

ASPEN TECHNOLOGY INC /DE/
Form 10-Q
February 08, 2011
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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 December 31, 2010

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

04-2739697

(State or other jurisdiction of
incorporation or organization)

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

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 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a 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 January 31, 2011, there were 93,593,331 shares of the registrant's common stock (par value \$0.10 per share) outstanding.

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Our registered trademarks include ASPENONE, ASPEN PLUS, ASPENTECH, the AspenTech logo, DMCPLUS, HTFS, HYSYS and INFOPLUS.21.

Table of Contents**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements.***Condensed Consolidated Financial Statements (unaudited)***ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited and in thousands, except per share data)

| | Three Months Ended December 31, | | Six Months Ended December 31, | |
|---|------------------------------------|-------------|----------------------------------|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Revenue: | | | | |
| Subscription | \$ 11,847 | \$ 1,214 | \$ 21,503 | \$ 1,239 |
| Software | 13,486 | 8,976 | 22,797 | 20,058 |
| Total subscription and software | 25,333 | 10,190 | 44,300 | 21,297 |
| Services and other | 24,475 | 32,496 | 48,608 | 61,185 |
| Total revenue | 49,808 | 42,686 | 92,908 | 82,482 |
| Cost of revenue: | | | | |
| Subscription and software | 1,972 | 1,677 | 4,094 | 3,450 |
| Services and other | 11,583 | 14,792 | 22,709 | 30,488 |
| Total cost of revenue | 13,555 | 16,469 | 26,803 | 33,938 |
| Gross profit | 36,253 | 26,217 | 66,105 | 48,544 |
| Operating expenses: | | | | |
| Selling and marketing | 19,954 | 23,757 | 40,305 | 44,309 |
| Research and development | 12,096 | 12,515 | 24,671 | 23,409 |
| General and administrative | 13,425 | 19,228 | 29,982 | 34,642 |
| Restructuring charges | 78 | 32 | 155 | 303 |
| Total operating expenses | 45,553 | 55,532 | 95,113 | 102,663 |
| Loss from operations | (9,300) | (29,315) | (29,008) | (54,119) |
| Interest income | 3,534 | 5,083 | 7,236 | 10,532 |
| Interest expense | (1,653) | (2,480) | (2,897) | (4,891) |
| Other (expense) income, net | (735) | (222) | 1,929 | 2,047 |
| Loss before income taxes | (8,154) | (26,934) | (22,740) | (46,431) |
| Provision for income taxes | 2,115 | 3,723 | 2,997 | 5,288 |
| Net loss | \$ (10,269) | \$ (30,657) | \$ (25,737) | \$ (51,719) |
| Loss per common share: | | | | |
| Basic | \$ (0.11) | \$ (0.34) | \$ (0.28) | \$ (0.57) |
| Diluted | \$ (0.11) | \$ (0.34) | \$ (0.28) | \$ (0.57) |
| Weighted average shares outstanding: | | | | |
| Basic | 93,252 | 91,002 | 92,968 | 90,538 |
| Diluted | 93,252 | 91,002 | 92,968 | 90,538 |

See accompanying notes to these unaudited condensed consolidated financial statements.

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ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited and in thousands, except share data)

| | December 31, 2010 | June 30, 2010 |
|--|----------------------|------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 131,642 | \$ 124,945 |
| Accounts receivable, net of allowance for doubtful accounts of \$3,757 and \$4,685 | 28,708 | 31,738 |
| Current portion of installments receivable, net of allowance for doubtful accounts of \$998 and \$1,119 | 45,292 | 51,729 |
| Current portion of collateralized receivables | 19,584 | 25,675 |
| Unbilled services | 1,225 | 1,860 |
| Prepaid expenses and other current assets | 6,072 | 5,236 |
| Prepaid income taxes | 332 | 7,468 |
| Deferred tax assets | 1,681 | 1,632 |
| Total current assets | 234,536 | 250,283 |
| Non-current installments receivable, net of allowance for doubtful accounts of \$1,157 and \$1,196 | 65,636 | 76,869 |
| Non-current collateralized receivables | 22,053 | 25,755 |
| Property, equipment and leasehold improvements, net of accumulated depreciation of \$29,997 and \$29,769 | 7,693 | 8,057 |
| Computer software development costs, net of accumulated amortization of \$68,011 and \$67,251 | 2,028 | 2,367 |
| Goodwill | 18,161 | 17,361 |
| Non-current deferred tax assets | 11,746 | 11,597 |
| Other non-current assets | 2,786 | 2,424 |
| Total assets | \$ 364,639 | \$ 394,713 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Current portion of secured borrowing | \$ 23,817 | \$ 30,424 |
| Accounts payable | 6,259 | 6,092 |
| Accrued expenses and other current liabilities | 32,275 | 49,890 |
| Income taxes payable | 2,005 | 1,161 |
| Deferred revenue | 71,775 | 67,852 |
| Current deferred tax liability | 434 | 398 |
| Total current liabilities | 136,565 | 155,817 |
| Long-term secured borrowing | 42,946 | 45,711 |
| Long-term deferred revenue | 30,684 | 19,427 |
| Non-current deferred tax liability | 953 | 956 |
| Other non-current liabilities | 31,315 | 31,832 |
| Commitments and contingencies (Note 11) | | |
| Series D redeemable convertible preferred stock, \$0.10 par value | | |
| Authorized 3,636 shares at December 31, 2010 and June 30, 2010 | | |
| Issued and outstanding none at December 31, 2010 and June 30, 2010 | | |
| Stockholders' equity: | | |
| Common stock, \$0.10 par value Authorized 210,000,000 shares | | |
| Issued 93,784,765 shares at December 31, 2010 and 92,668,280 shares at June 30, 2010 | | |
| Outstanding 93,455,071 shares at December 31, 2010 and 92,434,816 shares at June 30, 2010 | 9,378 | 9,267 |
| Additional paid-in capital | 523,082 | 515,729 |
| Accumulated deficit | (416,775) | (391,038) |
| Accumulated other comprehensive income | 8,246 | 7,525 |

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| | | | | |
|---|----|---------|----|---------|
| Treasury stock, at cost 329,694 shares of common stock at December 31, 2010 and 233,464 at June 30, 2010 | | (1,755) | | (513) |
| Total stockholders' equity | | 122,176 | | 140,970 |
| Total liabilities and stockholders' equity | \$ | 364,639 | \$ | 394,713 |

See accompanying notes to these unaudited condensed consolidated financial statements.

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ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited and in thousands)

| | Six Months Ended December 31, | |
|---|----------------------------------|-------------|
| | 2010 | 2009 |
| Cash flows from operating activities: | | |
| Net loss | \$ (25,737) | \$ (51,719) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,600 | 3,729 |
| Net foreign currency (gain) | (1,648) | (126) |
| Stock-based compensation | 5,042 | 11,532 |
| Loss on the disposal of assets | 415 | 43 |
| Deferred income taxes | 74 | 41 |
| Provision for bad debts | 97 | (75) |
| Changes in assets and liabilities: | | |
| Accounts receivable | 3,009 | 14,467 |
| Unbilled services | 630 | (1,565) |
| Prepaid expenses, other assets and prepaid income taxes | 6,145 | 2,963 |
| Installments and collateralized receivables | 30,139 | 38,202 |
| Income taxes payable | 708 | 1,437 |
| Accounts payable, accrued expenses and other liabilities | (15,304) | (8,421) |
| Deferred revenue | 15,043 | (5,862) |
| Net cash provided by operating activities | 21,213 | 4,646 |
| Cash flows from investing activities: | | |
| Purchase of property, equipment and leasehold improvements | (1,876) | (1,592) |
| Capitalized computer software development costs | (380) | (265) |
| Net cash used in investing activities | (2,256) | (1,857) |
| Cash flows from financing activities: | | |
| Exercise of stock options | 3,420 | 3,652 |
| Proceeds from secured borrowings | 2,500 | |
| Repayment of secured borrowings | (16,241) | (16,365) |
| Repurchases of common stock | (1,242) | |
| Payment of tax withholding obligations related to restricted stock | (998) | (2,694) |
| Net cash used in financing activities | (12,561) | (15,407) |
| Effects of exchange rate changes on cash and cash equivalents | 301 | (158) |
| Increase (decrease) in cash and cash equivalents | 6,697 | (12,776) |
| Cash and cash equivalents, beginning of period | 124,945 | 122,213 |
| Cash and cash equivalents, end of period | \$ 131,642 | \$ 109,437 |
| Supplemental disclosure of cash flow information: | | |
| Interest paid | \$ 3,071 | \$ 4,894 |
| Income tax (refund) paid, net | (4,961) | 4,629 |

See accompanying notes to these unaudited condensed consolidated financial statements.

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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 its subsidiaries have been prepared on the same basis as our annual consolidated financial statements. We condensed or omitted certain information and footnote disclosures normally included in our annual consolidated financial statements. Such Interim Financial Statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP), as defined in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 270, for interim financial information and with the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. It is suggested that these Interim Financial Statements be read in conjunction with the audited consolidated financial statements for the year ended June 30, 2010, which are contained in our Annual Report on Form 10-K, as previously filed with the U.S. Securities and Exchange Commission (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 three and six months ended December 31, 2010 are not necessarily indicative of the results to be expected for subsequent quarters or for the full fiscal year.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Unless the context requires otherwise, references to we, our and us refer to Aspen Technology, Inc. and our subsidiaries.

2. Significant Accounting Policies

Revenue Recognition

We generate revenue from the following sources: (1) licensing software products; (2) providing post contract support (referred to as SMS) and training; and (3) providing professional services. We sell our software products to end users under fixed-term and perpetual licenses. As a standard business practice, we offer extended payment term options for our fixed-term license contracts, which are generally payable on an annual basis. Certain of our fixed-term license agreements include product mixing rights that allow customers the flexibility to change or alternate the use of multiple products included in the license arrangement after those products are delivered to the customer. We refer to these arrangements as token arrangements. Tokens are fixed units of measure. The amount of software usage is limited by the number of tokens purchased by the customer.

Prior to fiscal 2010, we primarily executed software license arrangements with contractual provisions that resulted in the upfront recognition of license revenue upon delivery of the software products, provided all other revenue recognition requirements were met. Beginning in July 2009,

we began offering our aspenONE suite of products on a subscription basis, which provides customers with access to all products within the aspenONE suite or suites they license. As part of the aspenONE subscription based offering, customers receive, for no additional fee, SMS for the term of the license and the right to unspecified future software products that may be introduced into the licensed suite during the term of the arrangement. Under the aspenONE subscription offering, we recognize revenue over the term of the agreement on a subscription, or daily ratable basis, beginning when the first payment is due, typically 30 days after signing the agreement, provided all other revenue recognition requirements are met. Beginning in July 2009, we also began bundling SMS for the full contract term on our point product license arrangements. Previously, SMS on our multi-year term point product arrangements was offered for an initial one-year period, and then renewed annually thereafter at the customers option (legacy term license arrangements).

Over the next several years, we expect to transition substantially all of our customers to our aspenONE subscription offering or to point product arrangements with SMS bundled for the contract term. During this transition period, we may have arrangements where the software element will be recognized upfront, including perpetual licenses and amendments to existing legacy term arrangements. We do not expect revenue related to these sources to be significant in relation to our total revenue.

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Four basic criteria must be satisfied before software license revenue can be recognized: persuasive evidence of an arrangement between us and an end user; delivery of our product has occurred; the fee for the product is fixed or determinable; and collection of the fee is probable.

Persuasive evidence of an arrangement We use a contract signed by the customer as evidence of an arrangement for software licenses and SMS. For professional services we use a signed contract and a statement of work to evidence an arrangement. In cases where both a signed contract and a purchase order are required by the customer, we consider both taken together as evidence of the arrangement.

Delivery of our product Software and the corresponding access keys are generally delivered to customers via disk media with standard shipping terms of Free Carrier, Aspen Technology's warehouse (i.e., FCA, named place). Our software license agreements do not contain conditions for acceptance.

Fee is fixed or determinable We assess whether a fee is fixed or determinable at the outset of the arrangement. Significant judgment is involved in making this assessment.

Under our upfront revenue model, we are able to demonstrate that the fees are fixed or determinable for all arrangements, including those for our term licenses that contain extended payment terms. We have an established history of collecting under the terms of these contracts without providing concessions to customers. In addition, we also assess whether contract modifications to an existing term arrangement constitute a concession. In making this assessment, significant analysis is performed to ensure that no concessions are given. Our software license agreements do not include right of return or exchange. For license arrangements executed under the upfront revenue model, we recognize license revenue upon delivery of the software product, provided all other revenue recognition requirements are met.

With the introduction of our aspenONE subscription offering and the changes to the licensing terms of our point product agreements sold on a fixed-term basis, we cannot assert that the fees in these arrangements are fixed or determinable because the rights provided to customers and the economics of the arrangements are not comparable to our historical transactions with other customers under the upfront revenue model. As a result, the amount of revenue recognized for these newer arrangements will be limited by the amount of customer payments that become due. For our aspenONE subscription transactions, this results in the fees being recognized ratably over the term of the contract. For our point product licenses sold with bundled SMS, this results in the license fee being recognized as each payment comes due, while the allocated portion of the SMS revenue is recognized ratably over its annual term.

Collection of fee is probable We assess the probability of collecting from each customer at the outset of the arrangement based on a number of factors, including the customer's payment history, its current creditworthiness, economic conditions in the customer's industry and geographic location, and general economic conditions. If in our judgment collection of a fee is not probable, revenue is recognized as cash is collected, provided all other conditions for revenue recognition have been met.

We allocate the arrangement consideration among the elements included in our multi-element arrangements using the residual method. Under the residual method, the vendor specific objective evidence, or VSOE, of the undelivered elements is deferred and the remaining portion of the arrangement fee for perpetual and term licenses is recognized as revenue upon delivery of the software, assuming all other revenue recognition criteria are met. If VSOE does not exist for an undelivered element in an arrangement, revenue is deferred until such evidence does exist for the undelivered elements, or until all elements are delivered, whichever is earlier.

We have established VSOE of fair value for SMS and professional services, but not for our software products. We assess VSOE of fair value for SMS based on an analysis of standalone SMS renewals using the bell-shaped curve approach. We use the optional renewals of SMS on our legacy term license arrangements to support VSOE of fair value for SMS bundled in our new fixed-term point product arrangements. The license product offerings and the SMS in the legacy term license arrangements and the new point product arrangements are the same.

As we are increasingly transitioning our legacy term license customers to point product arrangements with bundled SMS for the entire term of the arrangement, and we no longer market legacy term license arrangements, we expect our population of standalone annual renewals to decrease over time. As a result, there will come a point in time where we will be unable to support VSOE of fair value of SMS in our point product arrangements based on our legacy term license SMS renewals. When this occurs, we will be required to recognize revenue related to the license component on our point product arrangements ratably, on a subscription basis in a manner similar to the current recognition of subscription arrangements under our aspenONE subscription offering. We expect the impact of a loss

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of VSOE of fair value for SMS to be immaterial to our results of operations, since we currently recognize license revenue on point product arrangements over the term of the arrangement, annually, as payments become due.

Subscription Revenue

When a customer elects to license our products under our aspenONE subscription offering, SMS is included for the entire term of the arrangement, and the customer receives for the term of the arrangement, the right to any new unspecified future software products that may be introduced into the licensed aspenONE software suite. These agreements combine the right to use all software products within a given product suite with SMS for the term of the arrangement. Due to our obligation to provide unspecified future software products, we are required to recognize the revenue ratably (that is, on a daily ratable basis) over the term of the license, once the four revenue recognition criteria noted above are met. License and SMS revenue for arrangements sold under our aspenONE subscription offering are combined and presented together as subscription revenue in the consolidated statements of operations.

Software Revenue

Software revenue consists of all license transactions that do not contain rights to future unspecified software products for no additional fee. Specifically, it includes license revenue recognized under the upfront revenue model upon the delivery of the licensed products (i.e., both perpetual and term license arrangements); license revenue recognized over the term of the license agreements for fixed-term contracts including point product licenses with SMS bundled for the entire license term; and other license revenue derived from transactions that are being recognized over time as the result of not previously meeting one or more of the requirements for recognition under the upfront revenue model.

The license fees derived from the sale of fixed-term point product arrangements with SMS included for the arrangement term are recognized under the residual method, as payments come due. The related SMS is recognized over the term of the SMS agreement beginning with the due date of the annual payment and is reported in services and other revenue on the consolidated statement of operations. Occasionally, we expect certain customers to elect upfront payment terms. For these arrangements with upfront payment, all of the license revenue will be recognized upfront by applying the residual method of accounting when the above four revenue recognition requirements have been met.

Perpetual license arrangements do not include the same rights as those provided to customers under the aspenONE subscription offering. Accordingly, the license fees for perpetual license agreements will continue to be recognized upon delivery of the software products using the residual method provided all other revenue recognition requirements are met. The revenue attributable to perpetual software licenses is recognized in software revenue in the consolidated statement of operations.

Services and Other

SMS Revenue

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For arrangements executed under the aspenONE subscription offering or where point product licenses are sold with SMS for the contract term, the customer commits to SMS for the entire term of the license arrangement. The revenue related to the SMS component of the aspenONE subscription offering is reported in subscription revenue in the consolidated statements of operations. The revenue related to the SMS component of point product licenses, for which we have VSOE, is reported in services and other revenue in the consolidated statement of operations.

Under the upfront revenue model, SMS is typically included with the license for the initial year of the license term. Under these arrangements, the fair value of SMS is deferred and subsequently amortized into services and other revenue in the consolidated statement of operations over the contractual term of the SMS arrangement. SMS renewals are at the option of the customer.

