

ASPEN TECHNOLOGY INC /DE/
Form 10-K/A
March 15, 2005

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Amendment No. 1
FORM 10-K/A**

**FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO
SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

(Mark One)

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

For the fiscal year ended June 30, 2004.

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: 0-24786

Aspen Technology, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

04-2739697
(I.R.S. Employer
Identification Number)

Ten Canal Park
Cambridge, Massachusetts
(Address of Principal Executive Offices)

02141
(Zip Code)

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

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Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common stock, \$0.10 par value per share

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

As of December 31, 2004, the aggregate market value of common stock (the only outstanding class of common equity of the Registrant) held by nonaffiliates of the Registrant was \$260,711,927, based on a total of 41,982,597 shares of common stock held by nonaffiliates and on a closing price of \$6.21 on December 31, 2004 for the common stock as reported on the Nasdaq National Market.

As of March 10, 2005, 42,746,227 shares of common stock were outstanding.

EXPLANATORY NOTES

This Amendment No. 1 on Form 10-K/A to our Annual Report on Form 10-K for the fiscal year ended June 30, 2004, originally filed with the United States Securities and Exchange Commission (SEC) on September 13, 2004, is being filed for the purpose of restating our consolidated balance sheets as of June 30, 2003 and 2004 and consolidated statements of operations, statements of stockholders' equity and comprehensive income (loss), statements of cash flows and related disclosures for the years ended June 30, 2002, 2003 and 2004. See Note 18 to the Consolidated Financial Statements for a discussion of the restatement. Items 6, 7, 8, 9A and 15 have been updated for the effects of the restatement and are included in this Amendment No. 1.

This Amendment No. 1 on Form 10-K/A has not been updated for events occurring after the filing of the original Annual Report on Form 10-K on September 13, 2004, except (1) to reflect the restatement as described above and (2) to reflect certain subsequent events that are relevant to the reader.

We have not amended our Annual Reports on Form 10-K for the fiscal years ended June 30, 1999, 2000, 2001, 2002, or 2003, or our Quarterly Reports on Form 10-Q for the quarterly periods included in these fiscal years, that reflect the effects of the restatement. The information that has been previously filed or otherwise reported for these periods is superseded by the information in this Form 10-K/A, and the financial statements and related financial information contained in such annual and quarterly reports should not be relied upon.

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PART II

Item 6. *Selected Financial Data*

The following selected consolidated financial data have been derived from our consolidated financial statements. All financial information set forth below reflects the restatement of our financial statements as discussed in Note 18 of the Notes to Consolidated Financial Statements. The restatement also affects periods prior to 2002 and, accordingly, we have restated our selected consolidated financial data for fiscal years 2000 and 2001. This data should be read in conjunction with the Consolidated Financial Statements and Notes thereto, and "Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations."

The consolidated statement of operations data for the years ended June 30, 2002, 2003 and 2004 and the consolidated balance sheet data as of June 30, 2003 and 2004 are derived from financial statements audited by Deloitte & Touche LLP.

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Year Ended June 30,

	2000 As Restated ⁽¹⁾	2001 As Restated ⁽¹⁾	2002 As Restated ⁽²⁾	2003 As Restated ⁽²⁾	2004 As Restated ⁽²⁾
(In thousands, except per share data)					
Consolidated Statement of Operations Data:					
Revenues:					
Software licenses	\$ 125,927	\$ 134,952	\$ 136,377	\$ 162,354	\$ 158,661
Service and other	135,143	179,445	186,005	184,102	174,335
Total revenues	261,070	314,397	322,382	346,456	332,996
Cost of revenues:					
Cost of software licenses	9,605	11,856	11,830	13,916	15,577
Cost of service and other	85,193	115,795	118,772	106,868	99,183
Amortization of technology related intangible assets	1,225	2,926	5,042	8,219	7,270
Impairment of technology related intangible and computer software development assets			1,169	8,704	3,250
Total cost of revenues	96,023	130,577	136,813	137,707	125,280
Gross profit	165,047	183,820	185,569	208,749	207,716
Operating costs:					
Selling and marketing	91,863	113,808	114,755	105,879	100,028
Research and development	51,567	69,138	74,176	65,143	58,955
General and administrative	24,292	28,238	29,673	29,644	32,727
Costs related to acquisitions	1,547				
Long-lived asset impairment charges				105,543	967
Restructuring charges and FTC legal costs		6,969	14,914	41,080	20,085
Charges for in-process research and development		9,915	14,900		
Loss (gain) on sales and disposals of assets	(4)	99	(346)	(52)	(879)
Total operating costs	169,265	228,167	248,072	347,237	211,883
Income (loss) from operations	(4,218)	(44,347)	(62,503)	(138,488)	(4,167)
Interest income	9,847	10,075	6,209	8,191	7,296
Interest expense	(5,563)	(5,469)	(5,591)	(7,132)	(4,940)
Write-off of investments		(5,000)	(8,923)		
Foreign currency exchange gain (loss)	(118)	(81)	(1,424)	(195)	252
Income (loss) before provision for (benefit from) income taxes and equity in earnings from joint ventures	(52)	(44,822)	(72,232)	(137,624)	(1,559)
(Provision for) benefit from income taxes	(3,174)	7,164	(3,599)	(1,076)	(19,896)
Equity in earnings from joint ventures		849	(166)	(514)	(351)
Net income (loss)	(3,226)	(36,809)	(75,997)	(139,214)	(21,806)
Accretion of preferred stock discount and dividend			(6,301)	(9,184)	(6,358)

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Year Ended June 30,

Net income (loss) applicable to common stock holders	\$	(3,226)	\$	(36,809)	\$	(82,298)	\$	(148,398)	\$	(28,164)
Diluted net income (loss) per share	\$	(0.11)	\$	(1.23)	\$	(2.55)	\$	(3.86)	\$	(0.69)
Basic net income (loss) per share	\$	(0.11)	\$	(1.23)	\$	(2.55)	\$	(3.86)	\$	(0.69)
Weighted average shares outstanding diluted		28,221		29,941		32,308		38,476		40,575
Weighted average shares outstanding basic		28,221		29,941		32,308		38,476		40,575

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June 30,

	2000 As Restated ⁽¹⁾	2001 As Restated ⁽¹⁾	2002 As Restated ⁽²⁾	2003 As Restated ⁽²⁾	2004 As Restated ⁽²⁾
(In thousands)					
Consolidated Balance Sheet Data:					
Cash and cash-equivalents	\$ 49,371	\$ 36,633	\$ 33,571	\$ 51,567	\$ 107,677
Working capital	154,037	100,366	43,607	36,788	15,880
Total assets	365,480	393,229	537,840	374,266	351,734
Long-term obligations, less current maturities	88,173	88,149	92,135	89,911	1,952
Redeemable convertible preferred stock				57,537	106,761
Total stockholders' equity	153,713	169,151	222,037	30,955	28,363

- (1) The Consolidated Financial Statements for the years ended, and as as of, June 30, 2000 and 2001 were previously audited by Arthur Andersen LLP. The restated amounts for these years are unaudited.
- (2) The Consolidated Financial Statements for the years ended June 30, 2002, 2003 and 2004 have been derived from the audited financial statements included in Item 8. See Note 18 to the Consolidated Financial Statements for a discussion of the restatement.

The unaudited financial results for the year ended June 30, 1999, which are not presented here, and the selected consolidated financial data for the years ended June 30, 2000 and 2001, presented above, have been restated to reflect adjustments related to the restatement described below under "Management's Discussion and Analysis of Financial Condition and Results of Operations Restatement of Consolidated Financial Statements" and Note 18 of the Notes to Consolidated Financial Statements. The restatement adjustments decreased revenue and increased net loss applicable to common stockholders for the year ended June 30, 1999 by \$6.8 million and \$6.8 million, respectively. The restatement adjustments decreased revenue and increased net loss applicable to common stockholders for the year ended June 30, 2000 by \$7.0 million and \$8.7 million, respectively. The restatement adjustments decreased revenue and increased net loss applicable to common stockholders for the year ended June 30, 2001, by \$12.5 million and \$16.4 million, respectively. In the accompanying financial statements for the year ended June 30, 2002 these cumulative adjustments are reflected as opening adjustments to the Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss).

In July 2001, we adopted the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets." Under this statement, goodwill and certain other intangible assets determined to have an indefinite life were no longer amortized as of the date of adoption. General and administrative costs for the years ended June 30, 2000 and 2001 include amortization of goodwill and acquired assembled workforce of \$0.9 million and \$2.6 million, respectively.

Service and other revenues and cost of service and other for the year ended June 30, 2000 do not reflect a reclassification for the reimbursement of out-of-pocket expenses, as required by Emerging Issues Task Force Issue No. 01-14, "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred". It is impracticable to do so, as the information was not compiled during this period. The amounts included in service and other revenues and cost of service and other for the years ended June 30, 2001, 2002, 2003 and 2004 were \$16.3 million, \$18.8 million, \$19.0 million and \$16.9 million, respectively.

Basic and diluted net income (loss) per share and weighted average shares outstanding in the preceding table have been computed as described in note 2(i) to the Consolidated Financial Statements included elsewhere in this Form 10-K/A. We have never declared or paid cash dividends on our common stock.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations has been updated to give effect to the restatement discussed in Note 18 to the Consolidated Financial Statements.

Overview

Since our founding in 1981, we have developed and marketed software and services to companies in the process industries. In addition to internally generated growth, we have acquired a number of businesses, including Hyprotech on May 31, 2002. We acquired Hyprotech in a transaction accounted for as a purchase. Our operating results include the operating results of Hyprotech only for periods subsequent to the date of acquisition.

We typically license our engineering solutions for terms of three to five years and license our manufacturing/supply chain solutions for terms of 99 years. See "Item 1. Business Products: Software and Services."

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

We have a practice of licensing our products through resellers in certain regions. For software licensed through these distribution channels, revenue is recognized at the time of delivery to the end customer, when persuasive evidence of an arrangements exists, the fee is fixed or determinable and collection is reasonably assured.

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

Service revenues from fixed-price contracts are recognized using the proportional performance method, measured by the percentage of costs (primarily labor) incurred to date as compared to the estimated total costs (primarily labor) for each contract. When a loss is anticipated on a contract, the

full amount thereof is provided currently. Service revenues from time-and-expense contracts and consulting and training revenues are recognized as the related services are performed. Services that have been performed but for which billings have not been made are recorded as unbilled services, and billings that have been recorded before the services have been performed are recorded as unearned revenue in the accompanying consolidated balance sheets. In accordance with the Emerging Issues Task Force Issue No. 01-14, "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred," reimbursement received for out-of-pocket expenses is recorded as revenue and not as a reduction of expenses.

We license our software in U.S. dollars and several foreign currencies. We hedge material foreign currency-denominated installments receivable with specific hedge contracts in amounts equal to those installments receivable. Historically, we experience minor foreign currency exchange gains or losses due to foreign exchange rate fluctuations, the impact of which have typically not been material. We do not expect fluctuations in foreign currencies to have a significant impact on either our revenues or our expenses in the foreseeable future.

Significant Events Year Ended June 30, 2004

On August 14, 2003, we issued and sold 300,300 shares of Series D-1 preferred. We also delivered cash and 63,064 shares of Series D-2 preferred in consideration for the surrender of all of our outstanding Series B preferred. Each share of Series D preferred is currently convertible, at the holder's option, into 100 shares of our common stock and may be converted into additional shares of our common stock upon certain events as a result of antidilution provisions in our charter. In addition, we issued WD warrants to purchase up to 7,267,286 shares of common stock at a purchase price of \$3.33 per share, and exchanged existing warrants to purchase 791,044 shares of common stock for WB warrants to purchase 791,044 shares of common stock at a purchase price of \$4.08 per share.

During fiscal 2004, we used proceeds from the Series D financing and the sale of installments receivable to repurchase and retire \$29.5 million of our convertible debentures. In addition, we also paid \$8.2 million to settle our remaining obligation to Accenture.

In December 2003, we executed a Non-Recourse Receivables Purchase Agreement with Silicon Valley Bank, pursuant to which we have the ability to sell receivables to the bank through January 1, 2005. Under the terms of this agreement, the total outstanding balance of sold receivables may not exceed \$35.0 million at any one time. We have agreed to act as the bank's agent for collection of the sold receivables.

In June 2004, we executed a plan to reduce our operating costs, primarily involving the closure of certain facilities. This resulted in a restructuring charge totaling \$15.2 million, included in restructuring charges and FTC legal costs (as described below).

Summary of Restructuring Accruals

Fiscal 2004 Restructuring Plan

In June 2004, we initiated a plan to reduce our operating expenses in order to better align our operating cost structure with the current economic environment and to improve our operating margins. The plan to reduce operating expenses resulted in the consolidation of facilities, headcount reductions, and the termination of operating contracts. These actions resulted in an aggregate restructuring charge of \$23.5 million, recorded in the fourth quarter of fiscal 2004.

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As of June 30, 2004, there was \$13.0 million remaining in accrued expenses relating to the remaining severance obligations and lease payments. During the year ended June 30, 2004, the following activity was recorded (in thousands):

Fiscal 2004 Restructuring Plan	Closure/ Consolidation of Facilities and Contract exit costs	Employee Severance, Benefits, and Related Costs	Asset Impairments	Total
Restructuring charge	\$ 20,484	\$ 1,191	\$ 1,776	\$ 23,451
Fiscal 2004 payments	(8,435)	(280)		(8,715)
Impairment of assets			(1,776)	(1,776)
Accrued expenses, June 30, 2004	\$ 12,049	\$ 911	\$	\$ 12,960
Expected final payment date	February 2007	December 2004		

Fiscal 2003 Restructuring Plan

In October 2002, we initiated a plan to further reduce operating expenses in response to first quarter revenue results that were below expectations and to general economic uncertainties. In addition, we revised revenue expectations for the remainder of the fiscal year and beyond, primarily related to the manufacturing/supply chain product line, which has been affected the most by the current economic conditions. The plan to reduce operating expenses resulted in headcount reductions, consolidation of facilities, and discontinuation of development and support for certain non-critical products. These actions resulted in an aggregate restructuring charge of \$28.1 million. During fiscal 2004, we recorded a \$4.9 million decrease to the accrual related to revised assumptions associated with lease exit costs, particularly the buyout of a remaining lease obligation, and severance obligations.

