductions made during any Offering will be deemed to have been exercised automatically on the Offering Termination Date applicable to such Offering for the purchase of the number of full shares of Common Stock which the accumulated payroll deductions in his account at that time will purchase at the applicable option price (but not in excess of the number of shares for which options have been granted the employee pursuant to Paragraph 7(a)), and any excess in his account at that time, other than amounts representing fractional shares, will be returned to him.

(b) Fractional shares will not be issued under the Plan and any accumulated payroll deductions which would have been used to purchase fractional shares shall be automatically carried forward to the next Offering unless the

participant elects, by written notice to the Treasurer of the Company, to have the excess cash returned to him.

-4-

5

9. DELIVERY.

The Company will deliver to each participant (as promptly as possible after the appropriate Offering Termination Date), a certificate representing the Common Stock purchased upon exercise of his option.

10. WITHDRAWAL AND TERMINATION.

(a) Prior to the Offering Termination Date for an Offering, any participant may withdraw the payroll deductions credited to his account under the Plan for such Offering by giving written notice to the Treasurer of the Company. All of the participant's payroll deductions credited to such account will be paid to him promptly after receipt of notice of withdrawal, without interest, and no future payroll deductions will be made from his pay during such Offering. The Company will treat any attempt to borrow by a participant on the security of accumulated payroll deductions as an election to withdraw such deductions.

(b) Except as set forth in Paragraphs 6(d) and 7(c), a participant's election not to participate in, or withdrawal from, any Offering will not have any effect upon his eligibility to participate in any succeeding Offering or in any similar plan which may hereafter be adopted by the Company.

(c) Upon termination of the participant's employment for any reason, including retirement but excluding death, the payroll deductions credited to his account will be returned to him, or, in the case of his death, to the person or persons entitled thereto under Paragraph 14.

(d) Upon termination of the participant's employment because of death, his beneficiary (as defined in Paragraph 14) shall have the right to elect, by written notice given to the Company's Treasurer prior to the expiration of a period of 90 days commencing with the date of the death of the participant, either:

(i) to withdraw all of the payroll deductions credited to the participant's account under the Plan; or

(ii) to exercise the participant's option for the purchase of stock on the Offering Termination Date next following the date of the participant's death for the purchase of the number of full shares which the

accumulated payroll deductions in the participant's account at the date of the participant's death will purchase at the applicable option price (subject to the limitation contained in Paragraph 7(a)), and any excess in such account will be returned to said beneficiary. In the event that no such written notice of election shall be duly received by the

-5-

6

office of the Company's Treasurer, the beneficiary shall automatically be deemed to have elected to withdraw the payroll deductions credited to the participant's account at the date of the participant's death and the same will be paid promptly to said beneficiary.

11. INTEREST.

No interest will be paid or allowed on any money paid into the Plan or credited to the account of any participating employee.

12. STOCK.

(a) The maximum number of shares of Common Stock available for issuance and purchase by employees under the Plan, subject to adjustment upon changes in capitalization of the Company as provided in Paragraph 17, shall be 150,000 shares of Common Stock, par value \$.01 per share, of the Company. If the total number of shares for which options are exercised on any Offering Termination Date in accordance with Paragraph 8 exceeds the maximum number of shares for the applicable Offering, the Company shall make a pro rata allocation of the shares available for delivery and distribution in an equitable manner, and the balances of payroll deductions credited to the account of each participant under the Plan shall be returned to the participant.

(b) The participant will have no interest in stock covered by his option until such option has been exercised.

13. ADMINISTRATION.

The Plan shall be administered by the Committee. The interpretation and construction of any provision of the Plan and adoption of rules and regulations for administering the Plan shall be made by the Committee. Determinations made by the Committee with respect to any matter or provision contained in the Plan shall be final, conclusive and binding upon the Company and upon all participants, their heirs or legal representatives. Any rule or regulation adopted by the Committee shall remain in full force and effect unless and until altered, amended, or repealed by the Committee.