Professional Services

Professional services are provided to customers on a time-and-materials (T&M) or fixed-price basis and are generally recognized as the services are performed, assuming all other revenue recognition criteria have been met. We recognize professional services fees for our T&M contracts based upon hours worked and contractually agreed-upon hourly rates. Revenue from fixed-price engagements is recognized using the proportional performance method based on the ratio of costs incurred to the total estimated project costs. We believe that costs are the best available measure of performance. Professional services revenue is recognized within services and other revenue in the statement of operations. Project costs are based on standard rates, which vary by the consultant's professional level,

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plus all direct expenses incurred to complete the engagement that are not reimbursed by the client. All project costs are expensed as incurred. The use of the proportional performance method is dependent upon our ability to reliably estimate the costs to complete a project. We use historical experience as a basis for future estimates to complete current projects. Reimbursables received from customers for out-of-pocket expenses are recorded as revenue.

If the costs to complete a project are not estimable or the completion is uncertain, the revenue is recognized upon completion of the services. In those circumstances in which committed professional services arrangements are sold as a single arrangement with, or in contemplation of, a new license agreement, revenue is deferred and recognized on a ratable basis over the longer of the period the services are performed or the license term.

Occasionally, we provide professional services considered essential to the functionality of the software. We recognize the combined revenue from the sale of the software and related services using the percentage-of-completion method. When these professional services are combined with, and essential to, the functionality of an aspenONE subscription transaction, the amount of combined revenue will be recognized over the longer of the subscription term or the period the professional services are provided.

In the past, we have occasionally been required to commit unanticipated additional resources to complete projects, which have resulted in lower than anticipated income or losses on those contracts. We may experience similar situations in the future. Provisions for estimated losses on contracts are made during the period in which such losses become probable and can be reasonably estimated.

Installments Receivable

Installments receivable resulting from product sales under the upfront revenue model are discounted to present value at prevailing market rates (generally 8% to 9%) at the date the related contract is signed, based on the customers' credit ranking. Finance fees are recognized using the effective interest method over the relevant license term and are classified as interest income. Installments receivable are split between current and non-current in our consolidated balance sheets based on the maturity date of the related installment. Non-current installments receivable consists of receivables with a due date greater than one year from the period-end date. Current installments receivable consists of invoices with a due date of less than one year but greater than 45 days from the period-end date. Once an installments receivable invoice is due within 45 days, it is reclassified as a trade accounts receivable on our consolidated balance sheet.

Our non-current installments receivable fall within the scope of Accounting Standards Update (ASU) No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. As our portfolio of financing receivables arise from the sale of our software licenses, the methodology for determining our allowance for doubtful accounts is based on the collective population and is not stratified by class or portfolio segment. We consider factors such as existing economic conditions, country risk, and customers' past payment history in determining our allowance for doubtful accounts. We reserve against our installments receivable when the related trade accounts receivable has been past due for over a year, or when there is a specific risk of collectability. We write-off receivables when they have been deemed uncollectable, based on our judgment. In instances where we write off a given customers' trade accounts receivables, we also write-off any related current and non-current installment receivables balances. We have not suspended the amortization of interest income for any of the installments receivable in our portfolio for uncollectability reasons.

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The following table summarizes our current and non-current allowance for doubtful accounts for our installments receivable balances (in thousands):

| | Current | Non-Current | Total |
|---------------------------------------|-----------|-------------|------------|
| December 31, 2010 | | | |
| Installments Receivable, gross | \$ 46,290 | \$ 66,793 | \$ 113,083 |
| Less: allowance for doubtful accounts | (998) | (1,157) | (2,155) |
| Installments Receivable, net | \$ 45,292 | \$ 65,636 | \$ 110,928 |
| June 30, 2010 | | | |
| Installments Receivable, gross | \$ 52,848 | \$ 78,065 | \$ 130,913 |
| Less: allowance for doubtful accounts | (1,119) | (1,196) | (2,315) |
| Installments Receivable, net | \$ 51,729 | \$ 76,869 | \$ 128,598 |

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Our installments receivable balance will continue to decrease over time, as licensing agreements previously executed under our upfront revenue model reach the end of their terms and are renewed under our new licensing models. Under the aspenONE subscription offering and for point product arrangements sold with SMS bundled for the entire license term, payment amounts under extended payment term arrangements are not presented in the consolidated balance sheets as the related arrangement fees are not fixed or determinable. Accordingly, future installments under our new licensing models are not considered financing receivables.

Deferred Revenue

Under the aspenONE subscription offering, customers receive SMS for the full contract term, and receive rights to unspecified future products for no additional fee. As VSOE does not exist for both of these undelivered elements, we are required to recognize the revenue ratably (i.e. on a subscription basis) over the term of the license. Therefore, deferred revenue is recorded as each payment comes due and revenue is recognized ratably over the associated license period.

Under the upfront revenue model and point product arrangements, a portion of the arrangement fee is generally recorded as deferred revenue due to the inclusion of an undelivered element, typically SMS. The amount of revenue allocated to undelivered elements is based on the VSOE of fair value for those elements using the residual method and is earned and recognized as revenue as each element is delivered. Deferred revenue related to these transactions generally consists of SMS and represents payments received in advance of services rendered as of the balance sheet dates.

Legal fees and contingencies

We accrue estimated liabilities for loss contingencies arising from claims, assessments, litigation and other sources when it is probable that a liability has been incurred and the amount of the claim assessment or damages can be reasonably estimated. We believe that we have sufficient accruals to cover any obligations resulting from claims, assessments or litigation that have met this criteria.

Other

For further information with regard to our Significant Accounting Policies, please refer to Note 2 of our Consolidated Financial Statements and Notes thereto included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2010.

3. Goodwill

The changes in the carrying amount of goodwill by reporting unit for the first half of fiscal 2011 were as follows (in thousands):

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| Asset Class | Reporting Unit | | | | Total |
|---|----------------|-----------------------|--------------------------|----|----------|
| | License | Professional Services | Maintenance and Training | | |
| Balance as of June 30, 2010 | | | | | |
| Goodwill | \$ 68,059 | \$ 5,102 | \$ 14,871 | \$ | 88,032 |
| Accumulated impairment losses | (65,569) | (5,102) | | | (70,671) |
| | \$ 2,490 | \$ | \$ 14,871 | \$ | 17,361 |
| Effect of changes in currency translation | | | | | |
| | 12 | | 466 | | 478 |
| Balance as of September 30, 2010 | | | | | |
| Goodwill | \$ 68,071 | \$ 5,102 | \$ 15,337 | \$ | 88,510 |
| Accumulated impairment losses | (65,569) | (5,102) | | | (70,671) |
| | \$ 2,502 | \$ | \$ 15,337 | \$ | 17,839 |
| Effect of changes in currency translation | | | | | |
| | (2) | | 324 | | 322 |
| Balance as of December 31, 2010 | | | | | |
| Goodwill | \$ 68,069 | \$ 5,102 | \$ 15,661 | \$ | 88,832 |
| Accumulated impairment losses | (65,569) | (5,102) | | | (70,671) |
| | \$ 2,500 | \$ | \$ 15,661 | \$ | 18,161 |

We test goodwill for impairment annually at the reporting unit level using a fair value approach in accordance with the provisions of ASC 350, *Intangibles - Goodwill and Other*. We conduct our annual impairment test in the second fiscal quarter of each year. The initial step requires us to determine the fair value of each reporting unit and compare it to the carrying value, including goodwill, of such reporting unit. If the fair value exceeds the carrying value, no impairment loss is recognized. However, if the carrying value of the reporting unit exceeds its fair value, the goodwill of the unit may be impaired. The amount of impairment, if any, is then measured based upon the estimated fair value of goodwill at the valuation date. We performed our annual impairment test for each reporting unit as of December 31, 2010, and determined that the estimated fair values substantially exceeded the carrying values. As such, no impairment losses were recognized as a result of the analysis.

4. Income Taxes

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

We do not provide deferred taxes on unremitted earnings of foreign subsidiaries since we intend to indefinitely reinvest either currently or sometime in the foreseeable future. Unrecognized provisions for taxes on undistributed earnings of foreign subsidiaries, which are considered indefinitely reinvested, are not material to our consolidated financial position or results of operations. We are continuously subject to

examination by the IRS, as well as various state and foreign jurisdictions. The IRS and other taxing authorities may challenge certain deductions and credits reported by us on our income tax returns. In July 2006, the FASB issued FIN 48, *Accounting for Uncertain Tax Positions*, (currently included as provisions of ASC Topic 740), which clarifies the criteria for recognition and measurement of benefits from uncertain tax positions. Under this guidance, an entity should recognize 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 to be recognized, if the more likely than not threshold is passed, should be measured as the largest amount of tax benefit that is greater than 50 percent likely to be realized upon the ultimate settlement with a taxing authority that has full knowledge of all relevant information. Furthermore, any change in the recognition, de-recognition or measurement of a tax position should be recorded in the period in which the change

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occurs. We account for interest and penalties related to uncertain tax positions as part of the provision for income taxes.

5. Fair Value

Cash equivalents of \$112.0 million are reported at fair value utilizing quoted market prices in identical markets, or Level 1 Inputs .

Financial instruments not measured or recorded at fair value in the accompanying financial statements consist of accounts receivable, installments receivable, collateralized receivables, accounts payable and secured borrowings. The estimated fair value of accounts receivable, installments receivable, collateralized receivables and accounts payable approximates the carrying value. The estimated fair value of secured borrowings exceeds the carrying value by \$2.9 million as of December 31, 2010. The fair value of secured borrowings was calculated using the market approach, utilizing interest rates that were indirectly observable in markets for similar liabilities, or Level 2 Inputs .

6. Supplementary Balance Sheet Information

Accrued expenses and other current liabilities in the accompanying unaudited condensed consolidated balance sheets consist of the following (in thousands):

| | December 31, 2010 | June 30, 2010 |
|---|----------------------|------------------|
| Royalties and outside commissions | \$ 4,897 | \$ 4,856 |
| Payroll and payroll-related | 10,195 | 21,862 |
| Restructuring accruals | 2,778 | 4,266 |
| Amounts due to financing institutions for collections | | 4,216 |
| Other | 14,405 | 14,690 |
| Total accrued expenses and other current liabilities | \$ 32,275 | \$ 49,890 |

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

| | December 31, 2010 | June 30, 2010 |
|-------------------------------------|----------------------|------------------|
| Restructuring accruals | \$ 3,599 | \$ 4,248 |
| Deferred rent | 2,126 | 2,193 |
| Royalties and outside commissions | 2,918 | 3,667 |
| Other | 22,672 | 21,724 |
| Total other non-current liabilities | \$ 31,315 | \$ 31,832 |

7. Stock-Based Compensation

General Award Terms

We issue stock options and restricted stock units to our employees and outside directors, pursuant to stockholder approved stock option plans. Option awards are generally granted with an exercise price equal to the market price of our stock at the date of grant; those options generally vest over four years and have 7 or 10-year contractual terms. Restricted stock units (RSUs) generally vest over four years. Historically, our practice has been to settle stock option exercises and restricted stock vesting through newly-issued shares.

Stock-Based Compensation Accounting

Our stock-based compensation is principally accounted for as awards of equity instruments. Our policy is to issue new shares upon the exercise of stock awards. We adopted the simplified method related to accounting for the

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tax effects of share-based payment awards to employees under ASC 718, *Compensation - Stock Compensation* (ASC 718). We use the with-and-without approach for determining if excess tax benefits are realized under ASC 718. RSUs are valued at the stock price on the date of grant. We utilize the Black-Scholes option valuation model for estimating the fair value of options granted. The Black-Scholes option valuation model incorporates assumptions for stock price volatility, the expected life of options, a risk-free interest rate and dividend yield. We recognize compensation costs on a straight-line basis over the requisite service period for time-vested awards.

The stock-based compensation expense and its classification (in thousands) in the statements of operations for the three and six months ended December 31, 2010 and 2009 were as follows:

| | Three Months Ended December 31, | | Six Months Ended December 31, | |
|--------------------------------|------------------------------------|----------|----------------------------------|-----------|
| | 2010 | 2009 | 2010 | 2009 |
| Recorded as expense: | | | | |
| Cost of service and other | \$ 233 | \$ 734 | \$ 486 | \$ 957 |
| Selling and marketing | 907 | 3,559 | 1,803 | 4,329 |
| Research and development | 287 | 1,250 | 576 | 1,391 |
| General and administrative | 918 | 4,082 | 2,177 | 4,855 |
| Total stock-based compensation | \$ 2,345 | \$ 9,625 | \$ 5,042 | \$ 11,532 |

During the period from mid-September 2007 until November 9, 2009, and from November 16, 2009 to December 21, 2009, we did not maintain our status as a timely filer with the SEC and we were unable to issue stock-based compensation to our directors and employees. On October 29, 2009 the Board of Directors approved the grant as of November 9, 2009 of 2,727,033 RSUs and 264,640 stock options under the 2005 Stock Incentive Plan and the 2001 Stock Option Plan. A portion of these awards vested upon issuance. The immediate vesting of a portion of the November 2009 grant caused the increased level of stock-based compensation expense for the second quarter and first half of fiscal 2010 compared to the current year periods. The lower level of stock-based compensation expense in the second quarter and first half of fiscal 2011 represents a more normal level of stock-based compensation expense.

The compensation committee and Board of Directors completed its annual program grant for fiscal 2011 in July 2010 and authorized and approved the grant as of August 2, 2010 of 764,828 RSUs and 948,664 stock options under the 2010 Equity Incentive Plan and the 2005 Stock Incentive Plan.

A summary of stock option and RSU activity under all equity plans in the first half of fiscal 2011 is as follows:

| | Stock Options | | | Restricted Stock Units | |
|---------------------------------|---------------|--|---|------------------------|--|
| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Shares | Weighted Average Grant Date Fair Value |
| Outstanding at June 30, 2010 | 5,395,870 | \$ 7.19 | | 1,512,263 | \$ 9.58 |
| Granted | 948,664 | \$ 10.93 | | 764,828 | \$ 10.93 |
| Settled (RSUs) | | | | (245,337) | \$ 9.97 |

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| | | | | | | | | | |
|-----------------------------------|-----------|----|-------|-----|----|-----------|-----------|-------|-------|
| Exercised | (24,141) | \$ | 5.68 | | | | | | |
| Cancelled / Forfeited | (54,613) | \$ | 26.72 | | | (26,543) | \$ | 9.63 | |
| Outstanding at | | | | | | | | | |
| September 30, 2010 | 6,265,780 | \$ | 7.59 | | | 2,005,211 | \$ | 10.04 | |
| Granted | 11,750 | \$ | 12.16 | | | 8,250 | \$ | 12.20 | |
| Settled (RSUs) | | | | | | (46,710) | \$ | 10.93 | |
| Exercised | (467,976) | \$ | 7.01 | | | | | | |
| Cancelled / Forfeited | (73,890) | \$ | 29.76 | | | (35,021) | \$ | 9.92 | |
| Outstanding at | | | | | | | | | |
| December 31, 2010 | 5,735,664 | \$ | 7.36 | 5.1 | \$ | 30,930 | 1,931,730 | \$ | 10.03 |
| Exercisable at | | | | | | | | | |
| December 31, 2010 | 4,881,974 | \$ | 6.74 | 4.4 | \$ | 29,394 | | | |
| Vested and expected to vest as of | | | | | | | | | |
| December 31, 2010 | 5,526,757 | \$ | 7.22 | 5.0 | \$ | 30,554 | 1,719,744 | \$ | 10.03 |

The weighted average grant-date fair value of RSUs granted during the first half of fiscal years 2011 and 2010 was \$10.94 and \$9.55, respectively. In the first half of fiscal years 2011 and 2010, the total fair value of shares settled from RSU grants was \$3.0 million and \$9.1 million, respectively.

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At December 31, 2010, the total unrecognized compensation cost related to unvested stock options and RSUs was \$4.1 million and \$18.1 million, respectively, and is expected to be recorded over the next four years as the awards vest.

The total intrinsic value of options exercised during the first half of fiscal years 2011 and 2010 was \$2.7 million and \$3.6 million, respectively. We received \$3.4 million and \$3.7 million in cash proceeds from option exercises during the first half of fiscal years 2011 and 2010, respectively. We paid \$1.0 million and \$2.7 million for withholding taxes on settled RSUs during the first half of fiscal years 2011 and 2010, respectively.

At December 31, 2010, common stock reserved for future issuance or settlement under equity compensation plans was 14.2 million shares.

8. Common Stock

On October 29, 2010, our Board of Directors approved a stock repurchase program for up to \$40 million worth of our common stock. The timing and amount of any shares repurchased will be determined based on management's evaluation of market conditions and other factors. All share repurchases of our common stock have been recorded as treasury stock under the cost method. We repurchased 96,230 shares of our common stock for \$1.2 million in the second quarter of fiscal 2011. As of December 31, 2010, the remaining dollar value under the stock repurchase program approved by our Board of Directors on October 29, 2010 was \$38.8 million.