As of June 30, 2004, there was \$7.7 million remaining in accrued expenses relating to the remaining severance obligations and lease payments. The components of the restructuring plan are as follows (in thousands):

Fiscal 2003 Restructuring Plan	Closure/ Consolidation of Facilities	Employee Severance, Benefits, and Related Costs	Impairment of Assets and Disposition Costs	Total
Restructuring charge	\$ 17,347	\$ 10,028	\$ 714	\$ 28,089
Additional impairment of assets			866	866
Fiscal 2003 payments	(3,548)	(7,297)		(10,845)
Accrued expenses, June 30, 2003	13,799	2,731	1,580	18,110
Fiscal 2004 payments	(2,567)	(2,170)	(770)	(5,507)
Change in estimate Revised assumptions	(4,507)	(269)	(134)	(4,910)
Accrued expenses, June 30, 2004	\$ 6,725	\$ 292	\$ 676	\$ 7,693
Expected final payment date	December 2010	April 2005	April 2005	

Fiscal 2002 Restructuring Plan

In the fourth quarter of fiscal 2002, we initiated a plan to reduce operating expenses and to restructure operations around our two primary product lines, engineering software and manufacturing/supply chain software. We reduced worldwide headcount by approximately 10%, or 200 employees, closed and consolidated facilities, and disposed of certain assets, resulting in an aggregate restructuring charge of \$13.2 million. During fiscal 2004, we recorded a \$1.5 million decrease to the accrual related to revised assumptions associated with lease exit costs, particularly the buyout of a remaining lease obligation, and severance obligations. As of June 30, 2004, there was \$2.0 million remaining in accrued

expenses relating to the remaining severance obligations and lease payments. The components of the restructuring plan are as follows (in thousands):

Fiscal 2002 Restructuring Plan	Closure/ Consolidation of Facilities	Employee Severance, Benefits, and Related Costs	Total
Restructuring charge	\$ 4,901	\$ 8,285	\$ 13,186
Fiscal 2002 payments		(1,849)	(1,849)
Accrued expenses, June 30, 2002	4,901	6,436	11,337
Fiscal 2003 payments	(695)	(4,748)	(5,443)
Accrued expenses, June 30, 2003	4,206	1,688	5,894
Fiscal 2004 payments	(1,302)	(1,060)	(2,362)
Change in estimate Revised assumptions	(1,221)	(320)	(1,541)
Accrued expenses, June 30, 2004	\$ 1,683	\$ 308	\$ 1,991
Expected final payment date	December 2010	April 2005	

Fiscal 2001 Restructuring Plan

In the third quarter of fiscal 2001, the revenues realized were below expectations as customers delayed spending in the widespread slowdown in information technology spending and the deferral of late-quarter purchasing decisions. At that time, we also reduced our revenue expectations for the fourth quarter of fiscal year 2001 and for the fiscal year 2002. Based on the reduced revenue expectations, management evaluated the business plan and made significant changes, resulting in a restructuring plan for our operations. This restructuring plan included a reduction in headcount, a substantial decrease in discretionary spending and a sharpening of our e-business focus to emphasize our marketplace solutions. The restructuring plan resulted in a pre-tax charge totaling \$7.0 million. During June 2004, we executed a buy-out of our remaining lease obligation. The components of the restructuring plan are as follows (in thousands):

Fiscal 2001 Restructuring Plan	Closure/ Consolidation of Facilities	Employee Severance, Benefits, and Related Costs	Write-off of Assets	Total
Restructuring charge	\$ 2,774	\$ 3,148	\$ 1,047	\$ 6,969
Write-off of asset			(1,047)	(1,047)
Fiscal 2001 payments	(114)	(1,878)		(1,992)
Accrued expenses, June 30, 2001	2,660	1,270		3,930
Change in estimate Revised assumptions	(800)			(800)
Fiscal 2002 payments	(723)	(1,217)		(1,940)
Accrued expenses, June 30, 2002	1,137	53		1,190
Fiscal 2003 payments	(397)	(53)		(450)
Accrued expenses, June 30, 2003	740			740
Fiscal 2004 payments	(412)			(412)
Change in estimate Revised assumptions	(328)			(328)
Accrued expenses, June 30, 2004	\$	\$	\$	\$

Fiscal 1999 Restructuring Plan

In the fourth quarter of fiscal 1999, we undertook certain actions to restructure our business. The restructuring resulted from a lower than expected level of license revenues which adversely affected

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fiscal year 1999 operating results. The license revenue shortfall resulted primarily from delayed decision making driven by economic difficulties among customers in certain of our core vertical markets. The restructuring plan resulted in a pre-tax restructuring charge totaling \$17.9 million. During fiscal 2004, we recorded a \$0.4 million decrease to the accrual related to revised assumptions associated with lease exit costs. As of June 30, 2004, there was \$0.1 million remaining in the accrued expenses relating to the restructuring. The components of the restructuring plan are as follows (in thousands):

Fiscal 1999 Restructuring Plan	Closure/ Consolidation of Facilities	Employee Severance, Benefits, and Related Costs	Write-off of Assets	Other	Total
Restructuring and other charges	\$ 10,224	\$ 4,324	\$ 3,060	\$ 259	\$ 17,867
Write-off of assets, and other	(5,440)		(3,060)	(101)	(8,601)
Fiscal 1999 payments	(24)	(2,386)		(57)	(2,467)
Accrued expenses, June 30, 1999	4,760	1,938		101	6,799
Fiscal 2000 payments	(1,408)	(1,462)		(97)	(2,967)
Accrued expenses, June 30, 2000	3,352	476		4	3,832
Fiscal 2001 payments	(1,484)	(126)			(1,610)
Accrued expenses, June 30, 2001	1,868	350		4	2,222
Change in estimate Revised assumptions	(250)				(250)
Fiscal 2002 payments	(1,243)	(350)		(4)	(1,597)
Accrued expenses, June 30, 2002	375				375
Fiscal 2003 net sublease receipts (lease payments)	147				147
Accrued expenses, June 30, 2003	522				522
Fiscal 2004 payments net of sublease receipts (lease payments)	(4)				(4)
Change in estimate sub-lease assumptions	(428)				(428)
Accrued expenses, June 30, 2004	\$ 90	\$	\$	\$	\$ 90
Expected final payment date	December 2004				

Critical Accounting Estimates and Judgments

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

Revenue recognition for both software licenses and fixed-fee consulting services,

Impairment of long-lived assets, goodwill and intangible assets,

Accrual of legal fees associated with outstanding litigation,

Accounting for income taxes, and

Allowance for doubtful accounts.

Revenue Recognition Software Licenses

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

persuasive evidence of an arrangement between ourselves and a third party exists;

delivery of our product has occurred;

the sales price for the product is fixed or determinable; and

collection of the sales price is probable.

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

Revenue Recognition Consulting Services

We recognize revenue associated with fixed-fee service contracts in accordance with the proportional performance method, measured by the percentage of costs (primarily labor) incurred to date as compared to the estimated total costs (primarily labor) for each contract. When a loss is anticipated on a contract, the full amount of the anticipated loss is provided currently. Our management uses its judgment concerning the estimation of the total costs to complete the contract, considering a number of factors including the experience of the personnel that are performing the services and the overall complexity of the project. We have a significant amount of experience in the estimation of the total costs to complete a contract and have not typically recorded material losses related to these estimates. We do not expect the accuracy of our estimates to change significantly in the future. Should changes and conditions cause actual results to differ significantly from management's estimates, revenue recognized in future periods could be adversely affected.

Impairment of Long-lived Assets, Goodwill and Intangible Assets

In accordance with Statement of Financial Accounting Standards, or SFAS, No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," we review the carrying value of long-lived assets when circumstances dictate that they should be reevaluated, based upon the expected future operating cash flows of our business. These future cash flow estimates are based on historical results, adjusted to reflect our best estimate of future markets and operating conditions, and are continuously reviewed based on actual operating trends. Historically, actual results have occasionally differed from our estimated future cash flow estimates. In the future, actual results may differ materially from these estimates, and accordingly cause a full impairment of our long-lived assets.

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," we conduct at least an annual assessment on January 1st of the carrying value of our goodwill assets. We obtain a third-party valuation of the reporting units associated with the goodwill assets, which is based on either estimates of future income from the reporting units or estimates of the market value of the units, based on comparable recent transactions. These estimates of future income are based upon historical results, adjusted to reflect our best estimate of future markets and operating conditions, and are continuously

reviewed based on actual operating trends. Historically, actual results have occasionally differed from our estimated future cash flow estimates. In the future, actual results may differ materially from these estimates. In addition, the relevancy of recent transactions used to establish market value for our reporting units is based on management's judgment.

During the year ended June 30, 2004, we recorded \$4.2 million in charges related to the impairment of certain long-lived assets and technology related intangible and computer software development assets. The timing and size of future impairment charges involves the application of management's judgment and estimates and could result in the impairment of all or substantially all of our long-lived assets, intangible assets and goodwill, which totaled \$73.4 million as of June 30, 2004.

Accrual of Legal Fees Associated with Outstanding Litigation

We accrue estimated future legal fees associated with outstanding litigation for which management has determined that it is probable that a loss contingency exists. This requires management to estimate the amount of legal fees that will be incurred in the defense of the litigation. These estimates are based heavily on our expectations of the scope, length to complete and complexity of the claims. Historically, as these factors have changed after our original estimates, we have adjusted our estimates accordingly. In the future, additional adjustments may be recorded as the scope, length or complexity of outstanding litigation changes.

Accounting for Income Taxes

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

Significant management judgment is required in determining our deferred tax assets and liabilities and any valuation allowance recorded against these amounts. The valuation allowance is based on our estimates of taxable income by jurisdiction in which we operate and the period over which our deferred tax assets will be recoverable. In the event that actual results differ from these estimates or we adjust these estimates in future periods we may need to establish an additional valuation allowance which could result in a tax provision equal to the carrying value of our deferred tax assets. During the year ended June 30, 2004, we recorded a \$14.6 million valuation allowance against our U.S. domiciled net deferred tax assets. This charge, however, had no impact on our cash flows.

Allowance for Doubtful Accounts

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

Results of Operations

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

	Year Ended June 30,		
	2002	2003	2004
Revenues:			
Software licenses	42.3%	46.9%	47.6%
Service and other	57.7	53.1	52.4
Total revenues	100.0	100.0	100.0
Cost of revenues:			
Cost of software licenses	3.7	4.0	4.7
Cost of service and other	36.7	30.8	29.7
Amortization of technology related intangible assets	1.6	2.4	2.2
Impairment of technology related intangible and computer software development assets	0.4	2.5	1.0
Total cost of revenues	42.4	39.7	37.6
Gross profit	57.6	60.3	62.4
Operating costs:			
Selling and marketing	35.7	30.5	30.1
Research and development	23.0	18.8	17.7
General and administrative	9.2	8.6	9.8
Long lived asset impairment charges		30.5	0.3
Restructuring charges and FTC legal costs	4.6	11.9	6.0
Charges for in-process research and development	4.6		
Loss (gain) on sales and disposals of assets	(0.1)	(0.0)	(0.3)
Total operating costs	77.0	100.3	63.6
Income (loss) from operations	(19.4)	(40.0)	(1.2)
Interest income	1.9	2.5	2.1
Interest expense	(1.7)	(2.1)	(1.5)
Write-off of investments	(2.8)		
Other income (expense), net	(0.4)	(0.1)	0.1
Income (loss) before provision for income taxes and equity in earnings from joint ventures	(22.4)%	(39.7)%	(0.5)%

Comparison of Fiscal 2004 to Fiscal 2003

Revenues. Revenues are derived from software licenses, consulting services and maintenance and training. Total revenues for fiscal 2004 decreased 3.9% to \$333.0 million from \$346.5 million in fiscal 2003. Total revenues from customers outside the United States were \$190.8 million or 57.3% of total revenues and \$186.7 million or 53.9% of total revenues for fiscal 2004 and 2003, respectively. The geographical mix of revenues can vary from period to period.

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Software license revenues represented 47.6% and 46.9% of total revenues for fiscal 2004 and 2003, respectively. Revenues from software licenses in fiscal 2004 decreased 2.3% to \$158.7 million from \$162.4 million in fiscal 2003. Software license revenues are attributable to software license renewals covering existing users, the expansion of existing customer relationships through licenses covering additional users, licenses of additional software products, and, to a lesser extent, to the addition of new customers. This decrease is primarily due to a modest decrease in demand for products from our engineering product line. For fiscal 2004, approximately 70% and 30% of our license revenue was

derived from products in the engineering product line and manufacturing/supply chain product line, respectively, as compared to approximately 75% and 25%, respectively, in fiscal 2003.

Revenues from service and other consist of consulting services, post-contract support on software licenses, training and sales of documentation. Revenues from service and other for fiscal 2004 decreased 5.3% to \$174.3 million from \$184.1 million for fiscal 2003. This decrease is attributable primarily to the consulting services business. Consulting services decreased due to a year over year \$2.1 million decline in reimbursable expenses, and due to the general low-level of licenses of our manufacturing/supply chain products during the two most recent fiscal years. Our consulting services are more heavily linked to the implementation of our manufacturing/supply chain products than they are to our engineering products.

Cost of Software Licenses. Cost of software licenses consists of royalties, amortization of previously capitalized software costs, costs related to delivery of software, including disk duplication and third-party software costs, printing of manuals and packaging. Cost of software licenses for fiscal 2004 increased 11.9% to \$15.6 million from \$13.9 million in fiscal 2003. Cost of software licenses as a percentage of revenues from software licenses increased to 9.8% for fiscal 2004 from 8.6% for fiscal 2003. The cost increase is primarily due to an increase in royalty costs of \$0.9 million and amortization of computer software development costs of \$0.9 million. The increase in royalties is attributable to higher license revenues and the increase in the amortization of computer software development costs is due to two significant product releases, AES 12.1 and AMS 6.0, during the first part of this fiscal year.

Cost of Service and Other. Cost of service and other consists of the cost of execution of application consulting services, technical support expenses and the cost of training services. Cost of service and other for fiscal 2004 decreased 7.2% to \$99.2 million from \$106.9 million for fiscal 2003. Cost of service and other, as a percentage of revenues from service and other, decreased to 56.9% for fiscal 2004 from 58.0% for fiscal 2003. The decrease in cost is primarily due to decreased payroll costs of \$2.5 million related to reductions in headcount, as well as a decrease in reimbursable expenses of \$2.1 million. The costs of service and other as a percentage of service and other revenues are generally consistent from period to period, showing a modest decrease as our utilization rates have increased.

Amortization of Technology Related Intangible Assets. Amortization of technology related intangible assets consists of the amortization from intangible assets obtained in acquisitions. These assets are generally being amortized over a period of three to five years. Amortization expense for fiscal 2004 decreased 11.5% to \$7.3 million from \$8.2 million for fiscal 2003. The decrease is primarily due to the discontinued amortization of \$5.3 million of intangible assets for which an impairment was recorded in the three months ended December 31, 2002.

Impairment of Technology Related Intangible and Computer Software Development Assets. Impairment of technology related intangible and computer software development assets consists of impairment charges related to assets that are directly involved in the production of revenue. In the fourth quarter of fiscal 2004, we recorded an impairment charge of \$3.3 million related to management's decision to discontinue development of certain next generation manufacturing supply chain products. Management's decision was based on concerns about the future revenue projections for these products, and the assessment of costs remaining to bring these products to market. In fiscal 2003, we recorded an impairment charge of \$8.7 million related to computer software development costs and intangible assets that were related to products that management had decided would not be sold or determined that their carrying values were in excess of their fair values. The assets that will no longer be used were identified by management's decisions to either discontinue future development efforts associated with certain products. The carrying values of the remaining assets were compared to the fair values of those assets resulting in an impairment. The fair values were determined by forecasting the future net cash flows associated with the products.