14. DESIGNATION OF BENEFICIARY.

A participant shall file with the Treasurer of the Company a written designation of a beneficiary who is to receive any Common Stock and/or cash under the Plan. Such designation of beneficiary may be changed by the participant at any time by written notice. Upon the death of a participant and upon receipt by the Company of proof of the identity and existence at the participant's death of a beneficiary validly designated by him

-6-

7

under the Plan, the Company shall deliver such Common Stock and/or cash to such beneficiary. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death, the Company shall deliver such Common Stock and/or cash to the executor or administrator of the estate of the participant. No beneficiary shall prior to the death of the participant by whom he has been designated, acquire any interest in the Common Stock and/or cash credited to the participant under the Plan.

15. TRANSFERABILITY.

Neither payroll deductions credited to a participant's account nor any rights with regard to the exercise of an option or to receive Common Stock under the Plan may be assigned, transferred, pledged, or otherwise disposed of in any way by the participant other than by will or the laws of descent and distribution. Any such attempted assignment, transfer, pledge, or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds in accordance with Paragraph 10.

16. USE OF FUNDS.

All payroll deductions received or held by the Company under this Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions.

17. EFFECT OF CHANGES OF COMMON STOCK.

If the Company shall subdivide or reclassify the Common Stock which has been or may be subject to options under this Plan, or shall declare thereon any dividend payable in shares of such Common Stock, or shall take any other action of a similar nature affecting such Common Stock, then the number and class of shares of Common Stock which may thereafter be subject to options under the Plan (in the aggregate and to any participant) shall be adjusted accordingly and in the case of each option outstanding at the time of any such action, the number and class of shares which may thereafter be purchased pursuant to such option and the option price per share shall be adjusted to such extent as may be

determined by the Committee, with the approval of independent public accountants and counsel, to be necessary to preserve the rights of the holder of such option.

18. AMENDMENT OR TERMINATION.

The Board may at any time terminate or amend the Plan. No such termination shall affect options previously granted, nor may an amendment make any change in any option theretofore

-7-

8

granted which would adversely affect the rights of any participant holding options under the Plan without the consent of such participant.

19. NOTICES.

All notices or other communications by a participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received by the Treasurer of the Company.

20. MERGER OR CONSOLIDATION.

If the Company shall at any time merge into or consolidate with another corporation, the holder of each option then outstanding will thereafter be entitled to receive at the next Offering Termination Date upon the exercise of such option, in lieu of the number of shares of Common Stock as to which such option shall be exercisable, the number and class of shares of stock or other securities or property to which such holder would have been entitled pursuant to the terms of the agreement of merger or consolidation if, immediately prior to such merger or consolidation, such holder had been the holder of record of a number of shares of Common Stock equal to the number of shares for which such option was exercisable. In accordance with this Paragraph and Paragraph 17, the Committee shall determine the kind and amount of such securities or property which such holder of an option shall be entitled to receive. A sale of all or substantially all of the assets of the Company shall be deemed a merger or consolidation for the foregoing purposes.

21. APPROVAL OF STOCKHOLDERS.

The Plan is subject to the approval of the stockholders of the Company at their next annual meeting or at any special meeting of the stockholders for which one of the purposes shall be to act upon the Plan.

22. GOVERNMENTAL AND OTHER REGULATIONS.



The Plan, and the grant and exercise of the rights to purchase shares hereunder, and the Company's obligation to sell and deliver shares upon the exercise of rights to purchase shares, shall be subject to all applicable federal, state and foreign laws, rules and regulations, and to such approvals by any regulatory or governmental agency as may, in the opinion of counsel for the Company, be required. The Plan shall be governed by, and construed and enforced in accordance with, the provisions of Sections 421, 423 and 424 of the Code and the substantive laws of The Commonwealth of Massachusetts. In the event of any inconsistency between such provisions of the Code and any such laws, such provisions of the Code shall govern to the extent

-8-

9

necessary to preserve favorable federal income tax treatment afforded employee stock purchase plans under Section 423 of the Code.

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-9-

EMPLOYEE SEPARATION AGREEMENT  
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THIS AGREEMENT made as of this 31st day of July, 1996 by and between Project Software & Development, Inc., a Massachusetts corporation having a usual place of business in Cambridge, Massachusetts ("PSDI"), and Dean F. Goodermote ("Goodermote") of Wayland, Massachusetts.