9. Net Loss per Common Share

Basic loss per share is determined by dividing the loss by the weighted average common shares outstanding during the period. Diluted loss per share is determined by dividing the loss by diluted weighted average shares outstanding during the period. Diluted weighted average shares reflect the dilutive effect, if any, of potential common shares. To the extent their effect is dilutive, employee equity awards and warrants, based on the treasury stock method, and other commitments to be settled in common stock are included in the calculation of diluted loss per share. For the three and six months ended December 31, 2010 and 2009, all potential common shares were anti-dilutive due to the net loss. The calculations of basic and diluted loss per share and basic and diluted weighted average shares outstanding are as follows (in thousands, except per share data):

| | Three Months Ended December 31, | | Six Months Ended December 31, | |
|--|------------------------------------|-------------|----------------------------------|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Net loss | \$ (10,269) | \$ (30,657) | \$ (25,737) | \$ (51,719) |
| Weighted average shares outstanding | 93,252 | 91,002 | 92,968 | 90,538 |
| Dilutive impact from common stock equivalents | 93,252 | 91,002 | 92,968 | 90,538 |

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Dilutive weighted average shares
outstanding

Loss per share

| | | | | | | | | |
|----------|----|--------|----|--------|----|--------|----|--------|
| Basic | \$ | (0.11) | \$ | (0.34) | \$ | (0.28) | \$ | (0.57) |
| Dilutive | \$ | (0.11) | \$ | (0.34) | \$ | (0.28) | \$ | (0.57) |

The following potential common shares were excluded from the calculation of diluted weighted average shares outstanding because the exercise price of the common stock equivalents exceeded the average market price for our common stock and/or their inclusion would be anti-dilutive at the balance sheet date (in thousands):

| | Three Months Ended December 31, | | Six Months Ended December 31, | |
|--------------------------|------------------------------------|-------|----------------------------------|-------|
| | 2010 | 2009 | 2010 | 2009 |
| Common stock equivalents | 8,020 | 9,140 | 8,221 | 9,004 |

Table of Contents**10. Comprehensive Loss**

Comprehensive loss is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The components of comprehensive loss for the three and six months ended December 31, 2010 and 2009 were as follows (in thousands):

| | Three Months Ended December 31, | | Six Months Ended December 31, | |
|--|------------------------------------|-------------|----------------------------------|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Net loss | \$ (10,269) | \$ (30,657) | \$ (25,737) | \$ (51,719) |
| Foreign currency translation adjustments | 292 | (118) | 721 | 1,476 |
| Total comprehensive loss | \$ (9,977) | \$ (30,775) | \$ (25,016) | \$ (50,243) |

11. Commitments and Contingencies**(a) ATME arbitration**

Prior to October 6, 2009, we had an exclusive reseller relationship covering certain countries in the Middle East with AspenTech Middle East W.L.L., a Kuwaiti corporation (now known as Advanced Technology Middle East W.L.L.) that we refer to below as ATME. Under the reseller agreement, we had the right to terminate for a material breach in the event of ATME's willful misconduct or fraud. Effective October 6, 2009, we terminated the reseller relationship for material breach by ATME based on certain actions of ATME.

On November 2, 2009, ATME commenced an action in the Queen's Bench Division (Commercial Court) of the High Court of Justice (England & Wales) captioned In The Matter Of An Intended Arbitration Between AspenTech Middle East W.L.L. and Aspen Technology, Inc., 2009 Folio 1436, seeking preliminary injunctive relief restraining us from taking any steps to impede ATME from serving as our exclusive reseller in the countries covered by the reseller agreement with ATME. We filed evidence in opposition to that request for relief on November 12, 2009. At a hearing on November 13, 2009, the court dismissed ATME's application for preliminary injunctive relief. The court sealed an Order to this effect on November 23, 2009, and further ordered that ATME pay our costs of claim.

Relatedly, on November 11, 2009, we filed a request for arbitration against ATME in the International Court of Arbitration of the International Chamber of Commerce, captioned Aspen Technology, Inc. v. AspenTech Middle East W.L.L., Case No. 16732/VRO. Our request for arbitration asserted claims against ATME seeking a declaration that ATME committed a material breach of our agreement and that our termination of our agreement was lawful, and seeking damages for ATME's willful misconduct in connection with the reseller relationship. On November 18, 2009, ATME filed its answer to that request for arbitration and asserted counterclaims against us seeking a declaratory judgment that we unlawfully terminated our agreement with ATME and seeking damages for breach of contract by reason of our purported unlawful termination of our agreement. Our reply to those counterclaims was filed on or about December 18, 2009. Pursuant to a procedural order issued by the arbitral tribunal, a hearing was conducted between January 24, 2011 and February 2, 2011, and a supplemental hearing is to be scheduled in June 2011.

The reseller agreement with ATME contained a provision whereby we could be liable for a termination fee if the agreement were terminated other than for material breach. This fee is to be calculated based on a formula contained in the reseller agreement that we believe was originally developed based on certain assumptions about the future financial performance of ATME, as well as ATME's actual financial performance. Based on the formula and the financial information provided to us by ATME, which we have not had the opportunity to verify independently, a recent calculation based on the formula would result in a termination fee of between \$60 million and \$77 million. Under the terminated reseller agreement, no termination fee is owed on termination for material breach. If we are found to have breached the terms of our agreement with ATME, we could be liable for the full value of the termination fee, which may be greater or less than the number indicated above. We intend to pursue our claims against ATME, and to defend the counterclaims by ATME, vigorously.

On March 11, 2010, a Kuwaiti entity (known as ATME Group and affiliated with ATME) filed a lawsuit in a Kuwaiti court naming as defendants ATME, us and a reseller newly appointed by us in Kuwait. In this lawsuit, ATME Group claims that it was an exclusive reseller for ATME in Kuwait and, as such, is entitled to damages resulting from purported customer contracts in Kuwait. We intend to defend this action vigorously.

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(b) Class action and opt-out claims

In March 2006, we settled class action litigation, including related derivative claims, arising out of our originally filed consolidated financial statements for fiscal 2000 through 2004, the accounting for which we restated in March 2005. Certain members of the class (representing 1,457,969 shares of common stock (or less than 1% of the shares putatively purchased during the class action period)) opted out of the settlement and had the right to bring their own state or federal law claims against us, referred to as opt-out claims. Opt-out claims were filed on behalf of the holders of approximately 1.1 million of such shares. All but one of these actions were settled and/or dismissed. The remaining action is discussed below.

380544 Canada, Inc., et al. v. Aspen Technology, Inc., was filed on February 15, 2007 in the federal district court for the Southern District of New York and docketed as Civ. A. No. 1:07-cv-01204-JFK in that court. The claims in this action include claims against us and one or more of our former officers alleging securities and common law fraud, breach of contract, 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. This action was brought by persons who purchased 566,665 shares of our common stock in a private placement. Certain motions to dismiss filed by other defendants were resolved on May 5, 2009. The claims in the 380544 Canada action are for damages totaling at least \$4.0 million, not including claims for attorneys' fees. We plan to defend the 380544 Canada action vigorously.

(c) Other

In the ordinary course of business, we are also from time to time involved in lawsuits, claims, investigations, proceedings, and threats of litigation consisting of intellectual property, commercial and other matters. We are currently defending an April 2004 claim by a customer for approximately \$5.0 million that certain of our software products and implementation services failed to meet its expectations, which we are defending vigorously.

12. Segment and Geographic Information

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision maker is our Chief Executive Officer.

The measurement of the controllable profit for all segments was changed in 2010 to include a greater allocation of expenses related to bonuses from unallocated costs to controllable expenses. This change conformed to management's current approach of cost allocation for internal reporting purposes. All periods presented have been conformed to management's current measurement approach.

We have three operating segments: license, professional services, and maintenance and training. The chief operating decision maker assesses financial performance and allocates resources based upon the three lines of business.

The license line of business is engaged in the development and licensing of software. The professional services line of business offers implementation, advanced process control, real-time optimization and other professional services in order to provide its customers with complete solutions. The maintenance and training line of business provides customers with a wide range of support services that include on-site support, telephone support, software updates and various forms of training on how to use our products.

The accounting policies of the operating segments are the same as those described in Note 2. We do not track assets or capital expenditures by operating segments. Consequently, it is not practical to show assets, capital expenditures, depreciation or amortization by operating segments.

The following table presents a summary of operating segments (in thousands):

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| | License | Maintenance, Training, and Other | Professional Services | Total |
|---|------------|--|--------------------------|-----------|
| Three Months Ended December 31, 2010 | | | | |
| Segment revenue | \$ 25,333 | \$ 16,536 | \$ 7,939 | \$ 49,808 |
| Segment expenses | 14,798 | 3,346 | 6,140 | 24,284 |
| Segment operating profit (1) | \$ 10,535 | \$ 13,190 | \$ 1,799 | \$ 25,524 |
| Three Months Ended December 31, 2009 | | | | |
| Segment revenue | \$ 10,190 | \$ 19,663 | \$ 12,833 | \$ 42,686 |
| Segment expenses | 16,085 | 4,034 | 8,213 | 28,332 |
| Segment operating profit (1) | \$ (5,895) | \$ 15,629 | \$ 4,620 | \$ 14,354 |
| Six Months Ended December 31, 2010 | | | | |
| Segment revenue | \$ 44,300 | \$ 34,006 | \$ 14,602 | \$ 92,908 |
| Segment expenses | 29,191 | 6,483 | 12,080 | 47,754 |
| Segment operating profit (1) | \$ 15,109 | \$ 27,523 | \$ 2,522 | \$ 45,154 |
| Six Months Ended December 31, 2009 | | | | |
| Segment revenue | \$ 21,297 | \$ 38,653 | \$ 22,532 | \$ 82,482 |
| Segment expenses | 30,577 | 7,758 | 18,184 | 56,519 |
| Segment operating profit (1) | \$ (9,280) | \$ 30,895 | \$ 4,348 | \$ 25,963 |

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

Reconciliation to Loss Before Income Taxes

The following table presents a reconciliation of total segment operating profit to loss before income taxes for the three and six months ended December 31, 2010 and 2009 (in thousands):

| | Three Months Ended December 31, | | Six Months Ended December 31, | |
|--|------------------------------------|-------------|----------------------------------|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Total segment operating profit for reportable segments | \$ 25,524 | \$ 14,354 | \$ 45,154 | \$ 25,963 |
| Cost of subscription and software | (1,972) | (1,677) | (4,094) | (3,450) |
| Selling and marketing | (2,294) | (2,208) | (5,531) | (5,645) |
| Research and development | (9,835) | (9,507) | (20,184) | (18,517) |
| General and administrative and overhead | (18,300) | (20,620) | (39,156) | (40,635) |
| Stock-based compensation | (2,345) | (9,625) | (5,042) | (11,532) |
| Restructuring charges | (78) | (32) | (155) | (303) |
| Other (expense) income, net | (735) | (222) | 1,929 | 2,047 |
| Interest income (net) | 1,630 | 2,603 | 4,088 | 5,641 |
| Loss before income taxes | \$ (8,405) | \$ (26,934) | \$ (22,991) | \$ (46,431) |

13. Subsequent Events

We evaluated events occurring between the end of our fiscal quarter and the date the financial statements were issued. There were no subsequent events to be disclosed based on this evaluation.

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

You should read the following discussion in conjunction with our unaudited condensed consolidated financial statements and related notes beginning on page 3. In addition to historical information, this discussion contains forward-looking statements that involve risks and uncertainties. You should read Item 1A. Risk Factors for a discussion of important factors that could cause our actual results to differ materially from our expectations.

Our fiscal year ends on June 30, and references in this Quarterly Report to a specific fiscal year are the twelve months ended June 30 of such year (for example, fiscal 2011 refers to the year ending June 30, 2011).

Business Overview

We are a leading global provider of mission-critical process optimization software solutions, which are designed to manage and optimize plant and process design, operational performance, and supply chain planning. Our aspenONE software and related services have been developed for companies in the process industries. Customers use our solutions to improve their competitiveness and profitability by increasing throughput and productivity, reducing operating costs, enhancing capital efficiency, and decreasing working capital requirements.

We have more than 1,500 customers globally. Our customers include manufacturers in process industries such as energy, chemicals, pharmaceuticals, consumer packaged goods, power, metals and mining, pulp and paper, and biofuels, as well as engineering and construction firms that help design process manufacturing plants. As of June 30, 2010, our installed base included 19 of the 20 largest petroleum companies, all of the 20 largest chemical companies, and 15 of the 20 largest pharmaceutical companies.

Transition to the aspenONE Subscription Offering

In fiscal 2010 we began offering our aspenONE software under a subscription model, under which a customer can access all products within a licensed suite (aspenONE Engineering or aspenONE Manufacturing and Supply Chain). During the license term, a customer is entitled to receive post-contract support, which we refer to as SMS, as well as any software products introduced into the licensed suite. Revenue is recognized over the term of a license agreement on a subscription, or daily ratable basis. We typically issue invoices annually, and we record each invoiced payment as deferred revenue and then recognize revenue from that payment due date over the applicable period. Uninvoiced future contractual payments are not recorded on our consolidated balance sheet. We also continue to offer our customers the ability to license specifically defined sets of aspenONE products, referred to as point products, which in July 2009, we began licensing with SMS included for the entire term. Revenue is recognized on these arrangements over the contract term, as payments become due.

Prior to fiscal 2010, we offered term or perpetual licenses to point products without SMS included for the entire term of the arrangement. The majority of our license revenue was recognized under an upfront revenue model, in which the net present value of the aggregate license fees was recognized as revenue upon shipment of the point products. We typically invoiced customers annually and recorded the net present value of uninvoiced payments as installments receivable. Customers typically received one year of SMS bundled with their license agreements and then

could elect to renew SMS annually. Revenue from SMS was recognized ratably over the period during which the SMS was delivered.

The transition to our aspenONE subscription offering and the inclusion of SMS for the entire term of our point product arrangements, have not changed the method or timing of our customer billing or cash collections. Consequently, we do not expect a material change to net cash provided by operating activities as a result of this transition. The principal accounting implications of the change in our licensing models are as follows:

- The majority of our license revenue is no longer recognized on an upfront basis. Our license revenue for fiscal 2010 and the first half of fiscal 2011 was significantly less than the level achieved in previous fiscal years. We do not expect to recognize levels of revenue comparable to prior fiscal years unless and until a significant majority of our existing license agreements have been renewed under our new licensing models. Because the timing of our incurrence of operating costs has not changed, the lower levels of revenue expected over the next few years will result in significant operating and net losses.
- The amount of our installments receivable will decrease over time, as license agreements executed under our upfront revenue model reach the end of their terms.

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- The amount of our deferred revenue will increase over time, as installments for license transactions executed under our aspenONE subscription offering are deferred and recognized on a subscription basis. We will not, however, realize a significant increase in deferred revenue until a substantial portion of the license agreements previously executed under our upfront revenue model has been renewed under our new term licensing model.

For additional information about the recognition of revenue under the upfront revenue model and our new licensing models, please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations - Revenue contained in Part II, Item 7 of our Form 10-K for our fiscal year ended June 30, 2010. Because of the accounting implications of our aspenONE subscription offering and the inclusion of SMS for the entire term of our point product arrangements, we believe that, for the next several years, a number of performance indicators based on U.S. generally accepted accounting principles, or GAAP, will be of limited value in assessing our performance, growth and financial condition. Accordingly, we are focusing on a number of other business metrics, including those described below under Key Business Metrics.

Revenue

We generate revenue primarily from the following sources:

- *Software licenses.* We provide integrated process optimization software solutions designed for the process industries. We license our software products on a term or perpetual basis, and we offer extended payment options for our term license agreements that generally require annual payments.
- *SMS and other.* Our SMS business consists primarily of providing customer technical support and access to software fixes and upgrades. We provide customer technical support services throughout the world by our three global call centers as well as via email and through our support website. Our training business provides customers with a variety of training solutions, including on-site, Internet-based, and customized training.
- *Professional services.* We offer professional services that include implementing and integrating our technology with customers' existing systems in order to improve their plant performance and gain better operational data. Customers who use our professional services typically engage us to provide those services over periods of up to 24 months. We charge customers for professional services on a time-and-materials or fixed-price basis.

Key Components of Operations

Revenue

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Subscription Revenue. Subscription revenue relates to the licensing of our products under our aspenONE subscription offering, where SMS is included for the entire term of the arrangement and the customer receives the right to unspecified future software products that may be introduced during the term of the arrangement for no additional fee. License and SMS revenue for arrangements sold under our aspenONE subscription offering are combined and presented together as subscription revenue in the consolidated statements of operations.

Software Revenue. Software revenue consists of all license transactions that do not contain rights to future unspecified software products for no additional fee. Specifically, software revenue includes:

- license revenue recognized under the upfront revenue model upon the delivery of the licensed software (that is, both perpetual and term license agreements);
- license revenue recognized over the term of the license agreements, including point product licenses with SMS included for the entire license term, but excluding license revenue from license agreements executed under our aspenONE subscription offering, which is recorded as subscription revenue; and
- other license revenue derived from transactions that are being recognized over time as the result of not previously meeting one or more of the requirements for recognition under the upfront revenue model.

Services and Other Revenue. Our services and other revenue consists primarily of revenue related to professional services, SMS (other than SMS bundled with license agreements executed under our aspenONE subscription offering, which is recorded as subscription revenue) and training. The amount and timing of this revenue depend on a number of factors, including:

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- the number, value and rate per hour of service 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 negotiating and signing maintenance renewals;
- the timing of collection of cash payments when collectability is uncertain; and
- the size of the installed base of license contracts.

Cost of Revenue

Cost of Subscription and Software. The cost of subscription and software revenue consists of royalties, amortization of capitalized software costs, distribution fees, the costs of providing SMS related to our aspenONE subscription offering and costs related to delivery of software.

Cost of Services and Other. Our cost of services and other revenue consists primarily of personnel-related and external consultant costs associated with providing professional services, SMS on arrangements not licensed on a subscription basis and training to customers. The costs of providing SMS for our aspenONE subscription offering are included in cost of subscription and software.

Operating Expenses

Selling and Marketing Expense. Selling expenses consist primarily of the personnel and travel expenses related to the effort expended to license our products and services to current and potential customers, as well as for overall management of customer relationships. Marketing expenses include expenses needed to promote our company and our products and to acquire market research and measure customer opinions to help us better understand our customers and their business needs.

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Research and Development Expense. Research and development expenses primarily consist of personnel and external consultant expenses related to the creation of new products and to enhancements and engineering changes to existing products.