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Selling and Marketing. Selling and marketing expenses for fiscal 2004 decreased 5.5% to \$100.0 million from \$105.9 million for fiscal 2003, while decreasing as a percentage of total revenues to 30.1% from 30.5%. The decrease is primarily due to a decrease in advertising costs of \$5.0 million related to AspenWorld, which took place in fiscal 2003, and a decrease in payroll and benefit costs of \$0.8 million attributable to the headcount reductions effected in the October 2002 restructuring plan.

Research and Development. Research and development expenses consist of personnel and outside consultancy costs required to conduct our product development efforts. Research and development expenses for fiscal 2004 decreased 9.5% to \$59.0 million from \$65.1 million for fiscal 2003, and decreased as a percentage of total revenues to 17.7% from 18.8%. The decrease is primarily attributable to a \$1.7 million decrease in depreciation and amortization related to assets written-off in December 2002, a \$1.0 million decrease in salary and benefit costs associated with the reductions in headcount from the October 2002 restructuring plan, a \$1.0 million decrease in consulting costs, and a \$0.7 million decrease in travel costs.

We capitalized software development costs that amounted to 11.4% of our total research and development costs during fiscal 2004, as compared to 14.6% in fiscal 2003. These percentages will vary from quarter to quarter, depending upon the stage of development for the various projects in a given period. This decrease is primarily due to the completion of product development activity related to two significant product releases during the first part of fiscal 2004.

General and Administrative. General and administrative expenses consist primarily of salaries of administrative, executive, financial and legal personnel, outside professional fees and amortization of identifiable intangibles. General and administrative expenses for fiscal 2004 increased 10.4% to \$32.7 million from \$29.6 million for fiscal 2003, and increased as a percentage of total revenues to 9.8% from 8.6%. This increase is due to a \$6.5 million increase in legal costs associated with legal defense and loss contingencies associated with the KBC litigation and with the settlement of other litigation. This is offset by a \$3.0 million decrease in salary and benefit costs associated with the reductions in headcount from the October 2002 restructuring plan.

Long Lived Asset Impairment Charges. In fiscal 2004, this amount consisted of \$1.0 million in impairment charges based on our decisions to discontinue certain internal capital projects that had previously been put on hold. In addition, certain fixed assets that supported research and development efforts were considered impaired as a result of the product consolidation decisions made in the April 2004 product review. In October 2002, we determined that the goodwill should be tested for impairment as a result of lowered revenue expectations and the overall decline in our market value. This amounted to a \$74.2 million aggregate impairment charge, recorded in the fiscal 2003 accompanying consolidated statement of operations. Concurrent with the goodwill impairment review, we determined that several other assets were also impaired. This resulted in an additional \$31.4 million in impairment charges in fiscal 2003, related to the intellectual property purchased from Accenture in February 2002, internal capital projects and fixed assets.

Restructuring Charges and FTC Legal Costs. During fiscal 2004, we recorded \$20.1 million in restructuring charges and FTC legal costs. Of this amount, \$23.5 million is associated with a June 2004 restructuring plan, which is offset by \$8.3 million in adjustments to prior restructuring accruals and deferred rent balances, and \$4.9 million is FTC legal costs, related to the FTC challenge of our acquisition of Hyprotech.

In June 2004, we initiated a plan to reduce our operating expenses in order to better align our expense structure with the current economic environment and to improve our operating margins. This plan coincided with a reduction in our revenue projections for fiscal 2005. The plan to reduce operating expenses resulted in the consolidation of facilities, headcount reductions, and the termination of operating contracts. These actions resulted in an aggregate restructuring charge of \$23.5 million. This is

offset by \$8.3 million in adjustments to the prior restructuring accruals and deferred rent balances, primarily related to the buy-out of the remaining obligation for our Houston facility, of which portions had previously been vacated and included in previous restructuring plans. The components of the restructuring plan are as follows:

Closure/consolidation of facilities: Approximately \$20.5 million of the restructuring charge relates to the termination of facility leases and other lease related costs. The facility leases had remaining terms ranging from several months to eight years. The amount accrued is an estimate of the remaining obligation under the lease or actual costs to buy-out leases, reduced by expected income from the sublease of the underlying properties.

Employee severance, benefits and related costs: Approximately \$1.2 million of the restructuring charge relates to the reduction in headcount. Approximately 35 employees, or 2% of the workforce, were eliminated under the restructuring plan. A majority of the employees were located in North America, although Europe was affected, as well. All business units were affected, including services, sales and marketing, research and development, and general and administrative.

Impairment of assets: Approximately \$1.8 million of the restructuring charge relates to charges associated with the impairment of fixed assets associated with the closed/consolidated facilities. These assets were reviewed for impairment in accordance with SFAS No. 144, and were considered to be impaired because their carrying values were in excess of their fair values. The fair values were determined based on a quoted market price from a third party.

Loss (Gain) on Sales of Assets. Loss (gain) on sales of assets was a \$0.9 million gain in fiscal 2004 as compared to \$0.1 million gain in fiscal 2003. This increase is due primarily to a \$0.5 million gain on the sale of receivables and a \$0.2 million gain on the sale of land in Houston, Texas in fiscal 2004.

Interest Income. Interest income is generated from investment of excess cash in short-term investments and from the license of software pursuant to installment contracts. Under these installment contracts, we offer a customer the option to make annual payments for its term licenses instead of a single license fee payment at the beginning of the license term. Historically, a substantial majority of the asset optimization customers have elected to license these products through installment contracts. Included in the annual payments is an implicit interest rate established by us at the time of the license. As we sell more perpetual licenses for value chain solutions, these sales are being paid for in forms that are generally not installment contracts. If the mix of sales moves away from installment contracts, interest income in future periods will be reduced.

We sell a portion of the installment contracts to unrelated financial institutions. The interest earned by us on the installment contract portfolio in any one year is the result of the implicit interest rate established by us on installment contracts and the size of the contract portfolio. Interest income was \$7.3 million for fiscal 2004 as compared to \$8.2 million in fiscal 2003. This decrease primarily is due to the aggressive collection of receivables and the increased sale of receivables, resulting in the decrease of installments receivable balance.

Interest Expense. Interest expense was incurred under our convertible debentures, amounts owed to Accenture, and capital lease obligations. Interest expense in fiscal 2004 decreased to \$4.9 million from \$7.1 million in fiscal 2003. This decrease in interest expense results from the elimination of interest bearing debt, such as the payment of the obligation to Accenture in August 2003 and the repurchase and retirement of a portion of the convertible debentures in September 2003, January 2004, March 2004 and May 2004.

Foreign currency exchange gain (loss). Foreign currency exchange gains and losses are primarily incurred through the revaluation of receivables denominated in foreign currencies. In fiscal 2004 we recorded a foreign currency exchange gain of \$0.3 million, compared to a \$0.2 million loss in fiscal

2003. This increase was due to favorable exchange rate fluctuations and effective hedging of foreign receivable balances.

Provision for/Benefit from Income Taxes. We recorded a provision for income taxes of \$19.9 million for fiscal 2004. The provision for fiscal 2004 includes a \$14.6 million valuation allowance against U.S. domiciled net deferred tax assets and a \$6.8 million provision primarily related to foreign taxes. Additionally, as part of a change in the Japan-US tax treaty, the Japanese withholding tax law was repealed effective July 1, 2004 and provided approximately \$1.5 million of income tax relief to the Company as of the enactment date of the tax law change which occurred in the quarter ended March 31, 2004. We provided a full valuation allowance against the net operating losses generated during fiscal 2003 and 2004.

Under SFAS No. 109, a deferred tax asset related to the future benefit of a tax loss carryforward should be recorded unless we make a determination that it is "more likely than not" that such deferred tax asset would not be realized. Accordingly, a valuation allowance would be provided against the deferred tax asset to the extent that we cannot demonstrate that it is "more likely than not" that the deferred tax asset will be realized. In determining the amount of valuation allowance required, we consider numerous factors, including historical profitability, estimated future taxable income, the volatility of the historical earnings, and the volatility of earnings of the industry in which we operate. We periodically review our deferred tax asset to determine if such asset is realizable. In fiscal 2004, we concluded, in accordance with SFAS No. 109, that we should record a valuation allowance on a significant portion of our deferred tax asset under the "more likely than not" test and therefore increased the amount of the valuation allowance. See Note 9 to Consolidated Financial Statements.

Equity in earnings from joint ventures. Equity in earnings from joint ventures was a \$0.4 million loss in fiscal 2004 as compared to a \$0.5 million loss in fiscal 2003. These losses relate to net losses incurred by certain joint ventures in which we have an equity interest.

Comparison of Fiscal 2003 to Fiscal 2002

Revenues. Total revenues for fiscal 2003 increased 7.5% to \$346.5 million from \$322.4 million in fiscal 2002. Total revenues from customers outside the United States were \$186.7 million or 53.9% of total revenues and \$147.9 million or 45.9% of total revenues for fiscal 2003 and 2002, respectively. The geographical mix of revenues can vary from period to period.

Software license revenues represented 46.9% and 42.3% of total revenues for fiscal 2003 and 2002, respectively. Revenues from software licenses in fiscal 2003 increased 19.0% to \$162.4 million from \$136.4 million in fiscal 2002. Greater software license revenues in fiscal 2003 were driven by the inclusion of software license revenue associated with Hyprotech, in addition to a more modest increase in demand for our manufacturing/supply chain products. Revenues and expenses associated with Hyprotech are included in our results from operations from the May 31, 2002 date of acquisition; for fiscal 2002 this includes the month of June 2002 and for fiscal 2003 this includes the full fiscal year.

Revenues from service and other for fiscal 2003 decreased 1.0% to \$184.1 million from \$186.0 million for fiscal 2002. This decline in revenue is reflective of a decrease in consulting revenue, partially offset by the inclusion of maintenance revenue associated with Hyprotech. The decline in consulting revenue primarily is related to the lower level of license transactions associated with our manufacturing/supply chain software products in fiscal 2002, along with which we typically sell consulting projects.

Cost of Software Licenses. Cost of software licenses for fiscal 2003 increased 17.6% to \$13.9 million from \$11.8 million in fiscal 2002. Cost of software licenses as a percentage of revenues from software licenses was 8.6% for fiscal 2003 and 8.7% for fiscal 2002, respectively. The increase is the result of a \$3.3 million increase in royalties, primarily related to a royalty arrangement with

Accenture, which was effective as of the beginning of fiscal 2003, under which we pay royalties on the licensing of certain manufacturing/supply chain products.

Cost of Service and Other. Cost of service and other for fiscal 2003 decreased 10.0% to \$106.9 million from \$118.8 million for fiscal 2002. Cost of service and other, as a percentage of revenues from service and other, decreased to 58.0% for fiscal 2003 from 63.9% for fiscal 2002. This decrease in absolute dollars is due to a decrease in consulting costs of \$3.5 million and a decrease in salary and related costs of \$4.5 million related to the reductions in headcount reflected in the restructuring charges of May 2002 and October 2002. The decrease as a percentage of service and other revenues was due to the headcount reductions, as well as the increase of revenues from software maintenance as a percentage of service and other revenue, a service that provides higher margins than consulting services.

Amortization of Technology Related Intangible Assets. Amortization expense for fiscal 2003 increased 63.0% to \$8.2 million from \$5.0 million for fiscal 2002. The increase is primarily due to the intangible assets acquired as part of the Hyprotech acquisition in May 2002.

Impairment of technology related intangible and computer software development assets. In fiscal 2003, we recorded an impairment charge of \$8.7 million related to computer software development costs and intangible assets that were related to products that management had decided would not be sold or determined that their carrying values were in excess of their fair values. The assets that will no longer be used were identified by management's decisions to either discontinue future development efforts associated with certain products. The carrying values of the remaining assets were compared to the fair values of those assets resulting in an impairment. The fair values were determined by forecasting the future net cash flows associated with the products. In fiscal 2002, we recorded an impairment charge of \$1.2 million related to prepaid royalty fees associated with a discontinued product.

Selling and Marketing. Selling and marketing expenses for fiscal 2003 decreased 7.7% to \$105.9 million from \$114.8 million for fiscal 2002, while decreasing as a percentage of total revenues to 30.5% from 35.7%. The decreases are attributable to salary and related costs of \$8.2 million associated with the headcount reductions reflected in the restructuring charges of May 2002 and October 2002, and \$2.6 million associated with travel and entertainment costs, partially offset by \$4.9 million in costs associated with our October 2002 AspenWorld conference, which occurs bi-annually, the inclusion of costs associated with Hyprotech, increases in certain foreign-based sales expenses where currencies strengthened as compared to the US dollar, and an increase in sales commissions related to significantly higher license revenues in the three months ended September 30, 2002 as compared to the three months ended September 30, 2001.

Research and Development. Research and development expenses for fiscal 2003 decreased 12.2% to \$65.1 million from \$74.2 million for fiscal 2002, and decreased as a percentage of total revenues to 18.8% from 23.0%. These decreases are attributable to a \$4.5 million decrease in salary and related costs related to the effect of reductions in headcount reflected in the restructuring charges of May 2002 and October 2002, partially offset by the inclusion of costs associated with Hyprotech and increases in certain foreign-based research and development expenses where currencies strengthened as compared to the US dollar.

We capitalized software development costs that amounted to 14.6% of our total research and development costs during fiscal 2003, as compared to 11.7% in fiscal 2002. This increase is due to product development activity related to the Accenture co-development alliance, as well as a smaller level of overall research and development spending.

General and Administrative. General and administrative expenses for fiscal 2003 decreased 0.1% to \$29.6 million from \$29.7 million for fiscal 2002, and decreased as a percentage of total revenues to 8.6% from 9.2%.

Long Lived Asset Impairment Charges. In October 2002, we determined that the goodwill should be tested for impairment as a result of lowered revenue expectations and the overall decline in our market value. This amounted to a \$74.2 million aggregate impairment charge, recorded in the fiscal 2003 accompanying consolidated statement of operations. Concurrent with the goodwill impairment review, we determined that several other assets were also impaired. This resulted in an additional \$31.4 million in impairment charges in fiscal 2003, related to the intellectual property purchased from Accenture in February 2002, internal capital projects and fixed assets.

Restructuring Charges and FTC Legal Costs. During fiscal 2003, we recorded \$41.1 million in restructuring charges and FTC legal costs. Of this amount, \$28.1 million is associated with an October 2002 restructuring plan, and \$13.0 million is FTC legal costs. In October 2002, we initiated a plan to further reduce operating expenses in response to first quarter revenue results that were below expectations and to general economic uncertainties. In addition, we revised revenue expectations for the remainder of the fiscal year and beyond, primarily related to the manufacturing/supply chain product line, which had been affected the most by the current economic conditions. The plan to reduce operating expenses resulted in headcount reductions, consolidation of facilities, and discontinuation of development and support for certain non-critical products. These actions resulted in an aggregate restructuring charge of \$16.1 million, recorded during the three months ended December 31, 2002. In June 2003 we reviewed our estimates to this plan and recorded a \$12.0 million increase to the accrual, primarily due to revisions of the facility sub-lease assumptions, as well as increases to severance and other costs.