W I T N E S S E T H T H A T:  
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WHEREAS, Goodermote currently serves on the Board of Directors of PSDI;  
WHEREAS, PSDI has employed Goodermote most recently as President and Chief Operating Officer; and

WHEREAS, PSDI and Goodermote wish to set forth the terms of the termination of Goodermote's employment as President and Chief Operating Officer of PSDI, his retention as an employee of PSDI with modified responsibilities and his continued undertaking to serve as a director of PSDI;

NOW, THEREFORE, in consideration of the premises and the covenants and agreements set forth herein, PSDI and Goodermote hereby agree as follows:

1. Goodermote hereby resigns as President and Chief Operating Officer of PSDI, effective July 31, 1996 (the "termination date"). At the request of PSDI, Goodermote will execute and deliver to PSDI a separate instrument embodying such resignation.

2. Commencing on the termination date and continuing until January 31, 1997 (hereinafter referred to as the "continuation period"), unless extended, Goodermote shall continue as an employee of PSDI and shall be paid an amount equal in rate to the base salary of \$833.33 per month less applicable deductions. Except as expressly set forth in this Agreement, he shall not be entitled to benefit from or continue to participate in any bonus or deferred compensation plan maintained by PSDI and as of July 31, 1996, shall participate in welfare or benefit plans maintained by PSDI under PSDI's policy for terminated employees. All payments during the continuation period shall be made consistent with PSDI's regular pay cycle. During the continuation period and in consideration of such payments, Goodermote shall use his best efforts to perform such duties as the Board of Directors of PSDI, or the Chief Executive Officer of PSDI in consultation with the Board of Directors, shall assign to him; provided, however, that the time reasonably required to perform such duties shall not

exceed an average of 2 hours per week in any calendar month during the continuation period.

3. All options which have heretofore been granted to Goodermote under PSDI's Amended and Restated 1994 Stock Incentive and Nonqualified Stock Option Plan (the "options") shall be exercisable, and expire, in accordance with their terms. It is specifically acknowledged by the parties hereto that the continuation period shall constitute continued employment by PSDI for the purpose of Section Sixth of each such option relating to the vesting and expiration of each such option and that no

-2-

3

options or portions thereof shall vest after the last scheduled vesting date in the continuation period, December 31, 1996.

4. Goodermote shall be entitled to his laptop computer when his employment with PSDI ends.

5. Except as provided above or as otherwise agreed with PSDI, all other benefits heretofore provided by PSDI to Goodermote as a full time employee have terminated as of the termination date. Goodermote specifically acknowledges that the payments during the continuation period are in lieu of all other benefits and payments which otherwise may have been payable to him as a result of his termination under benefit plans or policies of PSDI, including, without limitation, additional severance, bonus payments and separation pay, and he hereby waives any rights he may have in or to any such other benefits or payments, it being the intention of the parties hereto to convert and merge all such rights into this Agreement.

6. Any other provision hereof to the contrary notwithstanding, Goodermote agrees that it is his intention, if he is elected, to continue to serve on the Board of Directors of PSDI through the conclusion of the term expiring upon the qualification of a successor director elected at the 1998 annual meeting of stockholders of PSDI. By written notice to Goodermote, PSDI may terminate Goodermote's employment hereunder prior to the end of the continuation period if he should resign as a member of the Board of Directors, commit a material breach of this Agreement or be removed as a member of the Board of Directors for cause before the end of such period. PSDI shall

-3-

4

provide Goodermote such expense reimbursement and cash compensation as is typical for its directors who are not full time employees in connection with any

such service rendered by Goodermote after the conclusion of the continuation period on January 31, 1997; provided, that, PSDI shall not be required to grant Goodermote any further options as a result of such service or election.