General and Administrative Expense. General and administrative expenses include the costs of corporate and support functions, such as executive leadership and administration groups, finance, legal, human resources and corporate communications, and other costs such as outside professional and consultant fees and provision for bad debts.

Restructuring Charges. Restructuring charges result from the closure or consolidation of our facilities, or from qualifying reductions in headcount.

Other Income and Expenses

Interest Income. Interest income is recorded for the accretion of interest on the installment payments of our term software license contracts when revenue is recognized upfront at net present value, and to a lesser extent from the investment of cash balances in short-term instruments.

Interest Expense. Interest expense consists of charges primarily related to our secured borrowings. Secured borrowings are derived from our borrowing arrangements with unrelated financial institutions.

Other Income (Expense), Net. Other income (expense), net is comprised primarily of foreign currency exchange gains (losses) generated from the settlement and remeasurement of transactions denominated in currencies other than the functional currency of our operating units. We may enter into foreign currency forward contracts to attempt to minimize the adverse impact related to unfavorable exchange rate movements, although we have not done so since fiscal 2008. Historically, our foreign currency forward contracts have not been designated as hedging instruments and, therefore, do not qualify for fair value or cash flow hedge treatment under the criteria of Accounting Standards Codification, or ASC, Topic 815, *Derivatives and Hedging*. Therefore, any unrealized gains and losses on the foreign currency forward contracts, as well as the underlying transactions we are attempting to shield from exchange rate movements, would be recognized as a component of other income (expense), net.

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Provision for Income Taxes. Provision for income taxes is comprised of the taxes currently payable as a result of domestic and foreign operations and the net tax effects of book-tax timing differences. We record interest and penalties related to income tax matters as income tax expense. We expect the amount of income tax expense, if any, to vary each reporting period depending upon fluctuations in our taxable income and our ability to utilize tax benefits from net loss carryforwards.

Key Business Metrics

Background

With the adoption of our new licensing models, which include our aspenONE subscription offering and the inclusion of SMS for the entire term of our point products arrangements, our revenue has been significantly less than in preceding fiscal years. We expect that our revenue will increase as customers renew their licensing arrangements under our new licensing models. We do not expect to recognize levels of revenue comparable to prior fiscal years unless and until a significant majority of our existing license agreements have been renewed under our new licensing models. As a result, we believe that, for the next few years, a number of our performance indicators based on U.S. generally accepted accounting principles, or GAAP, including revenue, gross profit, operating income (loss) and net income (loss), will be of limited value in assessing our performance, growth and financial condition. Accordingly, we instead are focusing on certain non-GAAP and other business metrics, including the key metrics set forth below, to track our business performance. None of these metrics should be considered as an alternative to any measure of financial performance calculated in accordance with GAAP.

To supplement our statements of cash flows presented on a GAAP basis, we use the non-GAAP measure of free cash flow to analyze cash flows generated from our operations. Management believes that this financial measure is useful to investors because it permits investors to view our performance using the same tools that management uses to gauge progress in achieving our goals. We believe this measure is also useful to investors because it is an indication of cash flow that may be available to fund further investments in future growth initiatives and it is also useful as the basis for comparing our performance with that of our competitors. To supplement our presentation of total cost of revenue and total operating costs presented on a GAAP basis, we use a non-GAAP measure of adjusted total costs, which excludes certain non-cash and non-recurring expenses. Management believes that this financial measure is useful to investors because it demonstrates our commitment to cost containment. The presentation of these non-GAAP measures is not meant to be considered in isolation or as an alternative to cash flows from operating activities as a measure of liquidity or as an alternative to total cost of revenue and total operating costs as a measure of our total costs.

Total Term Contract Value

Total term contract value, or TCV, is an estimate of the renewal value, as of a specific date, of our active portfolio of term license agreements. TCV is calculated by multiplying the terminal annual payment for each active term license agreement by the original length of the existing license term, and then aggregating this amount for all active term license agreements. Accordingly, TCV represents the full renewal value of all of our term license agreements under the hypothetical assumption that all of those agreements are simultaneously renewed for the identical license terms and at the same terminal annual payment amounts as the terminal payment of the original contract.

TCV includes the value of SMS for any multi-year license agreements for which SMS is committed for the entire license term. TCV does not include any amounts for perpetual licenses, professional services, training or standalone renewal SMS. TCV is calculated using constant

currency assumptions for agreements denominated in currencies other than U.S. dollars in order to remove the impact of currency fluctuations between comparison dates.

We believe TCV is a useful metric for analyzing our business performance, particularly while we are transitioning to our aspenONE subscription offering and revenue comparisons between fiscal periods do not reflect the actual growth rate of our business. Comparing TCV for different dates provides insight into the growth and retention rate of our business during the period between those dates. TCV increases as the result of:

- new term license agreements with new or existing customers;
- renewals or modifications of existing license agreements that result in higher license fees due to price escalation or an increase in the number of tokens (fixed units of software usage) or products licensed; and
- renewals of existing license agreements that increase the length of the license term.

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The renewal of an existing license agreement will not increase TCV unless the renewal results in higher license fees or a longer license term. TCV is adversely affected by customer non-renewals and by renewals that result in lower license fees or a shorter license term. Our standard license term historically has been between five and six years, and we do not expect this standard term to change in the future. Many of our contracts have escalating annual payments throughout the term of the arrangement. By calculating TCV based on the terminal year annual payment, we are typically using the highest annual fee from the existing arrangement to calculate the hypothetical renewal value of our portfolio of term arrangements.

We estimate that TCV was \$1.2 billion as of June 30, 2010. Our portfolio of active license agreements as of June 30, 2010 reflected a mix of (a) license agreements that included SMS for the entire license term and (b) legacy license agreements that did not include SMS. We estimate that TCV was \$1.0 billion as of June 30, 2009. SMS was not included as part of our term license arrangements prior to fiscal 2010, and no SMS was included in estimated TCV as of June 30, 2009. For comparability purposes, we estimated license-only TCV growth for fiscal 2010 by removing the SMS portion of TCV as of June 30, 2010, using our established VSOE rate of fair value for SMS. On this comparable license-only basis, we estimate that TCV grew by approximately 10% during fiscal 2010, principally as the result of an increase in the number of tokens or products licensed. Overall, we estimate that TCV, with SMS included as of June 30, 2010, increased by approximately 17% during fiscal 2010.

We estimate that TCV with SMS included grew 4.4% in the second quarter of fiscal 2011 and 7.1% in the first half of fiscal 2011. On a comparable license-only basis, we estimate that TCV grew by approximately 3.5% in the second quarter of fiscal 2011 and 5.2% in the first half of fiscal 2011.

Bookings

Bookings are a measure of the business closed during a period and represent the amount of contractually committed subscription and software fees, including any bundled SMS. Bookings do not include (a) the amount of fees for professional services, training or standalone renewal SMS or (b) the amount of subscription and software fees remaining under pre-existing license agreements that were replaced prior to the scheduled expiration date. The contractual arrangements that contribute to bookings represent binding payment commitments by customers over periods that typically range from five to six years, although individual customer commitments can be for longer or shorter periods. The following table presents our bookings for the three and six months ended December 31, 2010 and 2009 (in thousands):

| | Three Months Ended | | Three Month Period-to-Period Change | | Six Months Ended | | Six Month Period-to-Period Change | |
|----------|--------------------|-------------------|-------------------------------------|--------|-------------------|-------------------|-----------------------------------|-------|
| | December 31, 2010 | December 31, 2009 | \$ | % | December 31, 2010 | December 31, 2009 | \$ | % |
| Bookings | \$ 85,797 | \$ 95,255 | \$ (9,458) | (9.9)% | \$ 160,213 | \$ 134,282 | \$ 25,931 | 19.3% |

Period over-period bookings comparisons may not be particularly meaningful. The amount of bookings in a period is a function of a) the volume, duration and value of contracts renewed during the period and b) the amount of bookings that contribute to growth of total contract value (as described above). Contract renewals may occur on or near the expiration date of the existing contract (natural renewal), or alternatively, customers may elect to renew their contracts substantially in advance of the expiration date (early renewal). The timing and value of contract renewals has a significant impact on quarter-over-quarter and year-over-year comparisons of bookings. Therefore, short-term bookings trends are not indicative of the growth of the business. Accordingly, we primarily focus on bookings contribution to growth in total contract value and to growth in billings backlog and future cash collections as future indicators of revenue and cash flow growth.

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Bookings in the first half of fiscal 2011 increased \$25.9 million, or 19.3%, compared to the first half of fiscal 2010. This increase is predominantly due to lower than normal bookings in the first quarter of fiscal 2010 related to the sales cycle start-up associated with the introduction of the aspenONE subscription offering. Fiscal year 2010 represented the initial year of the aspenONE subscription offering. Bookings in the full fiscal year 2010 were exceptionally strong, as many customers elected to renew their contracts early in order to take advantage of our new offering. We do not expect a comparable level of early renewal booking activity in fiscal 2011 and therefore expect full fiscal year 2011 bookings to be lower than fiscal 2010. Although we expect total bookings to be lower in fiscal 2011, we expect both the amount and relative proportion of bookings that contribute to growth in TCV to be slightly higher in fiscal 2011, relative to fiscal year 2010.

Table of Contents***Future Cash Collections and Billings Backlog***

Future cash collections is the sum of billings backlog, accounts receivable, undiscounted installments receivable and undiscounted collateralized receivables. *Billings backlog* represents the aggregate value of uninvoiced bookings from prior and current periods.

Prior to fiscal 2010, the majority of bookings was recognized as revenue in the period booked and reflected on our balance sheet as installments receivable, or if sold, as collateralized receivables. Installments receivable and collateralized receivables were discounted to net present value at prevailing market rates at the time of the transaction. Amounts collected for collateralized receivables are applied to pay the related secured borrowings and are not available for any other expenditures.

Under our aspenONE subscription offering and for point product arrangements with SMS included for the entire term of the arrangement, extended contractual payments are not considered fixed or determinable and, as a result, are not included in installments receivable or collateralized receivables. These future payments are included in billings backlog, which is not reflected on our consolidated balance sheets. We believe future cash collections is a useful metric because it provides insight into the cash generation capability of our business. Under the upfront revenue model, we did not previously monitor billings backlog or future cash collections since we believed that accounts receivable, installments receivable, collateralized receivables and certain other measures were appropriate indicators of estimated cash generation at that time.

Because a substantial majority of our future bookings will reflect arrangements under our aspenONE subscription offering, we expect billings backlog to grow over time and expect installments receivable and collateralized receivables to decline. When all contracts have been renewed under our new licensing models, the only sources of cash that will continue to be excluded from future cash collections will be amounts attributable to professional services, training and any remaining standalone SMS renewals.

The following table provides our future cash collections as of the dates presented (in thousands):

| | December 31, 2010 | | June 30, 2010 | |
|---|------------------------------|---------|--------------------------|---------|
| Billings backlog | \$ | 490,434 | \$ | 389,354 |
| Accounts receivable, net | | 28,708 | | 31,738 |
| Installments receivable, undiscounted (non-GAAP) (1) | | 124,329 | | 147,315 |
| Collateralized receivables, undiscounted (non-GAAP) (1) | | 44,854 | | 56,461 |
| Future cash collections | \$ | 688,325 | \$ | 624,868 |

(1) Excludes unamortized discount.

The growth in billings backlog and future cash collections in the first half of fiscal 2011 reflected our customers' continued adoption of our aspenONE subscription offering. We expect that billings backlog and future cash collections will continue to grow steadily as we convert and renew existing customers to multi-year contracts, which now include SMS for the full term of the arrangement. In addition, we are actively engaged in transitioning customers from perpetual license arrangements to our new licensing model. Prior to fiscal 2008, we licensed our

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aspenONE Manufacturing and Supply Chain suite primarily on a perpetual basis, and as we convert these customers to our new licensing model, their licensing fees and SMS will become part of billings backlog and future cash collections.

Installments and collateralized receivables are shown at net present value on our consolidated balance sheets. Future cash collections excludes the unamortized discount on installments and collateralized receivables. Amounts collected for collateralized receivables are applied to pay the related secured borrowings and are not available for any other expenditures. We are providing the following reconciliation for the periods presented to reconcile to undiscounted installments and collateralized receivables, as included in our future cash collections metric, with GAAP installment receivables, net and GAAP collateralized receivables, net (in thousands):

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| | December 31, 2010 | June 30, 2010 |
|---|------------------------------|--------------------------|
| Installments receivable, undiscounted (non-GAAP) | \$ 124,329 | \$ 147,315 |
| Unamortized discount | (13,401) | (18,717) |
| Installments receivable, net | \$ 110,928 | \$ 128,598 |
| Collateralized receivables, undiscounted (non-GAAP) | \$ 44,854 | \$ 56,461 |
| Unamortized discount | (3,217) | (5,031) |
| Collateralized receivables, net | \$ 41,637 | \$ 51,430 |

Adjusted Total Costs

The following table presents our total cost of revenue and total operating expenses, as adjusted for stock-based compensation expense, for the indicated periods (in thousands):

| | Three Months Ended | | Three Month Period- to-Period Change | | Six Months Ended | | Six Month Period- to-Period Change | |
|---------------------------------|------------------------------|------------------------------|---|----------|------------------------------|------------------------------|---|----------|
| | December 31, 2010 | December 31, 2009 | \$ | % | December 31, 2010 | December 31, 2009 | \$ | % |
| Total cost of revenue | \$ 13,555 | \$ 16,469 | \$ (2,914) | (17.7)% | \$ 26,803 | \$ 33,938 | \$ (7,135) | (21.0)% |
| Total operating expenses | 45,553 | 55,532 | (9,979) | (18.0) | 95,113 | 102,663 | (7,550) | (7.4) |
| Total expenses | \$ 59,108 | \$ 72,001 | \$ (12,893) | (17.9)% | \$ 121,916 | \$ 136,601 | \$ (14,685) | (10.8)% |
| Less: | | | | | | | | |
| Stock-based compensation | \$ (2,345) | \$ (9,625) | \$ 7,280 | (75.6) | \$ (5,042) | \$ (11,532) | \$ 6,490 | (56.3) |
| Adjusted total costs (non-GAAP) | \$ 56,763 | \$ 62,376 | \$ (5,613) | (9.0)% | \$ 116,874 | \$ 125,069 | \$ (8,195) | (6.6)% |

Total expenses decreased \$12.9 million and \$14.7 million in the second quarter and first half of fiscal 2011, respectively, compared to the same periods of the prior fiscal year. Adjusted total costs, which consist of total cost of revenue and total operating expenses, adjusted to exclude stock-based compensation, decreased by \$5.6 million and \$8.2 million for the second quarter and first half of fiscal 2011, respectively, compared to the same periods in the prior fiscal year.

Stock-based compensation expense decreased \$7.3 million and \$6.5 million in the second quarter and first half of fiscal 2011, respectively, compared to the prior year periods. During the period from mid-September 2007 until November 9, 2009 and from November 16, 2009 to December 21, 2009, we did not maintain our status as a timely filer with the SEC and we were unable to issue stock-based compensation to our directors and employees. In the second quarter of fiscal 2010, we became current with our filings and we issued 2.7 million restricted stock units and 0.3 million stock options to our directors and employees. A portion of these awards vested upon issuance. The stock-based compensation cost recognized during the second quarter of fiscal 2010 associated with the November grant represents \$9.2 million of the total \$9.6 million of expense. The lower level of stock-based compensation expense in the second quarter and first half of fiscal 2011 represents a more normal level of stock-based compensation expense.

The most significant components of the period-over-period decrease in adjusted total costs for the second quarter of fiscal 2011 were a \$2.7 million reduction in finance related expenses and a \$2.2 million decrease in professional services costs (excluding stock-based compensation

expense).

The most significant components of the period-over-period decrease in adjusted total costs for the first half of fiscal 2011 were a \$6.8 million reduction in finance related expenses and a \$6.4 million decrease in professional services costs (excluding stock-based compensation expenses). These decreases were partially offset by increased legal and related expenses of \$2.6 million, which included expenses related to the secondary offering of our common stock effective as of September 22, 2010, and increased payroll and benefit related costs of \$2.0 million within research and development expense.

We expect the transition to the aspenONE subscription offering to provide us with a significant opportunity to standardize and further improve our sales and administrative processes. Overall, we anticipate adjusted total costs to decrease slightly for fiscal 2011 compared to the prior fiscal year, primarily as a result of our lower level of current year expense related to audit and accounting fees and consultants and contractor fees.

Table of Contents**Free Cash Flow**

Free cash flow is calculated as net cash provided by operating activities less the sum of (a) purchase of property, equipment and leasehold improvements and (b) capitalized computer software development costs.

Customer collections and, consequently, cash flow from operating activities and free cash flow are primarily driven by license and services billings, rather than recognized revenue. As a result, our changes in revenue recognition since the introduction of our aspenONE subscription offering will not have an adverse impact on cash receipts. Until existing license contracts are renewed and license related revenue returns to prior year levels, we believe free cash flow is a more relevant measure of our financial performance than income statement profitability measures such as total revenue, gross profit, operating profit and net income. Additionally, we also believe that free cash flow is often used by security analysts, investors and other interested parties in the evaluation of software companies.