Interest Income. Interest income was \$8.2 million for fiscal 2003 as compared to \$6.2 million in fiscal 2002. This increase primarily is due to the increase of installment contracts associated with Hyprotech.

Interest Expense. Interest expense in fiscal 2003 increased to \$7.1 million from \$5.6 million in fiscal 2002. This increase primarily is due to interest on the amounts owed to Accenture.

Foreign currency exchange gain (loss). Foreign currency exchange gain (loss) in fiscal 2003 decreased to a \$0.2 million loss from \$1.4 million loss in fiscal 2002. This decrease was due to the implementation of a more effective hedging policy for Hyprotech's receivables. In fiscal 2002, an effective hedging policy had not yet been implemented.

Provision for/Benefit from Income Taxes. We recorded a provision for income taxes of \$1.1 million in fiscal 2003 and \$3.6 million in fiscal 2002. In fiscal 2003, we recorded a provision related to foreign taxes, and provided a full valuation against the domestic benefit generated. The provision for fiscal 2002 represents income taxes on income generated in certain foreign jurisdictions where we did not have operating loss carryforwards. We generated significant U.S. tax loss carryforwards during both fiscal 2003 and 2002.

Equity in earnings from joint ventures. Equity in earnings from joint ventures was a \$0.5 million loss in fiscal 2003 as compared to a \$0.2 million loss in fiscal 2002. The increased loss in fiscal 2003 was related to losses incurred by joint ventures, caused by the general economic slowdown during the year.

Quarterly Results

Our operating results and cash flow have fluctuated in the past and may fluctuate significantly in the future as a result of a variety of factors, including purchasing patterns, timing of introductions of new solutions and enhancements by us and our competitors, and fluctuating economic conditions.

Because license fees for our software products are substantial and the implementation of our solutions often requires the services of our engineers over an extended period of time, the sales process for our solutions is lengthy and can exceed one year. Accordingly, software revenues are difficult to predict, and the delay of any order could cause our quarterly revenues to fall substantially below expectations. Moreover, to the extent that we succeed in shifting customer purchases away from point solutions and toward integrated solutions, the likelihood of delays in ordering may increase and the effect of any delay may become more pronounced.

We ship software products within a short period after receipt of an order and usually do not have a material backlog of unfilled orders of software products. Consequently, revenues from software licenses, including license renewals, in any quarter are substantially dependent on orders booked and shipped in that quarter. Historically, a majority of each quarter's revenues from software licenses has been derived from license agreements that have been consummated in the final weeks of the quarter. Therefore, even a short delay in the consummation of an agreement may cause revenues to fall below expectations for that quarter. Since our expense levels are based in part on anticipated revenues, we may be unable to adjust spending in a timely manner to compensate for any revenue shortfall and any revenue shortfall would likely have a disproportionately adverse effect on net income. We expect that these factors will continue to affect our operating results for the foreseeable future.

The following table presents selected quarterly consolidated statement of operations data for fiscal 2003 and 2004. These data are unaudited but, in our opinion, reflect all adjustments necessary for a fair presentation of these data in accordance with accounting principles generally accepted in the United States of America.

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	Fiscal 2003 Quarter Ended				Fiscal 2004 Quarter Ended			
	Sep. 30(1)	Dec. 31(1)	Mar. 31(1)	June 30(1)	Sep. 30(1)	Dec. 31(1)	Mar. 31(1)	June 30(1)
(In thousands)								
Revenues:								
Software licenses	\$ 31,727	\$ 43,488	\$ 42,078	\$ 45,061	\$ 38,144	\$ 38,856	\$ 36,636	\$ 45,025
Service and other	47,526	46,181	44,889	45,506	42,265	42,886	44,939	44,245
Total revenues	79,253	89,669	86,967	90,567	80,409	81,742	81,575	89,270
Cost of revenues:								
Cost of software licenses	3,335	3,511	2,891	4,179	3,617	4,315	3,854	3,791
Cost of service and other	28,008	26,823	25,745	26,292	24,382	24,246	25,345	25,210
Amortization of technology related intangible assets	2,402	2,103	1,892	1,822	1,832	1,842	1,806	1,790
Impairment of technology related intangible and computer software development assets		8,208		496				3,250
Total cost of revenues	33,745	40,645	30,528	32,789	29,831	30,403	31,005	34,041
Gross profit	45,508	49,024	56,439	57,778	50,578	51,339	50,570	55,229
Operating costs:								
Selling and marketing	29,162	27,092	24,482	25,143	23,957	23,651	23,841	28,579
Research and development	17,802	15,997	15,727	15,617	16,006	14,294	14,234	14,421
General and administrative	7,569	7,181	7,106	7,788	6,872	6,607	6,399	12,849
Long lived asset impairment charges		105,543						967
Restructuring charges and FTC legal costs		20,943	2,100	18,037		2,000		18,085
Loss (gain) on sales and disposals of assets	13	(116)	190	(139)	(302)	(377)	(206)	6
Total operating costs	54,546	176,640	49,605	66,446	46,533	46,175	44,268	74,907
Income (loss) from operations	(9,038)	(127,616)	6,834	(8,668)	4,045	5,164	6,302	(19,678)
Interest income, net	498	191	269	101	682	855	419	400
Other income (expense), net	(525)	(437)	286	481	(691)	246	256	441
Income (loss) before provision for taxes and equity in earnings from joint ventures	(9,065)	(127,862)	7,389	(8,086)	4,036	6,265	6,977	(18,837)
Provision for income taxes	(63)	(301)	(378)	(334)	(411)	(1,578)	(341)	(17,566)
Equity in earnings from joint ventures	44	(116)	(112)	(330)		(100)		(251)
Net income (loss)	(9,084)	(128,279)	6,899	(8,750)	3,625	4,587	6,636	(36,654)
Accretion of preferred stock discount and dividend	(2,234)	(2,287)	(2,291)	(2,372)	3,852	(3,352)	(3,400)	(3,458)
Net income (loss) applicable to common stockholders	\$ (11,318)	\$ (130,566)	\$ 4,608	\$ (11,122)	\$ 7,477	\$ 1,235	\$ 3,236	\$ (40,112)
Basic income (loss) per share applicable to common shareholders	\$ (0.30)	\$ (3.42)	\$ 0.12	\$ (0.28)	\$ 0.19	\$ 0.03	\$ 0.08	\$ (0.97)

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	Fiscal 2003 Quarter Ended				Fiscal 2004 Quarter Ended			
Basic weighted average shares outstanding	37,994	38,128	38,795	39,026	39,772	40,175	41,049	41,328
Diluted income (loss) per share applicable to common shareholders	\$ (0.30)	\$ (3.42)	\$ 0.11	\$ (0.28)	\$ 0.15	\$ 0.02	\$ 0.06	\$ (0.97)
Diluted weighted average shares outstanding	37,994	38,128	40,938	39,026	59,437	50,315	51,907	41,328

(1) As restated, see note 18 to the consolidated financial statements.

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	Fiscal 2003 Quarter Ending				Fiscal 2004 Quarter Ending			
	Sep. 30(2)	Dec. 31(2)	Mar. 31(2)	June 30(2)	Sep. 30(2)	Dec. 31(2)	Mar. 31(2)	June 30(2)
(In thousands)								
Revenues:								
Software licenses	\$ 29,646	\$ 36,781	\$ 34,883	\$ 38,549	\$ 35,063	\$ 37,759	\$ 35,914	\$ 43,534
Service and other	47,604	46,192	44,846	44,220	41,951	42,661	44,785	44,029
Total revenues	77,250	82,973	79,729	82,769	77,014	80,420	80,699	87,563
Cost of revenues:								
Cost of software licenses	3,335	3,511	2,891	4,179	3,617	4,315	3,854	3,780
Cost of service and other	28,008	26,823	25,745	26,292	24,632	24,246	25,345	25,210
Amortization of technology related intangible assets	2,402	2,103	1,892	1,822	1,832	1,842	1,806	1,790
Impairment of technology related intangible and computer software development assets		8,208		496				3,250
Total cost of revenues	33,745	40,645	30,528	32,789	30,081	30,403	31,005	34,030
Gross profit	43,505	42,328	49,201	49,980	46,933	50,017	49,694	53,533
Operating costs:								
Selling and marketing	29,154	27,031	24,455	25,243	23,874	23,589	23,818	28,205
Research and development	17,745	15,997	15,727	15,617	16,006	14,294	14,234	14,561
General and administrative	7,419	6,820	7,001	7,222	6,908	6,325	6,292	12,189
Long lived asset impairment charges		106,093						967
Restructuring charges and FTC legal costs		20,943	2,100	18,037		2,000		18,833
Total operating costs	54,318	176,884	49,283	66,119	46,788	46,208	44,344	74,755
Income (loss) from operations	(10,813)	(134,556)	(82)	(16,139)	145	3,809	5,350	(21,222)
Interest income, net	581	268	349	155	722	895	460	416
Other income (expense), net	(501)	(313)	64	154	(228)	523	462	184
Income (loss) before provision for taxes	(10,733)	(134,601)	331	(15,830)	639	5,227	6,272	(20,622)
Provision for income taxes					188	1,315	1,352	17,351
Net income (loss)	(10,733)	(134,601)	331	(15,830)	451	3,912	4,920	(37,973)
Accretion of preferred stock discount and dividend	(2,234)	(2,287)	(2,291)	(2,372)	3,852	(3,352)	(3,400)	(3,458)
Net income (loss) applicable to common stockholders	\$ (12,967)	\$ (136,888)	\$ (1,960)	\$ (18,202)	\$ 4,303	\$ 560	\$ 1,520	\$ (41,431)
Basic income (loss) per share applicable to common shareholders	\$ (0.34)	\$ (3.59)	\$ (0.05)	\$ (0.47)	\$.11	\$ 0.01	\$ 0.04	\$ (1.00)
Basic weighted average shares outstanding	37,994	38,128	38,795	39,026	39,772	40,175	41,049	41,328
Diluted income (loss) per share applicable to common shareholders	\$ (0.34)	\$ (3.59)	\$ (0.05)	\$ (0.47)	\$.10	\$ 0.01	\$ 0.03	\$ (1.00)
Diluted weighted average shares outstanding	37,994	38,128	38,795	39,026	59,437	50,315	51,907	41,328

(2)

As originally reported

Liquidity and Capital Resources

In fiscal 2004, operating activities provided \$40.9 million of cash primarily due to income from operations, excluding non-cash charges, our commitment to both the aggressive collection of receivables and the increased sale of receivables, partially offset by the continuing cash payments related to the ongoing proceedings in connection with the anti-trust claims filed by the FTC with respect to our acquisition of Hyprotech, and our previous restructuring charges. In fiscal 2002 and 2003, operating activities used \$8.8 million and provided \$22.2 million of cash, respectively.

In fiscal 2004, investing activities used \$7.6 million of cash primarily as a result of the capitalization of computer software development costs and the ordinary purchases of property and equipment, partially offset by the proceeds from the sale of land in December 2003. In fiscal 2002 and 2003, investing activities used \$101.5 million and provided \$6.8 million of cash, respectively.

In fiscal 2004, financing activities provided \$22.2 million of cash primarily due to the proceeds from the Series D financing, partially offset by pay-off of amounts owed to Accenture and repurchase and retirement of \$29.5 million of the convertible debentures. In fiscal 2002 and 2003, financing activities provided \$107.2 million and used \$11.6 million of cash, respectively.

Historically, we have financed our operations principally through cash generated from public offerings of our convertible debentures and common stock, private offerings of our preferred stock and common stock, operating activities, and the sale of installment contracts to third parties.

In August 2003, we issued and sold 300,300 shares of Series D-1 preferred, along with WD warrants to purchase up to 6,006,006 shares of common stock, for an aggregate purchase price of \$100.0 million. Concurrently, we paid \$30.0 million and issued 63,064 shares of Series D-2 preferred, along with WB and WD warrants to purchase up to 1,261,280 shares of common stock, to repurchase all of the outstanding Series B preferred. The Series D preferred earns cumulative dividends at an annual rate of 8%, that are payable when and if declared by the board, in cash or, subject to certain conditions, common stock. Each share of Series D preferred currently is convertible into 100 shares of common stock, subject to anti-dilution and other adjustments. As a result, the shares of Series D preferred currently are convertible into an aggregate of 36,336,400 shares of common stock. The Series D preferred is subject to redemption at the option of the holders as follows: 50% on or after August 14, 2009 and 50% on or after August 14, 2010.

An aggregate of \$45 million of working capital may be used to repay a portion of our convertible debentures at or prior to maturity. During the year ended June 30, 2004, we repurchased and retired a face value of \$29.5 million of these convertible debentures.

Historically, we have had arrangements to sell long-term installments receivable to two financial institutions, General Electric Capital Corporation and Fleet Business Credit Corporation. These contracts represent amounts due over the life of existing term licenses. During fiscal 2002, 2003 and 2004, we sold \$42.7 million, \$66.7 million and \$54.9 million of installments receivable, respectively. As of June 30, 2004, there was approximately \$50 million in additional availability under the arrangements. We expect to continue to have the ability to sell installments receivable, as the collection of the sold receivables will reduce the outstanding balance, and the availability under the arrangements can be increased. At June 30, 2004, we had a partial recourse obligation that was within the range of \$1.4 million to \$4.1 million.

In December 2003, we executed a Non-Recourse Receivables Purchase Agreement with Silicon Valley Bank, pursuant to which we have the ability to sell receivables to the bank through January 1, 2005. Under the terms of this agreement the total outstanding balance of sold receivables may not exceed \$35 million at any one time. We will act as the bank's agent for collection of the sold receivables. During the year ended June 30, 2004, we sold receivables for aggregate proceeds of \$42.5 million under this agreement and as of June 30, 2004 there was \$5.0 million in remaining

availability. We may in the future establish new arrangements to sell additional installment contracts to other financial institutions and increase our cash position.

In January 2003, we executed a Loan Arrangement with Silicon Valley Bank. This arrangement provides a line of credit of up to the lesser of (1) \$15.0 million or (2) 70% of eligible domestic receivables, and a line of credit of up to the lesser of (1) \$10.0 million or (2) 80% of eligible foreign receivables. The lines of credit bear interest at the bank's prime rate (4.00% at June 30, 2004). We are required to maintain a \$4.0 million compensating cash balance with the bank, or be subject to an unused line fee and collateral handling fees. The lines of credit will initially be collateralized by nearly all of our assets, and upon achieving certain net income targets, the collateral will be reduced to a lien on our accounts receivable. We are required to meet certain financial covenants, including minimum tangible net worth, minimum cash balances and an adjusted quick ratio. As of June 30, 2004, there were \$11.9 million in letters of credit outstanding under the line of credit, and there was \$7.4 million available for future borrowing. On September 10, 2004, we executed an amendment to the Loan Arrangement that adjusted the terms of certain financial covenants, and cured a default of the tangible net worth covenant as of June 30, 2004. The Loan Arrangement expires in January 2005, and we are currently in negotiations with the bank to amend and extend the agreement.