7. Goodermote understands that as a director, officer and senior employee of PSDI he has had access, and that as a director and employee of PSDI he will have access, to confidential and proprietary information concerning PSDI and its affiliates. Goodermote agrees that he will not disclose or use any such confidential or proprietary information, whether for his benefit or for the benefit of another, and that, without limiting the generality of the foregoing, unless he has specific prior written authorization from PSDI, he will not disclose any such confidential or proprietary information to any person, firm, corporation or other entity, whether or not in competition with PSDI or any of its affiliates, for any reason or purpose whatsoever. Goodermote has heretofore signed a Proprietary Information and Inventions Agreement ("Proprietary Information Agreement") in favor of PSDI and agrees to continue to comply with it fully after the date hereof. Goodermote specifically agrees that the Board of Directors process leading to his resignation is confidential and proprietary information of PSDI.

8. Goodermote hereby agrees to be publicly supportive of PSDI. Goodermote agrees not to criticize, disparage or otherwise

-4-

5

comment negatively about, orally or in writing, directly or indirectly, PSDI, its affiliates or any of their respective past, present or future officers, directors, employees, agents, businesses, suppliers or service providers, products or services. PSDI agrees not to criticize, disparage or otherwise comment negatively about Goodermote, orally or in writing, directly or indirectly. As used herein, the term "publicly" shall include communications with analysts, investment bankers, stockholders of PSDI and other members of the financial community. Goodermote agrees to use his best efforts to ensure that none of the members of his family so criticize or disparage any of such persons or entities. Goodermote further agrees that he shall be publicly and privately cooperative and supportive of PSDI in regard to its personnel, corporate practices and policies and other matters.

9. For a period of one year from the date of this Agreement (the "Restricted Period") Goodermote shall not (i) solicit, encourage, or take any other action which is intended to induce any other employee of PSDI or any of its affiliates to terminate his or her employment with PSDI or any such affiliate in order to become employed by or otherwise perform services for any other person or entity, or (ii) knowingly interfere in any manner with the employment relationship between PSDI or any of its affiliates and any such employee of PSDI or any such affiliate. During the Restricted Period, Goodermote shall not knowingly permit any organization of which he is an officer to employ any such employee of PSDI or its affiliates.

6

10. This Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their respective heirs, legal representatives, successors and assigns, and shall inure to the benefit of all past, present and future directors, officers, stockholders in their capacity as stockholders, employees, affiliates, agents and attorneys of PSDI and their respective heirs, legal representatives, successors and assigns.

11. This Agreement and the Proprietary Information Agreement constitute the entire agreement between the parties concerning the subject matter hereof and supersede all prior agreements and understandings, oral or written, between them concerning such subject matter.

12. This Agreement shall be governed by, and construed and enforced in accordance with, the substantive laws of the Commonwealth of Massachusetts without regard to its principles of conflicts of laws.

13. This Agreement may be executed in one or more counterparts, each of which when so executed shall be deemed to be an original, and all of which together shall constitute one and the same agreement.

IN WITNESS WHEREOF, PSDI and Goodermote have set their hands and seals as of the date first above written.

ATTEST:

PROJECT SOFTWARE &  
DEVELOPMENT, INC.

/s/ Peter M, Rosenblum[Seal]  
-----

By: /s/ Robert L. Daniels  
-----  
Its CEO thereunto  
duly authorized

WITNESS:

7

/s/ William G. Nelson[Seal]  
-----

/s/ Dean F. Goodermote  
-----  
Dean F. Goodermote



## PROJECT SOFTWARE &amp; DEVELOPMENT, INC.

## STATEMENT RE COMPUTATION OF EARNINGS (LOSS) PER SHARE

<TABLE>  
<CAPTION>

Type of Security -----	Primary -----	Fully ----- Diluted -----
COMPANY, FOR THE YEAR ENDED SEPTEMBER 30, 1994: (in thousands, except share and per share data)		
<S>	<C>	<C>
Weighted average common shares outstanding .	6,858,513	6,858,513
Common stock equivalents .....	83,909	104,298
	-----	-----
	6,942,422	6,962,811
	-----	-----
Historical net income .....	\$ 2,315	\$ 2,315
Historical net income per share .....	\$ 0.33	\$ 0.33
Pro forma net income .....	\$ 2,601	\$ 2,601
Pro forma income per share .....	\$ 0.37	\$ 0.37
COMPANY, FOR THE YEAR ENDED SEPTEMBER 30, 1995: (in thousands, except share and per share data)		
Weighted average common shares outstanding..	8,530,882	8,530,882
Common stock equivalents .....	314,864	329,420
	-----	-----
	8,845,746	8,860,302
	-----	-----
Historical net income .....	\$ 5,629	\$ 5,629
Historical net income per share.....	\$ 0.64	\$ 0.64
COMPANY, FOR THE YEAR ENDED SEPTEMBER 30, 1996: (in thousands, except share and per share data)		
Weighted average common shares outstanding..	9,602,710	9,602,710
Common stock equivalents .....	449,198	481,571
	-----	-----
	10,051,908	10,084,281
	-----	-----

Historical net income .....	\$	10,046	\$	10,046
Historical net income per share .....	\$	1.00	\$	1.00

</TABLE>



## PROJECT SOFTWARE &amp; DEVELOPMENT, INC.

List of Subsidiaries  
-----

<TABLE>  
<CAPTION>

Name of Subsidiary -----	Jurisdiction of ----- Incorporation -----	Ownership -----
<S>	<C>	<C>
PSDI International Software, Inc.	Delaware	(1)
PSDI Security Corporation	Massachusetts	(1)
PSDI (UK) Ltd.	United Kingdom	(2)
PSDI Canada Limited	Canada	(2)
PSDI France SARL	France	(2)
PSDI Australia PTY. Ltd.	Australia	(2)
PSDI Deutschland GmbH	Germany	(2)
PSDI Europe, Ltd.	United Kingdom	(2)
PSDI Espana S.A.	Spain	(2)
PSDI Benelux N.V.	Netherlands	(2)
PSDI Norden AB	Sweden	(2)

</TABLE>

(1) All of the outstanding capital stock is owned by Project Software & Development, Inc.

(2) All of the outstanding capital stock (other than certain qualifying shares required in the jurisdiction of organization and representing from 0% to 2% of the outstanding capital stock), is owned by PSDI International Software, Inc.

## CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of Project Software & Development, Inc. on Form S-8 (File Nos. 33-79074, 33-79142, 33-95774, 33-95780, 333-3402) of our report dated November 8, 1996, on our audits of the consolidated financial statements and financial statements schedule of Project Software & Development, Inc. as of September 30, 1996 and 1995, and for the years ended September 30, 1996 and 1995, which report is included in this annual report on form 10-K.

Coopers & Lybrand L.L.P.

Boston, Massachusetts  
December 19, 1995

<TABLE> <S> <C>

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<MULTIPLIER> 1,000

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<EPS-DILUTED>	1.00

</TABLE>

## CERTAIN FACTORS

Project Software & Development, Inc. (the "Company") is filing this Exhibit with the Securities and Exchange Commission in order to set forth in a readily available document certain significant risks and uncertainties that are important considerations to be taken into account in conjunction with consideration and review of the Company's reports, registration statements, information statements, press releases, and other publicly-disseminated documents (including oral statements concerning Company business information made by others on behalf of the Company) that include forward-looking information.

The nature of forward-looking information is that such information involves assumptions, risks and uncertainties. Certain public documents of the Company and oral statements made by authorized officers, directors, employees, agents and representatives of the Company, acting on its behalf, may include forward-looking information which will be influenced by the following and other assumptions, risks and uncertainties. Forward-looking information requires management of the Company to make assumptions, estimates, forecasts and projections regarding the Company's future results as well as the future effectiveness of the Company's strategic plans and future operational decisions. Forward-looking statements made by or on behalf of the Company are subject to the risk that the forecasts, projections, and expectations of management, or assumptions underlying such forecasts, projections and expectations, may become inaccurate. Accordingly, actual results and the Company's implementation of its plans and operations may differ materially from forward-looking statements made by or on behalf of the Company. The following discussion identifies certain important factors that could affect the Company's actual results and actions and could cause such results and actions to differ materially from any forward-looking statements made by or on behalf of the Company that related to such results and actions. Other factors, which are not identified herein, could also have such an effect.

