

ASPEN TECHNOLOGY INC /DE/  
Form 10-Q  
February 19, 2009  
Table of Contents

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2008

OR

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

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

Commission File Number: 000-24786

**Aspen Technology, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**04-2739697**

(I.R.S. Employer Identification No.)

Edgar Filing: ASPEN TECHNOLOGY INC /DE/ - Form 10-Q

**200 Wheeler Road  
Burlington, Massachusetts**

**01803**

(Address of Principal Executive Offices)

(Zip Code)

**(781) 221-6400**

(Registrant's telephone number, including area code)

---

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer   
Non-Accelerated Filer

Accelerated Filer   
Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes  No

As of February 10, 2009, there were 90,323,294 shares of the registrant's common stock (par value \$0.10 per share) outstanding.

---

Table of Contents

**TABLE OF CONTENTS**

	<b>Page</b>
<u>PART I. FINANCIAL INFORMATION</u>	
<u>FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	3
<u>Condensed Consolidated Financial Statements (unaudited)</u>	3
<u>Condensed Consolidated Balance Sheets</u>	3
<u>Condensed Consolidated Statements of Operations</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	5
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	6
<u>Item 2.</u>	26
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
<u>Item 3.</u>	37
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	37
<u>Item 4.</u>	38
<u>Controls and Procedures</u>	38
<u>PART II. OTHER INFORMATION</u>	
<u>OTHER INFORMATION</u>	
<u>Item 1.</u>	42
<u>Legal Proceedings</u>	42
<u>Item 1A.</u>	44
<u>Risk Factors</u>	44
<u>Item 6.</u>	58
<u>Exhibits</u>	58
<u>SIGNATURES</u>	60

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements (unaudited)****ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited and in thousands, except share data)**

	March 31, 2008	June 30, 2007
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 136,355	\$ 132,267
Accounts receivable, net	63,957	47,200
Unbilled services	4,493	10,641
Current portion of installments receivable, net	43,141	14,214
Current portion of collateralized receivables, net	57,253	104,473
Deferred tax assets	2,620	
Prepaid expenses and other current assets	11,477	10,163
Total current assets	319,296	318,958
Non-current installments receivable, net	79,485	28,613
Non-current collateralized receivables, net	116,901	140,603
Property and leasehold improvements, net	10,814	6,535
Computer software development costs	5,974	11,104
Other intangible assets, net	689	585
Goodwill	18,936	19,112
Other assets	2,251	3,387
	\$ 554,346	\$ 528,897
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Current portion of term debt	\$	\$ 193
Current portion of secured borrowing	56,149	101,826
Accounts payable	3,202	5,833
Accrued expenses and other current liabilities	61,461	67,068
Income tax payable	19,960	28,674
Deferred revenue	117,397	62,345
Total current liabilities	258,169	265,939
Long-term secured borrowing	114,570	104,324
Deferred revenue	1,105	4,761
Deferred tax liability	625	625
Other liabilities	28,971	16,042
Commitments and contingencies (Note 13)		
Series D redeemable convertible preferred stock, \$0.10 par value Authorized 3,636 shares as of March 31, 2008 and June 30, 2007		
Stockholders' equity:		
Common stock; par value \$0.10 per share:		
Authorized 120,000,000 shares		
Issued 90,214,060 as of March 31, 2008 and 89,133,494 shares as of June 30, 2007		
Outstanding 89,980,596 as of March 31, 2008 and 88,900,030 as of June 30, 2007	9,021	8,913

Edgar Filing: ASPEN TECHNOLOGY INC /DE/ - Form 10-Q

Additional paid-in capital	491,034	480,671
Accumulated deficit	(357,175)	(361,463)
Accumulated other comprehensive income	8,539	9,598
Treasury stock, at cost	(513)	(513)
Total stockholders' equity	150,906	137,206
	\$ 554,346	\$ 528,897

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

Table of Contents

## ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited and in thousands, except per share data)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2008	2007 (As restated, See Note 2)	2008	2007 (As restated, See Note 2)
<b>Revenues:</b>				
Software licenses	\$ 40,018	\$ 43,299	\$ 108,716	\$ 131,878
Service and other	34,226	36,201	104,585	107,781
Total revenues	74,244	79,500	213,301	239,659
<b>Cost of revenues:</b>				
Cost of software licenses	4,034	3,571	11,241	10,429
Cost of service and other	17,416	18,620	51,824	54,564
Amortization of technology related intangible assets		1,632		5,206
Total cost of revenues	21,450	23,823	63,065	70,199
Gross profit	52,794	55,677	150,236	169,460
<b>Operating costs:</b>				
Selling and marketing	25,362	23,505	70,946	66,833
Research and development	11,592	12,120	33,853	31,339
General and administrative	13,844	11,402	39,333	36,027
Restructuring charges	111	1,597	8,628	3,632
Loss (gain) on sales and disposals of assets	13	161	(87)	234
Total operating costs	50,922	48,785	152,673	138,065
Income (loss) from operations	1,872	6,892	(2,437)	31,395
Interest income	6,136	5,634	18,082	16,107
Interest expense	(4,510)	(4,669)	(13,738)	(13,995)
Foreign currency exchange gain (loss)	2,653	(176)	4,846	2,871
Income before provision for income taxes	6,151	7,681	6,753	36,378
Provision for income taxes	(2,118)	(2,595)	(2,465)	(8,797)
Net income	4,033	5,086	4,288	27,581
Accretion of preferred stock discount and dividends		(146)		(7,290)
Income attributable to common shareholders	\$ 4,033	\$ 4,940	\$ 4,288	\$ 20,291
Basic income per share attributable to common shareholders	\$ 0.04	\$ 0.06	\$ 0.05	\$ 0.31
Diluted income per share attributable to common shareholders	\$ 0.04	\$ 0.06	\$ 0.05	\$ 0.30
Basic weighted average shares outstanding	89,972	86,228	89,522	65,211
Diluted weighted average shares outstanding	93,834	91,876	93,865	90,647

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

Table of Contents

## ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited and in thousands)

	2008	Nine Months Ended March 31,	2007 (As restated, See Note 2)
Cash flows from operating activities:			
Net income	\$	4,288	\$ 27,581
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		8,337	15,172
Stock-based compensation		8,370	7,979
Non-cash interest expense from amortization of debt issuance costs		960	831
Loss on disposal of property			234
Deferred income taxes		(2,607)	(180)
Provision for doubtful accounts		(32)	913
Net foreign currency gains		(3,502)	(3,324)
Changes in assets and liabilities:			
Accounts receivable		(16,383)	1,050
Unbilled services		6,075	(2,629)
Prepaid expenses and other current assets		(1,039)	(52)
Installments and collateralized receivables		(4,911)	(3,227)
Income taxes payable		(68)	1,371
Accounts payable and accrued expenses and other current liabilities		(7,146)	1,116
Deferred revenue		51,309	2,048
Other liabilities		4,088	(3,794)
Net cash provided by operating activities		47,739	45,089
Cash flows from investing activities:			
Purchase of property and leasehold improvements		(7,146)	(1,700)
Capitalized computer software development costs			(3,160)
Decrease in other long-term assets		125	97
Net cash used in investing activities		(7,021)	(4,763)
Cash flows from financing activities:			
Issuance of common stock under employee stock purchase plan		467	858
Exercise of stock options and warrants		2,802	3,230
Payments of long-term debt and capital lease obligations		(193)	(142)
Payment of Series D dividend			(33,958)
Debt issuance costs			(1,124)
Proceeds from secured borrowing		68,338	116,256
Repayments of secured borrowing		(107,363)	(111,105)
Payment of tax withholding obligations related to restricted stock		(1,003)	
Net cash used in financing activities		(36,952)	(25,985)
Effects of exchange rate changes on cash and cash equivalents		322	223
Increase in cash and cash equivalents		4,088	14,564
Cash and cash equivalents, beginning of period		132,267	86,272
Cash and cash equivalents, end of period	\$	136,355	\$ 100,836
Supplemental disclosure of cash flow information:			
Interest paid	\$	12,772	\$ 13,213
Income taxes paid		5,113	5,879

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

Table of Contents

**ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Interim Unaudited Condensed Consolidated Financial Statements**

The accompanying interim unaudited condensed consolidated financial statements (Interim Financial Statements) of Aspen Technology, Inc. and subsidiaries (Company) have been prepared on the same basis as the Company's annual consolidated financial statements. The Company condensed or omitted certain information and footnote disclosures normally included in its annual consolidated financial statements. Such Interim Financial Statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) for interim financial information and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the SEC) for reporting on Form 10-Q. It is suggested that these Interim Financial Statements be read in conjunction with the audited consolidated financial statements for the year ended June 30, 2007, which are contained in the Company's Annual Report on Form 10-K as previously filed with the SEC. In the opinion of management, all adjustments, consisting of normal and recurring adjustments, considered necessary for a fair presentation of the financial position, results of operations, and cash flows at the dates and for the periods presented have been included and all intercompany accounts and transactions have been eliminated in consolidation. The results of operations for the nine-month period ended March 31, 2008 are not necessarily indicative of the results to be expected for the full fiscal year.

*Reclassifications*

Certain line items in the prior period financial statements have been reclassified to conform to currently reported presentations.

**2. Restatement of Condensed Consolidated Financial Statements**

Subsequent to the issuance of the Company's unaudited condensed consolidated financial statements for the nine months ended March 31, 2007, the Company identified errors related to the accounting for sales of customer installment and trade receivables to financial institutions or unconsolidated special purpose entities, which the Company refers to as receivable sale facilities. The sales of receivables were designed to meet true sale criteria for legal and accounting purposes. The transferred receivables serve as collateral under the receivable sales facilities and limited recourse exists against the Company in the event that the underlying customer does not pay. These transactions historically had been accounted and reported as sales of assets for accounting purposes, rather than as secured borrowings. As further described below, however, the Company should not have derecognized the receivables and should have recorded the cash received from the transfer of such assets as a secured borrowing in the Company's condensed consolidated balance sheets, as it effectively retained control of these assets for accounting purposes. As further discussed below, the Company also identified other errors related to revenue recognition and income tax accounting.

The Company effectively retained control for accounting purposes of the transferred assets as a result of engaging in new transactions with its customers to sell additional software and/or extend the terms of existing license arrangements, which were the basis for these installments receivable. The new transactions would sometimes consolidate the remaining balance of the outstanding receivables with additional amounts due under the new or extended software license arrangement. Some receivable sale facilities allowed for this consolidation, subject to a limit, which was exceeded. Other receivable sale facilities did not allow for this method of consolidation. Accordingly, the amount and/or method of

consolidation of these receivables resulted in the lack of legal isolation of the assets from the Company, which is one of the requirements to achieve and maintain sale accounting treatment under Statement of Financial Accounting Standards (SFAS) No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities . The Company believes that for accounting purposes, it retained control of the receivables transferred to the receivable sales facilities for each of the years in the three-year period ended June 30, 2007 and that none of the sales of receivables during this period qualified for sale accounting treatment under the provisions of SFAS No. 140. This accounting conclusion does not alter the arrangements with the Company's customers, and the Company does not believe that the accounting conclusion has changed its relationship with the financial institutions, including the limited recourse that such financial institutions have against the Company beyond the transferred receivables.

The Company's previous accounting treatment was to inappropriately account for these transactions as sales of assets. Accordingly, under its previous accounting treatment, the Company immediately recognized any gains and losses upon the transfer of assets and then recorded a retained interest in sold receivables for its continuing interest, if any, which was initially recorded at the estimated fair value. The retained interest in sold receivables was subject to periodic accretion of this interest (recorded through interest income) through the term of the respective arrangement. No recognition of the transferred receivables or any debt obligation was recognized for these transactions.

Table of Contents

**ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

To correct these errors, the Company has recorded the transferred receivables and a secured debt obligation, which are reported as collateralized receivables and secured borrowings, respectively, on the Company's condensed consolidated balance sheet, for the amount of cash received from the receivable sale facilities. There are no longer gains and losses recognized upon the transfer of these assets and any costs incurred have now been recorded as debt issuance costs. The Company now recognizes interest income from the retained installments receivable and interest expense on the secured borrowings. The previous accounting for the retained interest in the transferred installments receivables, including the accretion included in interest income has been eliminated as the entire interest in the receivables has been included in the Company's condensed consolidated balance sheets. Bad debt provisions related to the transferred receivables in the securitization programs are now reflected in the Company's condensed consolidated statements of operations. The Company has also recorded the currency exchange gains or losses on installments receivable that were previously not recorded. The funding received from the receivable sales facilities was previously recorded as cash flows from operations in the Company's condensed consolidated statements of cash flows. The Company has corrected the presentation to include the proceeds from and repayments of the secured borrowings as components of cash flows from financing activities in the condensed consolidated statements of cash flows. Repayments from collateralized receivables and operating cash flows are recognized upon customer payment of amounts due.

In addition, the Company identified other errors related to previously reported financial statements in the course of preparing the consolidated financial statements for the year ended June 30, 2007. These errors relate to the timing of revenue recognition, corrections to the Company's income tax accounting, and other items. Errors in the timing of revenue recognition primarily relate to the inappropriate application of contract accounting under Statement of Position (SOP) No. 97-2, Software Revenue Recognition. For these bundled arrangements, the Company determined that the service element could not be accounted for separately from the software licenses and applied contract accounting as required by SOP No. 97-2 for certain arrangements that bundled software licenses with services. In the application of contract accounting for these arrangements, however, the Company had deferred revenue recognition related to the license component until the services arrangements were complete, instead of recognizing total revenue under the arrangements as services were performed. In other arrangements, the Company determined that service revenue was recognized prior to the delivery of the software license, and the Company did not have vendor-specific objective evidence (VSOE) of fair value for the undelivered license or the price of the arrangement was not fixed and determinable. The Company has corrected these errors and recognized revenue over the period the services were performed for these bundled arrangements or when the criteria for revenue recognition were met.

The Company also identified errors in its historical income tax accounting which impacted the effective tax rate applied to the period. The errors included certain international tax obligations, primarily arising from errors in the application of the Company's transfer pricing policies for transactions among consolidated subsidiaries, failure to properly account for deemed dividends from the Company's consolidated subsidiaries as a result of the lack of settlement of intercompany transactions, errors in the accounting for revaluation of foreign denominated transactions, and other errors. The Company has corrected the calculation of its tax provisions for these obligations in the applicable year, including recognition of interest and penalties attributable to the adjusted tax provisions.

In order to correct the errors described above, the Company has restated its condensed consolidated statements of operations for the three months ended March 31, 2007 primarily to reflect (a) additional interest income related to the collateralized receivables of \$3.0 million, (b) additional interest expense related to the secured borrowings of \$4.5 million, (c) decreases in losses on sale and disposals of assets of \$0.5 million, (d) additional provisions for bad debt associated with the collateralized receivables and other adjustments of \$0.5 million, (e) a decrease in revenue related to errors in the timing of revenue recognition of \$0.8 million, and (f) additional provisions for income taxes of \$1.3 million.

## Edgar Filing: ASPEN TECHNOLOGY INC /DE/ - Form 10-Q

The impact of the Company's restatement of its condensed consolidated statements of operations for the nine months ended March 31, 2007 resulted in (a) additional interest income related to the collateralized receivables of \$9.3 million, (b) additional interest expense related to the secured borrowings of \$13.2 million, (c) decreases in losses on sale and disposals of assets of \$6.0 million, (d) additional provisions for bad debt associated with the collateralized receivables and other adjustments of \$1.5 million, (e) an increase in revenue related to errors in the timing of revenue recognition of \$1.4 million, and (f) additional provisions for income taxes of \$4.1 million. The corresponding impacts on the condensed consolidated statements of cash flows have been reflected for the nine months ended March 31, 2007.

Subsequent to our issuance of the condensed consolidated financial statements on Form 10-Q for the three months ended September 30, 2007, and in connection with the review of our interim financial statements for the quarters ended December 31, 2007 and March 31, 2008, we identified an error in the condensed consolidated statements of cash flows related to the manner in which we had reported repayments of secured borrowings for the three months ended September 30, 2007 and 2006. The nature of this error and its related impact was reported in our Form 10-Q/A dated February 19, 2009. This error was not present in the As Previously Reported amounts included in the cash flow adjustment table below.

Table of Contents

## ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**Revenue and Expense Adjustments**

Set forth below are the adjustments to the Company's previously issued unaudited condensed consolidated statement of operations for the three and nine months ended March 31, 2007.

	Three Months Ended March 31, 2007		
	As Previously Reported	Adjustments (In thousands, except per share data)	As Restated
<b>Revenues:</b>			
Software licenses	\$ 43,608	\$ (309)	\$ 43,299
Service and other	36,682	(481)	36,201
Total revenues	80,290	(790)	79,500
<b>Cost of revenues:</b>			
Cost of software licenses	3,571		3,571
Cost of service and other	18,620		18,620
Amortization of technology related intangible assets	1,632		1,632
Total cost of revenues	23,823		23,823
Gross profit	56,467	(790)	55,677
<b>Operating costs:</b>			
Selling and marketing	23,505		23,505
Research and development	12,120		12,120
General and administrative	10,857	545	11,402
Restructuring charges	1,597		1,597
Loss (gain) on sales and disposals of assets	695	(534)	161
Total operating costs	48,774	11	48,785
Income (loss) from operations	7,693	(801)	6,892
Interest income	2,652	2,982	5,634
Interest expense	(174)	(4,495)	(4,669)
Foreign currency exchange loss	(130)	(46)	(176)
Income (loss) before provision for taxes	10,041	(2,360)	7,681
Provision for income taxes	(1,322)	(1,273)	(2,595)
Net income (loss)	8,719	(3,633)	5,086
Accretion of preferred stock discount and dividends	(146)		(146)
Income (loss) applicable to common shareholders	\$ 8,573	\$ (3,633)	\$ 4,940
Basic income (loss) per share attributable to common shareholders	\$ 0.10	\$ (0.04)	\$ 0.06
Diluted income (loss) per share attributable to common shareholders	\$ 0.10	\$ (0.04)	\$ 0.06
Basic weighted average shares outstanding	86,228		86,228
Diluted weighted average shares outstanding	91,614	262	91,876

Table of Contents

## ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Nine Months Ended March 31, 2007		
	As Previously Reported	Adjustments	As Restated
	(In thousands, except per share data)		
<b>Revenues:</b>			
Software licenses	\$ 132,550	\$ (672)	\$ 131,878
Service and other	108,477	(696)	107,781
Total revenues	241,027	(1,368)	239,659
<b>Cost of revenues:</b>			
Cost of software licenses	10,429		10,429
Cost of service and other	54,711	(147)	54,564
Amortization of technology related intangible assets	5,206		5,206
Total cost of revenues	70,346	(147)	70,199
Gross profit	170,681	(1,221)	169,460
<b>Operating costs:</b>			
Selling and marketing	66,833		66,833
Research and development	31,339		31,339
General and administrative	34,522	1,505	36,027
Restructuring charges	3,632		3,632
Loss (gain) on sales and disposals of assets	6,270	(6,036)	234
Total operating costs	142,596	(4,531)	138,065
Income from operations	28,085	3,310	31,395
Interest income	6,848	9,259	16,107
Interest expense	(783)	(13,212)	(13,995)
Foreign currency exchange gain	2,419	452	2,871
Income (loss) before provision for taxes	36,569	(191)	36,378
Provision for income taxes	(4,652)	(4,145)	(8,797)
Net income (loss)	31,917	(4,336)	27,581
Accretion of preferred stock discount and dividends	(7,290)		(7,290)
Income (loss) applicable to common shareholders	\$ 24,627	\$ (4,336)	\$ 20,291
Basic income (loss) per share attributable to common shareholders	\$ 0.38	\$ (0.07)	\$ 0.31
Diluted income (loss) per share attributable to common shareholders	\$ 0.35	\$ (0.05)	\$ 0.30
Basic weighted average shares outstanding	65,211		65,211
Diluted weighted average shares outstanding	90,647		90,647

Table of Contents

## ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**Cash Flow Adjustments**

Set forth below are the adjustments to the Company's previously issued unaudited condensed consolidated statement of cash flows for the nine months ended March 31, 2007 (amounts in thousands).

	Nine Months Ended March 31, 2007		
	As Previously Reported	Adjustments(1)	As Restated
Cash flows from operating activities:			
Net income (loss)	\$ 31,917	\$ (4,336)	\$ 27,581
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	15,172		15,172
Loss on securitization of installments receivable	5,672	(5,672)	
Stock-based compensation	7,979		7,979
Accretion of discount on retained interest in sold receivables	(3,047)	3,047	
Non-cash interest expense from amortization of debt issuance costs		831	831
Gain (loss) on disposal of property	598	(364)	234
Deferred income taxes	(180)		(180)
Provision for doubtful accounts		913	913
Net foreign currency gains	(2,988)	(336)	(3,324)
Changes in assets and liabilities:			
Accounts receivable	745	305	1,050
Unbilled services	(3,092)	463	(2,629)
Prepaid expenses and other current assets	37	(89)	(52)
Installments and collateralized receivables	5,632	(8,859)	(3,227)
Income taxes payable		1,371	1,371
Accounts payable and accrued expenses and other current liabilities	(7,894)	9,010	1,116
Deferred revenue	2,016	32	2,048
Other liabilities	(3,794)		(3,794)
Net cash provided by (used in) operating activities	48,773	(3,684)	45,089
Cash flows from investing activities:			
Purchase of property and leasehold improvements	(1,743)	43	(1,700)
Capitalized computer software development costs	(3,040)	(120)	(3,160)
Increase in other long-term assets	363	(266)	97
Net cash used in investing activities	(4,420)	(343)	(4,763)
Cash flows from financing activities:			
Issuance of common stock under employee stock purchase plan	858		858
Exercise of stock options and warrants	3,230		3,230
Payments of long-term debt and capital lease obligations	(142)		(142)
Payment of Series D dividend	(33,958)		(33,958)
Debt issuance costs		(1,124)	(1,124)
Proceeds from secured borrowing		116,256	116,256
Repayments of secured borrowing		(111,105)	(111,105)

Edgar Filing: ASPEN TECHNOLOGY INC /DE/ - Form 10-Q

Net cash used in (provided by) financing activities	(30,012)	4,027	(25,985)
Effects of exchange rate changes on cash and cash equivalents	223		223
Increase in cash and cash equivalents	14,564		14,564
Cash and cash equivalents, beginning of period	86,272		86,272
Cash and cash equivalents, end of period	\$ 100,836	\$	100,836

(1) In addition to the restatement adjustments described above, the Company has also made a reclassification adjustment of \$(0.3) million gain to net foreign currency gains to reflect non-cash foreign currency transactions on one line. This adjustment was offset by changes in accounts receivable of \$(0.1) million, prepaid expenses and other assets of \$(0.1) million, installments and collateralized receivables of \$0.1 million, and accounts payable and accrued expenses and other current liabilities of \$0.4 million.