As of June 30, 2004, we had cash and cash-equivalents totaling \$107.7 million. Our commitments as of June 30, 2004 consisted primarily of the maturity of the convertible debentures on June 15, 2005, royalty commitments owed to Accenture, capital lease obligations, and leases on our headquarters and other facilities. Other than these, there were no other commitments for capital or other expenditures. Our obligations related to these items at June 30, 2004 are as follows (in thousands):

	2005	2006	2007	2008	2009	Thereafter	Total
Operating leases	\$ 12,744	\$ 10,489	\$ 9,561	\$ 8,186	\$ 7,597	\$ 25,273	\$ 73,850
Capital leases and debt obligations	1,850	963	224	183	181	401	3,802
Accenture royalty commitment	3,820						3,820
Maturity of convertible debentures	56,745						56,745
Total commitments	\$ 75,159	\$ 11,452	\$ 9,785	\$ 8,369	\$ 7,778	\$ 25,674	\$ 138,217

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

Inflation

Inflation has not had a significant impact on our operating results to date and we do not expect inflation to have a significant impact during fiscal 2005.

New Accounting Pronouncements

In April 2003, the Financial Accounting Standards Board, or FASB, issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This pronouncement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The provisions of this statement are effective for transactions that are entered into or modified after June 30, 2003. The adoption of SFAS No. 149 did not have a material effect on our consolidated financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities," which clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," relating to consolidation of certain entities. In December 2003 the FASB revised FIN 46. First, FIN 46 will require identification of our participation in variable interest entities, or VIE, which are defined as entities with a level of invested equity that is not sufficient to fund future activities to permit them to operate on a stand alone basis, or whose equity holders lack certain characteristics of a controlling financial interest. For entities identified as VIE, FIN 46 sets forth a model to evaluate potential consolidation based on an assessment of which party to the VIE, if any, bears a majority of the exposure to its expected losses, or stands to gain from a majority of its expected returns. FIN 46 also sets forth certain disclosure regarding interests in VIE that are deemed significant, even if consolidation is not required. Certain provisions of FIN 46, as revised, relating to the consolidation of special-purpose entities are effective for periods ending after December 15, 2003. The adoption of these provisions did not have an impact on our financial position, results of operations or cash flows. The remaining provisions of FIN 46, as revised, relating to the consolidation or disclosure of all other VIE are effective for periods ending after March 15, 2004. The adoption of these provisions did not have an impact on our financial position, results of operations or cash flows.

Item 8. Financial Statements and Supplementary Data

Our Consolidated Financial Statements are listed in the Index to Consolidated Financial Statements filed in Item 15(a)(i) as part of this Form 10-K/A.

Item 9A. 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 defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act) as of June 30, 2004.

As part of this evaluation as of September 13, 2004, when we originally filed our Annual Report on Form 10-K for the fiscal year ended June 30, 2004, our management considered a report, provided under interim standards established by the Public Company Accounting Oversight Board ("PCAOB") regarding certain elements of our system of internal controls, made in September 2004 to our board's audit committee by our independent registered public accounting firm, Deloitte & Touche LLP, of a "material weakness" with respect to our controls and procedures involving accounting for taxes. Deloitte & Touche LLP noted errors in (a) our computations of the provision for sales taxes, (b) our computations of the domestic and foreign provision for income taxes, and (c) our computation and classification of deferred income taxes. Deloitte & Touche LLP also noted a "reportable condition" with respect to our property record-keeping processes that did not constitute a material weakness. This material weakness and reportable condition were previously disclosed in our Annual Report on Form 10-K as originally filed with the SEC on September 13, 2004. Reportable conditions under the

PCAOB interim standards involve matters relating to significant deficiencies in the design or operation of the Company's internal control over financial reporting that could adversely affect the Company's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A material weakness under the PCAOB interim standards is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

In February 2005, as part of its previously described accounting investigation, the audit committee made a report to our board relating to certain accounting and internal controls issues. In March 2005, in connection with its audit of the restated financial statements for the years ended June 30, 2002, 2003 and 2004 included in this Form 10-K/A, Deloitte & Touche LLP made a report (again under the interim standards of the PCAOB) regarding certain elements of our system of internal controls to the audit committee of (1) a "material weakness" with respect to our software license revenue recognition controls and (2) a "reportable condition" with respect to our processes for recording restructuring accruals that did not constitute a material weakness. Our management considered both of these reports in re-evaluating our disclosure controls and procedures as of June 30, 2004 in connection with the filing of this Form 10-K/A. Our management concluded that the following factors contributed significantly to the material weakness with respect to our software license revenue recognition controls:

- (a) need for improved and redundant procedures and cross-checks to reasonably assure the identification of arrangements including both software license and services components;
- (b) need for improved and redundant procedures and cross-checks to reasonably assure the detection and prevention of unauthorized arrangements with customers entered into contemporaneously with software license agreements;
- (c) inadequate systems to track sales by resellers of software licenses to end-users;
- (d) lack of a sufficient number of qualified finance personnel to review and provide guidance on revenue recognition for complex software license transactions; and
- (e) need for routinization of our processes to assess the creditworthiness of new or existing customers.

In designing and evaluating our disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and our management necessarily applied its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on their evaluation, our chief executive officer and chief financial officer concluded that, as a result of the material weaknesses in our internal controls over financial reporting described above, our disclosure controls and procedures were not effective as of June 30, 2004.

Based on the recommendations made by the audit committee to our board and by Deloitte & Touche LLP in its reports to the audit committee, we have undertaken a number of initiatives to address the material weaknesses and reportable conditions described above. To date, we have completed the following actions:

We have hired a director of internal audit.

We have hired a director of tax.

We have purchased a fixed asset accounting and tracking system.

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In addition, we have undertaken the following additional steps, all of which we anticipate will be completed by June 30, 2005:

We are establishing a cross-functional group to manage and monitor software license arrangements that also involve consulting services in order to assess the revenue recognition implications.

We are formulating checklists to define revenue recognition criteria and to document related transactional information.

We are implementing processes and documentation procedures to effectively track sales by our resellers to end users.

We are in the process of hiring additional revenue recognition accounting personnel.

We are establishing processes to assess the creditworthiness of customers on a periodic basis and to ensure that such assessments are documented and reviewed before entering into agreements with customers containing extended payment terms.

We are requiring quarterly certifications from all of our sales personnel to assist in detecting issues that may impact revenue recognition and the accuracy of our financial statements.

We are providing clearer designation and allocation of responsibilities and supervision within our finance department.

We are initiating additional training of our sales organization regarding revenue recognition rules and best practices.

We are initiating additional training of all our employees on the standards and expectations set forth in our Code of Conduct and Business Ethics.

We are implementing our new fixed asset accounting and tracking system and are in the process of completing a full physical inventory of all property and equipment.

We have designed these various initiatives to address all of the material weaknesses and reportable conditions described above. The actual efficacy of the initiatives is subject to continuing review by our management, supported by confirmation and testing by our management and internal and external auditors. In addition, we are in the process of developing and implementing a formal set of internal controls and procedures for financial reporting, in accordance with the SEC's rules, to adopt the internal control report requirements included in Section 404 of the Sarbanes-Oxley Act. We expect that additional changes will be made to our internal controls and procedures as a result of these various procedures.

Other than the foregoing initiatives, no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the year ended June 30, 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

The certifications of our principal executive officer and principal financial officer required in accordance with Section 302 of the Sarbanes-Oxley Act are attached as exhibits to this Form 10-K/A. The disclosures set forth in this Item 9A contain information concerning the evaluation of our disclosure controls and procedures, and changes in internal control over financial reporting, referred to in paragraph 4 of the certifications. This Item 9A should be read in conjunction with the officer certifications for a more complete understanding of the topics presented.

Item 9B. Other

None

PART IV

Item 15. Exhibits and Financial Statement Schedules**(a)(1) Financial Statements**

Description	Page
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Financial Statements:	
Balance Sheets (as restated) as of June 30, 2003 and 2004	F-3
Statements of Operations (as restated) for the years ended June 30, 2002, 2003 and 2004	F-4
Statements of Stockholders' Equity and Comprehensive Income (Loss) (as restated) for the years ended June 30, 2002, 2003 and 2004	F-5
Statements of Cash Flows (as restated) for the years ended June 30, 2002, 2003 and 2004	F-8
Notes to Consolidated Financial Statements	F-9

(a)(2) Financial Statement Schedules

Description	Page
Schedule II Valuation and Qualifying Accounts	S-1

All other schedules are omitted because they are not required or the required information is shown in the consolidated financial statements or notes thereto.

(a)(3) Exhibits

- 3.1(1) Certificate of Incorporation of Aspen Technology, Inc., as amended.
- 3.2(2) By-laws of Aspen Technology, Inc.
- 4.1(3) Specimen Certificate for Shares of Aspen Technology, Inc.'s common stock, \$.10 par value.
- 4.2(2) Rights Agreement dated as of March 12, 1998 between Aspen Technology, Inc. and American Stock Transfer and Trust Company, as Rights Agent, including related forms of the following: (a) Certificate of Designation of Series A Participating Cumulative Preferred Stock of Aspen Technology, Inc.; and (b) Right Certificate.
- 4.3(4) Amendment No. 1 dated as of October 26, 2001 to Rights Agreement dated as of March 12, 1998 between Aspen Technology, Inc. and American Stock Transfer & Trust Company, as Rights Agent.
- 4.4(5) Amendment No. 2 dated as of February 6, 2002 to Rights Agreement dated as of March 12, 1998 between Aspen Technology, Inc. and American Stock Transfer & Trust Company.
- 4.5(6) Amendment No. 3 dated as of March 19, 2002 to Rights Agreement dated as of March 12, 1998 between Aspen Technology, Inc. and American Stock Transfer & Trust Company.
- 4.6(7) Amendment No. 4 dated as of May 9, 2002 to Rights Agreement dated as of March 17, 1998 between Aspen Technology, Inc. and American Stock Transfer & Trust Company, as Rights Agent.
- 4.7(8) Amendment No. 5 dated as of June 1, 2003 to Rights Agreement dated as of March 17, 1998 between Aspen Technology, Inc. and American Stock Transfer & Trust Company, as Rights Agent.

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- 4.8(9) Indenture dated as of June 17, 1998 between Aspen Technology, Inc. and The Chase Manhattan Bank, as trustee, with respect to up to \$86,250,000 principal amount of 5¹/₄% Convertible Subordinated Debentures due June 15, 2005 of Aspen Technology, Inc.
- 4.9(9) Form of 5¹/₄% Convertible Subordinated Debentures due June 15, 2005 of Aspen Technology, Inc. (included in Sections 2.2, 2.3 and 2.4 of the Indenture).
- 4.9(10) Form of Warrant of Aspen Technology, Inc. dated as of May 9, 2002.
- 4.10(1) Form of WD Common Stock Purchase Warrant of Aspen Technology, Inc. dated as of August 14, 2003.
- 4.11(1) Form of WB Common Stock Purchase Warrant of Aspen Technology, Inc. dated as of August 14, 2003.
- 10.1(11) Lease Agreement dated as of January 30, 1992 between Aspen Technology, Inc. and Teachers Insurance and Annuity Association of America regarding Ten Canal Park, Cambridge, Massachusetts.
- 10.2(12) First Amendment to Lease Agreement dated May 5, 1997 between Aspen Technology, Inc. and Beacon Properties, L.P., successor-in- interest to Teachers Insurance and Annuity Association of America, regarding Ten Canal Park, Cambridge, Massachusetts.
- 10.3(12) Second Amendment to Lease Agreement dated as of August 14, 2000 between Aspen Technology, Inc. and EOP-Ten Canal Park, L.L.C., successor-in-interest to Beacon Properties, L.P. regarding Ten Canal Park, Cambridge, Massachusetts.
- 10.4(11) System License Agreement between Aspen Technology, Inc. and the Massachusetts Institute of Technology, dated March 30, 1982, as amended.
- 10.9(11) Vendor Program Agreement between Aspen Technology, Inc. and General Electric Capital Corporation.
- 10.10(13) Rider No. 1, dated December 14, 1994, to Vendor Program Agreement between Aspen Technology, Inc. and General Electric Capital Corporation.
- 10.11(14) Rider No. 2, dated September 4, 2001, to Vendor Program Agreement between Aspen Technology, Inc. and General Electric Capital Corporation.
- 10.12(11) Letter Agreement, dated March 25, 1992, between Aspen Technology, Inc. and Sanwa Business Credit Corporation.
- 10.13(20) Third Amendment, effective as of March 28, 2003, to the Letter Agreement by and between Aspen Technology, Inc. and Fleet Business Credit, LLC (formerly Sanwa Business Credit Corporation).
- 10.14(11) Equity Joint Venture Contract between Aspen Technology, Inc. and China Petrochemical Technology Company.
- 10.15(15) Loan and Security Agreement, dated as of January 30, 2003, by and among Silicon Valley Bank and Aspen Technology, Inc., AspenTech, Inc. and Hyprotech Company.
- 10.16(15) Export-Import Bank Loan and Security Agreement, dated as of January 30, 2003, by and among Silicon Valley Bank, Aspen Technology, Inc. and AspenTech, Inc.
- 10.17(15) Export-Import Bank Borrower Agreement, dated as of January 30, 2003, by and between Aspen Technology, Inc. and AspenTech Inc. in favor of the Export- Import Bank of the United States and Silicon Valley Bank.

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- 10.18(15) Promissory Note (Ex-Im), dated January 30, 2003, by and between Aspen Technology, Inc. and AspenTech, Inc. in favor of Silicon Valley Bank.
- 10.19(15) Form of Negative Pledge Agreement, dated as of January 30, 2003, in favor of Silicon Valley Bank, executed by Aspen Technology, Inc., AspenTech, Inc. and Hyprotech Company.
- 10.20(15) Security Agreement, dated as of January 30, 2003, by and between Silicon Valley Bank and AspenTech Securities Corporation.
- 10.21(15) Unconditional Guaranty, dated as of January 30, 2003, by AspenTech Securities Corporation in favor of Silicon Valley Bank.
- 10.22(16) First Loan Modification Agreement, effective as of June 27, 2003, by and among Silicon Valley Bank, Aspen Technology, Inc. and AspenTech, Inc.
- 10.23(16) Pledge Agreement, effective as of June 27, 2003, by Aspen Technology, Inc. in favor of Silicon Valley Bank.
- 10.24(32) Non-Recourse Receivables Purchase Agreement, dated December 31, 2003, between Silicon Valley Bank and Aspen Technology, Inc.
- 10.26(17) Securities Purchase Agreement dated June 1, 2003 by and among Aspen Technology, Inc. and the Purchasers listed therein.
- 10.27(17) Repurchase and Exchange Agreement dated as of June 1, 2003 by and among Aspen Technology, Inc. and the Holders named therein.
- 10.28(18) Registration Rights Agreement dated June 15, 2001 between Aspen Technology, Inc. and Michael B. Feldman.
- 10.29(18) Registration Rights Agreement dated June 15, 2001 between Aspen Technology, Inc. and the former stockholders of Computer Processes Unlimited, L.L.C.
- 10.30(19) Registration Rights Agreement dated as of February 8, 2002 between Aspen Technology, Inc. and Accenture LLP.
- 10.31(1) Investor Rights Agreement dated as of August 14, 2003 by and among Aspen Technology, Inc. and the Stockholders Named therein.
- 10.32(1) Management Rights Letter dated as of August 14, 2003 by and among Aspen Technology, Inc. and the entities named therein.
- 10.33(21) Amended and Restated Registration Rights Agreement dated as of March 19, 2002 between Aspen Technology, Inc. and the Purchasers named therein.
- 10.34(11)* 1988 Non-Qualified Stock Option Plan, as amended.
- 10.35(22)* 1995 Stock Option Plan.
- 10.36(31)* Amended and Restated 1995 Directors Stock Option Plan.
- 10.37(22)* 1995 Employees' Stock Purchase Plan.
- 10.38(23)* 1998 Employees' Stock Purchase Plan.
- 10.39(24)* Amendment No. 1 to 1998 Employees' Stock Purchase Plan.
- 10.40(25)* 1996 Special Stock Option Plan.
- 10.41(24)* 2001 Stock Option Plan.