The following table provides a reconciliation of net cash flow to free cash flow provided by operating activities for the periods presented (in thousands):

| | Six Months Ended | |
|--|----------------------|----------------------|
| | December 31, 2010 | December 31, 2009 |
| Net cash provided by operating activities | \$ 21,213 | \$ 4,646 |
| Purchase of property, equipment and leasehold improvements | (1,876) | (1,592) |
| Capitalized computer software development costs | (380) | (265) |
| Free cash flow (non-GAAP) | \$ 18,957 | \$ 2,789 |

Going forward, we expect free cash flow to increase as customers continue to renew contracts that were previously paid upfront. As part of our historical contract arrangements, customers could elect to pay for their term licenses upfront rather than over the contract term. The upfront payment would normally be equal to the net present value of the annual cash payments, typically discounted at an 8% rate. As the global economy deteriorated in 2009, some of our customers changed from paying upfront to paying in installments. Additionally, during this period, we started selling our aspenONE for Manufacturing and Supply Chain suite predominantly on a term basis rather than on a perpetual basis, enabling our customers to pay in annual installments rather than upfront. These prior period practices of upfront payments resulted in increased cash flow variability, both in the period of the payment, and the subsequent years of the contract term. We have moved away from upfront payments in recent years, and as a result, we expect cash flows to normalize over the next several years. We anticipate the transition to normalized cash flow to be quicker than the transition to normalized revenue.

We believe we will realize improved free cash flow as we benefit from the continued growth of our portfolio of term license contracts and our focused cost structure management.

Critical Accounting Estimates and Judgments

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Our consolidated financial statements are prepared in accordance with GAAP. The preparation of our financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, 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.

We believe that the assumptions and estimates associated with the following critical accounting policies have the greatest potential impact on our consolidated financial statements:

- revenue recognition;

- impairment of long-lived assets, goodwill, and intangible assets;

- computer software development costs;

- loss contingencies; and

- accounting for income taxes.

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Revenue Recognition

Four basic criteria must be satisfied before license revenue can be recognized: persuasive evidence of an arrangement between us and an end user; delivery of our product has occurred; the fee for the product is fixed or determinable; and collection of the fee is probable. Our management uses its judgment concerning the satisfaction of these four basic criteria, particularly the criteria relating to the determination of whether the arrangement fees are fixed or determinable and to the collectability of the arrangement fees, during evaluation of each revenue transaction.

Fee is fixed or determinable We assess whether a fee is fixed or determinable at the outset of the arrangement. Significant judgment is involved in making this assessment. Under our upfront revenue model, we are able to demonstrate that the fees are fixed or determinable for all arrangements, including those for our term licenses that contain extended payment terms. We have an established history of collecting under the terms of these contracts without providing concessions to customers. In addition, we also assess whether contract modifications to an existing term arrangement constitute a concession. In making this assessment, significant analysis is performed to ensure that no concessions are given. Our software license agreements do not include right of return or exchange.

With the introduction of our aspenONE subscription offering and the changes to the licensing terms for point products licensed on a fixed-term basis, we cannot assert that the fees in these new arrangements are fixed or determinable because the rights provided to customers and the economics of the arrangements are not comparable to our historical transactions with other customers under the upfront revenue model. As a result, the amount of revenue recognized for these arrangements will be limited by the amount of customer payments currently due. For our aspenONE licenses this generally results in the fees being recognized ratably over the term of the contracts. For our point product licenses with bundled SMS, this generally results in the license fee being recognized as each payment comes due, while the allocated portion of the SMS revenue is recognized ratably over its annual term.

Collection of fee is probable We assess the probability of collecting from each customer at the outset of the arrangement based on a number of factors, including the customer's payment history, its current creditworthiness, economic conditions in the customer's industry and geographic location, and general economic conditions. If in our judgment collection of a fee is not probable, revenue is recognized as cash is collected, provided all other conditions for revenue recognition have been met.

VSOE of Fair Value for SMS and Professional Services

We have established VSOE for SMS and professional services, but not for our software products. We assess VSOE of fair value for SMS based on an analysis of standalone SMS renewals using the bell-shaped curve approach. We use the optional renewals of SMS on our legacy term license arrangements to support VSOE of fair value for SMS bundled in our fixed-term point product arrangements. The license product offerings and the SMS in the legacy term arrangements and the fixed-term point product arrangements are the same.

As we are increasingly transitioning our legacy term license customers to new point product arrangements with bundled SMS for the entire term of the arrangement and we no longer market legacy term license arrangements, we expect our population of standalone annual renewals to decrease over time. As a result, there will come a point in time where we will be unable to support VSOE of fair value of SMS in our point product arrangements based on our legacy term license SMS renewals. When this occurs, we will be required to recognize revenue related to the

license component on our point product arrangements ratably, on a subscription basis. Additionally, SMS revenue will be included as subscription revenue, in a manner similar to the current recognition of subscription arrangements under our aspenONE subscription offering. We expect the impact of a loss of VSOE of fair value for SMS to be immaterial to our results of operations, since we currently recognize license revenue on point product arrangements over the term of the arrangement, as payments become due.

Professional Services Revenue

We provide professional services on a time-and-materials or fixed-price basis. We recognize professional services fees for time-and-materials contracts based upon hours worked and contractually agreed-upon hourly rates. We recognize revenue from fixed-price engagements using the proportional performance method, based on the ratio of costs incurred, substantially all of which are labor-related, to the total estimated project costs. The use of the proportional performance method depends upon our ability to reliably estimate the direct costs to complete a project. We use historical experience as a basis for future estimates to complete current projects. Additionally, management believes that costs are the best available measure of performance. Reimbursable amounts received from customers

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for out-of-pocket expenses are recorded as revenue. If the costs to complete a project are not estimable or the completion is uncertain, the revenue is recognized upon completion of the services.

In the past, we have occasionally been required to commit unanticipated additional resources to complete projects, which have resulted in lower than anticipated income or losses on those contracts. We may experience similar situations in the future. Provisions for estimated losses on contracts are made during the period in which such losses become probable and can be reasonably estimated. To date, such losses have not been significant.

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, 2010 for a discussion of our critical accounting policies and estimates related to impairment of long-lived assets, goodwill, and intangible assets, computer software development costs, loss contingencies and accounting for income taxes.

Table of Contents**Results of Operations***Comparison of the Three and Six Months Ended December 31, 2010 and 2009*

The following table sets forth the results of operations and the period-over-period percentage change in certain financial data for the three and six months ended December 31, 2010 and 2009 (in thousands, except percentages):

| | Three Months Ended December 31, | | | Six Months Ended December 31, | | |
|---------------------------------|------------------------------------|-------------|----------|----------------------------------|-------------|----------|
| | 2010 | 2009 | % Change | 2010 | 2009 | % Change |
| Revenue: | | | | | | |
| Subscription | \$ 11,847 | \$ 1,214 | *% | \$ 21,503 | \$ 1,239 | *% |
| Software | 13,486 | 8,976 | 50.2 | 22,797 | 20,058 | 13.7 |
| Total subscription and software | 25,333 | 10,190 | 148.6 | 44,300 | 21,297 | 108.0 |
| Services and other | 24,475 | 32,496 | (24.7) | 48,608 | 61,185 | (20.6) |
| Total revenue | 49,808 | 42,686 | 16.7 | 92,908 | 82,482 | 12.6 |
| Cost of revenue: | | | | | | |
| Subscription and software | 1,972 | 1,677 | 17.6 | 4,094 | 3,450 | 18.7 |
| Services and other | 11,583 | 14,792 | (21.7) | 22,709 | 30,488 | (25.5) |
| Total cost of revenue | 13,555 | 16,469 | (17.7) | 26,803 | 33,938 | (21.0) |
| Gross profit | 36,253 | 26,217 | 38.3 | 66,105 | 48,544 | 36.2 |
| Operating expenses: | | | | | | |
| Selling and marketing | 19,954 | 23,757 | (16.0) | 40,305 | 44,309 | (9.0) |
| Research and development | 12,096 | 12,515 | (3.3) | 24,671 | 23,409 | 5.4 |
| General and administrative | 13,425 | 19,228 | (30.2) | 29,982 | 34,642 | (13.5) |
| Restructuring charges | 78 | 32 | 143.8 | 155 | 303 | (48.8) |
| Total operating expenses | 45,553 | 55,532 | (18.0) | 95,113 | 102,663 | (7.4) |
| Loss from operations | (9,300) | (29,315) | (68.3) | (29,008) | (54,119) | (46.4) |
| Interest income | 3,534 | 5,083 | (30.5) | 7,236 | 10,532 | (31.3) |
| Interest expense | (1,653) | (2,480) | (33.3) | (2,897) | (4,891) | (40.8) |
| Other (expense) income, net | (735) | (222) | 231.1 | 1,929 | 2,047 | (5.8) |
| Loss before income taxes | (8,154) | (26,934) | (69.7) | (22,740) | (46,431) | (51.0) |
| Provision for income taxes | 2,115 | 3,723 | (43.2) | 2,997 | 5,288 | (43.3) |
| Net loss | \$ (10,269) | \$ (30,657) | (66.5)% | \$ (25,737) | \$ (51,719) | (50.2)% |

*Not meaningful.

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The following table sets forth the results of operations as a percentage of net revenue in certain financial data for the three and six months ended December 31, 2010 and 2009:

| | Three Months Ended December 31, | | Six Months Ended December 31, | |
|---------------------------------|------------------------------------|---------|----------------------------------|---------|
| | 2010 | 2009 | 2010 | 2009 |
| Revenue: | | | | |
| Subscription | 23.8% | 2.8% | 23.1% | 1.5% |
| Software | 27.1 | 21.0 | 24.5 | 24.3 |
| Total subscription and software | 50.9 | 23.9 | 47.7 | 25.8 |
| Services and other | 49.1 | 76.1 | 52.3 | 74.2 |
| Total revenue | 100.0 | 100.0 | 100.0 | 100.0 |
| Cost of revenue: | | | | |
| Subscription and software | 4.0 | 3.9 | 4.4 | 4.2 |
| Services and other | 23.3 | 34.7 | 24.4 | 37.0 |
| Total cost of revenue | 27.2 | 38.6 | 28.8 | 41.1 |
| Gross profit | 72.8 | 61.4 | 71.2 | 58.9 |
| Operating expenses: | | | | |
| Selling and marketing | 40.1 | 55.7 | 43.4 | 53.7 |
| Research and development | 24.3 | 29.3 | 26.6 | 28.4 |
| General and administrative | 27.0 | 45.0 | 32.3 | 42.0 |
| Restructuring charges | 0.2 | 0.1 | 0.2 | 0.4 |
| Total operating expenses | 91.5 | 130.1 | 102.4 | 124.5 |
| Loss from operations | (18.7) | (68.7) | (31.2) | (65.6) |
| Interest income | 7.1 | 11.9 | 7.8 | 12.8 |
| Interest expense | (3.3) | (5.8) | (3.1) | (5.9) |
| Other (expense) income, net | (1.5) | (0.5) | 2.1 | 2.5 |
| Loss before income taxes | (16.4) | (63.1) | (24.5) | (56.3) |
| Provision for income taxes | 4.2 | 8.7 | 3.2 | 6.4 |
| Net loss | (20.6)% | (71.8)% | (27.7)% | (62.7)% |

Revenue

Total revenue in the second quarter and first half of fiscal 2011 increased by \$7.1 million and \$10.4 million, respectively, compared to the corresponding period of the prior year. The increase was due to higher subscription and software revenue of \$15.1 million and \$23.0 million, respectively, partially offset by lower services and other revenue of \$8.0 million and \$12.6 million, respectively.

Table of Contents**Subscription Revenue**

| | Three Months Ended December 31, | | Period-to-Period Change | | Six Months Ended December 31, | | Period-to-Period Change | |
|----------------------------|------------------------------------|----------|----------------------------|---|----------------------------------|----------|----------------------------|----|
| | 2010 | 2009 | \$ | % | 2010 | 2009 | \$ | % |
| | (Dollars in thousands) | | | | (Dollars in thousands) | | | |
| Subscription revenue | \$ 11,847 | \$ 1,214 | \$ 10,633 | * | \$ 21,503 | \$ 1,239 | \$ 20,264 | *% |
| As a percent of revenue | 23.8% | 2.8% | | | 23.1% | 1.5% | | |

*Not meaningful.

The increase in subscription revenue in the second quarter and first half of fiscal 2011 is a result of a larger base of aspenONE subscription bookings from previous quarters being recognized as revenue on a subscription basis in the current quarter. The minimal amount of subscription revenue in the second quarter and first half of fiscal 2010 was a result of subscription arrangements not being offered prior to fiscal 2010. We expect subscription revenue to continue to increase as customers renew existing contracts under our aspenONE subscription offering and subscription contracts become a more significant portion of our term license portfolio.

Software Revenue

| | Three Months Ended December 31, | | Period-to-Period Change | | Six Months Ended December 31, | | Period-to-Period Change | |
|----------------------------|------------------------------------|----------|----------------------------|-------|----------------------------------|-----------|----------------------------|-------|
| | 2010 | 2009 | \$ | % | 2010 | 2009 | \$ | % |
| | (Dollars in thousands) | | | | (Dollars in thousands) | | | |
| Software revenue | \$ 13,486 | \$ 8,976 | \$ 4,510 | 50.2% | \$ 22,797 | \$ 20,058 | \$ 2,739 | 13.7% |
| As a percent of revenue | 27.1% | 21.0% | | | 24.5% | 24.3% | | |

Of the total software revenue recorded in the second quarter of fiscal 2011, \$8.3 million related to revenue from legacy term software arrangements that was not recorded in prior periods (due to the arrangement not meeting all of the requirements for upfront revenue recognition), an increase of \$2.9 million from the second quarter of fiscal 2010; \$4.2 million related to point product arrangements with SMS included for the entire term, an increase of \$2.6 million from the second quarter of fiscal 2010; \$0.7 million related to new amendments to existing legacy term arrangements that qualified for upfront revenue recognition in the period, a decrease of \$0.9 million from the amount of upfront revenue in the second quarter of fiscal 2010; and \$0.3 million related to perpetual arrangements, a decrease of \$0.1 million from the second quarter of fiscal 2010.

Of the total software revenue recorded in the first half of fiscal 2011, \$10.9 million related to revenue from legacy term software arrangements that was not recorded in prior periods (due to the arrangement not meeting all of the requirements for upfront revenue recognition), a decrease of \$1.2 million from the first half of fiscal 2010; \$9.8 million related to point product arrangements with SMS included for the entire term, an increase of \$7.5 million from the first half of fiscal 2010; \$1.0 million related to new amendments to legacy term arrangements that qualified for upfront revenue recognition in the period, a decrease of \$4.3 million from the amount of upfront revenue in the first half of fiscal 2010; and \$1.1 million related to perpetual arrangements, an increase of \$0.7 million from the first half of fiscal 2010.

We expect legacy software revenue to continue to decrease and be replaced with subscription or point product software revenue as legacy arrangements are renewed on our new licensing models. Going forward, we anticipate that most of our software revenue will be related to term license arrangements and the revenue will be recognized over the contract term. We do not expect point products licensed on a perpetual basis to be a significant source of revenue.

Table of Contents**Services and Other Revenue**

| | | | | | | | | |
|-------------------------------|-----------|-----------|------------|---------|-----------|-----------|-------------|---------|
| Professional services revenue | \$ 7,939 | \$ 12,833 | \$ (4,894) | (38.1)% | \$ 14,602 | \$ 22,532 | \$ (7,930) | (35.2)% |
| SMS and other revenue | 16,536 | 19,663 | (3,127) | (15.9) | 34,006 | 38,653 | (4,647) | (12.0) |
| Services and other revenue | \$ 24,475 | \$ 32,496 | \$ (8,021) | (24.7)% | \$ 48,608 | \$ 61,185 | \$ (12,577) | (20.6)% |
| As a percent of revenue | 49.1% | 76.1% | | | 52.3% | 74.2% | | |

**Not meaningful.*

Professional Services Revenue

The period-over-period decreases in professional services revenue for the second quarter and first half of fiscal 2011 primarily relate to decreased customer demand for professional services and higher professional services revenue deferrals. We often compete with a number of qualified competitors when bidding for professional service contracts, particularly in developed markets where our products are well established. Having a robust network of providers that can provide professional services to support the deployment and utilization of our software is beneficial to our licensing and SMS businesses. However, this competitive environment has had an unfavorable impact on our professional services business.

Under the aspenONE subscription offering, revenue from committed professional service arrangements that are sold as a single arrangement with, or in contemplation of, a new aspenONE licensing transaction is deferred and recognized on a ratable basis over the longer of (a) the period the services are performed or (b) the term of the related software arrangement. As our typical contract term approximates five years, professional services revenue on these types of arrangements will usually be recognized over a longer period than under the upfront revenue model. We deferred an additional \$0.6 million and \$1.1 million in the second quarter and first half of fiscal 2011, respectively, related to professional services bundled with aspenONE subscription offering transactions compared to the prior year periods. We expect professional services deferred revenue related to new aspenONE licensing transactions to continue to grow in fiscal 2011 as the number of bundled transactions increase.

Additionally, during the second quarter of fiscal 2010 we recognized approximately \$3.0 million of previously deferred professional services revenue due to achieving certain project milestones. We did incur any recognition event of comparable size during the second quarter or first half of fiscal 2011.

SMS and Other Revenue

SMS and other revenue decreased for the second quarter and first half of fiscal 2011, primarily due to customers transitioning to the aspenONE subscription offering, and, to a lesser extent, the continued trend of customers electing to replace perpetual license arrangements with new term contracts. Under the aspenONE subscription offering, SMS is included in subscription revenue, whereas it was presented as services and other revenue under the upfront revenue model.

Our SMS business grew modestly during the first half of fiscal 2011 compared to the prior year period, when considering (i) the portion of SMS included in subscription revenue, (ii) perpetual renewals replaced with term-based contracts and (ii) SMS revenue, as reported within services and other revenue in the income statement.