Table of Contents

## ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**3. Immaterial Correction of Errors**

During the second quarter of fiscal 2008, the Company identified certain errors that originated in prior periods and concluded that the errors were not material to any of the previously reported periods. These immaterial errors were corrected in the second fiscal quarter of 2008 Interim Financial Statements. The impact to certain captions in the consolidated statement of operations for the nine months ended March 31, 2008, resulting from the out-of-period component of the immaterial corrections, is as follows (in thousands):

	Increase (Decrease)	
Total revenues	\$	(1,117)
Income from operations		(1,337)
Income before provision for income taxes		(486)
Net income		358

**4. Significant Accounting Policies***Revenue Recognition*

The Company recognizes revenue in accordance with SOP 97-2, Software Revenue Recognition, as amended and interpreted. License revenue, including license renewals, consists principally of revenue earned under fixed-term and perpetual software license agreements and is generally recognized upon shipment of the software if collection of the resulting receivable is probable, the fee is fixed or determinable, and VSOE of fair value exists for all undelivered elements, such as maintenance support, consulting and training services. The Company determines VSOE based upon the price charged when the same element is sold separately. For an element not yet being sold separately, VSOE represents the price established by management having the relevant authority when it is probable that the price, once established, will not change before the separate introduction of the element into the marketplace. The Company uses installment payment contracts as a standard business practice and has a history of successfully collecting under the original payment terms without making concessions on payments, products or services.

Revenue under license arrangements, which may include several different software products and services sold together, are allocated to the delivered elements based on the residual method. Under the residual method, the fair value of the undelivered elements is deferred and subsequently recognized when earned and the residual amount for the delivered elements is recognized in revenue when all other revenue recognition criteria are met. The Company has established VSOE for consulting services, training and maintenance and support services. Accordingly, software license revenues are recognized under the residual method in arrangements in which software is bundled with consulting services, training and maintenance and support services. Consulting services do not generally involve customizing or modifying the licensed software, but rather involve helping customers deploy the software to their specific business processes. The Company generally accounts for the services element of the arrangement separately. Occasionally, the Company provides consulting services considered essential to the functionality of the software or provides services for the significant production, modification or customization of the licensed software and recognizes revenue for such services and any related software licenses in accordance with SOP 81-1, Accounting for Performance of Construction Type and

Certain Performance Type Contracts using the percentage-of-completion method.

When a loss is anticipated on a service contract, the full amount thereof is provided currently. Service revenues and consulting and training revenue are recognized as the related services are performed using the proportional performance method. Services that have been performed but for which billings have not been made are recorded as unbilled services, and billings that have been recorded before the services have been performed are recorded as deferred revenue in the accompanying condensed consolidated balance sheets. Reimbursement received for out-of-pocket expenses is recorded as revenue.

The Company has a practice of licensing its products through resellers in certain regions. For software licensed through these distribution channels, revenue is recognized at the time the product is sold through to the end customer, when persuasive evidence of an arrangements exists, the fee is fixed or determinable, collection is reasonably assured and other revenue recognition criteria are met.

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

#### *Accounting for Stock-Based Compensation*

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the vesting period. Prior to fiscal 2006, the Company used the intrinsic value method. Under the intrinsic value method, stock-based compensation is recognized when the exercise price of an award is less than the fair value of the Company's common shares on the measurement date. See Note 9, Stock-Based Compensation.

#### *Accounting for Transfers of Financial Assets*

The Company derecognizes financial assets when control has been surrendered in compliance with SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. Transfers of assets that

Table of Contents

**ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

meet the requirements of SFAS No. 140 for sale accounting treatment are removed from the balance sheet and gains or losses on the sale are recognized. If the conditions for sale accounting treatment are not met, or are no longer met, assets transferred are classified as collateralized receivables in the condensed consolidated balance sheet and cash received from these transactions is classified as secured borrowings. All transfers of financial assets to date have been accounted for as secured borrowings. Transaction costs associated with secured borrowings, if any, are treated as borrowing costs and recognized in interest expense. When cash is received from a customer by the Company, the collateralized receivable balance is reduced and the related secured borrowing is reclassified to an accrued liability for amounts the Company must remit to the financial institution. The accrued liability is reduced when payment is remitted to the financial institutions.

***Income Taxes***

The Company calculates its provision for income taxes during quarterly periods primarily utilizing the expected effective tax rate for the year. The Company's tax provision is related primarily to its operations in the United States and foreign jurisdictions, foreign withholding taxes, and the accrual of interest and penalties associated with uncertain tax positions. The Company's accounting policy with respect to uncertain tax positions is described in Note 5 Income Taxes .

Deferred income taxes are recognized based on temporary differences between the financial reporting and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using the statutory tax rates and enacted laws in effect in the years in which the temporary differences are expected to reverse. Valuation allowances are provided against net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and the reversal of the taxable temporary differences. Management considers, among other available information, scheduled reversals of deferred tax liabilities, projected future taxable income, limitations on the availability of net operating losses and tax credit carry forwards, and other evidence in assessing the realization of deferred tax assets.

***Derivatives***

The Company records all derivatives, which consist of foreign currency exchange contracts, on the condensed consolidated balance sheets at fair value. Derivatives that are not accounting hedges must be adjusted to fair value through earnings. If a derivative is a hedge, changes in the fair value of the derivative are either offset against the change in fair value of assets, liabilities or firm commitments through earnings or included in accumulated other comprehensive income depending on the nature of the hedge. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings. The Company does not qualify with the requirements of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities in order to account for any derivatives using hedge accounting treatment during the periods presented. Therefore the changes in fair value of derivatives are recognized in earnings.

**5. Income Taxes**

The Company currently has significant deferred tax assets, resulting from net operating loss carryforwards, tax credit carryforwards, and deductible temporary differences. The Company provides a full valuation allowance against its deferred tax assets in the United States, and a valuation allowance of \$1.7 million against its deferred tax assets of \$5.0 million outside the U.S. Management weighs the positive and negative evidence to determine if it is more likely than not that some or all of the deferred tax assets will be realized. Forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence such as cumulative losses in past years, a current year to date loss in the U.S. and presently a significant amount of uncertainty relative to the world economy. Despite the Company's consolidated profitability in the fiscal year ended June 30, 2007, and during the nine months ended March 31, 2008, the Company was not profitable in the U.S. during the nine months ended March 31, 2008 and had accumulated significant losses and other unused tax assets prior to 2007. The significant majority of the Company's tax attributes are in the U.S., and thus will continue to maintain a full valuation allowance on its tax benefits in this jurisdiction until profitability has been sustained in amounts that are sufficient to support a conclusion that it is more likely than not that all or a portion of its deferred tax assets will be realized. For jurisdictions outside the U.S., the Company has determined that the realization of the future tax assets meets the more likely than not criteria as a result of both demonstrated historical profitability as well as expected future profitability. A significant decrease in the Company's valuation allowance would result in an immediate material income tax benefit and an increase in total assets and stockholder's equity and could have a significant impact on the Company's earnings in future periods.

Based upon the Company's cumulative history of earnings before taxes for certain non-U.S. subsidiaries for financial reporting purposes over a 12-quarter period and an assessment of the Company's expected future results of

Table of Contents

**ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

operations, during the second quarter of 2008, the Company determined that it is more likely than not that it would be able to realize a portion of its non-U.S. deferred tax assets. As a result, during the second quarter of 2008, the Company released a total of \$2.6 million of its non-U.S. deferred tax asset valuation allowance. All of the \$2.6 million valuation allowance release was recorded as a benefit to the provision for income tax on the Company's condensed consolidated statement of operations.

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, Accounting for Uncertain Tax Positions, an Interpretation of FASB Statement No. 109, or FIN 48, which clarifies the criteria for recognition and measurement of benefits from uncertain tax positions. Under FIN 48, an entity recognizes a tax benefit when it is more likely than not, based on the technical merits, that the position would be sustained upon examination by a taxing authority. The amount is recognized, as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. Furthermore, any change in the recognition, derecognition or measurement of a tax position is recorded in the period in which the change occurs.

Upon the adoption of FIN 48 on July 1, 2007, the adjusted total amount of unrecognized tax benefits upon adoption was \$21.9 million of which \$12.8 million could impact the effective tax rate upon settlement. The Company does not expect that the amount of unrecognized tax benefits will change significantly within the next twelve months from the balance sheet date. Prior to July 1, 2007, the Company classified all income taxes payable as a current liability. Under FIN 48, the Company is required to classify those obligations that are expected to be paid or settled within the next twelve months as a current obligation and the remainder as a non-current obligation. As of March 31, 2008, the Company classified \$6.1 million of uncertain tax position liability as non-current obligations within other liabilities and \$8.5 million as accrued expenses and other current liabilities.

The Company's U.S. and foreign tax returns are subject to periodic compliance examinations by various local and national tax authorities through periods as statutorily defined in the applicable jurisdictions. Years prior to 2005 are closed in the U.S. subject to the utilization of net operating loss carry forwards generated in those earlier periods. To the extent those attributes are utilized in future periods statutes for the earlier periods will remain open and subject to examination. The Company's operating entities in Canada are subject to audit from the year 2000 and forward, in the United Kingdom from 2006 and forward, and other international subsidiaries from 2002 and forward. In connection with examinations of tax filings, uncertain tax positions may arise from differing interpretations of applicable tax laws and regulations relative to the amount, timing or proper inclusion or exclusion of revenues, expenses and taxable income or loss. For periods that are subject to examination, the Company has asserted and unasserted assessments that are subject to final tax settlements.

The Company has historically accounted for interest and penalties related to uncertain tax positions as part of its provision for income taxes. Following adoption of FIN 48, the Company continues this policy of classification. As of March 31, 2008, the Company had accrued \$8.0 million of interest and \$0.7 million of penalties related to uncertain tax positions.

**6. Secured Borrowings and Collateralized Receivables**

## Edgar Filing: ASPEN TECHNOLOGY INC /DE/ - Form 10-Q

The Company has transferred customer installment and trade receivables to financial institutions that have been accounted for as secured borrowings. The transferred receivables serve as collateral under the receivable sales facilities.

At March 31, 2008 and June 30, 2007, receivables totaling \$174.2 million and \$245.1 million, respectively, were pledged as collateral for the secured borrowings. The secured borrowings totaled \$170.7 million and \$206.2 million as of March 31, 2008 and June 30, 2007, respectively. The collateralized installment receivables are presented at their net present value. The interest rates implicit in the installment receivables for both the nine months ended March 31, 2008 and 2007 ranged from 5.0% to 9.0%. The Company recorded \$12.1 million and \$12.3 million of interest income associated with the collateralized receivables for the nine months ended March 31, 2008 and 2007, respectively, and recognized \$12.2 million and \$13.2 million of interest expense associated with the secured borrowings for the nine months ended March 31, 2008 and 2007, respectively. Proceeds from and payments on the secured borrowings are presented as financing activities in the condensed consolidated statements of cash flows. Reductions of secured borrowings are recognized as financing cash flows upon payment to the financial institution and operating cash flows from collateralized receivables are recognized upon customer payment of amounts due.

Table of Contents

**ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*Traditional Programs*

The Company has arrangements (Traditional Programs) to transfer certain of its receivables to three financial institutions at the mutual agreement of the Company and the respective financial institution for each such customer receivable. The transfer of customer receivables under these programs has been accounted for as secured borrowings. The Company received cash proceeds of \$68.3 million and \$96.2 million for the nine months ended March 31, 2008 and 2007, respectively, related to these programs.

The total collateralized receivables for the Traditional Programs approximate the amount of the secured borrowings recorded in the condensed consolidated balance sheets. The collateralized receivables earn interest income and the secured borrowings accrue borrowing costs at approximately the same interest rates. When cash is received from a customer by the Company, the collateralized receivable balance is reduced and the related secured borrowing is reclassified to an accrued liability for amounts the Company must remit to the financial institution. The accrued liability is reduced when payment is remitted to the financial institutions. The terms of the customer accounts receivable range from amounts that are due within 30 days to installment receivables that are due over five years. The Company acts as the servicer for the receivables in one of the three arrangements.

Under the terms of the Traditional Programs, the Company has transferred the receivables to the financial institutions with limited financial recourse. Potential recourse obligations are primarily related to one program that requires the Company to pay interest to the financial institution when the underlying customer has not paid by the installment due date. This recourse is limited to a maximum period of 90 days after the due date. The amount of installment receivables that had this potential recourse obligation was \$58.7 million and \$51.5 million at March 31, 2008 and June 30, 2007, respectively. In addition, the Company has recourse obligations under the Bank of America program totaling \$0.7 million at March 31, 2008 if the underlying installment receivable is not paid by the customer. This recourse obligation is in the form of a deferred payment by the financial institution that is withheld until customer payments are received.

In the ordinary course of the Company acting as a servicing agent for receivables transferred to Silicon Valley Bank (SVB), we regularly receive funds from customers that are processed and remitted onward to SVB. While in the Company's possession, these cash receipts are contractually owned by SVB and are held by the Company in trust for their benefit until remitted to the bank. Cash receipts held for the benefit of SVB recorded in our cash balances and current liabilities totaled \$1.9 million and \$2.8 million as of March 31, 2008 and June 30, 2007, respectively. Such amounts are restricted from use by the Company.

In June 2008, the Company paid the outstanding amount under the Bank of America program at its carrying value of \$2.7 million inclusive of a one percent pre-payment penalty.

*Securitization of Accounts Receivable*

The Fiscal 2005 and Fiscal 2007 Securitizations, as described below, include collateralized receivables whose value exceeds the related borrowings from the financial institutions. The Company receives and retains the right to collections on these securitized receivables after all borrowing and related costs are paid to the financial institutions. The financial institutions' rights to repayment are limited to the payments received from the collateralized receivables. The collateralized receivables earn interest income and the secured borrowings result in interest expense. The secured borrowings incur a higher interest rate than the implicit rates in the receivables due to the credit rating of the receivables collateralized under the borrowings. The Company acts as the servicer under both of these arrangements and the customer collections are used to repay the secured borrowings, interest and related costs.

#### **Fiscal 2005 Securitization**

On June 15, 2005, the Company securitized and transferred installment receivables, (Fiscal 2005 Securitization) with a net carrying value of \$71.9 million and received cash proceeds of \$43.8 million. This transfer did not meet the criteria for a sale and has been accounted for as a secured borrowing. These borrowings are secured by collateralized receivables and the debt and borrowing costs are repaid as the receivables are collected.

In December 2007, the Company paid the outstanding amount of the Fiscal 2005 Securitization at its carrying value of \$4.2 million, and future borrowings under this securitization are no longer available. Unamortized debt issue costs totaling \$0.1 million were charged to expense at that time. The payment resulted in a reclassification to accounts receivable of \$7.2 million and to current installments receivable of \$10.2 million from the current portion of collateralized receivables, and \$9.8 million from non-current collateralized receivables to non-current installment receivables.

#### **Fiscal 2007 Securitization**

On September 29, 2006, the Company entered into a three year revolving securitization facility and securitized and transferred installment receivables (Fiscal 2007 Securitization) with a net carrying value of \$32.1 million and received cash

Table of Contents**ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

proceeds of \$20.0 million. This transfer did not meet the criteria for a sale and has been accounted for as a secured borrowing. These borrowings are secured by collateralized receivables and the debt and borrowing costs are repaid as the receivables are collected. The Company capitalized \$1.1 million of debt issuance costs associated with this transaction and these costs are being recognized in interest expense using the effective interest method.

In March 2008, the Company paid the outstanding amount of the Fiscal 2007 Securitization at its carrying value of \$12.2 million plus a termination fee of \$0.8 million, and future borrowings under this securitization are no longer available. Unamortized debt issuance costs totaling \$0.5 million were charged to expense at that time. The payment resulted in a reclassification to accounts receivable of \$2.6 million and to current installments receivable of \$7.6 million from the current portion of collateralized receivables, and \$14.1 million from non-current collateralized receivables to non-current installment receivables.

***Secured Borrowing Balances***

The secured borrowings consist of the following at March 31, 2008 and June 30, 2007 (in thousands):

	<b>March 31, 2008</b>	<b>June 30, 2007</b>
Traditional Programs weighted average interest rate of 7.6% at March 31, 2008 and 7.5% at June 30, 2007	\$ 170,719	\$ 180,314
Fiscal 2005 Securitization interest rate of 13%		9,072
Fiscal 2007 Securitization interest rate of 9.3% at June 30, 2007		16,764
Total secured borrowings	170,719	206,150
Less current portion	(56,149)	(101,826)
	\$ 114,570	\$ 104,324

The cash payments on the collateralized receivables fund the secured borrowing payments, and the Company retains payments received on collateralized receivables which are in excess of the secured borrowings. The Company has no future cash obligations other than the limited recourse obligations noted above.

**7. Derivative Instruments**

Forward foreign exchange contracts are used by the Company to offset certain installment and accounts receivable cash flow exposures resulting from changes in foreign currency exchange rates. Such exposures have resulted from installments receivable that are denominated in foreign currencies, primarily the Euro, Japanese Yen, Canadian Dollar and the British Pound Sterling.

The Company records its foreign currency exchange contracts at fair value and gains or losses on these contracts are recognized in foreign currency exchange gain (loss). During the three and nine months ended March 31, 2008 net losses totaled \$1.2 million and \$1.8 million, respectively. During the three and nine months ended March 31, 2007, the net gain recognized in the condensed consolidated statement of operations was \$0.5 million and \$0.3 million, respectively.

The following table provides information about the Company's foreign currency derivative financial instruments outstanding as of March 31, 2008. The table presents the notional amount (at contract exchange rates) and the fair value of the derivatives in U.S. dollars:

	<b>Notional Contract Amount</b>	<b>Fair Value (Loss) Gain</b>
	(In thousands)	
Euro	\$ 23,323	\$ (1,969)
British Pound Sterling	5,012	56
Japanese Yen	3,278	(424)
Canadian Dollar	1,530	(7)
Swiss Franc	324	(3)
	\$ 33,467	\$ (2,347)

Table of Contents

## ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**8. Other Liabilities**

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

	March 31, 2008		June 30, 2007
Restructuring accruals	\$ 12,751	\$	10,255
Tax liabilities	8,646		
Other	7,574		5,787
Total	\$ 28,971	\$	16,042

**9. Stock-Based Compensation Plans***General Award Terms*

The Company issues stock options to its employees and outside directors and restricted stock units to its employees pursuant to stockholder approved stock plans. Options are generally granted with an exercise price equal to the market price of the Company's stock on the date of grant; those options generally vest over four years and have 7 or 10 year contractual terms. Restricted stock units generally vest over four years (if performance conditions are met in certain cases). The Company discontinued its employee stock purchase plan as of June 30, 2007.

*Stock Compensation*

The Company recognizes compensation expense on a straight-line basis over the requisite service period for time vested awards. For awards that vest based on performance conditions, the Company uses the accelerated model for graded vesting awards. Typically, the Company's stock-based compensation is accounted for as equity instruments, however, as a result of the second quarter fiscal 2008 stock option modification (described below), a small number of awards were granted which were liability classified. The balance of the liability classified awards as of March 31, 2008 was \$0.2 million. The Company's policy is to issue new shares upon exercise of stock based compensation awards. Stock-based compensation expense for the three and nine months ended March 31, 2008 and 2007 is included in the following categories (in thousands):

**Three Months Ended  
March 31,**

**Nine Months Ended  
March 31,**

Edgar Filing: ASPEN TECHNOLOGY INC /DE/ - Form 10-Q

	2008	2007	2008	2007
Recorded as expense:				
Cost of service and other	\$ 228	\$ 451	\$ 1,033	\$ 1,114
Selling and marketing	642	919	2,688	2,565
Research and development	344	716	1,190	1,306
General and administrative	866	1,155	3,459	2,994
	2,080	3,241	8,370	7,979
Capitalized computer software development costs				57
Total stock-based compensation	\$ 2,080	\$ 3,241	\$ 8,370	\$ 8,036

In connection with the Company's failure to timely file its reports under the Securities Exchange Act of 1934 and consequent lack of an effective registration statement covering shares issuable in connection with certain equity grant awards, in December 2007 the Board of Directors voted to extend the period of time within which such awards may be exercised. With that modification and in accordance with SFAS 123(R), "Share Based Payment", the fair values of outstanding stock option awards were re-measured. As a result, the stock option modification resulted in incremental compensation cost of \$1.5 million which was recorded during the second fiscal quarter of 2008.