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- 10.42(11)* Form of Employee Confidentiality and Non-Competition Agreement.
- 10.43(11)* Noncompetition, Confidentiality and Proprietary Rights Agreement between Aspen Technology, Inc. and Lawrence B. Evans.
- 10.44(16)* Employment and Transition Agreement, dated as of June 30, 2003, by and between Aspen Technology, Inc. and Lawrence B. Evans.
- 10.45(24)* Change in Control Agreement between Aspen Technology, Inc. and David McQuillin dated August 12, 1997.
- 10.46(26)* Severance Agreement between Aspen Technology, Inc. and David L. McQuillin dated September 30, 2002.
- 10.47(15)* Employment Agreement, dated as of November 26, 2002, by and between Aspen Technology, Inc. and David L. McQuillin.
- 10.48(30)* Letter Agreement, dated June 24, 2003, by and between Aspen Technology, Inc. and David L. McQuillin.
- 10.49(26)* Employment Agreement between Aspen Technology, Inc. and Wayne Sim dated May 9, 2002.
- 10.50(26)* Change in Control Agreement between Aspen Technology, Inc. and Wayne Sim dated May 9, 2002.
- 10.51(16)* Letter Agreement, dated June 24, 2003, by and between Aspen Technology, Inc. and Wayne Sim.
- 10.52(27)* Change in Control Agreement between Aspen Technology, Inc. and Stephen J. Doyle dated August 12, 1997.
- 10.53(15)* Employment Agreement, dated as of November 26, 2002, by and between Aspen Technology, Inc. and Stephen J. Doyle.
- 10.54(30)* Letter Agreement, dated June 24, 2003, by and between Aspen Technology, Inc. and Stephen J. Doyle.
- 10.55(30)* Employment Agreement, dated April 1, 2002, by and between Aspen Technology, Inc. and C. Steven Pringle
- 10.56(3)* Letter Agreement, dated June 24, 2003, by and between Aspen Technology, Inc. and C. Steven Pringle.
- 10.57(30)* Offer Letter, dated June 16, 2003, by and between Aspen Technology, Inc. and Charles F. Kane.
- 10.58(30)* Letter Agreement, dated June 24, 2003, by and between Aspen Technology, Inc. and Manolis Kotzabasakis.
- 10.59(16)* Letter Amendment, dated August 18, 2003, by and between Aspen Technology, Inc. and David L. McQuillin.
- 10.60(16)* Letter Amendment, dated August 18, 2003, by and between Aspen Technology, Inc. and Wayne Sim.
- 10.61(16)* Letter Amendment, dated August 18, 2003, by and between Aspen Technology, Inc. and Stephen J. Doyle.
- 10.62(16)* Letter Amendment, dated August 18, 2003, by and between Aspen Technology, Inc. and C. Steve Pringle.

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- 10.63(16)* Letter Amendment, dated August 18, 2003, by and between Aspen Technology, Inc. and Charles F. Kane.
- 10.64(16)* Letter Amendment, dated August 18, 2003, by and between Aspen Technology, Inc. and Manolis Kotzabasakis.
- 10.65(12) Financing Partner Agreement between Aspen Technology, Inc. and IBM Credit Corporation dated June 15, 2000.
- 10.66(29) Securities Purchase Agreement dated as of May 9, 2002 between Aspen Technology, Inc. and the Purchasers listed therein, and related Amendment dated June 5, 2002.
- 10.67(28) Share Purchase Agreement dated as of May 10, 2002 between Aspen Technology, Inc. and AEA Technology plc.
- 10.68(19) Stockholder Agreement dated as of February 8, 2002 between Aspen Technology, Inc. and Accenture LLP.
- 10.69(21) Amended and Restated Securities Purchase Agreement dated as of March 19, 2002 between Aspen Technology, Inc. and the Purchasers named therein.
- 10.70(33) First Loan Modification Agreement (Exim), dated as of September 10, 2004, by and among Aspen Technology, Inc., AspenTech, Inc. and Silicon Valley Bank.
- 10.71(33) Second Loan Modification Agreement, dated as of September 10, 2004, by and among Aspen Technology, Inc., AspenTech, Inc. and Silicon Valley Bank.
- 21.1(33) Subsidiaries of Aspen Technology, Inc.
 - 23.1 Consent of Independent Registered Public Accounting Firm.
 - 24.1 Power of Attorney (included in signature page to Amendment No. 1 on Form 10-K/A).
 - 31.1 Certification of President and Chief Executive Officer pursuant to Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
 - 31.2 Certification of Senior Vice President and Chief Financial Officer pursuant to Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
 - 32.1 Certification of President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
 - 32.2 Certification of Senior 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

-
- (1) Previously filed as an exhibit to the Current Report on Form 8-K of Aspen Technology, Inc. dated August 21, 2003 (filed on August 22, 2003), and incorporated herein by reference.
 - (2) Previously filed as an exhibit to the Current Report on Form 8-K of Aspen Technology, Inc. dated March 12, 1998 (filed on March 27, 1998), and incorporated herein by reference.
 - (3) Previously filed as an exhibit to Amendment No. 1 to the Registration Statement on Form 8-A of Aspen Technology, Inc. (filed on June 12, 1998), and incorporated herein by reference.
 - (4) Previously filed as an exhibit to Amendment No. 2 to the Registration Statement on Form 8-A of Aspen Technology, Inc. filed on November 8, 2001, and incorporated herein by reference.
 - (5) Previously filed as an exhibit to Amendment No. 3 to the Registration Statement on Form 8-A of Aspen Technology, Inc. filed on February 12, 2002, and incorporated herein by reference.

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- (6) Previously filed as an exhibit to Amendment No. 4 to the Registration Statement on Form 8-A of Aspen Technology, Inc. filed on March 20, 2002, and incorporated herein by reference.
- (7) Previously filed as an exhibit to Amendment No. 5 to the Registration Statement on Form 8-A of Aspen Technology, Inc. filed on May 31, 2002, and incorporated herein by reference.
- (8) Previously filed as an exhibit to Amendment No. 6 to Form 8-A of Aspen Technology, Inc. filed on June 2, 2003, and incorporated herein by reference.
- (9) Previously filed as an exhibit to the Current Report on Form 8-K of Aspen Technology, Inc. dated June 17, 1998 (filed on June 19, 1998), and incorporated herein by reference.
- (10) Previously filed as an exhibit to the Current Report on Form 8-K of Aspen Technology, Inc. dated June 5, 2002 (filed on June 7, 2002), and incorporated herein by reference.
- (11) Previously filed as an exhibit to the Registration Statement on Form S-1 of Aspen Technology, Inc. (Registration No. 33-83916) (filed on September 13, 1994), and incorporated herein by reference.
- (12) Previously filed as an exhibit to the Annual Report on Form 10-K of Aspen Technology, Inc. for the fiscal year ended June 30, 2000, and incorporated herein by reference.
- (13) Previously filed as an exhibit to the Registration Statement on Form S-1 of Aspen Technology, Inc. (Registration No. 33-88734) (filed on January 29, 1995), and incorporated herein by reference.
- (14) Previously filed as an exhibit to the Annual Report on Form 10-K of Aspen Technology, Inc. for the fiscal year ended June 30, 2001, and incorporated herein by reference.
- (15) Previously filed as an exhibit to the Quarterly Report on Form 10-Q of Aspen Technology, Inc. for the fiscal quarter ended December 31, 2002, and incorporated herein by reference.
- (16) Previously filed as an exhibit to the Annual Report on Form 10-K of Aspen Technology, Inc. for the fiscal year ended June 30, 2003, and incorporated herein by reference.
- (17) Previously filed as an exhibit to the Current Report on Form 8-K of Aspen Technology, Inc. filed on June 2, 2003, and incorporated herein by reference.
- (18) Previously filed as an exhibit to the Registration Statement on Form S-3 of Aspen Technology, Inc. (Registration No. 333-63208) (filed on June 15, 2001), and incorporated herein by reference.
- (19) Previously filed as an exhibit to the Current Report on Form 8-K of Aspen Technology, Inc. dated February 12, 2002 (filed on February 12, 2002), and incorporated herein by reference.
- (20) Previously filed as an exhibit to the Quarterly Report on Form 10-Q of Aspen Technology, Inc. for the fiscal quarter ended March 31, 2002, and incorporated herein by reference.
- (21)

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Previously filed as an exhibit to the Current Report on Form 8-K filed by Aspen Technology, Inc. on March 19, 2002, and incorporated herein by reference.

(22) Previously filed as an exhibit to the Registration Statement on Form S-8 of Aspen Technology, Inc. (Registration No. 333-11651) (filed on September 9, 1996), and incorporated herein by reference.

(23) Previously filed as an exhibit to the Registration Statement on Form S-8 of Aspen Technology, Inc. (Registration No. 333-44575) (filed on January 20, 1998), and incorporated herein by reference.

(24) Previously filed as an exhibit to the Definitive Proxy Statement on Schedule 14A of Aspen Technology, Inc. filed November 13, 2000, and incorporated herein by reference.

(25) Previously filed as an exhibit to the Annual Report on Form 10-K of Aspen Technology, Inc. for the fiscal year ended June 30, 1997, and incorporated herein by reference.

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- (26) Previously filed as an exhibit to the Annual Report on Form 10-K of Aspen Technology, Inc. for the fiscal year ended June 30, 2002, and incorporated herein by reference.
- (27) Previously filed as an exhibit to the Registration Statement on Form S-8 of Aspen Technology, Inc. (Registration No. 333-42536) (filed on July 28, 2000), and incorporated herein by reference.
- (28) Previously filed as an exhibit to the Current Report on Form 8-K of Aspen Technology, Inc. dated June 5, 2002 (filed on June 6, 2002), and incorporated herein by reference.
- (29) Previously filed as an exhibit to the Current Report on Form 8-K of Aspen Technology, Inc. dated May 31, 2002 (filed on May 31, 2002), and incorporated herein by reference.
- (30) Previously filed as an exhibit to the Current Report on Form 8-K of Aspen Technology, Inc. dated July 11, 2003 (filed on July 11, 2003), and incorporated herein by reference.
- (31) Previously filed as an exhibit to the Definitive Proxy Statement on Schedule 14A of Aspen Technology Inc. filed on July 11, 2003 and incorporated herein by reference.
- (32) Previously filed as an exhibit to the Quarterly Report on Form 10-Q of Aspen Technology, Inc. for the fiscal quarter ended December 31, 2003, and incorporated herein by reference.
- (33) Previously filed as an exhibit to the Annual Report on Form 10-K of Aspen Technology, Inc. for the fiscal year ended June 30, 2004, and incorporated herein by reference.

Confidential treatment requested as to certain portions

- *
Management contract of compensatory plan

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment No. 1 on Form 10-K/A to be signed on its behalf by the undersigned, thereunto duly authorized.

ASPEN TECHNOLOGY, INC.

Date: March 15, 2005

By: /s/ MARK FUSCO

Mark Fusco
President and Chief Executive Officer

Date: March 15, 2005

By: /s/ CHARLES F. KANE

Charles F. Kane
*Senior Vice President and
Chief Financial Officer*

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We, the undersigned officers and directors of Aspen Technology, Inc., hereby severally constitute and appoint Mark Fusco, Charles F. Kane and Stephen J. Doyle, and each of them singly, our true and lawful attorneys with full power to them, and each of them singly, to sign for us and in our names in the capacities indicated below, the Amendment No. 1 on Form 10-K/A (the "Form 10-K/A") to Annual Report on Form 10-K (the "Annual Report") filed herewith and any and all further amendments to the Annual Report and generally to do all such things in our names and on our behalf in our capacities as officers and directors to enable Aspen Technology, Inc. to comply with the provisions of the Securities Exchange Act of 1934 and all requirements of the Securities and Exchange Commission, hereby ratifying and confirming our signatures as they may be signed by our said attorneys, or any of them, to said Amendment No. 1 on Form 10-K/A and any and all amendments to the Annual Report.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Amendment No. 1 on Form 10-K/A has been signed below by the following persons on behalf of the Registrant and in the capacities indicated as of March 15, 2005.

Signature	Title
<hr/> /s/ MARK FUSCO <hr/> Mark Fusco	President and Chief Executive Officer (Principal Executive Officer)
<hr/> /s/ CHARLES F. KANE <hr/> Charles F. Kane	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
<hr/> /s/ STEPHEN M. JENNINGS <hr/> Stephen M. Jennings	Chairman of the Board of Directors
<hr/> /s/ DONALD P. CASEY <hr/> Donald P. Casey	Director
<hr/> /s/ MARK FUSCO <hr/> Mark Fusco	Director
<hr/> /s/ GARY E. HAROIAN <hr/> Gary E. Haroian	Director
<hr/> /s/ DOUGLAS A. KINGSLEY <hr/> Douglas A. Kingsley	Director
<hr/> /s/ JOAN C. MCARDLE <hr/> Joan C. McArdle	Director
<hr/> /s/ MICHAEL PEHL <hr/> Michael Pehl	Director

ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

Consolidated Financial Statements:

Balance Sheets (as restated) as of June 30, 2003 and 2004

Statements of Operations (as restated) for the years ended June 30, 2002, 2003 and 2004

Statements of Stockholders' Equity and Comprehensive Income (Loss) (as restated) for the years ended June 30, 2002, 2003 and 2004

Statements of Cash Flows (as restated) for the years ended June 30, 2002, 2003 and 2004

Notes to Consolidated Financial Statements

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Aspen Technology, Inc.:
Cambridge, Massachusetts

We have audited the accompanying consolidated balance sheets of Aspen Technology, Inc. and subsidiaries (the "Company") as of June 30, 2003 and 2004, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the three years in the period ended June 30, 2004. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2003 and 2004, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2004, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects the information set forth therein.

As discussed in Note 18, the accompanying consolidated financial statements and the financial statement schedule listed in the Index at Item 15(a)(2) have been restated.