### GENERAL ECONOMIC RISK FACTORS

Forward-looking statements of the Company are subject to the risk that assumptions made by management of the Company concerning future general economic conditions such as recession, inflation, interest rates, tax rates, consumer spending and credit and other future conditions having an impact on software markets and the Company's business may prove to be incorrect. Adverse changes in such future economic conditions could have an adverse effect on the Company's business.

### RAPID TECHNOLOGICAL CHANGE

The computer software industry is characterized by rapid technological

advances, changes in customer requirements and frequent product introductions and enhancements. The Company's success depends upon its ability to continue to enhance its current products and to develop and introduce new products that keep pace with technological developments, respond to evolving customer requirements and achieve market acceptance. In particular, the

2

Company believes that it must continue to respond quickly to users' needs for broad functionality and to advances in hardware and operating systems. Any failure by the Company to anticipate or respond adequately to technological developments and customer requirements, or any significant delays in product development or introduction, could result in a loss of competitiveness and revenues. There can be no assurance that the Company will be successful in developing and marketing new products or product enhancements, or that the Company will not experience significant delays in developing such new products or product enhancements, which delays could have a material adverse effect on the Company's results of operations. In addition, there can be no assurance that new products and product enhancements developed by the Company will achieve market acceptance.

#### DEPENDENCE ON MAXIMO

The Company's revenues are primarily attributable to the licensing of its MAXIMO product, introduced in 1991, and to related services and support. Revenues from licenses of MAXIMO and related services and support accounted for approximately 91.0% of the Company's total revenues in fiscal 1996. The Company's financial performance in fiscal 1997 will depend on continued market acceptance of MAXIMO. The Company believes that continued market acceptance of MAXIMO will largely depend on its ability to enhance and broaden the capabilities of MAXIMO, by, among other things, developing additional application modules for MAXIMO, versions of MAXIMO that will utilize additional industry standard databases and by developing and incorporating into the MAXIMO product technologies that are emerging in connection with the Internet. Any factor adversely affecting sales of MAXIMO, such as delays in development, significant software flaws, incompatibility with significant hardware platforms, operating systems or databases, increased competition or negative evaluations of the products, would have a material adverse effect on the Company's business and financial results.

#### FLUCTUATIONS IN QUARTERLY OPERATING RESULTS; SEASONALITY

The Company has experienced, and may in the future experience, significant period-to-period fluctuations in revenues and operating results. The Company's revenues and income from operations typically grow at a lower rate or decline in the first quarter of each fiscal year, compared to the fourth quarter of the preceding fiscal year. In addition, revenues are typically higher in the fourth

quarter than in other quarters of the year. The Company believes that these quarterly patterns are partly attributable to the Company's sales commission policies, which compensate members of the Company's direct sales force for meeting or exceeding annual quotas. In addition, the Company's quarterly revenues and operating results have fluctuated historically, due to the number and timing of product introductions and enhancements, the budgeting and purchasing cycles of customers, the timing of product shipments and the timing of marketing and product development expenditures. The Company typically realizes a significant portion of its revenue from software licenses in the last month of a quarter, frequently in the last weeks or even days of

-2-

3

a quarter. Large software license contracts may have a significant impact on revenues for any quarter and could therefore result in significant fluctuations in quarterly revenues and operating results. Accordingly, the Company believes that period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as an indication of future performance.

The Company generally ships its products upon receipt of orders and maintains no significant backlog. As a result, revenues from license fees in any quarter are substantially dependent on orders booked and shipped in that quarter. A delay in or loss of orders can cause significant variations in operating results. A significant portion of the Company's operating expenses are fixed in the short term, and planned expenditures are based primarily on sales forecasts. Accordingly, if revenues do not meet the Company's expectations in any given quarter, operating results may be materially adversely affected.