#### 10. Net Income Per Common Share

Basic income per share was determined by dividing income attributable to common shareholders by the weighted average common shares outstanding during the period. Diluted earnings per share was determined by dividing income attributable to common shareholders by diluted weighted average shares outstanding. Diluted weighted average shares reflects

Table of Contents

## ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Three Months Ended, March 31,		Nine Months Ended, March 31,	
	2008	2007	2008	2007
Income attributable to common shareholders	\$ 4,033	\$ 4,940	\$ 4,288	\$ 20,291
Plus: Impact of assumed conversion of Series D preferred stock		146		7,290
Net income	\$ 4,033	\$ 5,086	\$ 4,288	\$ 27,581
Basic weighted average shares outstanding	89,972	86,228	89,522	65,211
Diluted weighted average shares outstanding	93,834	91,876	93,865	90,647
Basic income per share attributable to common shareholders	\$ 0.04	\$ 0.06	\$ 0.05	\$ 0.31
Diluted income per share attributable to common shareholders	\$ 0.04	\$ 0.06	\$ 0.05	\$ 0.30

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2008	2007	2008	2007
Employee equity awards and warrants	2,019	2,480	1,994	2,559

**11. Comprehensive Income**

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The components of comprehensive income for the three and nine months ended March 31, 2008 and 2007 were as follows (in thousands):

	Three Months Ended, March 31,		Nine Months Ended, March 31,	
	2008	2007	2008	2007
Net income	\$ 4,033	\$ 5,086	\$ 4,288	\$ 27,581
Foreign currency translation adjustments	(1,152)	(522)	(1,059)	2,821

Total comprehensive income	\$	2,881	\$	4,564	\$	3,229	\$	30,402
----------------------------	----	-------	----	-------	----	-------	----	--------

## 12. Restructuring Charges

During the three and nine months ended March 31, 2008, the Company recorded \$0.1 million and \$8.6 million, respectively, in restructuring charges, primarily related to the relocation of the Company's corporate headquarters under the May 2007 restructuring plan discussed below.

At March 31, 2008, total restructuring liabilities for all plans included \$0.1 million for employee severance, benefits, and related costs and \$17.3 million for the closure or vacating facilities. Management anticipates that payments of \$4.6 million will be made over the next twelve months with the remaining \$12.8 million paid through 2012. These costs have been recorded in accrued expenses and other liabilities within the condensed consolidated balance sheet.

Table of Contents

## ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*(a) Restructuring charges originally arising in the three months ended June 30, 2007*

In May 2007, the Company initiated a plan to relocate its corporate headquarters from Cambridge to Burlington, Massachusetts. The relocation resulted in the Company ceasing to use its prior corporate headquarters, subleasing the space to a third party and relocating to a new facility. During the year ended June 30, 2007, the Company recorded a charge of \$0.1 million associated with the relocation of certain departments to temporary space. The closure and relocation actions resulted in an aggregate charge of approximately \$6.4 million during the nine months ended March 31, 2008.

As of March 31, 2008, there was \$5.3 million in accrued expenses relating to the remaining lease payments. During the nine months ended March 31, 2008, the following activity was recorded (in thousands):

Fiscal 2007 Restructuring Plan	Closure/ Consolidation of Facilities
Accrued expenses, July 1, 2007	\$
Restructuring charge	6,188
Restructuring charge Accretion	218
Payments	(1,118)
Accrued expenses, March 31, 2008	\$ 5,288
Expected final payment date	September 2012

*(b) Restructuring charges originally arising in the three months ended June 30, 2005*

In May 2005, the Company initiated a plan to consolidate several corporate functions and to reduce its operating expenses. The plan resulted in headcount reductions and also included the termination of a contract and the consolidation of facilities. These actions resulted in an aggregate restructuring charge of \$3.8 million in the fourth quarter of fiscal 2005. During the years ended June 30, 2006 and 2007, the Company recorded an additional \$1.8 million and \$4.6 million, respectively, related to headcount reductions, relocation costs and facility consolidations associated with the May 2005 plan that did not qualify for accrual at June 30, 2005. During the nine months ended March 31, 2008, the Company recorded an additional \$0.8 million primarily in severance and relocation expenses for employees that were notified or relocation expenses that were incurred during the period.

As of March 31, 2008, there were no remaining expenses relating to the restructuring. During the nine months ended March 31, 2008, the following activity was recorded (in thousands):

<b>Fiscal 2005 Restructuring Plan</b>	<b>Closure/ Consolidation of Facilities</b>	<b>Employee Severance, Benefits, and Related Costs</b>	<b>Total</b>
Accrued expenses, July 1, 2007	\$	\$	688 \$ 688
Restructuring charge	266	546	812
Payments	(266)	(1,234)	(1,500)
Accrued expenses, March 31, 2008	\$	\$	\$
Expected final payment date			

*(c) Restructuring charges originally arising in the three months ended June 30, 2004*

In June 2004, the Company initiated a plan to reduce its operating expenses including the consolidation of facilities, headcount reductions, and the termination of operating leases. These actions resulted in an aggregate restructuring charge of \$23.5 million, in the fourth quarter of fiscal 2004. During the year ended June 30, 2005, the Company recorded \$14.4 million related to headcount reductions and facility consolidations associated with the June 2004 restructuring plan that did not qualify for accrual at June 30, 2004. In addition, the Company recorded \$0.4 million in restructuring charges related to the accretion of the discounted restructuring accrual and a \$0.8 million decrease to the accrual related to changes in estimates of severance benefits and sublease terms. During the year ended June 30, 2006 and 2007, the Company recorded a \$0.7 million increase and a \$0.2 million decrease, respectively, to the accrual primarily due to a change in the estimate of future operating costs and sublease assumptions associated with the facilities. During the nine months ended March 31, 2008, the Company recorded an additional \$1.4 million expense primarily related to changes in the estimates of future operating costs associated with the facilities.

Table of Contents

## ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of March 31, 2008, there was \$5.1 million in accrued expenses relating to the remaining severance obligations and lease payments. During the nine months ended March 31, 2008, the following activity was recorded (in thousands):

	Closure/ Consolidation of Facilities	Employee Severance, Benefits, and Related Costs	Total
<b>Fiscal 2004 Restructuring Plan</b>			
Accrued expenses, July 1, 2007	\$ 4,959	\$ 92	\$ 5,051
Restructuring charge	1,261	(13)	1,248
Restructuring charge Accretion	201		201
Payments	(1,349)	(25)	(1,374)
Accrued expenses, March 31, 2008	\$ 5,072	\$ 54	\$ 5,126
Expected final payment date	September 2012	June 2008	

*(d) Restructuring charges originally arising in the three months ended December 31, 2002*

In October 2002, management initiated a plan to reduce operating expenses which resulted in headcount reductions, consolidation of facilities, and discontinuation of development and support for certain non-critical products. These actions resulted in an aggregate restructuring charge of \$28.7 million. During fiscal 2005, 2006, and 2007, the Company recorded a \$7.0 million increase, a \$1.0 million increase, and a \$0.2 million decrease, respectively, to the accrual primarily due to a change in the estimate of the facility vacancy term, extending to the term of the lease.

As of March 31, 2008, there was \$6.7 million in accrued expenses relating to the remaining lease payments. During the nine months ended March 31, 2008, the following activity was recorded (in thousands):

	Closure/ Consolidation of Facilities
<b>Fiscal 2003 Restructuring Plan</b>	
Accrued expenses, July 1, 2007	\$ 8,043
Restructuring charge	(155)
Payments	(1,213)
Accrued expenses, March 31, 2008	\$ 6,675
Expected final payment date	September 2012

*(e) Restructuring charges originally arising in the three months ended June 30, 2002*

Edgar Filing: ASPEN TECHNOLOGY INC /DE/ - Form 10-Q

In the fourth quarter of fiscal 2002, management initiated a plan to reduce operating expenses and to restructure operations around the Company's two primary product lines at the time, engineering software and manufacturing/supply chain software. The Company reduced worldwide headcount by approximately 10%, or 200 employees, closed and consolidated facilities, and disposed of certain assets, resulting in an aggregate restructuring charge of \$13.2 million.

As of March 31, 2008, there was \$0.3 million remaining in accrued expenses relating to the remaining severance obligations and lease payments. During the nine months ended March 31, 2008, the following activity was recorded (in thousands):

<b>Fiscal 2002 Restructuring Plan</b>	<b>Closure/ Consolidation of Facilities</b>	<b>Employee Severance, Benefits, and Related Costs</b>	<b>Total</b>
Accrued expenses, July 1, 2007	\$ 384	\$ 48	\$ 432
Restructuring charge	116		116
Payments	(249)		(249)
Accrued expenses, March 31, 2008	\$ 251	\$ 48	\$ 299
Expected final payment date	September 2012	June 2008	

Table of Contents

**ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**13. Commitments and Contingencies**

*(a) FTC settlement and Related Honeywell Litigation*

In December 2004, the Company entered into a consent decree with the Federal Trade Commission (FTC) with respect to a civil administrative complaint filed by the FTC in August 2003 alleging that the Company's acquisition of Hyprotech in May 2002 was anticompetitive in violation of Section 5 of the Federal Trade Commission Act and Section 7 of the Clayton Act. In connection with the consent decree, the Company entered into an agreement with Honeywell International, Inc. on October 6, 2004 (Honeywell Agreement), pursuant to which the Company transferred its operator training business and its rights to the intellectual property of various legacy Hyprotech products. In addition, the Company transferred its AXSYS product line to Bentley Systems, Inc.

On December 23, 2004, the Company and its subsidiaries completed the transactions contemplated by the Honeywell Agreement. Under the terms of the transactions:

- the Company agreed to a cash payment of approximately \$6.0 million from Honeywell in consideration of the transfer of the Company's operator training services business, the Company's covenant not-to-compete in the operator training business until the third anniversary of the closing date, and the transfer of ownership of the intellectual property of the Company's Hyprotech engineering products, \$1.2 million of which was held back by Honeywell and may be released upon the resolution of any adjustments for uncollected billed accounts receivable and unbilled accounts receivable.
- the Company transferred and Honeywell assumed, as of the closing date, approximately \$4.0 million in accounts receivable relating to the operator training business; and
- the Company entered into a two-year support agreement with Honeywell under which the Company agreed to provide Honeywell with source code to new releases of the Hyprotech products provided to customers under standard software maintenance services agreements.

The Honeywell transaction resulted in a deferred gain of \$0.2 million, which was amortized over the two-year life of the support agreement, and was subject to a potential increase of the gain of up to \$1.2 million upon resolution of the holdback payment issue, which is discussed below.

The Company is subject to ongoing compliance obligations under the FTC consent decree. The Company has been responding to numerous requests by the Staff of the FTC for information relating to the Staff's investigation of whether the Company has complied with the consent decree. In addition, the Company has met with several of the FTC Commissioners and Staff members to discuss the Staff's investigation, and the FTC referred a recommendation to the Consumer Litigation Division (the Division) of the U.S. Department of Justice that the Division commence litigation against the Company relating to its alleged failure to comply with certain aspects of the decree. A decision is still pending at the Division on whether to pursue litigation, and no action has been filed. Although the Company believes that it has complied with the consent decree and that the assertions by the FTC Staff are without merit, the Company is engaged in settlement discussions with the FTC Staff regarding this matter. If the Company and the FTC are unable to reach a settlement on terms acceptable to the Company, litigation or administrative proceedings may ensue, in which case the Company could be required to pay substantial legal fees and, if the FTC or a court were to determine that the Company has not complied with its obligations under the consent decree, the Company could be subject to one or more of a variety of penalties, fines, injunctive relief and other remedies, any of which might materially limit the Company's ability to operate under its current business plan, which could have a material adverse effect on the Company's operating results, cash flows and financial position.

In March 2007, the Company was served with a complaint and petition to compel arbitration filed by Honeywell in New York State Supreme Court. The complaint alleges that the Company failed to comply with its obligations to deliver certain technology under the Honeywell Agreement referred to above, that the Company owes approximately \$800,000 to Honeywell under the Honeywell Agreement, and that Honeywell is entitled to some portion of the \$1.2 million holdback retained by Honeywell under the holdback provisions of the Honeywell Agreement, plus unspecified monetary damages. In accordance with the Honeywell Agreement, certain of Honeywell's claims relating to the holdback were the subject of a proceeding before an independent accountant, who determined in December 2008 that the Company was entitled to a portion of the holdback. Although the Company believes many of Honeywell's claims to be without merit and intends to defend the claims vigorously, the Company and Honeywell have engaged in settlement negotiations. If the Company and Honeywell are unable to reach a settlement on terms acceptable to the Company, it is possible that the litigation and resolution of the claims may have an adverse impact on the Company's operating results, cash flows and financial position.

Table of Contents

**ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*(b) Other Litigation*

*SEC action and U.S. Attorney s office criminal complaint*

In January 2007, the SEC filed civil enforcement complaints in the United States District Court in and for the District of Massachusetts alleging securities fraud and other violations against three of the Company s former executive officers, David McQuillin, Lisa Zappala and Lawrence Evans, arising out of six transactions in 1999 through 2002 that were reflected in the Company s originally filed consolidated financial statements for fiscal 2000 through 2004, the accounting for which was restated in March 2005 (the Company and each of these former executive officers had also received Wells Notice letters of possible enforcement proceedings by the SEC in June and July 2006). On the same day the SEC complaints were filed, the U.S. Attorney s Office for the Southern District of New York filed a criminal complaint against David McQuillin alleging criminal securities fraud violations arising out of two of those transactions. Mr. McQuillin pled guilty in March 2007 and was sentenced in October 2007. On November 12, 2008, Mr. McQuillin and Mr. Evans entered into final settlements of the civil enforcement actions with the SEC without admitting or denying liability, and the Court also entered a stay of discovery in Ms. Zappala s case inasmuch as the parties had reached an agreement in principle to settle that matter as well.

As previously disclosed, on July 31, 2007, the Company entered into a settlement order with the SEC relating to the Wells Notice received by the Company. No enforcement action was filed by the SEC against the Company, and under the Well Notice settlement order, the Company agreed to cease and desist from violations of certain provisions of the federal securities laws, and to comply with certain undertakings. No civil penalty was assessed by the SEC in connection with that settlement order, and the Company did not admit or deny any wrongdoing in connection with the settlement order.

The SEC enforcement complaints and the U.S. Attorney s Office criminal action were not filed against the Company or any of its current officers or directors, but only against the former executive officers referenced above. The Company can provide no assurance, however, that the U.S. Attorney s Office, the SEC or another regulatory agency will not file an enforcement complaint against the Company, its officers and employees or additional former officers and employees in connection with the consolidated financial statements that were restated in March 2005. Any such enforcement action or similar proceeding could have a material adverse effect on the Company s financial position and results of operation.

*Class action and opt-out claims*

In March 2006, the Company settled class action litigation, including related derivative claims, arising out of the restated consolidated financial statements that include the periods referenced in the SEC enforcement action and the criminal complaint discussed above. Members of the class who opted out of the settlement, representing 1,457,969 shares of common stock, or less than 1% of the shares putatively purchased during the class action period, may bring or have brought their own state or federal law claims against the Company, referred to as opt-out claims.

## Edgar Filing: ASPEN TECHNOLOGY INC /DE/ - Form 10-Q

Pursuant to the terms of the class action settlement, the Company paid \$1.9 million and its insurance carrier paid \$3.7 million into a settlement fund for a total of \$5.6 million. The Company's \$1.9 million payment was recorded in general and administrative expenses in the quarter ended September 30, 2005. All costs of preparing and distributing notices to members of the Class and administration of the settlement, together with all fees and expenses awarded to plaintiffs' counsel and certain other expenses, will be paid out of the settlement fund, which will be maintained by an escrow agent under the Court's supervision.

Separate actions have been filed on behalf of the holders of approximately 1.1 million shares who either opted out of the class action settlement or were not covered by that settlement. The claims in those actions include claims against the Company and one or more of its former officers alleging securities and common law fraud, breach of contract, statutory treble damages, deceptive practices and/or rescissory damages liability, based on the restated results of one or more fiscal periods included in its restated consolidated financial statements referenced in the class action.

Those actions are:

- *Blecker, et al. v. Aspen Technology, Inc., et al.*, filed on June 5, 2006 in the Business Litigation Session of the Massachusetts Superior Court for Suffolk County and docketed as Civ. A. No. 06-2357-BLS1 in that court, which is an opt out claim asserted by persons who received 248,411 shares of the Company's common stock in an acquisition;

Table of Contents

**ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

- *Feldman v. Aspen Technology, Inc., et al.*, filed on July 17, 2006 in the Business Litigation Session of the Massachusetts Superior Court for Suffolk County and docketed as Civ. A. No. 06-3021-BLS2 in that court, which is an opt out claim asserted by an individual who received 323,324 shares of the Company's common stock in an acquisition; and
- *380544 Canada, Inc., et al. v. Aspen Technology, Inc., et al.*, filed on February 15, 2007 in the federal district court in Manhattan and docketed as Civ. A. No. 1:07-cv-01204-JFK in that court, which is a claim asserted by persons who purchased 566,665 shares of the Company's common stock in a private placement.

On October 17, 2008, the plaintiffs in the Blecker action described above filed a new complaint in the Superior Court of the Commonwealth of Massachusetts, captioned *Herbert G. and Eunice E. Blecker v. Aspen Technology, Inc. et al.*, Civ. A. No. 08-4625-BLS1 (Blecker II). The sole claim in Blecker II is based on the Massachusetts Uniform Securities Act, and plaintiffs have indicated that if they are granted leave to assert that claim in the original Blecker action, they will voluntarily dismiss Blecker II.

The damages sought in these actions total more than \$20 million, not including claims for treble damages and attorneys' fees. If these actions are not dismissed or settled on terms acceptable to the Company, the Company plans to defend the actions vigorously. The Company can provide no assurance as to the outcome of these opt-out claims or the likelihood of the filing of additional opt-out claims, and these claims may result in judgments against the Company for significant damages. Regardless of the outcome, such litigation has resulted in the past, and may continue to result in the future, in significant legal expenses and may require significant attention and resources of management, all of which could result in losses and damages that have a material adverse effect on the Company's business.

***Derivative suits***

On December 1, 2004, a derivative action lawsuit captioned *Caviness v. Evans, et al.*, Civil Action No. 04-12524, referred to as the Derivative Action, was filed in Massachusetts federal district court as a related action to the first filed of the putative class actions subsequently consolidated into the class action described above. The complaint, as subsequently amended, alleged, among other things, that the former and current director and officer defendants caused the Company to issue false and misleading financial statements, and brought derivative claims for the following: breach of fiduciary duty for insider trading, breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment. On August 18, 2005, the court granted the defendants' motion to dismiss the Derivative Action for failure of the plaintiff to make a pre-suit demand on the board of directors to take the actions referenced in the Derivative Action complaint, and the Derivative Action was dismissed with prejudice.

On April 12, 2005, the Company received a letter on behalf of a purported stockholder, demanding that the board take actions substantially similar to those referenced in the Derivative Action. On February 28, 2006, the Company received a letter on behalf of the plaintiff in the Derivative Action, demanding that they take actions referenced in the Derivative Action complaint. The board responded to both of the foregoing letters that the board has taken the letters under advisement pending further regulatory investigation developments, which the board continues to monitor and with which the Company continues to cooperate. In its responses, the board also requested confirmation of each person's status as one of the Company's stockholders and, with respect to the most recent letter, also referred the purported stockholder to the March 2006 settlement in the class action.

***Other***

The Company is currently defending claims that certain of its software products and implementation services have failed to meet customer expectations. On May 11, 2007, one of the claims resulted in an arbitration award against the Company in the amount of \$1.4 million for which the Company recognized an expense in fiscal 2007, which was recorded in general and administrative expense. The Company is defending another customer claim in excess of \$5 million, as well as other general commercial claims. Although, the Company is defending the claims vigorously, the results of litigation and claims cannot be predicted with certainty, and unfavorable resolutions are possible and could materially affect the Company's results of operations, cash flows or financial position. In addition, regardless of the outcome, litigation could have an adverse impact on the Company because of defense costs, diversion of management resources and other factors.

Table of Contents

**ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*(c) Other Commitments and Contingencies*

The Company has entered into an employment agreement with its president and chief executive officer providing for the payment of cash and other benefits in certain situations of his voluntary or involuntary termination, including following a change in control. Payment under this agreement would consist of a lump sum equal to approximately two times (1) his annual base salary plus (2) the average of his annual bonus for the three preceding fiscal years. The agreement also provides that the payments would be increased in the event that it would subject him to excise tax as a parachute payment under the Internal Revenue Code. The increase would be equal to the additional tax liability imposed on him as a result of the payment.

The Company has entered into agreements with other executive officers, providing for severance payments in the event that the executive is terminated by the Company other than for cause. Payments under these agreements consist of continuation of base salary for a period of 12 months, payment of pro rated incentive plan amounts and other benefits specified therein.

The Company maintains strategic alliance relationships with third parties, including resellers, agents and systems integrators (each an Agent) that market, sell and/or integrate the Company's products and services. The cessation or termination of certain relationships, by the Company or an Agent, may subject the Company to material liability and/or expense. This material liability and/or expense includes potential payments due upon the termination or cessation of the relationship by either the Company or an Agent (which may be triggered by a change in control of either party), costs related to the establishment of a direct sales presence or development of a new Agent in the territory. No such events of termination or cessation have occurred through December 31, 2008. The Company is not able to reasonably estimate the amount of any such liability and/or expense if such event were to occur, given the range of factors that could affect the ultimate determination of the liability including possible claims related to the validity of the arrangements or contract terms. Actual payments from an event could be in the range of zero to \$30 million. If the Company reacquires the territorial rights for an applicable sales territory and establishes a direct sales presence, future commissions otherwise payable to an Agent for existing customer maintenance contracts and other intangible assets may be assumed from the Agent. If any of the foregoing were to occur, the Company may be subject to litigation and liability such that operating results, cash flows and financial condition could be materially and adversely affected.

**14. Preferred Stock**

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

On May 16, 2006, the Holders of the Series D-1 Preferred converted 30,000 shares into 3,000,000 shares of common stock. In December 2006, the holders of the Series D-1 Preferred converted their remaining 270,300 shares into 27,030,000 shares of common stock. In December 2006, the Company announced that it would redeem any shares of its Series D-2 Preferred that were not converted by their holders into common shares by January 30, 2007. In January 2007, the remaining 63,064 shares of Series D-2 Preferred were converted by their holder into 6,306,400 shares of common stock. The terms of the Series D-1 and D-2 Preferred required settlement of all accrued and unpaid dividends upon conversion of these shares into common stock and dividend accrual would cease upon such conversion. Accordingly, the Company paid \$2.4 million in May 2006 and \$27.4 million in December 2006 to the holders of the Series D-1 Preferred for dividends accumulated at the date of conversion of the respective tranches of securities. Additionally in January 2007 \$6.6 million was paid to the holders of the Series D-2 Preferred for the dividends accumulated at the date of conversion. As a result, all Series D preferred was converted into common stock during fiscal 2006 and 2007 and no preferred stock was outstanding during the nine months ended March 31, 2008.