/s/ DELOITTE & TOUCHE LLP

Boston, Massachusetts
September 13, 2004 (March 15, 2005 as to the effects of Notes 18 and as to 19)

ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	June 30,	
	2003 (As restated, see Note 18)	2004 (As restated, see Note 18)
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 51,567	\$ 107,677
Accounts receivable, net of allowance for doubtful accounts of \$2,503 in 2003 and \$3,697 in 2004	76,080	50,874
Unbilled services	15,279	15,518
Current portion of long-term installments receivable, net of unamortized discount of \$2,033 in 2003 and \$962 in 2004	34,813	25,244
Deferred tax asset	2,929	31
Prepaid expenses and other current assets	11,581	10,084
	<u>192,249</u>	<u>209,428</u>
Total current assets	192,249	209,428
Long-term installments receivable, net of unamortized discount of \$13,684 in 2003 and \$14,161 in 2004	70,715	65,527
Property and leasehold improvements, at cost:		
Building and improvements	1,663	1,828
Computer equipment	52,847	15,074
Purchased software	45,939	30,756
Furniture and fixtures	17,061	7,713
Leasehold improvements	10,506	7,924
	<u>128,016</u>	<u>63,295</u>
Less Accumulated depreciation and amortization	96,858	44,631
	<u>31,158</u>	<u>18,664</u>
Computer software development costs, net of accumulated amortization of \$25,085 in 2003 and \$29,806 in 2004	17,728	16,863
Purchased intellectual property, net of accumulated amortization of \$400 in 2003 and \$966 in 2004	1,861	1,295
Other intangible assets, net of accumulated amortization of \$20,354 in 2003 and \$28,161 in 2004	26,946	19,571
Goodwill	14,333	14,736
Deferred tax asset	13,831	2,492
Other assets	5,445	3,158
	<u>\$ 374,266</u>	<u>\$ 351,734</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term obligations	\$ 3,849	\$ 58,595
Amount owed to Accenture	8,162	
Accounts payable	8,622	7,689
Accrued expenses	68,743	75,426
Unearned revenue	27,926	18,051
Deferred revenue	38,159	33,462
Deferred tax liability		325
	<u>155,461</u>	<u>193,548</u>
Total current liabilities	155,461	193,548
Long-term obligations, less current portion	89,911	1,952
Deferred revenue, less current portion	9,815	5,363
Deferred tax liability	14,578	4,220
Other liabilities	16,009	11,527
Commitments and contingencies (Notes 10, 11, 12 and 13)		

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	<u>June 30,</u>	
Series B redeemable convertible preferred stock, \$0.10 par value Authorized, issued and outstanding 60,000 shares in 2003	57,537	
Series D redeemable convertible preferred stock, \$0.10 par value Authorized 367,000 shares in 2004 Issued and outstanding 363,364 shares in 2004 (Liquidation preference of \$129,690 as of June 30, 2004)		106,761
Stockholders' equity:		
Common stock, \$0.10 par value Authorized 120,000,000 shares Issued 39,279,268 shares in 2003 and 41,716,887 shares in 2004 Outstanding 39,045,804 shares in 2003 and 41,483,423 shares in 2004	3,929	4,173
Additional paid-in capital	315,726	338,804
Accumulated deficit	(286,742)	(314,906)
Treasury stock, at cost 233,464 shares of common stock in 2003 and 2004	(513)	(513)
Accumulated other comprehensive income (loss)	(1,445)	805
	<u>30,955</u>	<u>28,363</u>
Total stockholders' equity	<u>\$ 374,266</u>	<u>\$ 351,734</u>

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

ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended June 30,		
	2002 (As restated, see Note 18)	2003 (As restated, see Note 18)	2004 (As restated, see Note 18)
(In thousands, except per share data)			
Revenues:			
Software licenses	\$ 136,377	\$ 162,354	\$ 158,661
Service and other	186,005	184,102	174,335
Total revenues	322,382	346,456	332,996
Cost of revenues:			
Cost of software licenses	11,830	13,916	15,577
Cost of service and other	118,772	106,868	99,183
Amortization of technology related intangible assets	5,042	8,219	7,270
Impairment of technology related intangible and computer software development assets	1,169	8,704	3,250
Total cost of revenues	136,813	137,707	125,280
Gross profit	185,569	208,749	207,716
Operating costs:			
Selling and marketing	114,755	105,879	100,028
Research and development	74,176	65,143	58,955
General and administrative	29,673	29,644	32,727
Long-lived asset impairment charges		105,543	967
Restructuring charges and FTC legal costs	14,914	41,080	20,085
Charges for in-process research and development	14,900		
Loss (gain) on sales and disposals of assets	(346)	(52)	(879)
Total operating costs	248,072	347,237	211,883
Income (loss) from operations	(62,503)	(138,488)	(4,167)
Interest income	6,209	8,191	7,296
Interest expense	(5,591)	(7,132)	(4,940)
Write-off of investments	(8,923)		
Foreign currency exchange gain (loss)	(1,424)	(195)	252
Income (loss) before provision for income taxes and equity in earnings from joint ventures	(72,232)	(137,624)	(1,559)
Provision for income taxes	(3,599)	(1,076)	(19,896)
Equity in earnings from joint ventures	(166)	(514)	(351)
Net income (loss)	(75,997)	(139,214)	(21,806)
Accretion of preferred stock discount and dividend	(6,301)	(9,184)	(6,358)

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	Years Ended June 30,		
	_____	_____	_____
Net income (loss) attributable to common shareholders	\$ (82,298)	\$ (148,398)	\$ (28,164)
Basic and diluted net income (loss) per share attributable to common shareholders	\$ (2.55)	\$ (3.86)	\$ (0.69)
Basic and diluted weighted average shares outstanding	32,308	38,476	40,575

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

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ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

	Series B Convertible Preferred Stock		Common Stock				Treasury Stock			Total Comprehensive Income (Loss)		
	Number of Shares	Carrying Value	Number of Shares	\$0.10 Par Value	Additional Paid-in Capital	Accumulated Deficit	Notes Receivable	Accumulated Other Comprehensive Income (Loss)	Number of Shares		Cost	Stockholders' Equity
(In thousands, except share data)												
Balance, June 30, 2001 (As previously reported)		\$	31,576,924	\$ 3,157	\$ 228,976	\$ (24,127)	\$ (1,400)	\$ (283)	\$ (4,751)	230,430	\$ (502)	\$ 201,070
Adjustment to accumulated deficit in connection with restatement (see Note 18)						(31,919)						(31,919)
Balance, June 30, 2001 (As Restated, See Note 18)			31,576,924	3,157	228,976	(56,046)	(1,400)	(283)	(4,751)	230,430	(502)	169,151
Issuance of common stock under employee stock purchase plans			313,337	31	5,275							5,306
Exercise of stock options and warrants			185,625	19	1,600							1,619
Issuance of Series B convertible preferred stock and common stock warrants, net of issuance costs	60,000	48,544			8,044							56,588
Beneficial conversion feature embedded in Series B convertible preferred stock		(3,232)			3,232							
Issuance of common stock and common stock warrants, net of issuance costs			4,166,665	417	47,539							47,956
Issuance of common stock in settlement of obligation subject to common stock settlement			1,641,672	164	18,336							18,500

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	Series B Convertible Preferred Stock																			
Return of escrowed shares issued to Optimum Logistics Ltd											(58,540)	(6)	(2,084)							(2,090)
Reversal of unvested and forfeited restricted common stock											(94,500)	(9)	(1,739)	1,209	283					(256)
Accretion of discount on Series B convertible preferred stock											5,441			(5,441)						
Accrual of Series B convertible preferred stock dividend													860	(860)						
Translation adjustment, not tax effected																2,268			2,268	2,268
Unrealized market gain on investments, net of tax effect																(199)			(199)	(199)
Amortization of deferred compensation														191					191	
Net loss (As Restated, see Note 18)													(75,997)						(75,997)	(75,997)
Comprehensive loss for the year ended June 30, 2002 (As Restated, see Note 18)																				\$ (73,928)
Balance, June 30, 2002 (As Restated, See Note 18)	60,000	\$ 50,753	37,731,183	\$ 3,773	\$ 310,039	\$ (138,344)	\$	\$	\$ (2,682)	230,430	\$ (502)	\$ 223,037								

ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

	Series B Convertible Preferred Stock		Common Stock				Accumulated Notes Receivable		Other Comprehensive Income (Loss)		Treasury Stock		Total Comprehensive Income (Loss)
	Number of Shares	Carrying Value	Number of Shares	\$0.10 Par Value	Additional Paid-in Capital	Accumulated Deficit	Deferred Stock	From Stockholders	Number of Shares	Cost	Stockholders' Equity		
(In thousands, except share data)													
Balance, June 30, 2002 (As Restated, see Note 18)	60,000	\$ 50,753	37,731,183	\$ 3,773	\$ 310,039	\$ (138,344)	\$	\$	(2,682)	230,430	\$ (502)	\$ 223,037	
Issuance of common stock under employee stock purchase plans			759,771	76	3,217							3,293	
Exercise of stock options			56,934	6	144							150	
Issuance of common stock in settlement of Series B convertible preferred stock dividend			731,380	74	(74)								
Accrual of Series B convertible preferred stock dividend					2,400	(2,400)							
Accretion of discount on Series B convertible preferred stock		6,784				(6,784)							
Modification of Series B convertible preferred stock	(60,000)	(57,537)										(57,537)	
Reacquisition of common shares issued to CPU									3,034	(11)		(11)	
Translation adjustment, not tax effected								1,364				1,364	\$ 1,364
Unrealized market gain on investments, net of tax effect								(127)				(127)	(127)
Net loss (As Restated, see Note 18)						(139,214)						(139,214)	(139,214)
Comprehensive loss for the year ended June 30, 2003 (As Restated, see Note 18)													\$ (137,977)

	Series B Convertible Preferred Stock											
Balance, June 30, 2003 (As Restated, See Note 18)	\$	39,279,268	\$ 3,929	\$ 315,726	\$ (286,742)	\$	\$	(1,445)	233,464	\$ (513)	\$	30,955

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ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

	Series B Convertible Preferred Stock		Common Stock				Accumulated Notes Receivable From Stockholders		Treasury Stock		Accumulated Other Comprehensive Income (Loss)		Total Comprehensive Income (Loss)
	Number of Shares	Carrying Value	Number of Shares	\$0.10 Par Value	Additional Paid-in Capital	Accumulated Deficit	Compensation Accrual	Number of Shares	Cost	Number of Shares	Cost	Stockholders' Equity	(Loss)
(In thousands, except share data)													
Balance, June 30, 2003 (As Restated, See Note 18)		\$ 39,279,268	\$ 3,929	\$ 315,726	\$ (286,742)	\$	\$	(1,445)	233,464	\$ (513)	\$	30,955	
Issuance of common stock under employee stock purchase plans		976,960	98	2,924								3,022	
Exercise of stock options		1,321,997	132	3,989								4,121	
Exercise of warrant to purchase common stock		17,922	2	(2)									
Issuance of common stock in settlement of Series B redeemable convertible preferred stock dividend		120,740	12	(12)									
Accrual of Series B redeemable convertible preferred stock dividend				296	(296)								
Accretion of discount on Series B redeemable convertible preferred stock					(643)							(643)	
Payment of dividend on Series B redeemable convertible preferred stock				(296)								(296)	
Gain on retirement of Series B redeemable preferred stock					6,452							6,452	
Record value of warrants issued in conjunction with the issuance of Series D redeemable convertible preferred stock				16,179								16,179	
					(8,690)							(8,690)	

	Series B Convertible Preferred Stock			
Accrual of Series D redeemable convertible preferred stock dividend				
Accretion of discount on Series D redeemable convertible preferred stock	(3,181)		(3,181)	
Translation adjustment, not tax effected		2,250	2,250	\$ 2,250
Net loss (As Restated, see Note 18)	(21,806)		(21,806)	(21,806)
Comprehensive loss for the year ended June 30, 2004 (As Restated, see Note 18)				\$ (19,556)
<hr/>				
Balance, June 30, 2004 (As Restated, See Note 18)	\$ 41,716,887	\$ 4,173	\$ 338,804	\$ (314,906)
			\$ 805	233,464
				\$ (513)
				\$ 28,363

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

ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended June 30,		
	2002	2003	2004
	(As Restated, see Note 18)	(As Restated, see Note 18)	(As Restated, see Note 18)
	(In thousands)		
Cash flows from operating activities:			
Net income (loss)	\$ (75,997)	\$ (139,214)	\$ (21,806)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	25,039	31,480	26,959
Asset impairment charges and write-offs under restructuring charges	1,169	112,897	6,018
Charges for in-process research and development	14,900		
Write-off of investments	8,923		
Deferred stock-based compensation	(65)		
(Gain) loss on the disposal of property		288	(170)
Gain on repurchase of convertible debt			(299)
Deferred income taxes	1,222	30	4,204
Research and development costs subject to common stock settlement	924	1,082	
Changes in assets and liabilities			
Accounts receivable	1,357	19,159	26,881
Unbilled services	333	16,714	604
Prepaid expenses and other current assets	(1,720)	7,658	3,457
Long-term installments receivable	4,417	(5,753)	15,233
Accounts payable and accrued expenses	9,014	(10,240)	4,179
Unearned revenue	2,072	(12,984)	(10,424)
Deferred revenue	(624)	(2,689)	(9,418)
Other liabilities	190	3,815	(4,482)
	(8,846)	22,243	40,936
Net cash provided by (used in) operating activities	(8,846)	22,243	40,936
Cash flows from investing activities:			
Purchase of property and leasehold improvements	(12,863)	(5,235)	(2,711)
Proceeds from sale of property	1,725		1,096
Capitalized computer software development costs	(7,986)	(7,661)	(8,247)
(Increase) decrease in other assets	(1,752)	1,135	2,432
Decrease in short-term investments	12,257	18,535	
Cash used in the purchase of businesses, net of cash acquired	(92,887)		(200)
	(101,506)	6,774	(7,630)
Net cash provided by (used in) investing activities	(101,506)	6,774	(7,630)
Cash flows from financing activities:			
Issuance of common stock and common stock warrants, net of issuance costs	47,956		
Issuance of Series B convertible preferred stock and common stock warrants, net of issuance costs	56,588		
Issuance of Series D redeemable convertible preferred stock and common stock warrants, net of issuance costs			89,341
Retirement of Series B redeemable convertible preferred stock			(30,000)
Payment of Series B redeemable convertible preferred stock dividend			(296)
Payment of amounts owed to Accenture		(8,433)	(10,068)
Issuance of common stock under employee stock purchase plans	5,306	3,293	3,022
Exercise of stock options and warrants	1,619	150	4,121
Payments of long-term debt and capital lease obligations	(4,305)	(6,603)	(4,733)
Repurchase of convertible debt			(29,196)
	107,164	(11,593)	22,191
Net cash provided by (used in) financing activities	107,164	(11,593)	22,191
Effect of exchange rate changes on cash and cash equivalents	126	572	613
	(3,062)	17,996	56,110
Increase (decrease) in cash and cash equivalents	(3,062)	17,996	56,110

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	Years Ended June 30,		
	2019	2018	2017
Cash and cash equivalents, beginning of year	36,633	33,571	51,567
Cash and cash equivalents, end of year	\$ 33,571	\$ 51,567	\$ 107,677
Supplemental disclosure of cash flow information:			
Income taxes paid	\$ 1,955	\$ 1,695	\$ 6,569
Interest paid	\$ 4,841	\$ 5,902	\$ 5,967
Supplemental disclosure of non-cash financing activities:			
Accretion of discount on Series B redeemable convertible preferred stock	\$ 2,209	\$ 6,784	\$ 643
Accretion of discount on Series D redeemable convertible preferred stock	\$	\$	\$ 3,181
Preferred stock dividend due to beneficial conversion feature of Series B convertible preferred stock	\$ 3,232	\$	\$
Issuance of common stock in settlement of obligation subject to common stock settlement	\$ 18,500	\$	\$
Modification of Series B convertible preferred stock to Series B redeemable convertible preferred stock	\$	\$ 57,537	\$
Issuance of common stock in settlement of Series B convertible preferred stock dividend	\$	\$ 2,662	\$ 598
Supplemental disclosure of cash flows related to acquisitions:			
The Company acquired certain companies as described in Note 4. These acquisitions are summarized as follows:			
Fair value of assets acquired, excluding cash	\$ 139,591	\$ 3,027	\$ 525
Payments in connection with the acquisitions, net of cash acquired	(92,887)	-	(200)
Charge for in-process research and development	14,900	-	-
Liabilities assumed	\$ 61,604	\$ 3,027	\$ 325

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

ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Operations

Aspen Technology, Inc. (the Company) and its subsidiaries is a leading supplier of integrated software and services to the process industries, which consist of petroleum, chemicals, pharmaceutical and other industries that provide products from a chemical process. The Company develops two types of software to design, operate, manage and optimize its customers' key business processes engineering software and manufacturing/supply chain software.