#### COMPETITION

The market for applications software is intensely competitive and rapidly changing. While the Company believes that it has competed effectively to date, competition in its industry is likely to intensify as current competitors expand their product lines and new companies enter the market. To remain successful in the future, the Company must respond promptly and effectively to the challenges of technological change, evolving standards and its competitors' innovations by continually enhancing its own product, services and support offerings, as well as its marketing programs. There can be no assurance that the Company will continue to be able to compete successfully in the future.

The market for asset maintenance software is fragmented by geography, by

hardware platform and by industry orientation, and is characterized by a large number of competitors. Currently, the Company's client/server versions of MAXIMO, MAXIMO Enterprise and Workgroup, compete with products of a number of large vendors which have traditionally provided maintenance software running on mainframes and minicomputers and are now offering systems for use in the client/server environment. MAXIMO Enterprise also competes with integrated enterprise management systems which are provided by several large vendors and which include maintenance modules. MAXIMO ADvantage competes with a number of competitors, including a national vendor and other various small regional companies. The Company expects that in the future MAXIMO Enterprise and Workgroup may encounter competition from vendors of low cost maintenance management systems designed initially for use by a single user or limited number of users as vendors of these products upgrade their functionality in an attempt to enter the client/server market.

Certain of the Company's competitors have greater financial, marketing, service and support and technological resources than the Company. To the extent that such competitors increase their focus on the asset maintenance or planning and cost systems markets, the Company could be at a competitive disadvantage.

-3-

4

## INTERNATIONAL OPERATIONS

A significant portion of the Company's total revenues are derived from operations outside the United States. The Company derived 40.5%, 38.4%, and 39.7% of its total revenue from sales outside the United States in fiscal years 1996, 1995, and 1994, respectively. This international business is subject to various risks common to international activities, including exposure to currency fluctuations, greater difficulty in collecting accounts receivable, political and economic instability, the greater difficulty of administering business abroad and the need to comply with a wide variety of foreign import and United States export laws and regulatory requirements. A significant portion of the Company's total revenue is derived from international operations which are conducted in foreign currencies. Changes in the values of these foreign currencies relative to the United States dollar have in the past adversely affected, and may in the future affect, the Company's results of operations and financial position. Gains and losses on translation to United States dollars and settlement of receivables from international subsidiaries may contribute to fluctuations in the Company's results of operations. To date, the Company has

not engaged in currency hedging transactions. The Company may in the future undertake currency hedging, although there can be no assurance that hedging transactions, if entered into, would materially reduce the effects of fluctuations in foreign currency exchange rates on the Company's results of operations.

#### DEPENDENCE ON THIRD PARTIES

MAXIMO Enterprise and Workgroup operate with the ORACLE, SYBASE and Centura Corporation's SQLBase database management systems. The Company is developing an interface for MAXIMO Enterprise to the SQLServer database management system, but such additional version is not yet available. MAXIMO ADvantage runs on the Microsoft Access database. Introduction and increased market acceptance of database management systems with which the Company's products do not operate, or failure of ORACLE, SYBASE, SQLBase or Access to achieve continued market acceptance, could adversely affect the market for the Company's products.

The Company has entered into non-exclusive license agreements with Centura Corporation, Management Information Technology, Incorporated and Netronic Software GmbH, pursuant to which the Company incorporates into its products software providing certain application development, user interface and graphics capabilities developed by these companies. If the Company were unable to renew these licenses, or if any of such vendors were to become unable to support and enhance its products, the Company could be required to devote additional resources to the enhancement and support of these products or to acquire or develop software providing equivalent capabilities, which could cause delays in the development and introduction of products incorporating such capabilities.

-4-

5

#### PRODUCT DEVELOPMENT: INTERNET

The Company is currently developing software to incorporate into the MAXIMO product technologies emerging in conjunction with the Internet. Internet technologies and applications generally are developing and gaining acceptance rapidly in the market. There can be no assurance that the Company will successfully anticipate trends in this market, that the Company will be successful in its Internet development efforts or that the Company's Internet applications, if developed, will achieve market acceptance.