Table of Contents**ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

In the accompanying consolidated statements of operations, the accretion of preferred stock dividends and discount consist of the following (in thousands):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2008	2007	2008	2007
Accrual of dividends on Series D preferred stock	\$	\$ (111)	\$	\$ (5,498)
Accretion of discount on Series D preferred stock		(35)		(1,792)
Total	\$	\$ (146)	\$	\$ (7,290)

**15. Segment Information**

Operating segments are defined by SFAS 131, *Disclosures about Segments of an Enterprise and Related Information*, as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is its Chief Executive Officer.

The Company has three operating segments: software licenses; maintenance and training; and consulting services. The Company also evaluates certain subsets of business segments by vertical industries as well as by product categories. The chief operating decision maker assesses financial performance and allocates resources based upon the three operating segments.

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

The accounting policies of the operating segments are described in the summary of significant accounting policies.

The results of the operating segments are as follows (in thousands):

Edgar Filing: ASPEN TECHNOLOGY INC /DE/ - Form 10-Q

	License	Maintenance and Training	Consulting Services	Total
<b>Three Months Ended March 31, 2008</b>				
Segment revenue	\$ 40,018	\$ 19,696	\$ 14,530	\$ 74,244
Segment expenses	17,460	3,965	10,847	32,272
Segment operating profit(1)	\$ 22,558	\$ 15,731	\$ 3,683	\$ 41,972
<b>Three Months Ended March 31, 2007</b>				
Segment revenue	\$ 43,299	\$ 19,629	\$ 16,572	\$ 79,500
Segment expenses	15,741	4,287	10,906	30,934
Segment operating profit(1)	\$ 27,558	\$ 15,342	\$ 5,666	\$ 48,566
<b>Nine Months Ended March 31, 2008</b>				
Segment revenue	\$ 108,716	\$ 61,277	\$ 43,308	\$ 213,301
Segment expenses	48,161	10,685	32,539	91,385
Segment operating profit(1)	\$ 60,555	\$ 50,592	\$ 10,769	\$ 121,916
<b>Nine Months Ended March 31, 2007</b>				
Segment revenue	\$ 131,878	\$ 59,271	\$ 48,510	\$ 239,659
Segment expenses	44,086	11,689	33,081	88,856
Segment operating profit(1)	\$ 87,792	\$ 47,582	\$ 15,429	\$ 150,803

- 
- (1) The Segment operating profits reported reflect only the expenses of the operating segment and do not contain an allocation for marketing, general and administrative, development and other corporate expenses incurred in support of the segments.

Table of Contents

## ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*Reconciliation to income before provision for income taxes:*

	Three Months Ended March 31,		Nine Months Ended	
	2008	2007	2008	2007
	(in thousands)			
Total segment operating profit for reportable segments	\$ 41,972	\$ 48,566	\$ 121,916	\$ 150,803
Cost of license and amortization for technology related costs	(4,034)	(5,203)	(11,241)	(15,635)
Marketing	(4,972)	(4,228)	(12,695)	(12,640)
Research and development	(8,901)	(8,744)	(25,305)	(22,411)
General and administrative and overhead	(18,523)	(16,828)	(53,457)	(51,833)
Restructuring charges and FTC legal costs	(111)	(1,597)	(8,628)	(3,632)
(Loss) gain on sales and disposals of assets	(13)	(161)	87	(234)
Stock compensation	(2,080)	(3,241)	(8,370)	(7,979)
Corporate/executive bonuses	(1,466)	(1,672)	(4,744)	(5,044)
Foreign currency exchange gain (loss)	2,653	(176)	4,846	2,871
Interest and other income and expense	1,626	965	4,344	2,112
Income before provision for income taxes	\$ 6,151	\$ 7,681	\$ 6,753	\$ 36,378

Table of Contents

**Item 2.**

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

We begin Management's Discussion and Analysis of Financial Condition and Results of Operations with an overview of our key operating business segments and significant trends. This overview is followed by a summary of our critical accounting policies and estimates that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results. We then provide a more detailed analysis of our financial condition and results of operations.

In addition to historical information, this Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties that could cause our actual results to differ materially. When used in this report, the words expects, anticipates, intends, plans, believes, seeks, estimates and similar expressions are generally intended to identify forward-looking statements. You should not place undue reliance on these forward-looking statements, which reflect our opinions only as of the date of this Quarterly Report. You should carefully review the risk factors described in Item 1A. Risk Factors of Part II below, other documents we file from time to time with the U.S. Securities and Exchange Commission, including our Annual Report on Form 10-K for our fiscal year ended June 30, 2007, together with subsequent reports we have filed with the Securities and Exchange Commission on Forms 10-Q and 8-K, which may supplement, modify, supersede, or update those risk factors. We undertake no obligation to publicly release any revisions to the forward-looking statements after the date of this document.

The following discussion and financial data give effect to the restatement discussed in Note 2 Restatement of Condensed Consolidation Financial Statements to the condensed consolidated financial statements included in this Form 10-Q. Our fiscal year ends on June 30, and references in this Form 10-Q to a specific fiscal year are the twelve months ended June 30 of such year (for example, fiscal 2008 refers to the year ending June 30, 2008).

**Business Overview**

We are a leading supplier of integrated software and services to the process industries, which consist of oil and gas, petroleum, chemicals, pharmaceuticals and other industries that manufacture and produce products from a chemical process. We provide a comprehensive, integrated suite of software applications that utilize proprietary empirical models of chemical manufacturing processes to improve plant and process design, economic evaluation, production, production planning and scheduling, and operational performance, and an array of services designed to optimize the utilization of these products by our customers. We are organized into three operating segments: software licenses, maintenance and training, and consulting services. Each of these operating segments has unique characteristics and faces different opportunities and challenges. Although we report our actual results in U.S. Dollars, we conduct a significant number of transactions in currencies other than U.S. Dollars. Therefore, we present constant currency information to provide a framework for assessing how our underlying business performed excluding the effect of foreign currency rate fluctuations. An overview of our three operating segments follows.

Software Licenses

Our solutions are focused on three primary business areas of our customers: engineering, plant operations, and supply chain management, and are delivered both as stand-alone solutions and as part of the integrated aspenONE product suite. The aspenONE framework enables our products to be integrated in modular fashion so that data can be shared among such products and additional modules can be added as the customer's requirements evolve. The result is enterprise-wide access to real-time, model-based information designed to enable manufacturers to forecast or simulate the economic impact of potential actions and make better, faster and more profitable operating decisions. The first version of the aspenONE suite was delivered in 2004. Since that time, each major software release was designed to increase the level of integration and functionality across the product portfolio.

- **Engineering** In the process industries, maximizing profit begins with optimal design. Process manufacturers must be able to address a variety of challenging questions relating to strategic planning, collaborative engineering and debottlenecking and process improvement from where they should locate their facilities, to how they can make their products at the lowest cost, to what is the best way to operate for maximum efficiency. To address these issues, they must improve asset optimization to enable faster, better execution of complex

Table of Contents

projects. Our engineering solutions help companies maximize their return on plant assets and enable collaboration with engineers on common models and projects.

Our engineering solutions are used on the process engineer's desktop to design and improve plants and processes. Our customers use our engineering software and services during both the design and ongoing operation of their facilities to model and improve the way they develop and deploy manufacturing assets. Our products enable our customers to improve their return on capital, improve physical plant operating performance and bring new products to market more quickly.

Our engineering tools are based on an open environment and are implemented on Microsoft's operating systems. Implementation of our engineering products does not typically require substantial consulting services, although services may be provided for customized model designs, process synthesis and energy management analyses.

- **Plant operations** Our plant operations products focus on optimizing companies' day-to-day process industry activities, enabling them to make better, more profitable decisions and improve plant performance. The process industries' typical production cycle offers many opportunities for optimizing profits. Process manufacturers must be able to address a wide range of issues driving execution efficiency and cost, from selecting the right feedstock and raw materials, to production scheduling, to identifying the right balance among customer satisfaction, costs and inventory. Our plant operations products support the execution of the optimal operating plan in real time. Our plant operations solutions include desktop applications, IT infrastructure and services that enable companies to model, manage and control their plants more efficiently, helping them to make better-informed, more profitable decisions. These solutions help companies make decisions that can reduce fixed and variable costs in the plant, improve product yields, procure the right raw materials and evaluate opportunities for cost savings and efficiencies in their operations.
- **Supply chain management** Our supply chain management products enable companies to reduce inventory and increase asset efficiency by giving them the tools to optimize their supply chain decisions from choosing the right raw materials to delivering finished product in the most cost-effective manner. The ever-changing nature of the process industries means new profit opportunities can appear at any time. To identify and seize these opportunities, process manufacturers must be able to increase their access to data and information across the value chain, optimize planning and collaborate across the value chain, and detect and exploit supply chain opportunities. Our supply chain management solutions include desktop applications, IT infrastructure and services that enable manufacturers to operate their plants and supply chains more efficiently, from customer demand through manufacturing to delivery of the finished product. These solutions help companies to reduce inventory carrying costs, respond more quickly to changes in market conditions and improve customer service.

Because license and implementation fees for our software products are substantial and the decision to purchase our products typically involves members of our customers' senior management, the sales process for our solutions is lengthy and can exceed one year. Accordingly, the timing of our license revenues is difficult to predict. Additionally, we derive a majority of our total revenues from companies in or serving the oil and gas, chemicals, petrochemicals and petroleum industries. Accordingly, our future success depends upon the continued demand for manufacturing optimization software and services by companies in these process manufacturing industries. The oil and gas, chemicals, petrochemicals and petroleum industries are highly cyclical and highly reactive to the price of oil, as well as general economic conditions.

Adverse changes in the economy and global economic and political uncertainty have previously caused delays and reductions in information technology spending by our customers and a consequent deterioration of the markets for our products and services, particularly our manufacturing/supply chain product suites. If adverse economic conditions occur, such as the current worldwide economic crisis, we could experience reductions, delays and postponements of customer purchases that will negatively impact our revenue and operating results. At a minimum, these conditions will make it very difficult for us to forecast our future revenues.

Finally, many of our license transactions are very large and/or complex and the criteria in U.S. GAAP applicable to software revenue recognition are equally complex, thus, resulting in the risk that license bookings may not translate into recognized revenue in the same period of the booking.

Our software license business represented 56% of our total revenues on a trailing four quarter basis. We have continued to grow the installed base of software license and increased the total value of signed license contracts on a year

Table of Contents

over year basis. In the third quarter of fiscal 2008, we closed two significant contracts with a net present value totaling \$21.2 million that were recorded as part of deferred revenue because certain specific revenue recognition criteria were not met as of March 31, 2008. Of this balance, the Company expects to recognize \$9.3 million in the second quarter of fiscal 2009, \$1.7 million in the third quarter of fiscal 2009, \$2.0 million during fiscal 2010, and the remainder in subsequent periods. There was no comparable revenue deferred in the third quarter of fiscal 2007.

Maintenance and Training

Our maintenance business consists primarily of providing customer technical support and access to software fixes and upgrades, when and if they become available. Our customer technical support services are provided throughout the world by our eight global call centers as well as via email and through our support website. Our training business consists of a variety of different types of training solutions ranging from public and onsite training, to customized training sessions which can be tailored to fit customer needs.

Revenues generated by our maintenance and training business, represented 26% of our total revenues on a trailing four quarter basis and are closely correlated to changes in our installed base of software licenses. The majority of our customers renew their support contracts when eligible to do so, and the majority of new software license contracts sold include a maintenance component.

Consulting Services

Our consulting services business focuses on two types of services:

- **Application implementation** is focused on the timely implementation of aspenONE modules and other standalone products by focusing on designing, analyzing, debottlenecking and improving plant performance through continuous process improvements coupled with activities aimed at operating the plant safely and reliably while minimizing energy costs and improving yields and throughput.
- **Systems integrations** focused on minimizing IT cost of ownership while providing seamless integration to existing enterprise IT environments.

We offer consulting services consisting primarily of implementation and configuration services primarily associated with the deployment of our plant operations and supply chain management solutions. Customers have historically used our engineering and innovation solutions without implementation assistance.

Customers who obtain consulting services from us typically engage us to provide such services over periods of up to 24 months. We generally charge customers for consulting services, ranging from supply chain to on-site advanced process control and optimization services, on a fixed-price basis or time-and-materials basis. The consulting services business represented 18% of our total revenues on a trailing four quarter basis, and has experienced lower margins than our other business segments.

### **Critical Accounting Estimates and Judgments**

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

- revenue recognition for both software licenses and fixed-fee consulting services;
- impairment of long-lived assets, goodwill and intangible assets;
- accounting for contingencies;
- accounting for income taxes;
- allowance for doubtful accounts;
- restructuring accruals; and
- accounting for stock-based compensation.

Table of Contents

With the exception of the below paragraphs that discuss the impact of Financial Accounting Standards Board, or FASB, Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109, or FIN 48, on our critical accounting policy and estimates for accounting for income taxes, during the first three quarters of fiscal 2008 there were no significant changes in our critical accounting policies and estimates. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of our Annual Report on Form 10-K for our fiscal year ended June 30, 2007 for a more complete discussion of our critical accounting policies and estimates.

**Accounting for Income Taxes**

Upon the implementation of FIN 48 on July 1, 2007, we had \$7.4 million of deferred tax assets previously subject to a full valuation allowance which have been de-recognized upon adoption of FIN 48. These amounts did not result in an adjustment to the accumulated deficit at July 1, 2007 as a result of the full valuation allowance recorded against these deferred tax assets. To the extent these previously unrecognized tax benefits are ultimately recognized, \$12.8 million will affect the effective tax rate in a future period. The total amount of unrecognized tax benefits upon adoption was \$21.9 million.

We have historically accounted for interest and penalties related to uncertain tax positions as part of our provision for income taxes. Following adoption of FIN 48, we will continue this classification. As of March 31, 2008, we had accrued \$8.0 million of interest and \$0.7 million of penalties related to uncertain tax positions. Prior to July 1, 2007, we classified all income taxes payable as a current liability. Under FIN 48, we are required to classify those obligations that are expected to be paid within the next twelve months as a current obligation and the remainder as a non-current obligation. As of March 31, 2008, we classified \$6.1 million of uncertain tax position liability as non-current obligations within other liabilities.

At March 31, 2008, the Company has significant deferred tax assets, resulting from net operating loss carryforwards, tax credit carryforwards, and deductible temporary differences. The Company provides a full valuation allowance against its net deferred tax assets in the United States, and a valuation allowance of \$1.7 against its deferred tax assets of \$5.0 million outside the United States. Management weighs the positive and negative evidence to determine if it is more likely than not that some or all of the deferred tax assets will be realized. Forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence such as cumulative losses in past years, a current year to date loss in the U.S. and presently a significant amount of uncertainty relative to the world economy. Despite the Company's consolidated profitability in the fiscal year ended June 30, 2007, and during the nine months ended March 31, 2008, the Company was not profitable in the U.S. during the nine months ended March 31, 2008. The significant majority of the Company's tax attributes are in the U.S., and thus will continue to maintain a full valuation allowance on its tax benefits until profitability has been sustained in amounts that are sufficient to support a conclusion that it is more likely than not that all or a portion of its deferred tax assets will be realized. A significant decrease in the Company's valuation allowance would result in an immediate material income tax benefit and an increase in total assets and stockholders' equity and could have a significant impact on the Company's earnings in future periods.

**Summary of Restructuring Accruals**

During the three and nine months ended March 31, 2008, we recorded \$0.1 million and \$8.6 million, respectively, in restructuring charges primarily related to the relocation of our corporate headquarters under the May 2007 restructuring plan discussed below.

Edgar Filing: ASPEN TECHNOLOGY INC /DE/ - Form 10-Q

At March 31, 2008, total restructuring liabilities for all plans included \$0.1 million for employee severance, benefits, and related costs and \$17.3 million for the closure or vacating facilities. We anticipate that payments of \$4.6 million will be made over the next twelve months with the remaining \$12.8 million paid through 2012.

Table of Contents

Summary Restructuring Plans	Closure/ Consolidation of Facilities	Employee Severance, Benefits, and Related Costs	Total
Accrued expenses, July 1, 2007	\$ 13,386	\$ 828	\$ 14,214
Restructuring charge	7,676	533	8,209
Restructuring charge Accretion	419		419
Payments	(4,195)	(1,259)	(5,454)
Accrued expenses, March 31, 2008	\$ 17,286	\$ 102	\$ 17,388
Expected final payment date	September 2012		

For additional information about our restructurings, see Note 12 to the condensed consolidated financial statements included in this Form 10-Q.

**Results of Operations***Comparison of the Three and Nine Months Ended March 31, 2008 and 2007*

The following table sets forth revenues of selected items reflected in our condensed consolidated statements of operations for the three and nine months ended March 31, 2008 and March 31, 2007. (in thousands)

	Three Months Ended March 31,		\$ Change	Nine Months Ended March 31,		\$ Change
	2008	2007		2008	2007	
Revenues:						
Software license	\$ 40,018	\$ 43,299	\$ (3,281)	\$ 108,716	\$ 131,878	\$ (23,162)
Service and other	34,226	36,201	(1,975)	104,585	107,781	(3,196)
Total Revenues	\$ 74,244	\$ 79,500	\$ (5,256)	\$ 213,301	\$ 239,659	\$ (26,358)

*Software License Revenues*

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

Software license revenues decreased by \$3.3 million during the three months ended March 31, 2008, compared to the corresponding period of the prior year. We closed two contracts with a net present value totaling \$21.2 million in the third quarter of fiscal 2008 that were recorded as part of deferred revenue because certain specific revenue recognition criteria were not met as of March 31, 2008. Of this balance we expect to recognize \$9.3 million in the second quarter of fiscal 2009, \$1.7 million in the third quarter of fiscal 2009, \$2.0 million during fiscal 2010, and

the remainder in subsequent periods. There was no comparable revenue deferral in the third quarter of fiscal 2007.

During the nine months ended March 31, 2008, software license revenues were \$23.2 million lower compared to the corresponding period of the prior year. During the first three quarters of fiscal 2008, we closed four contracts with a net present value totaling \$45.0 million that did not meet the criteria for revenue recognition as of the end of the quarter and were recorded as deferred revenue. Of this balance, we expect to recognize revenues of \$17.2 million in the first quarter of fiscal 2009, \$9.4 million in the second quarter of fiscal 2009, \$2.9 million in the remainder of fiscal 2009, \$7.1 million in fiscal 2010, and the balance in subsequent periods.

#### *Service and Other Revenues*

Service and other revenues are dependent upon a number of factors, including:

- the number, value and rate per hour of services transactions booked during the current and preceding periods;
- the number and availability of service resources actively engaged on billable projects;
- the timing of milestone acceptance for engagements contractually requiring customer sign-off;
- the timing of collection of cash payments when collectibility is uncertain;
- the timing of negotiating and signing maintenance renewals; and
- the size and comparison of both new sales and the installed base of license contracts.

For the three months ended March 31, 2008, service and other revenues were lower by \$2.0 million, compared to the corresponding period of the prior year primarily due to a decline in consulting services revenues of \$1.7 million. During the

Table of Contents

period, consulting services revenues were lower than the corresponding period of fiscal 2007, which included \$2.2 million in revenues related to the completion of a customer application project milestone.

For the nine months ended March 31, 2008, service and other revenues were lower by \$3.2 million, compared to the corresponding period of the prior year. Consulting services revenues were \$5.3 million lower than the corresponding period of fiscal 2007 due to a \$1.1 million decrease in reimbursable expenses included in revenue in the current quarter, coupled with \$2.2 million of revenues related to the completion of a customer application project milestone. This impact was partially offset by a \$1.9 million increase in maintenance and training revenue from \$59.3 million in the nine months ended March 31, 2007 to \$61.2 million in the nine months ended March 31, 2008 due to continued growth of our installed base of maintenance contracts.

The following table sets forth cost of revenues of selected items reflected in our condensed consolidated statements of operations for the three and nine months ended March 31, 2008 and March 31, 2007 (in thousands).

	Three Months Ended March 31,			\$ Change	Nine Months Ended March 31,			\$ Change
	2008	2007			2008	2007		
Cost of revenues:								
Software license	\$ 4,034	\$ 3,571	\$ 463	\$ 11,241	\$ 10,429	\$ 812		
Service and other	17,416	18,620	(1,204)	51,824	54,564	(2,740)		
Amortization of technology related intangible assets		1,632	(1,632)		5,206	(5,206)		
Total cost of revenues	\$ 21,450	\$ 23,823	\$ (2,373)	\$ 63,065	\$ 70,199	\$ (7,134)		

*Cost of Software Licenses*

Costs of software license revenues increased \$0.5 million and \$0.8 million, respectively, during the three and nine months ended March 31, 2008, compared to the corresponding periods of the prior year. Costs of software licenses are primarily comprised of royalties paid for third party products included in our products, as well as amortization of internally developed software previously capitalized. The majority of these costs are fixed and do not vary significantly relative to changes in revenue.

*Cost of Service and Other*

Costs of service and other revenue decreased by \$1.2 million during the three months ended March 31, 2008, compared to the corresponding period of the prior year. The decrease was primarily due to a \$0.7 million reduction in facility costs, a \$0.2 million reduction in sub-contractor expense, and a \$0.2 million reduction of customer reimbursable expenses. We expect the cost of service and other to remain relatively consistent as a percentage of service revenues.

## Edgar Filing: ASPEN TECHNOLOGY INC /DE/ - Form 10-Q

Costs of service and other revenue decreased by \$2.7 million during the nine months ended March 31, 2008, compared to the corresponding period of the prior year. This decrease versus the comparable period in fiscal 2007 was primarily due to a \$1.1 million reduction in infrastructure-related expenses stemming mostly from facility consolidation, lower project reimbursable costs of \$0.8 million and lower sub-contractor fees of \$0.8 million that resulted from the termination of an external supplier.