Table of Contents*Expenses***Cost of Subscription and Software Revenue**

| | | | | | | | | | | | | | | |
|---|----|-------|----|-------|----|-----|-------|----|-------|----|-------|----|-----|-------|
| [REDACTED] | | | | | | | | | | | | | | |
| Cost of subscription and software revenue | \$ | 1,972 | \$ | 1,677 | \$ | 295 | 17.6% | \$ | 4,094 | \$ | 3,450 | \$ | 644 | 18.7% |
| Gross margin | | 92.2% | | 83.5% | | | | | 90.8% | | 83.8% | | | |

We allocate the portion of SMS costs associated with providing services on our subscription products to cost of subscription and software revenue. Prior to the introduction of the aspenONE subscription offering in fiscal 2010, none of the costs associated with providing SMS were included within the cost of subscription and software. As more customers transition to the aspenONE license model, SMS costs included in cost of subscription and software will increase.

The period-over-period increases in cost of subscription and software revenue for the second quarter and first half of fiscal 2011 were primarily due to a larger percentage of SMS services being provided to customers as part of our aspenONE subscription offering, as described above. These expense increases were partially offset by decreases in the amortization of capitalized software costs.

Cost of Services and Other Revenue

| | | | | | | | | | | | | | | |
|------------------------------------|----|--------|----|--------|----|---------|---------|----|--------|----|--------|----|---------|---------|
| [REDACTED] | | | | | | | | | | | | | | |
| Cost of services and other revenue | \$ | 11,583 | \$ | 14,792 | \$ | (3,209) | (21.7)% | \$ | 22,709 | \$ | 30,488 | \$ | (7,779) | (25.5)% |
| Gross margin | | 52.7% | | 54.5% | | | | | 53.3% | | 50.2% | | | |

Cost of Professional Services Revenue

The largest component of the reduction in cost of services and other revenue in the second quarter of fiscal 2011 pertained to our professional services business, which accounted for \$2.7 million of the period-over-period decrease. The decrease was primarily related to the reduction of staffing levels in the professional services organization and the timing of expense recognition on specific projects. We reduced our staffing levels in fiscal 2010 to better align our cost structure with the decreased demand for professional services. The cost of professional services revenue also decreased approximately \$1.0 million due to the timing of expense recognition related to two large professional service projects.

The largest component of the reduction in cost of services and other revenue in the first half of fiscal 2011 pertained to our professional services business, which accounted for \$6.9 million of the period-over-period decrease. The decrease was primarily related to the reduction of resources used for professional services projects and the timing of expense recognition on specific projects. We reduced our staffing levels in fiscal 2010 to better align our cost structure with the decreased demand for professional services. The cost of professional services revenue also decreased approximately \$2.0 million due to the timing of expense recognition related to two large professional service projects.

Cost of SMS and Other Revenue

Cost of SMS and other revenue decreased \$0.5 million and \$0.9 million in the second quarter and first half of fiscal 2011, respectively, as compared to the same periods in fiscal 2010, primarily related to the presentation of SMS costs associated with providing services on our aspenONE subscription offering. As the subscription business grows, we expect the cost of SMS revenue to continue to migrate from cost of services and other revenue to cost of subscription and software revenue. Eventually, we expect the majority of our cost of SMS revenue to be presented in cost of subscription and software revenue. We expect the reported gross profit margin of services and other revenue to decline over the next several years, as SMS revenue is reclassified to subscription revenue, since SMS revenue has a high gross profit margin relative to the other revenue streams included in services and other revenue.

Table of Contents**Selling and Marketing Expense**

| | | | | | | | | | | | | | | |
|-------------------------------|----|--------|----|--------|----|---------|---------|----|--------|----|--------|----|---------|--------|
| Selling and marketing expense | \$ | 19,954 | \$ | 23,757 | \$ | (3,803) | (16.0)% | \$ | 40,305 | \$ | 44,309 | \$ | (4,004) | (9.0)% |
| As a percent of revenue | | 40.1% | | 55.7% | | | | | 43.4% | | 53.7% | | | |

The period-over-period decrease in selling and marketing expense for the second quarter of fiscal 2011 was primarily the result of lower stock-based compensation expense of \$2.7 million and to a lesser extent, lower compensation expense, including lower commissions.

The period-over-period decrease in selling and marketing expense for the first half of fiscal 2011 was primarily the result of lower stock-based compensation expense of \$2.5 million and to a lesser extent, lower compensation expense, including lower commissions.

Research and Development Expense

| | | | | | | | | | | | | | | |
|----------------------------------|----|--------|----|--------|----|-------|--------|----|--------|----|--------|----|-------|------|
| Research and development expense | \$ | 12,096 | \$ | 12,515 | \$ | (419) | (3.3)% | \$ | 24,671 | \$ | 23,409 | \$ | 1,262 | 5.4% |
| As a percent of revenue | | 24.3% | | 29.3% | | | | | 26.6% | | 28.4% | | | |

The period-over-period decrease in research and development expense for the second quarter of fiscal 2011 was primarily the result of lower stock-based compensation expense of \$1.0 million, partially offset by higher payroll and benefit related costs.

The period-over-period increase in research and development expense for the second half of fiscal 2011 was the result of higher payroll and benefit related costs of \$2.0 million, partially offset by lower stock-based compensation expense of \$0.8 million.

General and Administrative Expense

| Three Months Ended December 31, | Period-to-Period Change | Six Months Ended December 31, | Period-to-Period Change |
|------------------------------------|----------------------------|----------------------------------|----------------------------|
|------------------------------------|----------------------------|----------------------------------|----------------------------|

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| | 2010 | 2009 | \$ | % | 2010 | 2009 | \$ | % |
|------------------------------------|------------------------|-----------|------------|---------|------------------------|-----------|------------|---------|
| | (Dollars in thousands) | | | | (Dollars in thousands) | | | |
| General and administrative expense | \$ 13,425 | \$ 19,228 | \$ (5,803) | (30.2)% | \$ 29,982 | \$ 34,642 | \$ (4,660) | (13.5)% |
| As a percent of revenue | 27.0% | 45.0% | | | 32.3% | 42.0% | | |

The period-over-period decrease in general and administrative expense for the second quarter of fiscal 2011 is primarily attributable to lower stock-based compensation of \$3.2 million, cost reductions related to consultants and contractors of \$1.4 million and lower audit and related expenses of \$1.4 million.

The period-over-period decrease in general and administrative expense for the first half of fiscal 2011 is primarily attributable to cost reductions related to consultants and contractors of \$3.8 million, lower audit and related expenses of \$3.0 million and lower stock-based compensation of \$2.7 million. These expense reductions were partially offset by higher legal and related costs of \$2.6 million and, to a lesser extent, higher payroll and benefit related expenses.

The decrease in consultants and contractors fees is the result of our effort throughout fiscal 2010 to hire full-time finance personnel to replace and further reduce our reliance on more costly external consultants. In the second quarter and first half of fiscal 2010, significant audit costs were incurred associated with the audit and filing of all of our fiscal 2009 Form 10-Q's and Form 10-K. By comparison, our second quarter and first half of fiscal 2011 audit and related expenses were for current period filings. The increase in legal fees in the first half of fiscal 2011 as compared to the same period in fiscal 2010 was due to our increased use of external legal services during the fiscal year, including services related to the Form S-1 filed during the first quarter of fiscal 2011.

Table of Contents**Restructuring Charges**

| | Three Months Ended December 31, | | Period-to-Period Change | | Six Months Ended December 31, | | Period-to-Period Change | |
|-------------------------|------------------------------------|-------|----------------------------|--------|----------------------------------|--------|----------------------------|---------|
| | 2010 | 2009 | \$ | % | 2010 | 2009 | \$ | % |
| | (Dollars in thousands) | | | | (Dollars in thousands) | | | |
| Restructuring charges | \$ 78 | \$ 32 | \$ 46 | 143.8% | \$ 155 | \$ 303 | \$ (148) | (48.8)% |
| As a percent of revenue | 0.2% | 0.1% | | | 0.2% | 0.4% | | |

There were no new restructuring events in the first half of fiscal 2011. The activity in restructuring charges for the second quarter and first half of fiscal 2011 was the result of accretion and adjustments to existing facilities-related restructuring plans.

Interest Income

| | Three Months Ended December 31, | | Period-to-Period Change | | Six Months Ended December 31, | | Period-to-Period Change | |
|-------------------------|------------------------------------|----------|----------------------------|---------|----------------------------------|-----------|----------------------------|---------|
| | 2010 | 2009 | \$ | % | 2010 | 2009 | \$ | % |
| | (Dollars in thousands) | | | | (Dollars in thousands) | | | |
| Interest income | \$ 3,534 | \$ 5,083 | \$ (1,549) | (30.5)% | \$ 7,236 | \$ 10,532 | \$ (3,296) | (31.3)% |
| As a percent of revenue | 7.1% | 11.9% | | | 7.8% | 12.8% | | |

The period-over-period decreases in interest income for the second quarter and first half of fiscal 2011 were primarily attributable to the continued decrease of our collateralized and installment receivables portfolios. We expect interest income to continue to decrease going forward.

Interest Expense

| | Three Months Ended December 31, | | Period-to-Period Change | | Six Months Ended December 31, | | Period-to-Period Change | |
|-------------------------|------------------------------------|------------|----------------------------|---------|----------------------------------|------------|----------------------------|---------|
| | 2010 | 2009 | \$ | % | 2010 | 2009 | \$ | % |
| | (Dollars in thousands) | | | | (Dollars in thousands) | | | |
| Interest expense | \$ (1,653) | \$ (2,480) | \$ 827 | (33.3)% | \$ (2,897) | \$ (4,891) | \$ 1,994 | (40.8)% |
| As a percent of revenue | (3.3)% | (5.8)% | | | (3.1)% | (5.9)% | | |

The period-over-period decreases in interest expense for the second quarter and first half of fiscal 2011 were primarily attributable to lower average secured borrowing balances, resulting from the continued pay-down of our existing secured borrowing arrangements. We expect interest expense to continue to decrease going forward.

Other (Expense) Income, Net

| | Three Months Ended December 31, | | Period-to-Period Change | | Six Months Ended December 31, | | Period-to-Period Change | |
|--------------------------------|------------------------------------|----------|----------------------------|--------|----------------------------------|----------|----------------------------|--------|
| | 2010 | 2009 | \$ | % | 2010 | 2009 | \$ | % |
| | (Dollars in thousands) | | | | (Dollars in thousands) | | | |
| Other (expense) income, net | \$ (735) | \$ (222) | \$ (513) | 231.1% | \$ 1,929 | \$ 2,047 | \$ (118) | (5.8)% |
| As a percent of revenue | (1.5)% | (0.5)% | | | 2.1% | 2.5% | | |

Other income (expense), net is comprised primarily of unrealized and realized foreign currency exchange gains and losses generated from the settlement and remeasurement of transactions denominated in currencies other than the functional currency of our operating units. The loss for the second quarter of fiscal 2011 was primarily due to currency gains due to the strengthening of the Canadian dollar and Japanese Yen against the US dollar being offset by losses recognized from the weakening of the Pound Sterling and Euro in the second quarter of fiscal 2011. The loss recorded in the second quarter of the prior fiscal year was primarily the result of the weakening of the Euro and Japanese Yen against the US dollar.

The gain for the first half of fiscal 2011 was primarily due to the currency gains due to the strengthening of the Japanese Yen, Euro, Canadian dollar, and Pound Sterling against the US dollar in the first half of fiscal 2011. The gain recorded in the first half of the prior fiscal year was primarily the result of the strengthening of the Canadian dollar, Japanese Yen, and Euro against the US dollar.

Table of Contents**Provision for Income Taxes**

| | Three Months Ended December 31, | | Period-to-Period Change | | Six Months Ended December 31, | | Period-to-Period Change | |
|-------------------------------|------------------------------------|----------|----------------------------|---------|----------------------------------|----------|----------------------------|---------|
| | 2010 | 2009 | \$ | % | 2010 | 2009 | \$ | % |
| | (Dollars in thousands) | | | | | | | |
| Provision for income taxes | \$ 2,115 | \$ 3,723 | \$ (1,608) | (43.2)% | \$ 2,997 | \$ 5,288 | \$ (2,291) | (43.3)% |
| As a percent of revenue | 4.2% | 8.7% | | | 3.2% | 6.4% | | |

The period-over-period decrease in the provision for income taxes for the second quarter of fiscal 2011 was primarily due to a decrease in the foreign provision for income taxes and a decrease in foreign withholding taxes. We made cash payments totaling \$1.7 million in the second quarter of fiscal year 2011, which were offset by cash refunds of \$0.1 million.

The period-over-period decrease in provision for income taxes for the first half of fiscal 2011 was primarily due to a decrease in the foreign provision for income taxes and a decrease in foreign withholding taxes. We made cash payments totaling \$3.0 million in the first half of fiscal year 2011, which were offset by cash refunds of \$8.0 million.

Liquidity and Capital Resources*Resources*

We have historically financed our operations with cash generated from operating activities and borrowings secured by our installment receivable contracts. As of December 31, 2010, our principal sources of liquidity consisted of \$131.6 million in cash and cash equivalents and up to \$18.8 million of borrowing capacity under our credit facility. The amount of borrowing capacity available under the credit facility varies in accordance with the terms of the agreement. We are not currently dependent upon short-term funding.

We believe our existing cash and cash equivalents and our cash flow from operating activities will be sufficient to meet our anticipated cash needs for at least the next twelve months. To the extent our cash and cash equivalents, cash flow from operating activities, and credit facility borrowing are insufficient to fund our future activities, we may need to raise additional funds through the financing of additional receivables or from public or private equity or debt financings. We also may need to raise additional funds in the event we determine in the future to effect one or more acquisitions of businesses, technologies and products. If additional funding is required, we may not be able to effect a receivable, equity or debt financing on terms acceptable to us or at all.

The following table summarizes our cash flow activities for the periods indicated (in thousands):

| | Six Months Ended | |
|--|------------------|-------------|
| | December 31, | |
| | 2010 | 2009 |
| Cash flow provided by (used in): | | |
| Operating activities | \$ 21,213 | \$ 4,646 |
| Investing activities | (2,256) | (1,857) |
| Financing activities | (12,561) | (15,407) |
| Effect of exchange rates on cash balances | 301 | (158) |
| Increase (decrease) in cash and cash equivalents | \$ 6,697 | \$ (12,776) |

Operating Activities

Cash generated by operating activities is our primary source of liquidity. Operating activities provided cash of \$21.2 million during the first half of fiscal 2011. This amount resulted from net loss of \$25.7 million, adjusted for non-cash charges of \$6.5 million and a net \$40.4 million source of cash due to decreases in operating assets and increases in operating liabilities.

Non-cash items within net loss for the first half of fiscal 2011 consisted primarily of \$5.0 million of stock-based compensation and \$2.6 million of depreciation and amortization and were offset by \$1.6 million of net unrealized foreign currency gains.

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Our cash balance increased in part due to a net \$40.4 million decrease in operating assets and increase in operating liabilities. The cash generated from this change consisted primarily of (a) decreases in installment and collateralized receivables totaling \$30.1 million, (b) an increase in deferred revenue of \$15.0 million, (c) a decrease in prepaid expenses, other assets, and prepaid income taxes of \$6.1 million, and (d) a decrease in accounts receivable of \$3.0 million. These sources of cash were partially offset by decreases in accounts payable, accrued expenses and other liabilities totaling \$15.3 million.

Looking ahead, we expect to continue to generate positive cash flow from operations. We anticipate that existing cash balances, together with funds generated from operations, will be sufficient to finance our operations and meet our cash requirements for the foreseeable future.

Investing Activities

During the first half of fiscal 2011, we used \$1.9 million of cash for capital expenditures, primarily related to computer hardware and software expenditures. We do not expect our investment in capital expenditures to be materially different from our investments in prior fiscal years. Capitalized software development costs increased \$0.1 million in the first half of fiscal 2011.

Financing Activities

During the first half of fiscal 2011 we used \$12.6 million of cash for financing activities. We made net payments on secured borrowings of \$13.7 million (\$16.2 million of repayments offset by \$2.5 million of proceeds); paid \$1.2 million for the repurchases of our common stock; paid withholding taxes of \$1.0 million on vested and settled restricted stock units; and, received proceeds of \$3.4 million from the exercise of employee stock options during the first half of fiscal 2011.

The \$13.7 million of net repayments of secured borrowings includes \$4.2 million of payments for amounts that were reported in accrued expenses and other current liabilities at June 30, 2010. The \$4.2 million represents the value of previously financed receivables from contracts that were replaced with new arrangements in the fourth quarter of fiscal 2010. Upon superseding the original arrangements, the secured borrowings collateralized by these receivables became immediately due and payable, and as such, were reclassified to current liabilities.

Although our financing arrangements do not obligate us to replace superseded receivables, the terms on which we repurchase and replace superseded receivables make it advantageous to do so. It is our intention to structure such replacements so that they do not result in a net increase in our secured borrowings balance, although this is not always possible, given the timing and size of the specific receivables involved. In the first half of fiscal 2011, the \$2.5 million of proceeds was used to replace the \$4.2 million that had been superseded in the fourth quarter of fiscal 2010 as well as other agreements superseded during the first half of fiscal 2011. This exchange was shown as both a use and source of funds related to secured borrowings on our statement of cash flows.

We did not finance any receivables to fund operations in the first half of fiscal 2011, and we have not done so since the second quarter of fiscal 2008. We expect the existing secured borrowings balances included in our consolidated balance sheet at December 31, 2010 to continue to decline during fiscal 2011 and thereafter, as we continue the trend of not replacing securitized borrowings as they are paid down. We have

continued to reduce our secured borrowings while maintaining our cash balance (in thousands):

| Consolidated Balance Sheet Data: | December 31, 2010 | June 30, 2010 |
|---|------------------------------|--------------------------|
| Cash and cash equivalents | \$ 131,642 | \$ 124,945 |
| Secured borrowings | 66,763 | 76,135 |

Credit Facility

We are party to a credit facility arrangement with Silicon Valley Bank. This arrangement was originally entered into in January 2003 and has been subsequently amended a number of times. This arrangement provides a line of credit of up to the lesser of (i) \$25.0 million or (ii) 50% to 80% of certain eligible receivables. The line of credit bears interest at the greater of (i) the bank's prime rate (4.0% at December 31, 2010) plus 0.5%, or (ii) 4.75%. If we maintain a \$10.0 million compensating cash balance with the bank, our unused line of credit fee will be 0.1875% per annum; otherwise it will be 0.375% per annum. The line of credit is collateralized by substantially all

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of our assets, and 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 in cash.