The Company's success is dependent upon proprietary technology. The Company currently has no patents and protects its technology primarily through copyrights, trademarks, trade secrets and employee and third party non-disclosure agreements. The Company's software products are often licensed to customers under "shrink wrap" licenses included as part of the product packaging. Although, in larger sales, the Company's shrink wrap licenses may be accompanied by specifically negotiated agreements signed by the licensee, in many cases its shrink wrap licenses are not negotiated with or signed by individual licensees. Certain provisions of the Company's shrink wrap licenses, including provisions protecting against unauthorized use, copying, transfer and disclosure of the licensed program, may be unenforceable under the laws of certain jurisdictions. In addition, the laws of some foreign countries do not protect the Company's proprietary rights to the same extent as do the laws of the United States. There can be no assurance that the steps taken by the Company to protect its proprietary rights will be adequate to prevent misappropriation of its technology or development by others of similar technology. Although the Company believes that its products and technology do not infringe on any existing proprietary rights of others, there can be no assurance that third parties will not assert infringement claims in the future.

#### LACK OF A CHIEF EXECUTIVE OFFICER

Since August 1996, the Company has operated without a Chief Executive Officer. Although the Board of Directors is currently engaged in a search for a new Chief Executive Officer, no assurance can be given that an acceptable new Chief Executive Officer will be identified or that if such person is identified, such person will be successful in managing the Company or in obtaining acceptance by the financial markets.

#### DEPENDENCE ON KEY PERSONNEL

The Company is highly dependent on certain key executive officers and technical employees, the loss of one or more of whom could have an adverse impact on the future operations of the Company. The Company does not have employment contracts with, and does not maintain key person life insurance policies on, any personnel. In addition, the

Company may need to hire additional skilled personnel to support the continued

growth of its business. There can be no assurance that the Company will be able to retain its existing personnel or attract additional qualified employees.

#### MAXIMO ADVANTAGE; MAINTENANCE AUTOMATION CORPORATION

The core of the software constituting MAXIMO ADvantage was acquired by the Company through its acquisition of Maintenance Automation Corporation ("MAC"). MAC's product, Chief ADvantage, has been renamed MAXIMO ADvantage and enhanced since the acquisition. The software architecture for PC-based MAXIMO ADvantage is significantly different from the client/server architecture of MAXIMO Enterprise and Workgroup. Since its acquisition of MAC, the Company has incurred significant additional and unexpected costs to complete the development of MAXIMO ADvantage that meets the quality and functionality standards demanded by the Company. In addition to these unexpected costs, there has been a delay in excess of six months in completing the new release of this product. The Company has restructured MAC's telesales distribution operation for MAXIMO ADvantage. No assurance can be given that MAC will in the future be profitable or that its telesales distribution operation for MAXIMO ADvantage will achieve the Company's goals.

#### POSSIBLE VOLATILITY OF STOCK PRICE

The market price of the Company's Common Stock has increased significantly since the Company's initial public offering in April 1994. Fiscal 1996 was marked by generally rising stock prices, favorable industry conditions and improved operating results by the Company, all of which are subject to change. Factors such as announcements of technological innovations or new products by the Company, its competitors and other third parties, as well as quarterly variations in the Company's results of operations and market conditions in the industry, may cause the market price of the Common Stock to fluctuate significantly. In addition, the stock market in general has recently experienced substantial price and volume fluctuations, which have particularly affected the market prices of many software companies and which have often been unrelated to the operating performance of such companies. These broad market fluctuations may adversely affect the market price of the Common Stock.

#### LITIGATION RISKS

The Company is subject to the normal risks of litigation with respect to its business operation.

#### FACTORS AFFECTING THE COMPANY'S BUSINESS ARE SUBJECT TO CHANGE

This Exhibit contains cautionary statements concerning certain factors that may influence the business of the Company and are made as of the date of this Exhibit. Such

factors are subject to change. The cautionary statements set forth in this Exhibit are not intended to cover all of the factors that may affect the Company's business in the future. Forward-looking information disseminated publicly by the Company following the date of this Exhibit may be subject to additional factors hereinafter published by the Company.

NO REVISIONS OR UPDATES TO FORWARD-LOOKING STATEMENTS

The Company will have no obligation to release publicly any revision or update to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

December 27, 1996