### *Amortization of Technology Related Intangible Assets*

Technology related intangible assets consists of the value of technology purchased in connection with previous business acquisitions. Amortization of these intangible assets decreased by 100% during the three and nine months ended March 31, 2008, as compared to the corresponding period of the prior year. The related assets were fully amortized as of June 30, 2007.

### *Operating Expenses*

The following table sets forth operating expenses and the percentages of total revenue for those operating expenses as reported in our condensed consolidated statements of operations. (in thousands)

	Three Months Ended				Nine Months Ended			
	March 31,		\$ Change	% Change	March 31,		\$ Change	% Change
	2008	2007			2008	2007		
Operating Expenses:								
Sales and marketing	\$ 25,362	\$ 23,505	\$ 1,857	7.9%	\$ 70,946	\$ 66,833	\$ 4,113	6.2%
Research and development	11,592	12,120	(528)	(4.4)%	33,853	31,339	2,514	8.0%
General and administrative	13,844	11,402	2,442	21.4%	39,333	36,027	3,306	9.2%
Restructuring charges	111	1,597	(1,486)	(93.0)%	8,628	3,632	4,996	137.6%
Loss on sale and disposal of assets	13	161	(148)	(91.9)%	(87)	234	(321)	(137.2)%
Total operating expenses	\$ 50,922	\$ 48,785	\$ 2,137	4.4%	\$ 152,673	\$ 138,065	\$ 14,608	10.6%

Table of Contents

*Sales and Marketing Expenses*

Sales and marketing expenses increased by \$1.9 million during the three months ended March 31, 2008, compared to the corresponding period of the prior year. This was primarily attributable to increases in personnel costs of \$1.3 million resulting from annual merit increases and an increase in headcount.

During the nine months ended March 31, 2008, sales and marketing expenses increased by \$4.1 million compared to the corresponding period of the prior year. This was primarily attributable to a \$2.8 million increase in personnel costs resulting from annual merit increases and an increase in headcount, as well as an increase of \$1.1 million from increased tradeshows and events.

*Research and Development Expenses*

Research and development expenses decreased by \$0.5 million during the three months ended March 31, 2008, compared to the corresponding period of the prior year, primarily due to decreases in facilities and stock based compensation attributable to research and development personnel.

During the nine months ended March 31, 2008, research and development expenses increased by \$2.5 million compared to the corresponding period of the prior year. The increase was primarily due to the capitalization of \$3.1 million in the quarter ending September 30, 2006 for costs associated with a major product release in that period for which technological feasibility had been previously established. Additional costs were no longer capitalized following the product release in September 2006. This was partially offset by the decreases noted above.

*General and Administrative Expenses*

General and administrative expenses increased by \$2.4 million during the three months ended March 31, 2008, compared to the corresponding period of the prior year. The increase was due to an increase of \$3.0 million in audit and professional fees in the third quarter fiscal 2008 to complete the restatement of our fiscal 2007 financial statements. That increase was partially offset by \$0.5 million in lower bad debt expense resulting from improved credit and collection procedures.

General and administrative expenses increased by \$3.3 million during the nine months ended March 31, 2008, compared to the corresponding period of the prior year. The increase is primarily the result of an additional \$7.2 million in external consultant and audit fees associated with the restatement of our fiscal 2007 financial statements, partially offset by lower legal fees of \$3.7 million compared to the nine month period in fiscal 2007. Additionally, bad debt expense in the first nine months of fiscal 2008 was \$0.9 million lower due to improved credit and collection procedures.

*Restructuring Charges*

Restructuring charges decreased by \$1.5 million during the three months ended March 31, 2008, compared to the corresponding period of the prior year. Expenses charged in the third quarter of fiscal 2007 related primarily to severance and relocation expenses as part of the May 2005 restructuring plan. No such expenses were incurred during the third quarter of fiscal 2008.

During the nine months ended March 31, 2008, restructuring charges increased by \$5.0 million compared to the corresponding period of the prior year. This increase relates primarily to the relocation of the Company's headquarters in the first fiscal quarter of 2008 and a change in assumptions due to a sub-lessor defaulting on a lease term in the second fiscal quarter of 2008.

*Interest Income*

Interest income is earned from cash invested in highly liquid short term instruments, and from the accretion of interest for software licenses sold pursuant to long term installment payment contracts. Under these installment payment contracts, customers have the option to make annual payments over the license term or to make a single payment at the outset of the term. Historically, a substantial majority of customers have elected to make annual payments. The increase in interest income is due to the increases in our average cash balance as well as increases in installments receivable balances due from customers. The increases in installments receivable balances are a result of the continued expansion of the installed base of our software products. Interest income for the three and nine months ended March 31, 2008 increased to \$6.1 million and \$18.1 million from \$5.6 million and \$16.1 million for the three and nine months ended March 31, 2007, respectively.

Table of Contents

*Interest Expense*

We incur interest expense primarily on secured borrowings under our secured borrowing arrangements with unrelated financial institutions. Interest expense for the three months ended March 31, 2008 decreased to \$4.5 million from \$4.7 million in the corresponding period of the prior year. The overall decrease was attributable to a lower level of secured borrowings, in particular a lower level of high interest debt under the Fiscal 2005 and Fiscal 2007 Securitizations. This was offset by a \$0.8 million termination fee which was recorded as interest expense, and which was paid to settle the Fiscal 2007 Securitization in March 2008 and to the recognition of \$0.5 million of previously unamortized debt issuance costs upon such settlement.

During the nine months ended March 31, 2008, interest expense decreased to \$13.7 million from \$14.0 million in the corresponding period of the prior year. The overall decrease was also attributable to generally lower level of secured borrowings, which are secured by our installment and other receivable contracts, and a lower level of high interest debt under the Fiscal 2005 and Fiscal 2007 Securitizations. This was offset by a \$0.8 million termination fee paid to settle the Fiscal 2007 Securitization in March 2008 and to the recognition of \$0.5 million of previously unamortized debt issuance costs upon such settlement.

*Foreign Currency Exchange Gain (Loss)*

Foreign currency exchange gains and losses are incurred as a result of: the settlement of transactions denominated in foreign currencies; the remeasurement of intercompany accounts denominated in foreign currencies; and the impact of the mark to market adjustments related to our foreign currency derivatives, which reflect movement in exchange rates relative to the U.S. dollar. The revaluation adjustments are unrealized gains and losses as the related intercompany balances typically have not settled in cash. The increase in the three and nine month periods ended March 31, 2008 compared to the same period in the prior fiscal year was primarily due to the further continued weakening of the U.S. dollar relative to the functional currencies of our subsidiaries.

*Provision for Income Taxes.*

Our provision for income taxes relates primarily to the accrual of interest on uncertain tax positions, foreign withholding taxes, and income taxes attributable to our operating results in foreign jurisdictions. Our effective tax rates were 34.4% and 33.8% for the three months ended March 31, 2008 and 2007, respectively. At December 31, 2007, we determined that it was more likely than not that most of our non-U.S. deferred tax assets would be realized based upon our positive cumulative operating results and our assessment of our expected future foreign operating results. As a result, we released a portion of our valuation allowance on foreign net deferred income taxes and recognized a discrete income tax benefit of \$2.6 million in our statement of operations for the three months ended December 31, 2007. Our effective tax rate in future periods will be affected by the geographic distribution of our earnings, the availability of tax credits, as well as the potential release of additional valuation allowances, primarily in the U.S., if we conclude it is more likely than not that the related tax benefits will be realized in the future.

**Liquidity and Capital Resources**

*Resources*

We historically have financed our operations through cash generated from operating activities, public offerings of our convertible debentures and common stock, private offerings of our preferred stock and common stock, borrowings secured by our installment receivable contracts and borrowings under bank credit facilities. As of March 31, 2008, we had cash and cash equivalents totaling \$136.4 million. We believe our current cash balances, future cash flows from our operations, including collections of currently outstanding installments receivable, cash from future borrowings secured by installment receivable contracts, and cash available under line of credit arrangements will be sufficient to meet our anticipated cash needs for at least the next twelve months. However, we may need to obtain additional financing thereafter or earlier if our current plans and projections prove to be inaccurate or our expected cash flows prove to be insufficient to fund our operations because of lower-than-expected revenues, unanticipated expenses or other unforeseen difficulties. In addition, we may seek to take advantage of favorable market conditions by raising additional funds from time to time through public or private security offerings, debt financings, strategic alliances or other financing sources. Our ability to obtain additional financing will depend on a number of factors, including market conditions, our operating performance and investor interest. These factors may make the timing, amount, terms and conditions of any financing unattractive. They may also result in our incurring additional indebtedness or accepting stockholder dilution. Any of these actions may seriously harm our business and operating results.

Table of Contents

*Operating Activities*

For the nine months ended March 31, 2008, operating activities provided \$47.7 million of cash as compared to \$45.1 million in the corresponding period of the prior year. Sources of cash included: net income and non-cash charges for depreciation, amortization and stock-based compensation of \$21.0 million; an increase in deferred revenue of \$51.3 million; a decrease in unbilled services of \$6.1 million; an increase in other liabilities of \$4.1 million. These sources of cash were partially offset by cash used for: a net increase in installments collateralized and accounts receivable of \$21.3 million; a decrease in accounts payable and accrued expenses and other current liabilities of \$7.2 million; an increase in net foreign currency gains of \$3.5 million; and an increase in deferred income tax assets of \$2.6 million.

*Financing Activities*

For the nine months ended March 31, 2008, cash used in financing activities was \$37.0 million primarily due to repayments net of proceeds from secured borrowings of \$39.0 million, offset by proceeds of \$3.3 million received from the exercise of employee stock options. The net repayments on secured borrowings include the settlement in December 2007 of the Fiscal 2005 Securitization described below for \$4.2 million, and the settlement of the Fiscal 2007 Securitization facility in March 2008 for \$12.2 million and reflects our strategy to reduce our secured borrowings while maintaining a relatively consistent cash balance.

***Borrowings collateralized by receivable contracts***

***Traditional Programs***

We historically have maintained arrangements, which we refer to as our Traditional Programs, with financial institutions providing for borrowings that are secured by our installment and other receivable contracts, and for which limited recourse exists against us. Under our arrangements with General Electric Capital Corporation, Bank of America and Silicon Valley Bank (SVB), both parties must agree to enter into each transaction and negotiate the borrowing amount and interest rate secured by each receivable. The customers' payments of the underlying receivables fund the repayment of the related borrowing amount. The weighted average interest rate on the secured borrowings was 7.6% at March 31, 2008.

The amount of total collateralized receivables for the Traditional Programs approximates the amount of the secured borrowings recorded in the consolidated balance sheets. The collateralized receivables earn interest income and the secured borrowings accrue borrowing costs at approximately the same interest rates. When cash is received from a customer by us, the collateralized receivable balance is reduced and the related secured borrowing is reclassified to an accrued liability for amounts we must remit to the financial institution. The accrued liability is reduced when payment is remitted to the financial institutions. The terms of the customer accounts receivable range from amounts that are due within 30 days to installment receivables that are due over five years. We act as the servicer for the receivables in one of the three arrangements.

Under these arrangements, we received aggregate cash proceeds of \$68.3 million for the nine months ended March 31, 2008. As of March 31, 2008, we had outstanding secured borrowings of \$170.7 million that were secured by collateralized receivables totaling \$174.2 million under the Traditional Programs. We estimate that there was in excess of \$70.6 million available under the arrangements at March 31, 2008. As the collection of the collateralized receivables and resulting payment of the borrowing obligation will reduce the outstanding balance, the availability under the arrangements can be increased. We expect to maintain our access to cash under these arrangements, and to transfer installments receivable as business requirements dictate. Our ongoing ability to access the available capacity will depend upon a number of factors, including the generation of additional customer receivables and the financial institution's willingness to continue to enter into these transactions.

Under the terms of the Traditional Programs, we have transferred the receivables to the financial institutions with limited financial recourse. Potential recourse obligations are primarily related to one program that requires us to pay interest to the financial institution when the underlying customer has not paid by the due date. This recourse is limited to a maximum period of 90 days after the due date. The amount of installment receivables within the program that has this potential recourse obligation was \$58.7 million at March 31, 2008. This ninety day recourse obligation is recognized as interest expense as incurred and totaled \$0.4 million and \$0.6 million for the nine months ended March 31, 2008 and 2007, respectively. In addition, we have recourse obligations under the Bank of America program totaling \$0.7 million at March 31, 2008 if the underlying installment receivable is not paid by the customer. This recourse obligation is in the form of a deferred payment by the financial institution that is withheld until customer payments are received. Otherwise, recourse generally results from circumstances in which we failed to perform requirements related to contracts with the customer. Other than the specific items noted above, the financial institutions bear the credit risk associated with the customer whose receivable it purchased.

In the ordinary course of our acting as a servicing agent for receivables transferred to SVB, we regularly receive funds from customers that are processed and remitted onward to SVB. While in our possession, these cash receipts are contractually owned by SVB and are held by us in trust for SVB's benefit until remitted to the bank. Cash receipts held for the

Table of Contents

benefit of SVB recorded in our cash balances and current liabilities totaled \$1.9 million and \$2.8 million as of March 31, 2008 and June 30, 2007, respectively. Such amounts are restricted from our use.

In June 2008, the Company paid the outstanding amount under the Bank of America program at its carrying value of \$2.7 million inclusive of a one percent pre-payment penalty.

*Securitization of Accounts Receivable*

In fiscal 2005 and fiscal 2007, we completed securitizations transactions that included collateralized receivables whose value exceeds the related borrowings from the financial institutions. In December 2007, we paid the outstanding amount of secured borrowings outstanding under the Fiscal 2005 Securitization at its carrying value of \$4.2 million. Unamortized debt issue costs totaling \$0.1 million were charged to expense at the time.

We had been in violation of certain reporting covenants related to the Fiscal 2007 Securitization due to the delay in filing our financial statements with the SEC and other violations. In March 2008, we paid the outstanding amount of secured borrowings outstanding under the Fiscal 2007 Securitization at its carrying value of \$12.2 million plus a termination fee of \$0.8 million, in final settlement of this arrangement. Unamortized debt issue costs totaling \$0.5 million were charged to expense at the time.

*Credit Facility*

In January 2003 we executed a loan arrangement with SVB, which we have subsequently amended from time to time. This arrangement provides a line of credit of up to the lesser of (1) \$15.0 million and (2) 70% of eligible domestic receivables, and a line of credit of up to the lesser of (1) \$10.0 million and (2) 80% of eligible foreign receivables. The line of credit bears interest at the greater of 4.25% or the bank's prime rate (5.25% at March 31, 2008). The line is subject to an unused line of credit fee of 0.375%, which can be reduced by half if balances in non-interest bearing accounts average \$10 million. The line of credit is collateralized by substantially all of our assets. We are required to meet certain financial covenants, including minimum tangible net worth, minimum cash balances and an adjusted quick ratio. The terms of the loan arrangement restrict our ability to pay dividends, with the exception of dividends paid in common stock or preferred stock dividends in cash.

As of March 31, 2008, there was \$7.5 million in letters of credit outstanding under the line of credit and there was \$17.5 million available for future borrowing. As of March 31, 2008, we were in compliance with the tangible net worth covenant and adjusted quick ratio covenants. The loan arrangement expires in May 2009.

*Cash Requirements*

*Investing Activities*

During the nine months ended March 31, 2008, investing activities used \$7.0 million of cash primarily as a result of the purchase of \$4.4 million to upgrade our financial reporting and management information system. We expect to spend an additional \$2.0 million in capital expenditures in the last three months of fiscal 2008, primarily for additional purchases of software and computer equipment. We are not currently party to any purchase contracts related to future capital expenditures.

Management is currently implementing an information system and other related changes, which are being designed and implemented in part to remediate our material weaknesses and significant deficiencies in internal controls over financial reporting. Management currently believes that the costs for such remediation activities, a substantial portion of which are expected to be incurred to upgrade our existing financial applications, could be material.

**Sensitivity to Market Risk**

*Foreign Currency Risk.* Revenues originating outside of the United States, a portion of which are denominated in foreign currencies, totaled 64% and 52% for the three months ended March 31, 2008 and March 31, 2007, respectively, and totaled 66% and 51% for the nine months ended March 31, 2008 and March 31, 2007, respectively. Since we conduct business on a global basis in various foreign currencies, we are exposed to movements in foreign currency exchange rates. We utilize a foreign currency-hedging program that uses foreign currency forward exchange contracts to hedge various nonfunctional currency exposures. The objective of this program is to reduce the effect of changes in foreign currency exchange rates on our results of operations. Furthermore, our goal is to offset foreign currency transaction gains and losses recorded for accounting purposes with gains and losses realized on the forward contracts. Our hedging activities cannot

Table of Contents

completely protect us from the risk of foreign currency losses as our currency exposures are constantly changing and not all of these exposures are hedged.

*Inflation.* Inflation has not had a significant impact on our operating results to date and we do not expect inflation to have a significant impact during the last three months of fiscal 2008.

**New Accounting Pronouncements**

In September 2006, the FASB issued Statement of Financial Accounting Standards, or SFAS No. 157, Fair Value Measurements. SFAS No. 157 establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 emphasizes that fair value measurement is market-based, not entity-specific, and establishes a fair value hierarchy in which the highest priority is quoted prices in active markets. Under SFAS No. 157, fair value measurements are disclosed according to their level within this hierarchy. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, or our fiscal 2009, except for nonrecurring fair value measurements of non-financial assets and non-financial liabilities, for which the effective date is fiscal years beginning after November 15, 2008, or our fiscal 2010. We have not yet determined the effect that the application of SFAS No. 157 will have on our consolidated financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin, or SAB No. 108, which provides guidance on the process of quantifying financial statement misstatements. In SAB No. 108, the SEC staff establishes an approach that requires quantification of financial statements errors, under both the iron-curtain and the roll-over methods, based on the effects of the error on each of our financial statements and the related financial statement disclosures. SAB No. 108 is generally effective for annual financial statements in the first fiscal year ending after November 15, 2006. The transition provisions of SAB No. 108 permits existing public companies to record the cumulative effect in the first year ending after November 15, 2006 by recording correcting adjustments to the carrying values of assets and liabilities as of the beginning of that year with the offsetting adjustment recorded to the opening balance of retained earnings. We adopted SAB No. 108 as of June 30, 2007 and determined that the adoption had no material impact on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 permits entities to measure many financial instruments and certain other items at fair value and provides entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Once an entity has elected the fair value option for designated financial instruments and other items, changes in fair value must be recognized in the statement of operations. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, or our fiscal 2009. We have not yet determined the effect that the application of SFAS No. 159 will have on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations, which replaces SFAS No. 141. SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. The Statement also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of a business combination. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008, or our fiscal 2010. We expect the adoption of SFAS No. 141(R) will have an impact on accounting for future business combinations should such combinations occur.

## Edgar Filing: ASPEN TECHNOLOGY INC /DE/ - Form 10-Q

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin No. 51, which establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. The Statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008, or our fiscal 2010. We have not yet determined the effect that the application of SFAS No. 160 will have on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133. This statement changes the disclosure requirements for derivative instruments and hedging activities. SFAS No. 161 requires enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related

Table of Contents

interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, or our fiscal 2010. We have not yet determined the effect that the application of SFAS No. 161 will have on our consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles. SFAS No. 162 becomes effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. We do not expect that the adoption of SFAS No. 162 will have a material impact on our consolidated financial statements.

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

*Investment Portfolio*

We do not use derivative financial instruments in our investment portfolio. We place our investments in instruments that meet high credit quality standards, as specified in our investment policy guidelines. We do not expect any material loss with respect to our investment portfolio from changes in market interest rates or credit losses. At March 31, 2008, all of the instruments in our investment portfolio were included in cash and cash equivalents.

*Impact of Foreign Currency Rate Changes*

During the first nine months of fiscal 2008, the U.S. dollar weakened against currencies for countries in which we have local operations, primarily in Europe, Canada and the Asia-Pacific region. The remeasurement of our intercompany receivables and payables are recorded as unrealized transaction gains or losses in our consolidated statement of operations as foreign currency exchange gain (loss). Our primary foreign currency exposures relate to customer installment receivables and to operating costs and expenses, which are foreign currency denominated. Foreign exchange forward contracts are purchased to hedge certain customer accounts and installments receivable contract amounts (both held and transferred) that are denominated in a foreign currency.

*Foreign Exchange Hedging*

We enter into foreign exchange forward contracts to mitigate our exposure to currency fluctuations on customer installments receivable contracts denominated in foreign currencies. We do not use derivative financial instruments for speculative or trading purposes, and our derivative positions are not accounted for as accounting hedges. It has been our past practice to hedge virtually all of our material receivables denominated in foreign currencies for which forward contracts were feasible. However, beginning in late fiscal 2008 we revised this practice to hedge only the net exposure to foreign currencies. We measure net exposure as the difference between future receivables and future operating expenses in a particular currency.

We had \$33.5 million of foreign exchange forward contracts denominated in British, Japanese, Swiss, Euro and Canadian currencies, which related to underlying customer installments receivable transactions at March 31, 2008. The underlying customer installments receivable transactions consisted of assets carried on our balance sheet, for which we retain the exposure associated with changes in foreign exchange rates. At each balance sheet date, the foreign exchange forward contracts and the related installment receivable contracts denominated in foreign currencies are revalued based on the current market exchange rates. Resulting gains and losses are included in earnings. Gains and losses related to these instruments for the nine months ended March 31, 2008 were not material to our financial position. We do not anticipate any material adverse effect on our consolidated financial position, operating results or cash flows resulting from the use of these instruments. There can be no assurance, however, that these strategies will be effective or that currency-related transaction losses can be limited or forecasted accurately.

The following table summarizes our forward contracts to sell foreign currencies for U.S. dollars at March 31, 2008. All of these contracts relate to customer accounts and installments receivable contracts. The table presents the value of the contracts in U.S. dollars at the contract exchange rate as of the contract maturity date. The average contract rate approximated the weighted average contractual foreign currency exchange rate. The fair value of the contracts as of March 31, 2008 was a loss of \$2.4 million.