We were in compliance with the terms of the credit facility as of December 31, 2010. In November 2010, we executed an amendment to the loan arrangement that extended the maturity date of the credit facility to February 13, 2011. In the event we decide not to renew our credit facility, we will be required to cash collateralize our outstanding letters of credit.

As of December 31, 2010, there were \$4.7 million in letters of credit outstanding under the line of credit and no outstanding debt under the line of credit, and \$18.8 million was available for future borrowing. Our total borrowing through Silicon Valley Bank is limited to \$75 million. In the event that we utilize the full \$50 million available through the program, as described below, with Silicon Valley Bank, our total credit line could not exceed \$25 million.

Borrowings Collateralized by Receivable Contracts

We maintain arrangements with General Electric Capital Corporation and Silicon Valley Bank providing for borrowings that are secured by our installment and other receivable contracts, and for which limited recourse exists against us. Under these programs, we and the financial institution must agree to enter into each transaction and negotiate the amount borrowed and interest rate secured by each receivable. The customers' payments of the underlying receivables fund the repayment of the related amounts borrowed. The weighted average interest rate on the secured borrowings was 8.2% at December 31, 2010. The collateralized receivables earn interest income, and the secured borrowings accrue borrowing costs at approximately the same interest rate.

Since December 2007, we have not sold any receivables for the purpose of raising cash, but we have sold some large dollar receivables in order to fund the repurchase of several large groups of smaller receivables previously sold to the banks, for the purpose of simplifying our administration of the programs and replacing previously financed receivables that have been superseded and repurchased.

We estimate that there was approximately \$26.6 million available under the Silicon Valley Bank program at December 31, 2010. As the collection of the collateralized receivables and resulting payment of the borrowing obligation reduces the outstanding balance, the availability under the arrangement can be increased. We expect to maintain our access to cash under this arrangement.

Under the terms of these programs, we have transferred the receivables to the financial institutions with limited financial recourse to us. We can be required to repurchase the receivables under certain circumstances in case of specific defaults by us as set forth in the program terms. Potential recourse obligations are primarily related to the Silicon Valley Bank arrangement, which requires us to pay interest to Silicon Valley Bank for a limited period when the underlying customer has not paid by the receivable due date. Other than the specific items noted above, the financial institution bears the credit risk of the customers associated with the receivables the institution purchased.

Recently Adopted Accounting Pronouncements

In September 2009, the FASB issued ASU No. 2009-13 (previously Emerging Issues Task Force, or EITF, Issue No. 08-1, *Revenue Arrangements with Multiple Deliverables*). ASU No. 2009-13 superseded EITF 00-21, *Revenue Arrangements with Multiple Deliverables*, to eliminate the requirement that all undelivered elements have VSOE or third-party evidence before an entity can recognize the portion of an overall arrangement fee that is attributable to items that already have been delivered. In the absence of VSOE or third-party evidence of the standalone selling price for one or more delivered or undelivered elements in a multiple-element arrangement, entities will be required to estimate the selling prices of those elements. The overall arrangement fee will be allocated to each element (both delivered and undelivered items) based on their relative selling prices, regardless of whether those selling prices are evidenced by VSOE or third-party evidence or are based on the entity's estimated selling price. Application of the residual method of allocating an overall arrangement fee between delivered and undelivered elements will no longer be permitted upon adoption of ASU 2009-13. Additionally, the new guidance will require entities to disclose more information about their multiple-element revenue arrangements. ASU No. 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. We adopted ASU No. 2009-13 on July 1, 2010. The adoption of ASU No. 2009-13 did not have a material effect on our financial position, results of operations or cash flows.

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In September 2009, the FASB issued ASU No. 2009-14 (previously EITF 09-3, *Certain Revenue Arrangements that Include Software Elements*). ASU No. 2009-14 amends the scope of software revenue recognition to exclude tangible products that contain both software and non-software components that function together to deliver a product's essential functionality. ASU No. 2009-14 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. We adopted ASU No. 2009-14 on July 1, 2010. The adoption of ASU No. 2009-14 does not have an impact on our financial position, results of operations or cash flows.

In July 2010, the FASB issued ASU No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. ASU No. 2010-20 enhances the disclosures relating to the credit quality of financing receivables and the allowance for credit losses by requiring a greater level of disaggregated information as well as disclosure of credit quality indicators, past due information and modifications of financing receivables. The disclosures required by ASU No. 2010-20 which are as of the end of a reporting period are effective for interim and annual periods ending on or after December 15, 2010. The disclosures about activity during a period are effective for interim and annual periods beginning on or after December 15, 2010. We adopted the end of reporting period disclosure requirements of ASU No. 2010-20 on December 31, 2010. The adoption of ASU No. 2010-20 did not have a material effect on our financial position, results of operations or cash flows.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

In the ordinary course of conducting business, we are exposed to certain risks associated with potential changes in market conditions. These market risks include changes in currency exchange rates and interest rates. In order to manage the volatility of our more significant market risks, we may enter into derivative financial instruments such as forward currency exchange contracts.

Foreign Currency Exposure

Foreign currency risk arises primarily from the net difference between (a) non-U.S. dollar (non-USD) receipts from customers outside the U.S. and (b) non-USD operating costs for subsidiaries in foreign countries. We evaluate the need for hedges based on only the net exposure to foreign currencies. We measure our net exposure to each currency for which we have either cash inflows or outflows. During the second quarter and first half of fiscal 2011, our largest exposures to foreign exchange rates existed primarily with the Euro, Pound Sterling, Canadian Dollar, and Japanese Yen against the U.S. dollar. Based on the anticipated net exposures to these currencies, we believe that our foreign currency risk is not large enough to warrant hedging, and as such there were no foreign currency exchange contracts outstanding at December 31, 2010.

During the second quarter of fiscal 2011, we recorded \$0.8 million of net foreign currency exchange losses related to the settlement and remeasurement of transactions denominated in currencies other than the functional currency of our operating units. During the second quarter of fiscal 2010, the comparative foreign currency activity for similar non-functional currency denominated transactions resulted in a loss of \$0.2 million. Our analysis of operating results transacted in various foreign currencies indicated that a hypothetical 10% change in the foreign currency exchange rates could have increased or decreased the consolidated results of operations for the second quarter of fiscal 2011 by approximately \$0.8 million.

During the first half of fiscal 2011, we recorded \$1.9 million of net foreign currency exchange gains related to the settlement and remeasurement of transactions denominated in currencies other than the functional currency of our entities. During the first half of fiscal 2010, the comparative foreign currency activity for similar non-functional currency denominated transactions resulted in a gain of \$2.0 million. Our analysis of operating results transacted in various foreign currencies indicated that a hypothetical 10% change in the foreign currency exchange rates could have increased or decreased the consolidated results of operations for the first half of fiscal 2011 by approximately \$1.5 million.

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

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losses, as our investments consist primarily of money market accounts. At December 31, 2010, all of the instruments in our investment portfolio were included in cash and cash equivalents.

Item 4. Controls and Procedures

a) Disclosure 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 December 31, 2010. 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. Based on the evaluation of our disclosure controls and procedures as of December 31, 2010, and due to the material weaknesses in our internal control over financial reporting described in our accompanying *Management's Report on Internal Control over Financial Reporting*, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were not effective.

b) Changes in Internal Control Over Financial Reporting

During the quarter ended December 31, 2010, no changes other than those in conjunction with certain remediation efforts described below, were identified to our internal control over financial reporting that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

c) Remediation Efforts

In the second quarter of fiscal 2011, we continued to implement the following measures that we initiated in fiscal 2010 to improve our internal controls over the financial reporting process. We plan to further enhance these measures in the last half of fiscal 2011.

- Redesigned our tax accounting function, process and related controls to ensure that our accounting for income taxes and related disclosures can be completed accurately and in a timely manner; and

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- Reviewed our professional services business processes, redesigned and documented critical procedures and controls, in order to:
- Enhance presale review to help ensure that reliable revenue accounting determinations are provided in a timely manner;
- Enhance management monitoring of project status to ensure that all data that has revenue recognition impact are available and reviewed for the purpose of recording professional services revenue completely, accurately and in a timely manner;
- Ensure that multiple-element arrangements where services are bundled with a license or other services arrangements are properly accounted for; and
- Automate project accounting to have appropriately designed system configuration controls to ensure that data and reports generated from the system can be relied upon for the purpose of accurately and timely recording revenue in accordance with GAAP.

d) Remediation Plans

We have made no significant changes in our remediation plans during the quarter ended December 31, 2010 that could materially affect, or are reasonably likely to materially affect, our internal control over financial reporting. For further information with regard to our Remediation Plans, please refer to Item 9A of our Annual Report on Form 10-K for the fiscal year ended June 30, 2010.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

ATME Arbitration and Litigation

Prior to October 6, 2009, we had an exclusive reseller relationship covering certain countries in the Middle East with AspenTech Middle East W.L.L., a Kuwaiti corporation (now known as Advanced Technology Middle East W.L.L.) that we refer to below as ATME. Under the reseller agreement, we had the right to terminate for, among other things, a material breach in the event of ATME's willful misconduct or fraud. Effective October 6, 2009, we terminated the reseller relationship for material breach by ATME based on certain actions of ATME.

On November 2, 2009, ATME commenced an action in the Queen's Bench Division (Commercial Court) of the High Court of Justice (England & Wales) captioned In The Matter Of An Intended Arbitration Between AspenTech Middle East W.L.L. and Aspen Technology, Inc., 2009 Folio 1436, seeking preliminary injunctive relief restraining us from taking any steps to impede ATME from serving as our exclusive reseller in the countries covered by the reseller agreement with ATME. We filed evidence in opposition to that request for relief on November 12, 2009. At a hearing on November 13, 2009, the court dismissed ATME's application for preliminary injunctive relief. The court sealed an Order to this effect on November 23, 2009, and further ordered that ATME pay our costs of claim.

Relatedly, on November 11, 2009, we filed a request for arbitration against ATME in the International Court of Arbitration of the International Chamber of Commerce, captioned Aspen Technology, Inc. v. AspenTech Middle East W.L.L., Case No. 16732/VRO. Our request for arbitration asserted claims against ATME seeking a declaration that ATME committed a material breach of our agreement and that our termination of our agreement was lawful, and seeking damages for ATME's willful misconduct in connection with the reseller relationship. On November 18, 2009, ATME filed its answer to that request for arbitration and asserted counterclaims against us seeking a declaratory judgment that we unlawfully terminated our agreement with ATME and seeking damages for breach of contract by reason of our purported unlawful termination of our agreement. Our reply to those counterclaims was filed on December 18, 2009. Pursuant to a procedural order issued by the arbitral tribunal, a hearing was conducted between January 24, 2011 and February 2, 2011, and a supplemental hearing is to be scheduled in June 2011.

We expect a determination to be made in the second half of fiscal 2011 with respect to the pending arbitration. However, we can provide no assurance as to the actual timing or outcome of the arbitration. In general, neither party will have the ability to appeal the determination reached. Regardless of the outcome, the proceedings may result 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. The reseller agreement with ATME contained a provision whereby we could be liable for a termination fee if the agreement were terminated other than for material breach. This fee is to be calculated based on a formula contained in the reseller agreement that we believe was originally developed based on certain assumptions about the future financial performance of ATME, as well as ATME's actual financial performance. Based on the formula and the financial information provided to us by ATME, which we have not yet verified independently, a recent calculation based on the formula would result in a termination fee of between \$60 million and \$77 million. Under the terminated reseller agreement, no termination fee is owed on termination for material breach. If we are found to have breached the terms of our agreement with ATME, we could be liable for the termination fee, the amount of which may be greater or less than the number indicated above. If we are found liable, we would incur damages that could have a material adverse effect on our cash flow and cash position. We intend to pursue our claims against ATME, and to defend the counterclaim by ATME, vigorously.

On March 11, 2010, a Kuwaiti entity (known as ATME Group and affiliated with ATME) filed a lawsuit in a Kuwaiti court naming as defendants ATME, us and a reseller newly appointed by us in Kuwait. In this lawsuit, ATME Group claims that it was an exclusive reseller for ATME in Kuwait and that it therefore is entitled to damages resulting from purported customer contracts in Kuwait. We intend to defend this action vigorously.

Class Action and Opt-out Claims

In March 2006, we settled class action litigation, including related derivative claims, arising out of our originally filed consolidated financial statements for fiscal 2000 through 2004, the accounting for which we restated in March 2005. Certain members of the class (representing 1,457,969 shares of common stock (or less than 1% of the shares putatively purchased during the class action period)) opted out of the settlement and had the right to bring

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their own state or federal law claims against us, referred to as opt-out claims. Opt-out claims were filed on behalf of the holders of approximately 1.1 million of such shares. All but one of these actions were settled and/or dismissed. The remaining action is discussed below.

380544 Canada, Inc., et al. v. Aspen Technology, Inc., was filed on February 15, 2007 in the federal district court for the Southern District of New York and docketed as Civ. A. No. 1:07-cv-01204-JFK in that court. The claims in this action include claims against us and one or more of our former officers alleging securities and common law fraud, breach of contract, 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. This action was brought by persons who purchased 566,665 shares of our common stock in a private placement. Certain motions to dismiss filed by other defendants were resolved on May 5, 2009. The claims in the 380544 Canada action are for damages totaling at least \$4.0 million, not including claims for attorneys' fees. We plan to defend the 380544 Canada action vigorously.

We can provide no assurance as to the outcome of this case 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.

Other Proceedings

In the ordinary course of business, we are also from time to time involved in lawsuits, claims, investigations, proceedings, and threats of litigation consisting of intellectual property, commercial and other matters. 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.

While the outcome of these proceedings and claims identified above cannot be predicted with certainty, there are no other matters, as of December 31, 2010, that, in the opinion of management, might have a material adverse effect on our financial position, results of operations or cash flows.

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 following risks actually occurs, 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 your investment in our common stock.

Risks Related to Our Business

We depend on our aspenONE software for a substantial portion of our revenue, and our business will suffer if demand for, or usage of, our software declines for any reason or if existing customers do not renew under our aspenONE subscription offering.

Our aspenONE suites account for a significant majority of our license revenue and will continue to do so for the foreseeable future. If demand for, or usage of, our software declines for any reason or if existing customers do not renew under our aspenONE subscription offering, our revenue would decline and our operating results would suffer. As a result, our revenue could be adversely affected by:

- any decline in demand for or usage of our aspenONE suites;

- the failure of our aspenONE suites to achieve continued market acceptance;

- the introduction of products and technologies that serve as a replacement or substitute for, or represent an improvement over, our aspenONE suites;

- technological innovations that our aspenONE suites do not address; and

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- our inability to release enhanced versions of our aspenONE suites on a timely basis.

In July 2009 we introduced our aspenONE subscription offering under which we recognize license revenue over the term of a license contract. Our future success depends substantially on our customers' acceptance of our aspenONE subscription offering. We are not able to predict the rate at which customers will renew under our aspenONE subscription offering and therefore cannot predict the timing or amount of our future revenue or profitability. If customers fail to renew under our aspenONE subscription offering, we may lose customers, which would negatively impact our financial performance. We intend to expend significant resources to continue to improve our aspenONE solutions and to train our customers in using our solutions, but the successful development of our aspenONE subscription offering cannot be predicted and we cannot guarantee we will succeed in these goals. Furthermore, customers may elect to continue to purchase our applications on a point product basis, which could limit our ability to grow our business successfully.

Our revenue and net income for fiscal 2010 and the first half of fiscal 2011 were, and for the foreseeable future will be, adversely affected by the transition to our aspenONE subscription offering.

Our aspenONE subscription offering, which we introduced in July 2009, provides customers with access to all of the applications within the aspenONE suite or suites they license and includes software maintenance and support, or SMS, for the term of the license contract. Prior to July 2009 we primarily recognized license revenue upfront, upon shipment of software, on a net present value basis in the period in which a license contract was signed, not over the license term.

As a result of the transition to our aspenONE subscription offering and the inclusion of SMS for the entire term of our point product arrangements, our revenue for 2010 and the first half of fiscal 2011 was significantly less than the level achieved in the preceding years and we expect our license revenue will remain below that level for several more years. Our aspenONE subscription offering makes it difficult for us to increase our license revenue rapidly through additional bookings in a period, as license revenue from new customers will be recognized over the applicable license term. Similarly, the full effect of a decline in bookings in any period would not be fully recognized in our revenue for that period, but would negatively affect revenue in subsequent quarters. Moreover, the marked decrease in revenue levels following our introduction of our aspenONE subscription offering will not result in, or be accompanied by, a corresponding reduction in operating expenses. As a result, the change to our aspenONE subscription offering will result in our reporting not only significantly lower revenue but also large operating losses for at least the near term and potentially several years. A number of the measures of financial performance calculated in accordance with U.S. generally accepted accounting principles, or GAAP, and typically considered by investors for technology companies like ours will be of limited value in assessing our performance, growth and financial condition for the foreseeable future. Our announcement of GAAP-based operating results, as well as our lack of visibility into future operating results, may have a significant adverse effect on the price of our common stock.

In preparing our consolidated financial statements, our management identified two material weaknesses in our internal control over financial reporting, and our failure to remedy these or other material weaknesses identified as of December 31, 2010 could result in material misstatements in our financial statements and the loss of investor confidence in our reported financial information.