Table of Contents

Currency	Forward Amount in U.S. Dollars (in thousands)	Contract Origination Date	Contract Maturity Date
Euro	\$ 23,323	Various: Mar. 07 Mar. 08	Various: Mar. 08 Sept. 08
British Pound Sterling	5,012	Various: July. 07 Mar. 08	Various: Apr. 08 June 08
Japanese Yen	3,278	Various: July 07 Jan. 08	Various: May 08 Dec. 08
Canadian Dollar	1,530	Various: July. 07 Mar. 08	Various: Mar. 08 Dec. 08
Swiss Franc	324	Various: Dec. 07 Mar. 08	Various: Apr. 08 June 08
Total	\$ 33,467		

***Installment receivable contracts***

The installment receivable contracts are financial instruments subject to market risk from changes in interest rates. We do not expect that fluctuations in interest rates will significantly impact results of operations in a particular period.

**Item 4. Controls and Procedures**

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Securities Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We previously reported five material weaknesses in our internal control over financial reporting as of June 30, 2007, which were described in Item 9A, *Management's Report on Internal Control over Financial Reporting* in our Annual Report on Form 10-K for the fiscal year ended June 30, 2007.

The five material weaknesses as of June 30, 2007 were as follows:

- Inadequate and ineffective controls over the periodic financial close process;

- Inadequate and ineffective controls over the accounting for transfers of customer installment and accounts receivables under receivable sale facilities;
- Inadequate and ineffective controls over income tax accounting and disclosure;
- Inadequate and ineffective controls over the recognition of revenue; and
- Inadequate and ineffective controls over the accounts receivable function.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework*. Our management believes that these material weaknesses still exist as of March 31, 2008. Because of the material weaknesses described above, our chief executive officer and chief financial officer have concluded that, as of March 31, 2008, our disclosure controls and procedures were not effective.

***Changes in Internal Control Over Financial Reporting***

During the quarter ended March 31, 2008, the following changes were made to our internal control over accounting for transfers of customer installment and accounts receivables under receivable sale facilities that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

*In order to improve controls over the periodic financial close process, we performed the following:*

- Consolidated our financial operations into three global centers.

*In order to improve controls over the accounting for transfers of customer installment and accounts receivables under receivable sale facilities, we performed the following:*

- Enhanced procedures, including increased management review and approval of receivable transfers under receivable sale facilities and development of appropriate systems and reporting mechanisms, to ensure that transactions are allowable and properly accounted for as a sale of assets or secured borrowing under the terms of the receivable sale facilities;
- Enhanced receivable reconciliation procedures to ensure that only valid receivables are included on internal reports used to identify receivables eligible for transfer;
- Improved reporting and review procedures between our company and the financial institutions who participate in the receivable sales facilities, and
- Paid off remaining outstanding borrowings under our Fiscal 2007 Securitization, which reduces the risks associated with these activities.

***Remediation Plans***

Management has identified the following measures to strengthen our internal control over financial reporting and to address the material weaknesses described above. We began implementing certain of these measures prior to the filing of this Form 10-Q but changes made to our internal controls have not yet been in place for a sufficient time to have had a significant effect. We are continuing to develop our remediation plans and implement additional measures during fiscal 2009.

*In order to improve controls over the periodic financial close process, we intend to:*

- Complete the upgrade of our existing financial applications, which is designed to streamline the capturing of relevant data, improve the general ledger and entity account level reporting structures and enhance the information query and reporting capability for the consolidated books worldwide;
- Continue to assess training requirements and adequacy and expertise of the finance and accounting staff on a global basis;
- Further improve the periodic financial close process through the use of a detailed financial close plan and enhanced review of manual journal entries, account reconciliations, estimates and judgments and consolidation schedules;
- Assess the adequacy of the systems and procedures used to track and account for stock-based awards; and
- Further simplify the legal entity structure and the ways in which we do business.

*In order to improve controls over the accounting for transfers of customer installment and accounts receivables under receivable sale facilities, we intend to:*

- Enhance procedures, including increased management review and approval of receivable transfers under receivable sale facilities and development of appropriate systems and reporting mechanisms, to ensure that transactions are allowable and properly accounted for as a sale of assets or secured borrowing under the terms of the receivable sale facilities;
- Enhance receivable reconciliation procedures to ensure that only valid receivables are included on internal reports used to identify receivables eligible for transfer; and
- Improve reporting and review procedures between the company and the financial institutions who participate in the receivable sales facilities.

Table of Contents

*In order to improve controls over income tax accounting and disclosure, we intend to:*

- Enhance our policies and procedures for determining and documenting income tax liabilities and contingencies;
- Enhance our policies and procedures for determining, documenting and calculating our tax provisions in accordance with the applicable tax code and the determination of deferred income tax assets and liabilities including stock based compensation, tax credits, net operating loss carry forwards and limitations thereto as defined under section 382 of the Internal Revenue Code of 1986, as amended; and
- Increase the number of personnel or use of outside advisors with specialized corporate and international tax expertise.

*In order to improve controls over the recognition of revenue, we intend to:*

- Increase the frequency, scope and tracking of training on revenue recognition for our sales and services organizations, executive management, regional finance, accounting and operations personnel;
- Hire additional personnel in regional finance and revenue accounting with expertise in software revenue recognition;
- Enhance review procedures for contracts containing both license and service elements;
- Enhance the process used to determine the estimated discount rate for the present value of license contracts with extended payment terms;
- Enhance contract review documentation and procedures to identify and accurately account for non-routine arrangements with customers;

- Revise the credit approval policy to include guidelines for the establishment and approval of customer credit limits and further define procedures for the ongoing monitoring of customer receivable balances;
- Improve procedures to identify and monitor customers who are approved on a pre-payment basis and ensure the underlying revenue transactions are accurately accounted for;
- Formalize and document a quarterly review of estimated total costs for fixed price consulting services projects and analyze significant variances to actual costs;
- Enhance review procedures to ensure all components of a customer order are delivered on a timely basis and are useable by the customer; and
- Enhance the management review procedure relating to royalty agreement, fees calculation and reconciliation in order to prevent royalty fees from being understated.

*In order to improve controls over the accounts receivable function we intend to:*

- Enhance procedures for the review and approval of customer credit memos and adjustments including a monthly reconciliation of authorized amounts to actual credits and adjustments recorded;
- Increase the level and frequency of review of consulting services projects with unbilled and unearned balances to ensure that amounts recorded as unbilled services or deferred revenue are valid and accurate and provisions for uncollectible amounts are sufficient;
- Increase the level and frequency of review of past due accounts and related installments in the accounts receivable aging on a global basis;

Table of Contents

- Assess training requirements and adequacy and expertise of the collections and accounts receivable staff on a global basis; and
- Assess the adequacy of the accounting applications deployed to service accounts receivable which have been sold.

If the remedial measures described above are insufficient to address any of the identified material weaknesses or not implemented effectively, or additional deficiencies arise in the future, material misstatements in our interim or annual financial statements may occur in the future. We are currently implementing an enhanced controls environment intended to address the material weaknesses in our internal control over financial reporting and to remedy the ineffectiveness of our disclosure controls and procedures. While this implementation phase is underway, we are relying on extensive manual procedures, including regular reviews, to assist us with meeting the objectives otherwise fulfilled by an effective internal control environment. Among other things, any unremediated material weaknesses could result in material post-closing adjustments in future financial statements. Furthermore, any such unremediated material weaknesses could have the effects described in Item 1A. Risk Factors. In preparing our consolidated financial statements, we identified material weaknesses in our internal control over financial reporting, and our failure to remedy effectively the five material weaknesses identified as of March 31, 2008 could result in material misstatements in our financial statements in Part II of this Form 10-Q.

The certifications of our principal executive officer and principal financial officer required in accordance with Section 302 of the Sarbanes-Oxley Act are attached as exhibits to this Form 10-Q. The disclosures set forth in this Item 4 contain information concerning the evaluation of our disclosure controls and procedures, and changes in internal control over financial reporting, referred to in paragraph 4 of the certifications. This Item 4 should be read in conjunction with the officer certifications for a more complete understanding of the topics presented.

Table of Contents

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

***(a) FTC settlement and Related Honeywell Litigation***

In December 2004, we entered into a consent decree with the Federal Trade Commission, or FTC, with respect to a civil administrative complaint filed by the FTC in August 2003 alleging that our acquisition of Hyprotech in May 2002 was anticompetitive in violation of Section 5 of the Federal Trade Commission Act and Section 7 of the Clayton Act. In connection with the consent decree, we entered into an agreement with Honeywell International, Inc. on October 6, 2004, or the Honeywell Agreement, pursuant to which we transferred our operator training business and our rights to the intellectual property of various legacy Hyprotech products. In addition, we transferred our AXSYS product line to Bentley Systems, Inc.

On December 23, 2004, we completed the transactions with Honeywell contemplated by the Honeywell Agreement. Under the terms of the transactions:

- we agreed to a cash payment of approximately \$6.0 million from Honeywell in consideration of the transfer of our operator training services business, our covenant not-to-compete in the operator training business until the third anniversary of the closing date, and the transfer of ownership of the intellectual property of our Hyprotech engineering products, \$1.2 million of which is subject to holdback and may be released upon the resolution of any adjustments for uncollected billed accounts receivable and unbilled accounts receivable.
- we transferred and Honeywell assumed, as of the closing date, approximately \$4 million in accounts receivable relating to the operator training business; and
- we entered into a two-year support agreement with Honeywell under which we agreed to provide Honeywell with source code to new releases of the Hyprotech products provided to customers under standard software maintenance services agreements.

The Honeywell transaction resulted in a deferred gain of \$0.2 million, which was amortized over the two-year life of the support agreement, and was subject to a potential increase of the gain of up to \$1.2 million upon resolution of the holdback payment issue, which is discussed below.

We are subject to ongoing compliance obligations under the FTC consent decree. We have been responding to numerous requests by the Staff of the FTC for information relating to the Staff's investigation of whether we have complied with the consent decree. In addition, we have met with several of the FTC Commissioners and Staff members to discuss the Staff's investigation, and the FTC referred a recommendation to the Consumer Litigation Division (the Division) of the U.S. Department of Justice that the Division commence litigation against us relating to our alleged failure to comply with certain aspects of the decree. A decision is still pending at the Division on whether to pursue litigation, and no

action has been filed. Although we believe that we have complied with the consent decree and that the assertions by the FTC Staff are without merit, we are engaged in settlement discussion with the FTC Staff regarding this matter. If we and the FTC are unable to reach a settlement on terms acceptable to us, litigation or administrative proceedings may ensue, in which case we could be required to pay substantial legal fees and, if the FTC or a court were to determine that we have not complied with our obligations under the consent decree, we could be subject to one or more of a variety of penalties, fines, injunctive relief and other remedies, any of which might materially limit our ability to operate under our current business plan, which could have a material adverse effect on our operating results, cash flows and financial position.

In March 2007, we were served with a complaint and petition to compel arbitration filed by Honeywell in New York State Supreme Court. The complaint alleges that we failed to comply with our obligations to deliver certain technology under the Honeywell Agreement referred to above, that we owe approximately \$800,000 to Honeywell under the Honeywell Agreement, and that Honeywell is entitled to some portion of the \$1.2 million holdback retained by Honeywell under the holdback provisions of the Honeywell Agreement, plus unspecified monetary damages. In accordance with the Honeywell Agreement, certain of Honeywell's claims relating to the holdback were the subject of a proceeding before an independent accountant, who determined in December 2008 that we were entitled to a portion of the holdback. Although we believe many of the claims to be without merit and intend to defend the claims vigorously, we and Honeywell have engaged in settlement negotiations. If we and Honeywell are unable to reach a settlement on terms acceptable to us, it is possible that the litigation and resolution of the claims may have an adverse impact on our operating results, cash flows and financial position.

Table of Contents

*(b) Other Litigation*

*SEC action and U.S. Attorney's office criminal complaint*

In January 2007, the SEC filed civil enforcement complaints in the United States District Court in and for the District of Massachusetts alleging securities fraud and other violations against three of our former executive officers, David McQuillin, Lisa Zappala and Lawrence Evans, arising out of six transactions in 1999 through 2002 that were reflected in our originally filed consolidated financial statements for fiscal 2000 through 2004, the accounting for which was restated in March 2005 (we and each of these former executive officers had also received Wells Notice letters of possible enforcement proceedings by the SEC in June and July 2006). On the same day the SEC complaints were filed, the U.S. Attorney's Office for the Southern District of New York filed a criminal complaint against David McQuillin alleging criminal securities fraud violations arising out of two of those transactions. Mr. McQuillin pled guilty in March 2007 and was sentenced in October 2007. On November 12, 2008, Mr. McQuillin and Mr. Evans entered into final settlements of the civil enforcement actions with the SEC without admitting or denying liability, and the Court also entered a stay of discovery in Ms. Zappala's case in as much as the parties had reached an agreement in principle to settle that matter as well.

As previously disclosed, on July 31, 2007, we entered into a settlement order with the SEC relating to the Wells Notice received by us. No enforcement action was filed by the SEC against us, and under the Wells Notice settlement order, we agreed to cease and desist from violations of certain provisions of the federal securities laws, and to comply with certain undertakings. No civil penalty was assessed by the SEC in connection with that settlement order, and we did not admit or deny any wrongdoing in connection with the settlement order.

The SEC enforcement complaints and the U.S. Attorney's Office criminal action were not filed against us or any of our current officers or directors, but only against the former executive officers referenced above. We can provide no assurance, however, that the U.S. Attorney's Office, the SEC or another regulatory agency will not file an enforcement complaint against us, our officers and employees or additional former officers and employees in connection with the consolidated financial statements that were restated in March 2005. Any such enforcement action or similar proceeding could have a material adverse effect on our financial position and results of operations.

*Class action and opt-out claims*

In March 2006, we settled class action litigation, including related derivative claims, arising out of the restated consolidated financial statements that include the periods referenced in the SEC enforcement action and the criminal complaint discussed above. Members of the class who opted out of the settlement, representing 1,457,969 shares of common stock, or less than 1% of the shares putatively purchased during the class action period, may bring or have brought their own state or federal law claims against us, referred to as opt-out claims.

Pursuant to the terms of the class action settlement, we paid \$1.9 million and its insurance carrier paid \$3.7 million into a settlement fund for a total of \$5.6 million. Our \$1.9 million payment was recorded in general and administrative expenses in the quarter ended September 30, 2005. All costs of preparing and distributing notices to members of the class and administration of the settlement, together with all fees and expenses awarded to plaintiffs' counsel and certain other expenses, will be paid out of the settlement fund, which will be maintained by an escrow agent under the court's supervision.

Separate actions have been filed on behalf of the holders of approximately 1.1 million shares who either opted out of the class action settlement or were not covered by that settlement. The claims in those actions include claims against us and one or more of our former officers alleging securities and common law fraud, breach of contract, statutory treble damages, deceptive practices and/or rescissory damages liability, based on the restated results of one or more fiscal periods included in its restated consolidated financial statements referenced in the class action.

Those actions are:

- *Blecker, et al. v. Aspen Technology, Inc., et al.*, filed on June 5, 2006 in the Business Litigation Session of the Massachusetts Superior Court for Suffolk County and docketed as Civ. A. No. 06-2357-BLS1 in that court, which is an opt out claim asserted by persons who received 248,411 shares of our common stock in an acquisition;
- *Feldman v. Aspen Technology, Inc., et al.*, filed on July 17, 2006 in the Business Litigation Session of the Massachusetts Superior Court for Suffolk County and docketed as Civ. A. No. 06-3021-BLS2 in that court, which is an opt out claim asserted by an individual who received 323,324 shares of our common stock in an acquisition; and

Table of Contents

- *380544 Canada, Inc., et al. v. Aspen Technology, Inc., et al.*, filed on February 15, 2007 in the federal district court in Manhattan and docketed as Civ. A. No. 1:07-cv-01204-JFK in that court, which is a claim asserted by persons who purchased 566,665 shares of our common stock in a private placement.

On October 17, 2008, the plaintiffs in the Blecker action described above filed a new complaint in the Superior Court of the Commonwealth of Massachusetts, captioned *Herbert G. and Eunice E. Blecker v. Aspen Technology, Inc. et al.*, Civ. A. No. 08-4625-BLS1 (Blecker II). The sole claim in Blecker II is based on the Massachusetts Uniform Securities Act, and plaintiffs have indicated that if they are granted leave to assert that claim in the original Blecker action, they will voluntarily dismiss Blecker II.

The damages sought in these actions total more than \$20 million, not including claims for treble damages and attorneys' fees. If these actions are not dismissed or settled on terms acceptable to us, we plan to defend the actions vigorously. We can provide no assurance as to the outcome of these opt-out claims or the likelihood of the filing of additional opt-out claims, and these claims may result in judgments against us for significant damages. Regardless of the outcome, such litigation has resulted in the past, and may continue to result in the future, in significant legal expenses and may require significant attention and resources of management, all of which could result in losses and damages that have a material adverse effect on our business.

We may be named as a defendant in securities litigation or derivative lawsuits by current or former stockholders in connection with the restatements of its consolidated financial statements. Further, we may be subject to claims relating to adverse tax consequences with respect to stock options covered by the restatements. Defending against potential claims will likely require significant attention and resources of management and could result in significant legal expenses.

***Derivative suits***

On December 1, 2004, a derivative action lawsuit captioned *Caviness v. Evans, et al.*, Civil Action No. 04-12524, referred to as the Derivative Action, was filed in Massachusetts federal district court as a related action to the first filed of the putative class actions subsequently consolidated into the class action described above. The complaint, as subsequently amended, alleged, among other things, that the former and current director and officer defendants caused us to issue false and misleading financial statements, and brought derivative claims for the following: breach of fiduciary duty for insider trading, breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment. On August 18, 2005, the court granted the defendants' motion to dismiss the Derivative Action for failure of the plaintiff to make a pre-suit demand on the board of directors to take the actions referenced in the Derivative Action complaint, and the Derivative Action was dismissed with prejudice.

On April 12, 2005, we received a letter on behalf of a purported stockholder, demanding that the board take actions substantially similar to those referenced in the Derivative Action. On February 28, 2006, we received a letter on behalf of the plaintiff in the Derivative Action, demanding that they take actions referenced in the Derivative Action complaint. The board responded to both of the foregoing letters that the board has taken the letters under advisement pending further regulatory investigation developments, which the board continues to monitor and with which we continue to cooperate. In its responses, the board also requested confirmation of each person's status as one of our stockholders and, with respect to the most recent letter, also referred the purported stockholder to the March 2006 settlement in the class action.

***Other***

We are currently defending claims that certain of our software products and implementation services have failed to meet customer expectations. On May 11, 2007, one of the claims resulted in an arbitration award against us in the amount of \$1.4 million for which we recognized an expense in second and fourth quarters of fiscal 2007, which was recorded in general and administrative expense. We are defending another customer claim in excess of \$5 million, as well as other general commercial claims. Although we are defending the claims vigorously, the results of litigation and claims cannot be predicted with certainty, and unfavorable resolutions are possible and could materially affect our results of operations, cash flows or financial position. In addition, regardless of the outcome, litigation could have an adverse impact on us because of defense costs, diversion of management resources and other factors.

**Item 1A. Risk Factors**

*Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below before purchasing our common stock. The risks and uncertainties described below are not the only ones facing our company. Additional risks and uncertainties may also impair our business operations. If any of the*

Table of Contents

*following risks actually occur, our business, financial condition, results of operations or cash flows would likely suffer. In that case, the trading price of our common stock could fall, and you may lose all or part of the money you paid to buy our common stock.*

**Risks Related to Our Business**

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

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

- implementation of new quotation and order entry applications and procedures for the automation of our contracting and software distribution process;
- demand for our products and services;
- our customers' purchasing patterns;
- the length of our sales cycle;
- the size of customer orders;
- changes in the mix of our license revenues and service revenues;
- the timing of introductions of new solutions and enhancements by us and our competitors;
- seasonal weakness in the first quarter of each fiscal year (which for us is the three months ending September 30), primarily caused by a seasonal slowdown in business in some of our international markets;

- the timing of our investments in new product development;
- the mix of domestic and international sales;
- our continued ability to sell long-term installments receivable;
- changes in our operating expenses; and
- fluctuating economic conditions, particularly as they affect companies in the oil and gas, chemicals, petrochemicals and petroleum industries.

Historically, a majority of each quarter's revenues from software licenses has come from license agreements that have been entered into in the final weeks of the quarter. Therefore, a delay in the consummation of an agreement and the completion of all criteria for revenue recognition, including product delivery, may cause our revenues to fall below expectations of public market analysts and investors for that quarter.

Since a substantial majority of our expenses are fixed in advance of a particular quarter, we are not able to adjust our spending quickly enough to compensate for any revenue shortfall in any given quarter and any such shortfall would likely have a disproportionately adverse effect on our operating results for that quarter. We expect that the factors listed above will continue to affect our operating results for the foreseeable future. Because of the factors listed above, we believe that period-to-period comparisons of our operating results are not necessarily meaningful and should not be relied upon as indications of future performance.

Term license renewal negotiations may be difficult and more time consuming than negotiations for new licenses. Moreover, customers may choose not to renew term licenses, resulting in reduced revenue to us. In addition, customers may wish to negotiate renewals of term licenses on terms and conditions that require us to change the way we recognize revenue

Table of Contents

under our existing revenue recognition practices at the time of such renewal with such customers. Any such changes could result in a material adverse effect on our results. In addition, many of our license transactions are very large and/or complex and the criteria in U.S. GAAP applicable to software revenue recognition are equally complex, thus, resulting in the risk that license bookings may not translate into recognized revenue in the same period of the booking.

If, due to one or more of the foregoing factors or an unanticipated cause, our operating results fail to meet the expectations of public market analysts and investors in a future quarter, the market price of our common stock would likely decline.

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

Because license and implementation fees for our software products are substantial and the decision to purchase our products typically involves members of our customers' senior management, the sales process for our solutions is lengthy and can exceed one year. Accordingly, the timing of our license revenues is difficult to predict, and the delay of an order could cause our quarterly revenues to fall substantially below our expectations and those of public market analysts and investors. Moreover, to the extent that we license our integrated aspenONE product suite rather than stand-alone software products, our sales cycle may lengthen, which could increase the likelihood of delays and cause the effect of a delay to become more pronounced. Delays in sales could cause significant shortfalls in our revenues and operating results for any particular period.

***We derive a majority of our total revenues from customers in or serving the oil and gas, chemicals, petrochemicals and petroleum industries, which are highly cyclical, and our operating results may suffer if these industries experience an economic downturn.***

We derive a majority of our total revenues from companies in or serving the oil and gas, chemicals, petrochemicals and petroleum industries. Accordingly, our future success depends upon the continued demand for manufacturing optimization software and services by companies in these process manufacturing industries. The oil and gas, chemicals, petrochemicals and petroleum industries are highly cyclical and highly reactive to the price of oil, as well as general economic conditions. At least one of our customers has filed for bankruptcy protection, which may affect associated cash receipts and the extent to which revenue from our customer may be recognized. There is no assurance that other customers may not also seek bankruptcy or other similar relief from creditors, which could adversely affect our results of operations.

Adverse changes in the economy and global economic and political uncertainty have previously caused delays and reductions in information technology spending by our customers and a consequent deterioration of the markets for our products and services, particularly our manufacturing/supply chain product suites. If adverse economic conditions occur, we would likely experience reductions, delays and postponements of customer purchases that will negatively impact our revenue and operating results.

In addition, in the past, worldwide economic downturns and pricing pressures experienced by oil and gas, chemical, petrochemical and petroleum companies have led to consolidations and reorganizations. These downturns, pricing pressures and reorganizations have caused delays and reductions in capital and operating expenditures by many of these companies. These delays and reductions have reduced demand for products and services like ours. A recurrence of these industry patterns, including any recurrence that may occur in connection with current global economic events, as well as general domestic and foreign economic conditions and other factors that reduce spending by companies in these industries, could harm our operating results in the future.

*Securities and derivative litigation and government investigations based on our restatement of our consolidated financial statements due to our prior software accounting practices may subject us to substantial damages and expenses, may require significant management time and may damage our reputation.*

In January 2007, the SEC filed civil enforcement complaints in the United States District Court in and for the District of Massachusetts alleging securities fraud and other violations against three of our former executive officers, David McQuillin, Lisa Zappala and Lawrence Evans, arising out of six transactions in 1999 through 2002 that were reflected in our originally filed consolidated financial statements for fiscal 2000 through 2004, the accounting for which we restated in March 2005 (we and each of these former executive officers had also received Wells Notice letters of possible enforcement proceedings by the SEC in June and July 2006). On the same day the SEC complaints were filed, the U.S. Attorney's Office for the Southern District of New York filed a criminal complaint against David McQuillin alleging criminal securities fraud violations arising out of two of those transactions. Mr. McQuillin pled guilty in March 2007 and was sentenced in October 2007. On November 12, 2008, Mr. McQuillin and Mr. Evans entered into final settlements of the civil enforcement actions with the SEC without admitting or denying liability, and the Court also entered a stay of discovery in Ms. Zappala's case inasmuch as the parties had reached an agreement in principle to settle that matter as well.

As previously disclosed, on July 31, 2007, we entered into a settlement order with the SEC relating to the Wells Notice we received. No enforcement action was filed by the SEC against us, and under the Wells Notice

Table of Contents

settlement order, we agreed to cease and desist from violations of certain provisions of the federal securities laws, and to comply with certain undertakings. No civil penalty was assessed by the SEC in connection with that settlement order, and we have not admitted or denied any wrongdoing in connection with that settlement order.

We continue to cooperate with the SEC and U.S. Attorney's Office. The SEC enforcement complaints and the U.S. Attorney's Office criminal action were not filed against us or any of our current officers or directors, but only against the former executive officers referenced above. We can provide no assurance, however, that the U.S. Attorney's Office, the SEC or another regulatory agency will not file an enforcement complaint against us, our officers and employees or additional former officers and employees in connection with the consolidated financial statements that were restated in March 2005. Any such enforcement action or similar proceeding could have a material adverse effect on our financial position and results of operation.

Any such proceeding would divert the resources of management and could result in significant legal expenses and judgments against us for significant damages. In addition, even if we are successful in defending against such an enforcement action, such a proceeding may cause our customers, employees and investors to lose confidence in our company, which could result in significant costs to us and adversely affect the market price of our common stock.

We are required to advance legal fees (subject to undertakings of repayment if required) and may be required to indemnify certain of our current or former directors and officers (including one or more of the three former executive officers discussed above) in connection with civil, criminal or regulatory proceedings or actions, and such indemnification commitments may be costly. Our executive and organization liability insurance policies provide only limited liability protection relating to such actions against us and certain of our officers and directors and may not cover the costs of director and officer indemnification or other liabilities incurred by us. If these policies do not adequately cover expenses and liabilities relating to any proceeding or lawsuit, or if we are unable to achieve a favorable settlement thereof, our financial condition could be materially harmed. Also, increased premiums could materially harm our financial results in future periods. Our inability to obtain coverage due to prohibitively expensive premiums would make it more difficult to retain and attract officers and directors and expose us to potentially self-funding any potential future liabilities ordinarily mitigated by such liability insurance.

In March 2006, we settled class action litigation, including related derivative claims, arising out of our restated consolidated financial statements that include the periods referenced in the SEC enforcement action and the criminal complaint discussed above. Members of the class who opted out of the settlement (representing 1,457,969 shares of common stock, or less than 1% of the shares putatively purchased during the class action period) may bring or have brought their own state or federal law claims against us, which we refer to as opt-out claims.

Separate actions have been filed on behalf of the holders of approximately 1.1 million shares who either opted out of the class action settlement or were not covered by that settlement. The claims in those actions include claims against us and one or more of our former officers alleging securities and common law fraud, breach of contract, statutory treble damages, deceptive practices and/or rescissory damages liability, based on the restated results of one or more fiscal periods included in our restated consolidated financial statements referenced in the class action.

Those actions are:

- *Blecker, et al. v. Aspen Technology, Inc., et al.*, filed on June 5, 2006 in the Business Litigation Session of the Massachusetts Superior Court for Suffolk County and docketed as Civ. A. No. 06-2357-BLS1 in that court, which is an opt out claim asserted by persons who received 248,411 shares of our common stock in an acquisition;
- *Feldman v. Aspen Technology, Inc., et al.*, filed on July 17, 2006 in the Business Litigation Session of the Massachusetts Superior Court for Suffolk County and docketed as Civ. A. No. 06-3021-BLS2 in that court, which is an opt out claim asserted by an individual who received 323,324 shares of our common stock in an acquisition; and
- *380544 Canada, Inc., et al. v. Aspen Technology, Inc., et al.*, filed on February 15, 2007 in the federal district court in Manhattan and docketed as Civ. A. No. 1:07-cv-01204-JFK in that court, which is a claim asserted by persons who purchased 566,665 shares of our common stock in a private placement.

On October 17, 2008, the plaintiffs in the Blecker action described above filed a new complaint in the Superior Court of the Commonwealth of Massachusetts, captioned *Herbert G. and Eunice E. Blecker v. Aspen Technology, Inc. et al.*, Civ. A. No. 08-4625-BLS1 (Blecker II). The sole claim in Blecker II is based on the Massachusetts Uniform Securities Act, and plaintiffs have indicated that if they are granted leave to assert that claim in the original Blecker action, they will voluntarily dismiss Blecker II.

Table of Contents

The damages sought in these actions total more than \$20 million, not including claims for treble damages and attorneys' fees. If these actions are not dismissed or settled on terms acceptable to us, we plan to defend these actions vigorously. We can provide no assurance as to the outcome of these opt-out claims or the likelihood of the filing of additional opt-out claims, and these claims may result in judgments against us for significant damages. Regardless of the outcome, such litigation has resulted in the past, and may continue to result in the future, in significant legal expenses and may require significant attention and resources of management, all of which could result in losses and damages that have a material adverse effect on our business.

On December 1, 2004, a derivative action lawsuit captioned *Caviness v. Evans, et al.*, Civil Action No. 04-12524, referred to as the Derivative Action, was filed in Massachusetts federal district court as a related action to the first filed of the putative class actions subsequently consolidated into the class action described above. The complaint, as subsequently amended, alleged, among other things, that the former and current director and officer defendants caused us to issue false and misleading financial statements, and brought derivative claims for the following: breach of fiduciary duty for insider trading, breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment. On August 18, 2005, the court granted the defendants' motion to dismiss the Derivative Action for failure of the plaintiff to make a pre-suit demand on the board of directors to take the actions referenced in the Derivative Action complaint, and the Derivative Action was dismissed with prejudice.

On April 12, 2005, we received a letter on behalf of a purported stockholder, demanding that the board take actions substantially similar to those referenced in the Derivative Action. On February 28, 2006, we received a letter on behalf of the plaintiff in the Derivative Action, demanding that we take actions referenced in the Derivative Action complaint. The board responded to both of the foregoing letters that the board has taken the letters under advisement pending further regulatory investigation developments, which the board continues to monitor and with which we continue to cooperate. In its responses, the board also requested confirmation of each person's status as one of our stockholders and, with respect to the most recent letter, also referred the purported stockholder to the March 2006 settlement in the class action.

***A determination that we have failed to comply with our existing consent decree with the Federal Trade Commission could have a material adverse effect on our business and financial condition.***

In December 2004, we entered into a consent decree with the Federal Trade Commission, or FTC, with respect to a civil administrative complaint filed by the FTC in August 2003 alleging that our acquisition of Hyprotech in May 2002 was anticompetitive in violation of Section 5 of the Federal Trade Commission Act and Section 7 of the Clayton Act. In connection with the consent decree, we entered into an agreement with Honeywell International, Inc., which we refer to as the Honeywell agreement, pursuant to which we transferred our operator training business and our rights to the intellectual property of various legacy Hyprotech products. In addition, we transferred our AXSYS product line to Bentley Systems, Inc.

We are subject to ongoing compliance obligations under the FTC consent decree. We have been responding to requests by the Staff of the FTC for information relating to the Staff's investigation of whether we have complied with the consent decree. In addition, the FTC has voted to recommend to the Consumer Litigation Division of the U.S. Department of Justice that it commence litigation against us relating to our alleged failure to comply with certain aspects of the decree. A decision is still pending at the Division on whether to pursue litigation, and no action has been filed. Although we believe that we have complied with the consent decree and that the assertions by the FTC Staff are without merit, we are engaged in settlement discussions with the FTC Staff regarding this matter. If we and the FTC are unable to reach a settlement on favorable terms and/or if litigation were to ensue, we could be required to pay substantial legal fees and, if the FTC or a court were to determine that we have not complied with our obligations under the consent decree, we could be subject to one or more of a variety of penalties, fines, injunctive relief and other remedies, any of which might materially limit our ability to operate under our current business plan and might have a material adverse effect on our operating results and financial condition.

In March 2007, we were served with a complaint and petition to compel arbitration filed by Honeywell in New York State Supreme Court. The complaint alleges that we failed to comply with our obligations to deliver certain technology under the Honeywell agreement referred to above, that we owe approximately \$800,000 to Honeywell under the agreement and that Honeywell is entitled to some portion of the \$1.2 million holdback retained by Honeywell under the holdback provisions of the agreement, plus unspecified monetary damages. In accordance with the Honeywell Agreement, certain of Honeywell's claims relating to the holdback were the subject of a proceeding before an independent accountant, who determined in December 2008 that we were entitled to a portion of the holdback. Although we believe many of Honeywell's claims to be without merit and intend to defend the claims vigorously, we and Honeywell have engaged in settlement negotiations. If we

Table of Contents

and Honeywell are unable to reach a settlement on terms acceptable to us it is possible that the resolution of the claims may have an adverse impact on our financial position and results of operations.

***In preparing our consolidated financial statements, we identified material weaknesses in our internal control over financial reporting, and our failure to remedy effectively the five material weaknesses identified as of June 30, 2007 could result in material misstatements in our financial statements.***

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act. Our management identified five material weaknesses in our internal control over financial reporting as of June 30, 2007. A material weakness is defined as a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

The material weaknesses identified by management as of June 30, 2007 consisted of:

- Inadequate and ineffective controls over the periodic financial close process;
  
- Inadequate and ineffective controls over the accounting for transfers of customer installment and accounts receivables under receivable sale facilities;
  
- Inadequate and ineffective controls over income tax accounting and disclosure;
  
- Inadequate and ineffective controls over the recognition of revenue; and
  
- Ineffective and inadequate controls over the accounts receivable function.

As a result of these material weaknesses, our management concluded as of June 30, 2007 that our internal control over financial reporting was not effective based on criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework*.

We are implementing remedial measures designed to address these material weaknesses. If these remedial measures are insufficient to address these material weaknesses, or if additional material weaknesses or significant deficiencies in our internal control are discovered or occur in the future, we may fail to meet our future reporting obligations on a timely basis, our consolidated financial statements may contain material misstatements, we could be required to restate our prior period financial results, our operating results may be harmed, we may be subject to class action litigation and if we regain listing on a public exchange, our common stock could be delisted from that exchange. For example, material weaknesses that remain unremediated could result in material post-closing adjustments in future financial statements. Any failure to address the identified material weaknesses or any additional material weaknesses in our internal control could also adversely affect the results of the periodic management evaluations regarding the effectiveness of our internal control over financial reporting that are required to be included in our annual reports on Form 10-K. Internal control deficiencies could also cause investors to lose confidence in our reported financial information. We can give no assurance that the measures we have taken to date or any future measures will remediate the material weaknesses identified or that any additional material weaknesses or additional restatements of financial results will not arise in the future due to a failure to implement and maintain adequate internal control over financial reporting or circumvention of these controls. In addition, even if we are successful in strengthening our controls and procedures, those controls and procedures may not be adequate to prevent or identify irregularities or errors or to facilitate the fair presentation of our consolidated financial statements.

*If we do not become current in our SEC filings, or if in the future we are not current in our SEC filings, we will face several adverse consequences.*

If we are unable to become or remain current in our financial filings, investors in our securities will not have information regarding our business and financial condition with which to make decisions regarding investment in our securities. In addition, we are and would not be able to have a registration statement under the Securities Act of 1933, covering a public offering of securities, declared effective by the SEC, and we will not be able to make offerings pursuant to existing registration statements or pursuant to certain private placement rules of the SEC under Regulation D to any purchasers not qualifying as accredited investors. The lack of an effective registration statement also results in our employees being unable to exercise vested options, which could affect our ability to attract and retain qualified personnel.

Table of Contents

We also are and would not be eligible to use a short form registration statement on Form S-3 for a period of 12 months after the time we become current in our filings. These restrictions may impair our ability to raise funds should we desire to do so and may adversely affect our financial condition. If we are unable to become or remain current in our filings, and we are not able to obtain waivers under our financing arrangements, it might become necessary to repay certain borrowings.

***Our common stock has been delisted from The NASDAQ Stock Market and transferred to the Pink Sheets electronic quotation service, which may, among other things, reduce the price of our common stock and the levels of liquidity available to our stockholders.***

As a result of our inability to timely file the Form 10-K for the year ended June 30, 2007, Nasdaq issued a Staff Determination to us that, in the absence of a request for a hearing, would have resulted in suspension of trading of our common stock, and filing of a Form 25-NSE with the SEC to remove our securities from listing and registration on The NASDAQ Stock Market. Nasdaq subsequently issued an Additional Staff Determination citing our inability to timely file our Form 10-Q for the quarterly period ended September 30, 2007 as an additional basis for delisting our securities. An oral hearing was held at our request on November 15, 2007. At the hearing, we requested an extension of time to cure our SEC filing deficiency. The NASDAQ Listing Qualifications Panel, or the Panel, determined on January 7, 2008 to grant our request for continued listing, subject to certain conditions, including filing our Form 10-K for the year ended June 30, 2007 and our Form 10-Q for the quarterly period ended September 30, 2007, by January 18, 2008. On January 28, 2008, the Panel granted our request for an extension for continued listing on The NASDAQ Global Market through February 8, 2008. On February 14, 2008, we received a letter advising us that the NASDAQ Listing Qualifications Panel had determined to delist our shares from The NASDAQ Stock Market, and trading of our shares was suspended effective at the open of business on February 19, 2008. Our common stock has been quoted on the Pink OTC Markets Inc. electronic quotation service beginning on February 19, 2008.

There is no assurance that we will regain listing of our common stock on a public exchange. If we regain listing and thereafter fail to keep current in our SEC filings or to comply with the applicable continued listing requirements, our common stock might be and subsequently would trade in the Pink Sheets electronic quotation service, or the Pink Sheets. The trading of our common stock in the Pink Sheets may reduce the price of our common stock and the levels of liquidity available to our stockholders. In addition, the trading of our common stock in the Pink Sheets would materially adversely affect our access to the capital markets, and the limited liquidity and potentially reduced price of our common stock could materially adversely affect our ability to raise capital through alternative financing sources on terms acceptable to us or at all. Stocks that trade in the Pink Sheets are no longer eligible for margin loans, and a company trading in the Pink Sheets cannot avail itself of federal preemption of state securities or blue sky laws, which adds substantial compliance costs to securities issuances, including pursuant to employee option plans, stock purchase plans and private or public offerings of securities. If we regain listing and are delisted in the future and transferred to the Pink Sheets, there may also be other negative implications, including the potential loss of confidence by suppliers, customers and employees, the loss of institutional investor interest in our company.

***Claims and litigation based on our restatement of our consolidated financial statements due to our prior accounting for stock-based compensation may require that we incur substantial additional expenses and expend significant additional management time.***

In connection with the preparation of our consolidated financial statements for fiscal 2006, a subcommittee of independent members of the board of directors determined that certain stock option grants during fiscal 1995 through 2004 were accounted for incorrectly and concluded that stock-based compensation associated with certain grants was misstated in fiscal 1995 through 2005 and the nine months ended March 31, 2006. As a result of these errors, some of our employees realized nonqualified deferred compensation for purposes of Section 409A of the Internal Revenue Code and, therefore became subject to an excise tax on the value of the options in the year in which they vest.

We may be named as a defendant in securities litigation or derivative lawsuits by current or former stockholders in connection with the restatements of our consolidated financial statements. Further, we may be subject to claims relating to adverse tax consequences with respect to stock options covered by the restatements. Defending against potential claims will likely require significant attention and resources of management and could result in significant legal expenses.

On December 1, 2004, a derivative action lawsuit captioned *Caviness v. Evans, et al.*, Civil Action No. 04-12524, referred to as the Derivative Action, was filed in Massachusetts federal district court as a related action to the first filed of the putative class actions subsequently consolidated into the class action described above. The complaint, as subsequently amended, alleged, among other things, that the former and current director and officer defendants caused us to issue false and misleading financial statements, and brought derivative claims for the following: breach of fiduciary duty for insider trading,

Table of Contents

breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment. On August 18, 2005, the court granted the defendants' motion to dismiss the Derivative Action for failure of the plaintiff to make a pre-suit demand on the board of directors to take the actions referenced in the Derivative Action complaint, and the Derivative Action was dismissed with prejudice.

On April 12, 2005, we received a letter on behalf of a purported stockholder, demanding that the board take actions substantially similar to those referenced in the Derivative Action. On February 28, 2006, we received a letter on behalf of the plaintiff in the Derivative Action, demanding that we take actions referenced in the Derivative Action complaint. The board responded to both of the foregoing letters that the board has taken the letters under advisement pending further regulatory investigation developments, which the board continues to monitor and with which we continue to cooperate. In its responses, the board also requested confirmation of each person's status as one of our stockholders and, with respect to the most recent letter, also referred the purported stockholder to the March 2006 settlement in the class action.

***Our international operations are complex and if we fail to manage those operations effectively, the growth of our business would be limited and our operating results would be adversely affected.***

As of December 31, 2008, we had 27 offices in 21 countries. We sell our products primarily through a direct sales force located throughout the world. In the event that we are unable to adequately staff and maintain our foreign operations, we could face difficulties managing our international operations. We also rely, to a lesser extent, on distributors and resellers to sell our products and market our services internationally, and our inability to manage and maintain those relationships would limit our ability to generate revenue outside the United States. The complexities of our operations also require us to make significant expenditures to ensure that our operations are compliant with regulatory requirements in numerous foreign jurisdictions. To the extent we are unable to manage the various risks associated with our complex international operations effectively, the growth and profitability of our business may be adversely affected.

***Our business may suffer if we fail to address challenges associated with transacting business internationally.***

Customers outside the United States accounted for approximately 57% and 53% of our total revenues in fiscal 2006 and 2007, respectively. We anticipate that revenues from customers outside the United States will continue to account for a significant portion of our total revenues for the foreseeable future. Our operations outside the United States are subject to additional risks, including:

- unexpected changes in regulatory requirements, exchange rates, tariffs and other barriers;
  
- political and economic instability;
  
- less effective protection of intellectual property;

- difficulties and delays in translating products and product documentation into foreign languages;
- difficulties and delays in negotiating software licenses compliant with accounting revenue recognition requirements in the United States;
- difficulties in collecting trade accounts receivable in other countries; and
- adverse tax consequences.

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

*Competition from software offered by current competitors and new market entrants, as well as from internally developed solutions, could adversely affect our ability to sell our software products and related services and could result in pressure to price our products in a manner that reduces our margins.*

Table of Contents

Our markets in general are highly competitive:

- Our engineering software competes with products of businesses such as Honeywell, ABB, Chemstations, KBC, Shell Global Solutions, Simulation Sciences (a division of Invensys) and WinSim (formerly ChemShare).
- Our plant operations software competes with products of companies such as Honeywell, ABB, Invensys, Rockwell and Siemens and components of SAP's product offerings.
- Our supply chain management software competes with products of companies such as Honeywell, i2 Technologies, Manugistics (a subsidiary of JDA Software Group) and Infor and components of SAP's supply chain offering.

As we expand our engineering solutions into other markets we may face competition from companies that we have not typically competed against in the past or competition from companies in areas where we have not competed in the past, such as Dassault Systems, Oracle, SAP and Siemens. We also face competition in all areas of our business from large companies in the process industries that have internally developed their own proprietary software solutions.