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 two material weaknesses in our internal control over financial reporting as of December 31, 2010. 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 December 31, 2010 consisted of inadequate and ineffective controls over income tax accounting and disclosure and controls over the recognition of professional services revenue. As a result of these material weaknesses, our management concluded as of September 30, 2010 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 - An Integrated Framework* (September 1992).

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We have been implementing and continue to implement remedial measures designed to address these material weaknesses. We cannot be certain that the measures we have taken are effective or will ensure that restatements will not occur in the future. 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, our consolidated financial statements may contain material misstatements and we could be required to restate our financial results.

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 and plan to take in the future 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, in the future 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.

Arbitration and litigation involving a former reseller in the Middle East may subject us to substantial damages and expenses.

Prior to October 6, 2009, we had an exclusive reseller relationship covering certain countries in the Middle East with AspenTech Middle East W.L.L., a Kuwaiti corporation (now known as Advanced Technology Middle East W.L.L.) that we refer to below as ATME. Under the reseller agreement, we had the right to terminate for, among other things, a material breach in the event of ATME's willful misconduct or fraud. Effective October 6, 2009, we terminated the reseller relationship for material breach by ATME, based on certain actions of ATME.

On November 2, 2009, ATME commenced an action in the Queen's Bench Division (Commercial Court) of the High Court of Justice (England & Wales) captioned In The Matter Of An Intended Arbitration Between AspenTech Middle East W.L.L. and Aspen Technology, Inc., 2009 Folio 1436, seeking preliminary injunctive relief restraining us from taking any steps to impede ATME from serving as our exclusive reseller in the countries covered by the reseller agreement with ATME. We filed evidence in opposition to that request for relief on November 12, 2009. At a hearing on November 13, 2009, the court dismissed ATME's application for preliminary injunctive relief. The court sealed an Order to this effect on November 23, 2009, and further ordered that ATME pay our costs of claim.

Relatedly, on November 11, 2009, we filed a request for arbitration against ATME in the International Court of Arbitration of the International Chamber of Commerce, captioned Aspen Technology, Inc. v. AspenTech Middle East W.L.L., Case No. 16732/VRO. Our request for arbitration asserted claims against ATME seeking a declaration that ATME committed a material breach of our agreement and that our termination of our agreement was lawful, and seeking damages for ATME's willful misconduct in connection with the reseller relationship. On November 18, 2009, ATME filed its answer to that request for arbitration and asserted counterclaims against us seeking a declaratory judgment that we unlawfully terminated our agreement with ATME and seeking damages for breach of contract by reason of our purported unlawful termination of our agreement. Our reply to those counterclaims was filed on December 18, 2009. Pursuant to a procedural order issued by the arbitral tribunal, a hearing was conducted between January 24, 2011 and February 2, 2011, and a supplemental hearing is to be scheduled in June 2011.

We expect a determination to be made in the second half of fiscal 2011 with respect to the pending arbitration. However, we can provide no assurance as to the actual timing or outcome of the arbitration. In general, neither party will have the ability to appeal the determination reached. Regardless of the outcome, the proceedings may result 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. The reseller agreement with

ATME contained a provision whereby we could be liable for a termination fee if the agreement were terminated other than for material breach. This fee is to be calculated based on a formula contained in the reseller agreement that we believe was originally developed based on certain assumptions about the future financial performance of ATME, as well as ATME's actual financial performance. Based on the formula and the financial information provided to us by ATME, which we have not yet verified independently, a recent calculation based on the formula would result in a termination fee of between \$60 million and \$77 million. Under the terminated reseller agreement, no termination fee is owed on termination for material breach. If we are found to have breached the terms of our agreement with

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ATME, we could be found liable for the termination fee, the amount of which may be greater or less than the number indicated above. If we are found liable, we would incur damages that could have a material adverse effect on our cash flow and cash position.

On March 11, 2010, a Kuwaiti entity (known as ATME Group and affiliated with ATME) filed a lawsuit in a Kuwaiti court naming as defendants ATME, us and a reseller newly appointed by us in Kuwait. In this lawsuit, ATME Group claims that it was an exclusive reseller for ATME in Kuwait and that it therefore is entitled to damages resulting from purported customer contracts in Kuwait.

Our operating results may suffer if customers in the energy, chemicals, engineering and construction, or pharmaceutical industries experience an economic downturn or other adverse events.

We derive a majority of our revenue from companies in the energy, chemicals, engineering and construction, and pharmaceutical industries. Accordingly, our future success depends upon the continued demand for process optimization software and related services by companies in these process industries. These industries are highly cyclical and highly reactive to the price of oil, as well as general economic conditions. Adverse changes in these industries could and have caused delays and reductions in information technology spending by our customers, which could lead to reductions, delays, postponements or cancellations of customer purchases of our products and services, particularly the aspenONE Manufacturing and Supply Chain suite, and in turn could negatively impact our operating results.

Because of the nature of their products and manufacturing processes, companies in these process industries are subject to heightened risk of adverse or even catastrophic environmental, safety and health accidents or incidents. Further, our customers are often subject to ever-changing standards and regulations, and the global nature of their operations can subject them to numerous regulatory regimes. Legislation or regulations regarding these areas may require us to make rapid changes in our products and services, and our inability to effect those changes could adversely impact our revenue, operating margins and other operating results. Any of the foregoing types of events that affects our customers may adversely impact their operations and information technology spending, which could have an adverse effect on our operating results.

In addition, in the past, worldwide economic downturns and pricing pressures experienced by energy, chemical, pharmaceutical and other process industries 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.

In addition, as the global economy deteriorated in 2009 and into 2010, some of our customers elected to change from paying for term licenses upfront to paying in installments over the contract term, which deferred our receipt of cash from those customers. 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. There is no assurance that customers may not seek bankruptcy or other similar relief from creditors, fail to pay amounts due to us, or pay those amounts more slowly, any of which could adversely affect our results of operations.

Unfavorable economic and market conditions or a lessening demand in the market for process optimization software could adversely affect our operating results.

Our business is influenced by a range of factors that are beyond our control and difficult or impossible to predict. If the market for process optimization software grows more slowly than we anticipate, demand for our products and services could decline and our operating results could be impaired. Further, the state of the economy, which deteriorated in the recent broad recession, may deteriorate further in the future. Our operating results may be adversely affected by unfavorable global economic and market conditions as well as a lessening demand for process optimization software generally. Customer demand for our products is intrinsically linked to the strength of the economy. If weakness in the economies of the United States and other countries persists, many customers may delay or reduce technology purchases. This could result in reductions in sales of our products, longer sales cycles, slower adoption of new technologies, increased price competition or reduced use of our products by our customers. We will lose revenue if demand for our products is reduced because potential customers experience weak or deteriorating economic conditions, catastrophic environmental or other events and our business, results of operations, financial condition and cash flow from operations would likely be adversely affected.

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The majority of our revenue and an increasing percentage of our operations are attributable to operations outside the United States, and our operating results therefore may be materially affected by the economic, political, regulatory and other risks of foreign operations.

As of December 31, 2010, we had 28 offices in 24 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.

Customers outside the United States accounted for a significant amount of our total revenue in fiscal 2010 and 2009. We anticipate that revenue from customers outside the United States will continue to account for a significant portion of our total revenue 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 and possible nationalization of property by governments without compensation to the owners;
- less effective protection of intellectual property;
- requirements of foreign laws and other governmental controls;
- 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;
- adverse tax consequences; and

- the challenges of handling legal disputes in foreign jurisdictions.

Competition from software offered by current competitors and new market entrants, as well as from internally developed solutions by our customers, 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.

Our markets in general are highly competitive and differ among our principal product areas: engineering, manufacturing, and supply chain management. Our engineering software competes with products of businesses such as ABB Ltd., Chemstations, Inc., Honeywell International, Inc., Invensys plc, KBC Advanced Technologies plc, and Shell Global Solutions International BV. Our manufacturing software competes with products of companies such as ABB Ltd., Honeywell International, Inc., Invensys plc, OSIsoft, Inc., Rockwell Automation, Inc., Siemens AG and Yokogawa Electric Corporation. Our supply chain management software competes with products of companies such as JDA Software Group, Inc., Oracle Corporation and SAP AG. In addition, we face challenges in selling our solutions to 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. We believe they also have adopted and may continue to pursue more aggressive pricing policies and make more attractive offers to potential customers, employees and strategic partners. For example, some competitors may be able to initiate relationships through sales and installations of hardware and then seek to expand their customer relationships by offering process optimization software at a discount. 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

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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, enhance existing products and services, or penetrate new vertical markets, we will be unable to implement our growth strategy successfully and our business could be seriously harmed.

The maintenance and extension of our market leadership and our future growth is largely dependent upon our ability to develop new software products that achieve market acceptance with acceptable operating margins. Enterprises are requiring their application software vendors to provide greater levels of functionality and broader product offerings. 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. If we fail to introduce new products that meet the demands of our customers or our target markets, or if we fail to penetrate new vertical markets in the process industries, our revenue will likely grow at a slower rate than we anticipate and our financial condition could suffer.

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. 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 claims for substantial damages against us.

We are subject to a number of lawsuits and disputes arising out of the conduct of our business.

We are subject to a number of lawsuits and disputes arising out of the conduct of our business. Resolution of these matters can be prolonged and costly, and the ultimate results or judgments are uncertain due to the inherent uncertainty in litigation and other proceedings. Moreover, our potential liabilities are subject to change over time due to new developments, changes in settlement strategy or the impact of evidentiary requirements, and we may be

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required to pay damage awards or settlements that could have a material adverse effect on our results of operations, cash flows and financial condition.

In March 2006, we settled class action litigation, including related derivative claims, arising out of our originally filed consolidated financial statements for fiscal 2000 through 2004, the accounting for which we restated in March 2005. Certain members of the class (representing 1,457,969 shares of common stock, or less than 1% of the shares putatively purchased during the class action period) opted out of the settlement and had the right to bring their own state or federal law claims against us, referred to as opt-out claims. Opt-out claims were filed on behalf of the holders of approximately 1.1 million of such shares. All but one of these actions were settled and/or dismissed. The remaining action is discussed below.

380544 Canada, Inc., et al. v. Aspen Technology, Inc., was filed on February 15, 2007 in the federal district court for the Southern District of New York and docketed as Civ. A. No. 1:07-cv-01204-JFK in that court. The claims in this action include claims against us and one or more of our former officers alleging securities and common law fraud, breach of contract, 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. This action was brought by persons who purchased 566,665 shares of our common stock in a private placement. Certain motions to dismiss filed by other defendants were resolved on May 5, 2009. The claims in the 380544 Canada action are for damages totaling at least \$4.0 million, not including claims for attorneys' fees. We plan to defend the 380544 Canada action vigorously.

We can provide no assurance as to the outcome of this case 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 subject to significant expenses and damages because of pending liability claims and other 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 and supply chain management, 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 failures of our software could result in significant liability to us for damages or for violations of environmental, safety and other laws and regulations. Our software products and implementation services could give rise to warranty and other claims. We 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 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.

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

Some of our scheduling, production management and execution, and supply chain products must integrate with the existing computer systems and software programs of our customers. This process can be complex, time-consuming and expensive. As a result, some customers may have difficulty in implementing those products or be unable to implement them successfully or otherwise achieve the products' potential benefits. Delayed or ineffective implementation of those software products or related services may limit our revenue or may result in customer dissatisfaction, harm to our reputation and customer unwillingness to pay the fees associated with these products.

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We may suffer losses on fixed-price professional service engagements.

We undertake a portion of our professional service engagements on a fixed-price basis. Under these types of engagements, we bear the risk of cost overruns and inflation. In the past we have experienced cost overruns, which on occasion have been significant. Should the number of our fixed-price engagements increase in the future, we may experience additional cost overruns that could have a pronounced impact on our operating results.

Fluctuations in foreign currency exchange rates could result in declines in our reported revenue and operating results.

In the first half of fiscal 2011, 21.5% of our total revenue was denominated in a currency other than the U.S. dollar. In addition, certain of our operating expenses incurred outside the United States are denominated in currencies other than the U.S. dollar. Our reported revenue and operating results are subject to fluctuations in foreign exchange rates. Foreign currency risk arises primarily from the net difference between non-U.S. dollar receipts from customers outside the United States and non-U.S. dollar operating expenses for subsidiaries in foreign countries. Currently, our largest exposures to foreign exchange rates exist primarily with the Euro, Pound Sterling, Canadian dollar and Japanese Yen against the U.S. dollar. Over recent months, the value of foreign currencies against the U.S. dollar has fluctuated dramatically. Since late fiscal 2008, we have not entered into derivative financial instruments, such as forward currency exchange contracts, intended to manage the volatility of these market risks. We cannot predict the impact of foreign currency fluctuations, and foreign currency fluctuations in the future may adversely affect our revenue and operating results. Any hedging policies we may implement in the future may not be successful, and the cost of those hedging techniques may have a significant negative impact on our operating results.

If we fail to comply or are deemed to have failed to comply, with our ongoing Federal Trade Commission, or FTC, consent decree, our business may suffer.

In December 2004, we entered into a consent decree with the 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 July 2009, we announced that the FTC closed an investigation relating to the alleged violations of the decree, and issued an order modifying the consent decree, which became final in August 2009. We are subject to ongoing compliance obligations under the FTC consent decree. There is no assurance that the actions required by the FTC's modified order and related settlement with Honeywell will not require significant attention and resources of management, which could have a material adverse effect on our business. Further, if we fail to comply, or are deemed to have failed to comply, with such consent decree, our business may suffer.

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. Our strategy is to rely on a combination of copyright, patent, trademark and trade secret laws in the United States and other jurisdictions, and to rely on license and confidentiality agreements and software security measures to further protect our proprietary technology and brand. We have obtained or applied for patent protection with respect to some of our intellectual property, but generally do not rely on patents as a principal means of protecting our intellectual property. We have registered or applied to register some of our trademarks in the United States and in selected other countries. We generally enter into non-disclosure agreements with our employees and customers, and historically have restricted third-party access to our software source code and licenses, which we regard as proprietary

information. In certain cases, we have provided copies of source code to customers for the purpose of special product customization or have deposited copies of the source code 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. Our intellectual property rights may expire or be challenged, invalidated or infringed upon by third parties or we may be unable to maintain, renew or enter into new licenses on commercially reasonable terms. Any misappropriation of our technology or development of competitive technologies could harm our business and could diminish or cause us to lose the competitive advantages associated with our proprietary technology, and could

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subject us to substantial costs in protecting and enforcing our intellectual property rights and/or temporarily or permanently disrupt our sales and marketing of the affected products or services. The laws of some countries in which our products are licensed do not protect our intellectual property rights to the same extent as the laws of the United States. Moreover, in some non-U.S. countries, laws affecting intellectual property rights are uncertain in their application, which can affect the scope of enforceability of our intellectual property rights.

Third-party claims that we infringe 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. 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.

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 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.

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. 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.

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.

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We expect that our current cash and cash equivalents and cash flows from operations 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 revenue, 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 receivables, 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

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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 stockholder percentage ownership of our common stock. Furthermore, any new securities we issue may have rights, preferences and privileges superior to our common stock. Capital raised through debt financings may require us to make periodic interest and principal payments and may impose potentially restrictive covenants on the conduct of our business.

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 often have been unrelated to the operating performance of particular companies. In addition, factors such as our aspenONE subscription offering, our financial performance, announcements of technological innovations or new products by us or our competitors, and 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 that company. This type of litigation against us could result in substantial liability and costs and divert management's attention and resources.

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 the 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 the board to make, alter or repeal our by-laws; and
- the ability of the board 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.

Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

The following table provides information about purchases by us during the quarter ended December 31, 2010 of shares of our common stock.

ISSUER PURCHASES OF EQUITY SECURITIES

| Period | (a) Total Number of Shares Purchased(1) | (b) Average Price Paid per Share) | (c) Total Number of Shares Purchased as Part of Publicly Announced Program(2) | (d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program |
|------------------------|--|--|--|---|
| November 2 to 30, 2010 | | | | |
| December 1 to 31, 2010 | 96,230 | \$ 12.90 | 96,230 | |
| Totals | 96,230 | \$ 12.90 | 96,230 | \$ 38,758,000 |

(1) We repurchased an aggregate of 96,230 shares of our common stock pursuant to the repurchase program that we publicly announced on November 2, 2010 (the Program).

(2) The board of directors approved the repurchase by us of shares of our common stock having a value of up to \$40,000,000 in the aggregate pursuant to the Program. The Program has an expiration date of October 31, 2011.

Table of Contents**Item 6. Exhibits.**

| Exhibit Number | Description | Filed with this Form 10-Q | Form | Incorporated by Reference Filing Date with SEC | Exhibit Number |
|-----------------------|--|----------------------------------|-------------|---|-----------------------|
| 10.1 | Twenty-first Amendment dated June 7, 2010 to Non-Recourse Receivables Purchase Agreement dated December 31, 2003 between Silicon Valley Bank and Aspen Technology, Inc. | X | | | |
| 10.2 | Twenty-second Amendment dated December 7, 2010 to Non-Recourse Receivables Purchase Agreement dated December 31, 2003 between Silicon Valley Bank and Aspen Technology, Inc. | X | | | |
| 10.3 | Twenty-ninth Loan Modification Agreement dated November 15, 2010 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 Principal Executive Officer pursuant to Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | X | | | |
| 31.2 | Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | X | | | |
| 32.1 | Certification of President and Chief Executive Officer and Executive Vice President 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 | | | |

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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 8, 2011

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

Date: February 8, 2011

By: **/s/ MARK P. SULLIVAN**
Mark P. Sullivan
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Table of Contents**EXHIBIT INDEX**

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