Many of our current and potential competitors have greater financial, technical, marketing, service and other resources than we have. As a result, these companies may be able to offer lower prices, additional products or services, or other incentives that we cannot match or offer. These competitors may be in a stronger position to respond more quickly to new technologies and may be able to undertake more extensive marketing campaigns. They also may adopt more aggressive pricing policies and make more attractive offers to potential customers, employees and strategic partners. In addition, many of our competitors have established, and may in the future continue to establish, cooperative relationships with third parties to improve their product offerings and to increase the availability of their products in the marketplace. Competitors with greater financial resources may make strategic acquisitions to increase their ability to gain market share or improve the quality or marketability of their products.

Competition could seriously impede our ability to sell additional software products and related services on terms favorable to us. Businesses may continue to enhance their internally developed solutions, rather than investing in commercial software such as ours. Our current and potential commercial competitors may develop and market new technologies that render our existing or future products obsolete, unmarketable or less competitive. In addition, if these competitors develop products with similar or superior functionality to our products, we may need to decrease the prices for our products in order to remain competitive. If we are unable to maintain our current pricing due to competitive pressures, our margins will be reduced and our operating results will be negatively affected. We cannot assure you that we will be able to compete successfully against current or future competitors or that competitive pressures will not materially adversely affect our business, financial condition and operating results.

***If we fail to develop new software products or enhance existing products and services, we will be unable to implement our product strategy successfully and our business could be seriously harmed.***

Enterprises are requiring their application software vendors to provide greater levels of functionality and broader product offerings. Moreover, competitors continue to make rapid technological advances in computer hardware and software technology and frequently introduce new products, services and enhancements. We must continue to enhance our current product line and develop and introduce new products and services that keep pace with increasingly sophisticated customer requirements and the technological developments of our competitors. Our business and operating results could suffer if we cannot successfully respond to the technological advances of competitors or if our new products or product enhancements and services do not achieve market acceptance.

Under our business plan, we are implementing a product strategy that unifies our software solutions under the aspenONE brand with differentiated aspenONE vertical solutions targeted at specific process industry segments. We cannot assure you that our product strategy will result in products that will meet market needs and achieve significant market acceptance.

*Defects or errors in our software products could harm our reputation, impair our ability to sell our products and result in significant costs to us.*

Our software products are complex and may contain undetected defects or errors. We have not suffered significant harm from any defects or errors to date, but we have from time to time found defects in our products and we may discover additional defects in the future. We may not be able to detect and correct defects or errors before releasing products.

Table of Contents

Consequently, we or our customers may discover defects or errors after our products have been implemented. We have in the past issued, and may in the future need to issue, corrective releases of our products to remedy defects or errors. The occurrence of any defects or errors could result in:

- lost or delayed market acceptance and sales of our products;
- delays in payment to us by customers;
- product returns;
- injury to our reputation;
- diversion of our resources;
- legal claims, including product liability claims, against us;
- increased service and warranty expenses or financial concessions; and
- increased insurance costs.

Defects and errors in our software products could result in an increase in service and warranty costs or claims for substantial damages against us.

*We may be subject to significant expenses and damages because of liability claims related to our products and services.*

We may be subject to significant expenses and damages because of liability claims related to our products and services. The sale and implementation of certain of our software products and services, particularly in the areas of advanced process control, supply chain and optimization, entail the risk of product liability claims and associated damages. Our software products and services are often integrated with our customers' networks and software applications and are used in the design, operation and management of manufacturing and supply chain

processes at large facilities, often for mission critical applications. Any errors, defects, performance problems or other failure of our software could result in significant liability to us for damages or for violations of environmental, safety and other laws and regulations. We are currently defending claims that certain of our software products and implementation services have failed to meet customer expectations. On May 11, 2007, one of the claims (originally for an amount in excess of \$8 million) resulted in a \$1.4 million arbitration award against us. We are defending another customer claim in excess of \$5 million, as well as other general commercial claims. In addition, our software products and implementation services could continue to give rise to warranty and other claims. We currently are unable to determine whether resolution of any of these matters will have a material adverse impact on our financial position, cash flows or results of operations, or, in many cases, reasonably estimate the amount of the loss, if any, that may result from the resolution of these matters.

Our agreements with our customers generally contain provisions designed to limit our exposure to potential product liability claims. It is possible, however, that the limitation of liability provisions in our agreements may not be effective as a result of federal, foreign, state or local laws or ordinances or unfavorable judicial decisions. A substantial product liability judgment against us could materially and adversely harm our operating results and financial condition. Even if our software is not at fault, a product liability claim brought against us could be time consuming, costly to defend and harmful to our operations. In addition, although we carry general liability insurance, our current insurance coverage may be insufficient to protect us from all liability that may be imposed under these types of claims.

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

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

Table of Contents

***We may suffer losses on fixed-price engagements.***

We derive a substantial portion of our total revenues from service engagements and a significant percentage of these engagements have been undertaken on a fixed-price basis. Under these fixed-price engagements, we bear the risk of cost overruns and inflation, and as a result, any of these engagements may be unprofitable. In the past, we have had cost overruns on fixed-price service engagements. In addition, to the extent that we are successful in shifting customer purchases to our integrated suites of software and services and we price those engagements on a fixed-price basis, the size of our fixed-price engagements may increase, which could cause the impact of an unprofitable fixed-price engagement to have a more pronounced impact on our operating results.

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

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

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

***Third-party claims that we infringe upon the intellectual property rights of others may be costly to defend or settle and could damage our business.***

We cannot be certain that our software and services do not infringe issued patents, copyrights, trademarks or other intellectual property rights of third parties. Litigation regarding intellectual property rights is common in the software industry, and we may be subject to legal proceedings and claims from time to time, including claims of alleged infringement of intellectual property rights of third parties by us or our licensees concerning their use of our software products and integration technologies and services. Although we believe that our intellectual property rights are sufficient to allow us to market our software without incurring liability to third parties, third parties may bring claims of infringement against us. Because our software is integrated with our customers' networks and business processes, as well as other software applications, third parties may bring claims of infringement against us, as well as our customers and other software suppliers, if the cause of the alleged infringement cannot easily be determined. Such claims may be with or without merit.

Claims of alleged infringement may have a material adverse effect on our business and may discourage potential customers from doing business with us on acceptable terms, if at all. Defending against claims of infringement may be time-consuming and may result in substantial costs and diversion of resources, including our management's attention to our business. Furthermore, a party making an infringement claim could secure a judgment that requires us to pay substantial damages. A judgment could also include an injunction or other court order that could prevent us from selling our software or require that we re-engineer some or all of our products. Claims of intellectual property infringement also might require us to enter costly royalty or license agreements. We may be unable, however, to obtain royalty or license agreements on terms acceptable to us or at all. Our business, operating results and financial condition could be harmed significantly if any of these events occurred, and the price of our common stock could be adversely affected. Furthermore, former employers of our current and future employees may assert that our employees have improperly disclosed confidential or proprietary information to us. In addition, we have agreed, and may agree in the future, to indemnify certain of our customers against claims that our software infringes upon the intellectual property rights of others. Although we carry general liability insurance, our current insurance coverage may not apply to, and likely would not protect us from, liability that may be imposed under any of the types of claims described above.

Table of Contents

***Because some of our software products incorporate technology licensed from, or provided by, third parties, the loss of our right to use that third-party technology or defects in that technology could harm our business.***

Some of our software products contain technology that is licensed from, or provided by, third parties. Any significant interruption in the supply or support of any such third-party software could adversely affect our sales, unless and until we can replace the functionality provided by the third-party software. Because some of our software incorporates software developed and maintained by third parties, we depend on these third parties to deliver and support reliable products, enhance our current software, develop new software on a timely and cost-effective basis and respond to emerging industry standards and other technological changes. In other instances, we provide third-party software with our current software, and we depend on these third parties to deliver reliable products, provide underlying product support and respond to emerging industry standards and other technological changes. The failure of these third parties to meet these criteria could harm our business.

***New accounting standards or interpretations of existing accounting standards could adversely affect our operating results.***

Generally accepted accounting principles in the United States are subject to interpretation by the FASB, the American Institute of Certified Public Accountants, the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results and could affect the reporting of transactions completed before the announcement of a change.

For example, we recognize software license revenue in accordance with SOP No. 97-2, as amended by SOP No. 98-4 and SOP No. 98-9, and in accordance with SOP No. 81-1. The accounting profession may continue to discuss certain provisions of relevant accounting literature with the objective of providing additional guidance on potential interpretations related to software revenue recognition and multiple element arrangements in which a single contract includes a software license, a maintenance services agreement and/or other elements that are bundled together in a total offering to the customer. These discussions and the issuance of interpretations, once finalized, could lead to unanticipated changes in our current revenue accounting practices, which could change the timing of revenue recognition.

***If we are not successful in attracting, integrating and retaining highly qualified personnel, we may not be able to successfully implement our business strategy.***

Our ability to establish and maintain a position of technology leadership in the highly competitive software market depends in large part upon our ability to attract, integrate and retain highly qualified managerial, sales, technical and accounting personnel. Competition for qualified personnel in the software industry is intense. We have from time to time in the past experienced, and we expect to continue to experience in the future, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. Moreover, we have recently hired a significant number and percentage of the personnel in key areas of our operations, such as accounting and finance. Our management will need to devote significant attention and resources to strengthen relationships among these personnel, and our ability to grow our business will be impaired if these personnel are not able to work together effectively. Our future success will depend in large part on our ability to attract, integrate and retain a sufficient number of highly qualified personnel, and there can be no assurance that we will be able to do so.

***If we are unable to develop or maintain strategic alliance relationships, our revenue growth, operating results, financial condition or cash flows may be materially and adversely affected.***

An element of our growth strategy is to establish strategic alliances with selected third-party resellers, agents and systems integrators, which we refer to collectively as resellers, that market, sell and integrate our products and services. It is possible that our existing relationships with resellers might be terminated by us or the resellers, or that we will not adequately train, and enter into agreements with, a sufficient number of qualified resellers, or that potential resellers may focus their efforts on marketing competing products to the process industries.

In addition, the cessation or termination of certain relationships, by us or a reseller, may subject us to material liability and/or expense. This material liability and/or expense includes potential payments due upon the termination or cessation of the relationship by us or a reseller, costs related to the establishment of a direct sales presence or development of a new agent in the territory. No such events of termination or cessation have occurred. We are not able to reasonably estimate the amount of any such liability and/or expense if such an event were to occur, given the range of factors that could affect the ultimate determination of our liability. Actual payments could be in the range of zero to \$30 million. If any of the foregoing were to occur, our future revenue growth could be limited or we may be subject to litigation and liability claims such that our operating results, cash flows and financial condition could be materially and adversely affected.

Table of Contents

In addition, if our resellers fail to implement our solutions for our customers properly, our reputation could be harmed and we could be subject to claims by our customers. We intend to continue to establish business relationships with resellers to accelerate the development and marketing of our products and services. To the extent that we are unsuccessful in maintaining our existing relationships and developing new relationships, our operating results and financial condition could be materially and adversely affected.

**Risks Related to Our Common Stock**

*Our common stock may experience substantial price and volume fluctuations.*

The equity markets have from time to time experienced extreme price and volume fluctuations, particularly in the high technology sector, and those fluctuations have often been unrelated to the operating performance of particular companies. In addition, factors such as our financial performance, announcements of technological innovations or new products by us or our competitors, as well as market conditions in the computer software or hardware industries, may have a significant impact on the market price of our common stock.

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

*Our ability to raise capital in the future may be limited, and our failure to raise capital when needed could prevent us from executing our business plan.*

We expect that our current cash balances, future cash flows from our operations, and continued ability to sell installment receivable contracts will be sufficient to meet our anticipated cash needs for at least the next twelve months. We may need to obtain additional financing thereafter or earlier, however, if our current plans and projections prove to be inaccurate or our expected cash flows prove to be insufficient to fund our operations because of lower-than-expected revenues, fewer sales of installment contracts, unanticipated expenses or other unforeseen difficulties.

Our ability to obtain additional financing will depend on a number of factors, including market conditions, our operating performance, the quality of our installment contracts, and the availability of capital in the credit markets. These factors may make the timing, amount, terms and conditions of any financing unattractive. If adequate funds are not available, or are not available on acceptable terms, we may have to forego strategic acquisitions or investments, reduce or defer our development activities or delay our introduction of new products and services.

Any additional capital raised through the sale of equity or convertible debt securities may dilute the existing shareholder percentage ownership of our common stock. Furthermore, any new securities we issue could have rights, preferences and privileges superior to our common stock. Capital raised through debt financings could require us to make periodic interest payments and could impose potentially restrictive covenants on the conduct of our business.

*Our corporate documents and provisions of Delaware law may prevent a change in control or management that stockholders may consider desirable.*

Section 203 of the Delaware General Corporation Law, our charter and our by-laws contain provisions that might enable our management to resist a takeover of our company.

These provisions include:

- limitations on the removal of directors;
- a classified board of directors so that not all members of our board are elected at one time;
- advance notice requirements for stockholder proposals and nominations;
- the inability of stockholders to act by written consent or to call special meetings;
- the ability of our board of directors to make, alter or repeal our by-laws; and

Table of Contents

- the ability of our board of directors to designate the terms of and issue new series of preferred stock without stockholder approval.

These provisions could:

- have the effect of delaying, deferring or preventing a change in control of our company or a change in our management that stockholders may consider favorable or beneficial;
- discourage proxy contests and make it more difficult for stockholders to elect directors and take other corporate actions; and
- limit the price that investors might be willing to pay in the future for shares of our common stock.

We have also adopted a stockholder rights plan that could significantly dilute the equity interests of a person seeking to acquire control of our company without the approval of the board of directors.

*Sales of shares of common stock issued upon the conversion of our previously outstanding Series D-1 preferred stock may result in a decrease in the price of our common stock.*

Private equity funds managed by Advent International Corporation have the right to require that we register under the Securities Act the shares of common stock that were issued upon the conversion of our previously outstanding Series D-1 preferred stock and upon the exercise of certain previously outstanding warrants. In addition, these funds could sell certain of such shares without registration. In May 2006, we received a demand letter from such funds requesting the registration of all of the shares of common stock covered by those registration rights, for sale in an underwritten public offering. Pursuant to this request, in April 2007 we filed a registration statement for a public offering of 18,000,000 shares of common stock held by such funds. The registration statement also covered 2,700,000 shares that would be subject to an option to be granted to the underwriters by such funds solely to cover over allotments. On July 30, 2008, we applied to withdraw this registration statement and requested the SEC's consent thereto. Any sale of common stock into the public market could cause a decline in the trading price of our common stock.

Table of Contents**Item 6. Exhibits**

Exhibit Number	Description	Filed with this Form 10-Q	Incorporated by Reference		Exhibit Number
			Form	Filing Date with SEC	
10.1	Fourteenth Amendment dated December 28, 2007 to Non-Recourse Receivables Purchase Agreement dated December 31, 2003 between Silicon Valley Bank and Aspen Technology, Inc.		8-K	January 7, 2008	10.2
10.2	Fifteenth Amendment dated January 24, 2008 to Non-Recourse Receivables Purchase Agreement dated December 31, 2003 between Silicon Valley Bank and Aspen Technology, Inc.	x			
10.3	Sixteenth Amendment dated May 15, 2008 to Non-Recourse Receivables Purchase Agreement dated December 31, 2003 between Silicon Valley Bank and Aspen Technology, Inc.	x			
10.4	Seventeenth Amendment dated November 14, 2008 to Non-Recourse Receivables Purchase Agreement dated December 31, 2003 between Silicon Valley Bank and Aspen Technology, Inc.	x			
10.5	Eighteenth Amendment dated January 30, 2009 to Non-Recourse Receivables Purchase Agreement dated December 31, 2003 between Silicon Valley Bank and Aspen Technology, Inc.	x			
10.6	Seventeenth Loan Modification Agreement dated December 28, 2007 to Loan and Security Agreement dated January 30, 2003 among Silicon Valley Bank and Aspen Technology, Inc., AspenTech, Inc. and Hyprotech Company		8-K	January 7, 2008	10.3
10.7	Eighteenth Loan Modification Agreement dated January 24, 2008 to Loan and Security Agreement dated January 30, 2003 among Silicon Valley Bank and Aspen Technology, Inc., AspenTech, Inc. and Hyprotech Company	x			
10.8	Nineteenth Loan Modification Agreement dated April 11, 2008 to Loan and Security Agreement dated January 30, 2003 among Silicon Valley Bank and Aspen Technology, Inc., AspenTech, Inc. and Hyprotech Company	x			
10.9	Twentieth Loan Modification Agreement dated May 15, 2008 to Loan and Security Agreement dated January 30, 2003 among Silicon Valley Bank and Aspen Technology, Inc., AspenTech, Inc. and Hyprotech Company	x			



Table of Contents

Exhibit Number	Description	Filed with this Form 10-Q	Form	Incorporated by Reference		Exhibit Number
				Filing Date with SEC		
10.11	Twenty-second Loan Modification Agreement dated July 15, 2008 to Loan and Security Agreement dated January 30, 2003 among Silicon Valley Bank and Aspen Technology, Inc., AspenTech, Inc. and Hyprotech Company	x				
10.12	Twenty-third Loan Modification Agreement dated September 30, 2008 to Loan and Security Agreement dated January 30, 2003 among Silicon Valley Bank and Aspen Technology, Inc., AspenTech, Inc. and Hyprotech Company	x				
10.13	Twenty-fourth Loan Modification Agreement dated November 14, 2008 to Loan and Security Agreement dated January 30, 2003 among Silicon Valley Bank and Aspen Technology, Inc., AspenTech, Inc. and Hyprotech Company	x				
10.14	Twenty-fifth Loan Modification Agreement dated January 15, 2009 to Loan and Security Agreement dated January 30, 2003 among Silicon Valley Bank and Aspen Technology, Inc., AspenTech, Inc. and Hyprotech Company	x				
31.1	Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002	x				
31.2	Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002	x				
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	x				

Table of Contents

**SIGNATURES**

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

**ASPEN TECHNOLOGY, INC.**

Date: February 19, 2009

By: **/s/ Mark E. Fusco**  
**Mark E. Fusco**  
*President and Chief Executive Officer*  
*(Principal Executive Officer)*

Date: February 19, 2009

By: **/s/ Bradley T. Miller**  
**Bradley T. Miller**  
*Senior Vice President and Chief Financial Officer*  
*(Principal Financial Officer)*

Table of Contents**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>	<b>Filed with this Form 10-Q</b>	<b>Incorporated by Reference</b>		<b>Exhibit Number</b>
			<b>Form</b>	<b>Filing Date with SEC</b>	
10.1	Fourteenth Amendment dated December 28, 2007 to Non-Recourse Receivables Purchase Agreement dated December 31, 2003 between Silicon Valley Bank and Aspen Technology, Inc.		8-K	January 7, 2008	10.2
10.2	Fifteenth Amendment dated January 24, 2008 to Non-Recourse Receivables Purchase Agreement dated December 31, 2003 between Silicon Valley Bank and Aspen Technology, Inc.	x			
10.3	Sixteenth Amendment dated May 15, 2008 to Non-Recourse Receivables Purchase Agreement dated December 31, 2003 between Silicon Valley Bank and Aspen Technology, Inc.	x			
10.4	Seventeenth Amendment dated November 14, 2008 to Non-Recourse Receivables Purchase Agreement dated December 31, 2003 between Silicon Valley Bank and Aspen Technology, Inc.	x			
10.5	Eighteenth Amendment dated January 30, 2009 to Non-Recourse Receivables Purchase Agreement dated December 31, 2003 between Silicon Valley Bank and Aspen Technology, Inc.	x			
10.6	Seventeenth Loan Modification Agreement dated December 28, 2007 to Loan and Security Agreement dated January 30, 2003 among Silicon Valley Bank and Aspen Technology, Inc., AspenTech, Inc. and Hyprotech Company		8-K	January 7, 2008	10.3
10.7	Eighteenth Loan Modification Agreement dated January 24, 2008 to Loan and Security Agreement dated January 30, 2003 among Silicon Valley Bank and Aspen Technology, Inc., AspenTech, Inc. and Hyprotech Company	x			
10.8	Nineteenth Loan Modification Agreement dated April 11, 2008 to Loan and Security Agreement dated January 30, 2003 among Silicon Valley Bank and Aspen Technology, Inc., AspenTech, Inc. and Hyprotech Company	x			
10.9	Twentieth Loan Modification Agreement dated May 15, 2008 to Loan and Security Agreement dated January 30, 2003 among Silicon Valley Bank and Aspen Technology, Inc., AspenTech, Inc. and Hyprotech Company	x			

10.10	Twenty-first Loan Modification Agreement dated June 12, 2008 to Loan and Security Agreement dated January 30, 2003 among Silicon Valley Bank and Aspen Technology, Inc., AspenTech, Inc. and Hyprotech Company	x
-------	--	---

---

Table of Contents

Exhibit Number	Description	Filed with this Form 10-Q	Form	Incorporated by Reference	
				Filing Date with SEC	Exhibit Number
10.11	Twenty-second Loan Modification Agreement dated July 15, 2008 to Loan and Security Agreement dated January 30, 2003 among Silicon Valley Bank and Aspen Technology, Inc., AspenTech, Inc. and Hyprotech Company	x			
10.12	Twenty-third Loan Modification Agreement dated September 30, 2008 to Loan and Security Agreement dated January 30, 2003 among Silicon Valley Bank and Aspen Technology, Inc., AspenTech, Inc. and Hyprotech Company	x			
10.13	Twenty-fourth Loan Modification Agreement dated November 14, 2008 to Loan and Security Agreement dated January 30, 2003 among Silicon Valley Bank and Aspen Technology, Inc., AspenTech, Inc. and Hyprotech Company	x			
10.14	Twenty-fifth Loan Modification Agreement dated January 15, 2009 to Loan and Security Agreement dated January 30, 2003 among Silicon Valley Bank and Aspen Technology, Inc., AspenTech, Inc. and Hyprotech Company	x			
31.1	Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002	x			
31.2	Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002	x			
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	x			

---