(2) Significant Accounting Policies*(a) Principles of Consolidation*

The accompanying consolidated financial statements include the results of operations of the Company and its wholly owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

(b) Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Cash and Cash Equivalents and Short-Term Investments

Cash and cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less.

Securities purchased to be held for indefinite periods of time, and not intended at the time of purchase to be held until maturity, are classified as available-for-sale securities. Unrealized gains and losses have been accounted for as a component of comprehensive income (loss). Realized investment gains and losses were not material in fiscal 2002, 2003 or 2004.

Cash and cash equivalents as of June 30, 2003 and 2004 were as follows (in thousands):

Description	Contracted Maturity	June 30, 2003		June 30, 2004	
		Total Market Value	Total Amortized Cost	Total Market Value	Total Amortized Cost
Cash and cash equivalents	N/A	\$ 22,412	\$ 22,412	\$ 75,498	\$ 75,498
Money market funds	0-3 months	29,155	29,155	32,179	32,179
Total cash and cash equivalents		\$ 51,567	\$ 51,567	\$ 107,677	\$ 107,677

(d) Derivative Instruments and Hedging

The Company follows the provisions of Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133, as amended by SFAS No. 138, requires that all derivatives, including foreign currency exchange contracts, be recognized on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair

value through earnings. If a derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative are either offset against the change in fair value of assets, liabilities or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings.

Forward foreign exchange contracts are used primarily by the Company to hedge certain balance sheet exposures resulting from changes in foreign currency exchange rates. Such exposures primarily result from portions of the Company's installment receivables that are denominated in currencies other than the U.S. dollar, primarily the Japanese Yen and the British Pound Sterling. These foreign exchange contracts are entered into to hedge recorded installments receivable made in the normal course of business, and accordingly are not speculative in nature. As part of its overall strategy to manage the level of exposure to the risk of foreign currency exchange rate fluctuations, the Company hedges the majority of its installments receivable denominated in foreign currencies.

In addition, in May 2002, as part of the acquisition of Hyprotech Ltd. and related subsidiaries of AEA Technology plc (collectively, Hyprotech), the Company initiated loans with two foreign subsidiaries. The two loans, denominated in British pounds and Canadian dollars, were intended to be a natural hedge against foreign currency risk associated with installment receivable contracts acquired with Hyprotech that were denominated in a currency other than their functional currency. The loan denominated in British pounds was repaid in December 2003 and the loan denominated in Canadian dollars was repaid in January 2004.

At June 30, 2004, the Company had effectively hedged \$19.9 million of installments receivable and accounts receivable denominated in foreign currency. The Company does not hold or transact in financial instruments for purposes other than to hedge foreign currency risk. The gross value of the long-term installments receivable that were denominated in foreign currency was \$25.2 million at June 30, 2003 and \$21.7 million at June 30, 2004. The installments receivable held as of June 2004 mature at various times through November 2009. There have been no material gains or losses recorded relating to hedge contracts for the periods presented.

The Company records its foreign currency exchange contracts at fair value in its consolidated balance sheet and the related gains or losses on these hedge contracts are recognized in earnings. Gains and losses resulting from the impact of currency exchange rate movements on forward foreign exchange contracts are designated to offset certain accounts and installments receivable and are recognized as other income or expense in the period in which the exchange rates change and offset the foreign currency losses and gains on the underlying exposures being hedged. During fiscal 2002, 2003 and 2004 the net gain recognized in the consolidated statements of operations was not material. A small portion of the forward foreign currency exchange contract is designated to hedge the future interest income of the related receivables. The ineffective portion of a derivative's change in fair value is recognized currently through earnings regardless of whether the instrument is designated as a hedge. The gains and losses resulting from the impact of currency rate movements on forward currency exchange contracts are recognized in other comprehensive income for this portion of the hedge. During fiscal 2004, net loss deferred in other comprehensive income was not material.

The following table provides information about the Company's foreign currency derivative financial instruments outstanding as of June 30, 2004. The information is provided in U.S. dollar amounts, as

presented in the Company's consolidated financial statements. The table presents the notional amount (at contract exchange rates) and the weighted average contractual foreign currency rates:

Currency	Notional Amount	Estimated Fair Value*	Average Contract Rate
(In thousands)			
Euro	\$ 10,431	\$ 10,700	0.84
Japanese Yen	5,697	5,644	108.05
Canadian Dollar	2,649	2,721	1.37
British Pound Sterling	1,129	1,205	0.59
Total	\$ 19,906	\$ 20,270	

Payments on the hedged receivables due during fiscal 2005 equal \$19.8 million.

*

The estimated fair value is based on the estimated amount at which the contracts could be settled based on the spot rates as of June 30, 2004. The market risk associated with these instruments resulting from currency exchange rate movements is expected to offset the market risk of the underlying installments being hedged. The credit risk is that the Company's banking counterparties may be unable to meet the terms of the agreements. The Company minimizes such risk by limiting its counterparties to major financial institutions. In addition, the potential risk of loss with any one party resulting from this type of credit risk is monitored. Management does not expect any loss as a result of default by other parties. However, there can be no assurances that the Company will be able to mitigate market and credit risks described above.

(e) Depreciation and Amortization

The Company provides for depreciation and amortization, primarily computed using the straight-line method, by charges to operations in amounts estimated to allocate the cost of the assets over their estimated useful lives, as follows:

Asset Classification	Estimated Useful Life
Building and improvements	7-30 years
Computer equipment	3 years
Purchased software	3-5 years
Furniture and fixtures	3-10 years
Leasehold improvements	Life of lease or asset, whichever is shorter

Depreciation expense was \$15.1 million, \$16.4 million and \$13.1 million for the years ended June 30, 2002, 2003 and 2004, respectively. During the year ended June 30, 2004, the Company began the process of conducting a physical inventory of all its property and leasehold improvements. During the inventory process, a number of fully depreciated assets were identified as no longer being in service. As a result, the Company removed from the property and leasehold improvement accounts cost and accumulated depreciation of approximately \$52.0 million. Since the assets had been fully depreciated, there was no material impact on the statement of operations.

(f) Revenue Recognition

The Company recognizes revenue in accordance with Statement of Position (SOP) No. 97-2, "Software Revenue Recognition," as amended and interpreted. License revenue, including license renewals, consists principally of revenue earned under fixed-term and perpetual software license agreements and is generally recognized upon shipment of the software if collection of the resulting receivable is probable, the fee is fixed or determinable, and vendor-specific objective evidence (VSOE) of fair value exists for all undelivered elements. The Company determines VSOE based upon the price charged when the same element is sold separately. Maintenance and support VSOE represents a consistent percentage of the license fees charged to customers. Consulting services VSOE represents standard rates that the Company charges its customers when the Company sells its consulting services separately. For an element not yet being sold separately, VSOE represents the price established by management having the relevant authority when it is probable that the price, once established, will not change before the separate introduction of the element into the marketplace. Revenue under license arrangements, which may include several different software products and services sold together, are allocated to each element based on the residual method in accordance with SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions." Under the residual method, the fair value of the undelivered elements is deferred and subsequently recognized when earned. The Company has established sufficient VSOE for professional services, training and maintenance and support services. Accordingly, software license revenues are recognized under the residual method in arrangements in which software is licensed with professional services, training and maintenance and support services. The Company uses installment contracts as a standard business practice and has a history of successfully collecting under the original payment terms without making concessions on payments, products or services.

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

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

Service revenues from fixed-price contracts are recognized using the proportional performance method, measured by the percentage of costs (primarily labor) incurred to date as compared to the estimated total costs (primarily labor) for each contract. When a loss is anticipated on a contract, the full amount thereof is provided currently. Service revenues from time and expense contracts and consulting and training revenue are recognized as the related services are performed. Services that have been performed but for which billings have not been made are recorded as unbilled services, and billings that have been recorded before the services have been performed are recorded as unearned revenue in the accompanying consolidated balance sheets. In accordance with the Emerging Issues Task Force (EITF) Issue No. 01-14, "Income Statement Characterization of Reimbursements Received for

"Out-of-Pocket' Expenses Incurred," reimbursement received for out-of-pocket expenses is recorded as revenue and not as a reduction of expenses.

(g) Computer Software Development Costs

Certain computer software development costs are capitalized in the accompanying consolidated balance sheets. Capitalization of computer software development costs begins upon the establishment of technological feasibility. In accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or otherwise Marketed", the Company defines the establishment of technological feasibility as the completion of a detail program design. Amortization of capitalized computer software development costs is provided on a product-by-product basis using the straight-line method, beginning upon commercial release of the product, and continuing over the remaining estimated economic life of the product, not to exceed three years. Total amortization expense charged to operations was approximately \$4.6 million, \$5.1 million and \$6.5 million in fiscal 2002, 2003 and 2004, respectively. During the years ended June 30, 2003 and 2004, the Company recorded impairment charges associated with the capitalized computer software development costs of certain products, totaling \$2.9 million and \$3.3 million, respectively (see Note 2(m)).

(h) Foreign Currency Translation

The financial statements of the Company's foreign subsidiaries are translated in accordance with SFAS No. 52, "Foreign Currency Translation". The determination of functional currency is based on the subsidiaries' relative financial and operational independence from the Company. Foreign currency exchange gains or losses for certain wholly owned subsidiaries are credited or charged to the accompanying consolidated statements of operations since the functional currency of the subsidiaries is the U.S. dollar. Foreign currency transaction gains or losses are credited or charged to the accompanying consolidated statements of operations as incurred. Gains and losses from foreign currency translation related to entities whose functional currency is their local currency are credited or charged to the accumulated other comprehensive income (loss) account, included in stockholders' equity in the accompanying consolidated balance sheets.

(i) Net Income (Loss) per Share

Basic earnings per share was determined by dividing net income (loss) attributable to common shareholders by the weighted average common shares outstanding during the period. Diluted earnings per share was determined by dividing net income (loss) attributable to common shareholders by diluted weighted average shares outstanding. Diluted weighted average shares reflects the dilutive effect, if any, of potential common shares. To the extent their effect is dilutive, potential common shares include common stock options and warrants, based on the treasury stock method, convertible debentures and preferred stock, based on the if-converted method, and other commitments to be settled in common stock. The calculations of basic and diluted net income (loss) per share attributable to common

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shareholders and basic and diluted weighted average shares outstanding are as follows (in thousands, except per share data):

	Years Ended June 30,		
	2002	2003	2004
Net income (loss) attributable to common shareholders	\$ (82,298)	\$ (148,398)	\$ (28,164)
Basic weighted average common shares outstanding	32,308	38,476	40,575
Weighted average potential common shares			
Diluted weighted average shares outstanding	32,308	38,476	40,575
Basic net income (loss) per share attributable to common shareholders	\$ (2.55)	\$ (3.86)	\$ (0.69)
Diluted net income (loss) per share attributable to common shareholders	\$ (2.55)	\$ (3.86)	\$ (0.69)

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

	Years Ended June 30,		
	2002	2003	2004
Convertible preferred stock	3,135	3,135	36,336
Options and warrants	11,000	9,965	21,457
Convertible debt	1,628	1,628	1,071
Obligation subject to common stock settlement	1,549	1,159	
Preferred stock dividend, to be settled in common stock	116	121	1,197
Total	17,428	16,008	60,061

(j) Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk are principally cash and cash equivalents, short-term investments, accounts receivable and installments receivable. The Company places its cash and cash equivalents and investments in highly rated institutions. Concentration of credit risk with respect to receivables is limited to certain customers (end users and distributors) to which the Company makes substantial sales. To reduce risk, the Company routinely assesses the financial strength of its customers, hedges specific foreign installments receivable and routinely sells its installments receivable to financial institutions with limited recourse and without recourse. As a result, the Company believes that the accounts and installments receivable credit risk exposure is limited. As of June 30, 2003 and 2004, the Company had no customers that represented 10% of total accounts and installments receivable.

(k) Allowance for Doubtful Accounts

The Company makes judgments as to its ability to collect outstanding receivables and provide allowances for the portion of receivables when it is probable that a loss has been incurred. Provisions are made based upon a specific review of all significant outstanding invoices and an analysis of

historical write-off rates. In determining these provisions, the Company analyzes its historical collection experience and current economic trends.

(l) Financial Instruments

Financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, installments receivable, foreign exchange contracts and the Company's 5^{1/4}% convertible subordinated debentures due June 15, 2005 (the Debentures). The estimated fair value of these financial instruments approximates their carrying value and, except for accounts receivable and installments receivable, is based primarily on market quotes.

(m) Intangible Assets, Goodwill and Impairment of Long-Lived Assets

Intangible assets subject to amortization consist of the following at June 30, 2003 and 2004 (in thousands):

Asset Class	Estimated Useful Life	June 30, 2003		June 30, 2004	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Acquired technology	3-5 years	\$ 44,352	\$ 17,980	\$ 44,737	\$ 25,434
Uncompleted contracts	4 years	1,936	1,619	2,005	1,888
Trade name	10 years	766	569	758	644
Other	3-12 years	246	186	232	195
		<u>\$ 47,300</u>	<u>\$ 20,354</u>	<u>\$ 47,732</u>	<u>\$ 28,161</u>

Aggregate amortization expense for intangible assets subject to amortization was \$5.3 million, \$7.4 million and \$7.6 million for the years ended June 30, 2002, 2003 and 2004, respectively, and is expected to be \$7.4 million, \$7.2 million and \$5.0 million in each of the next three fiscal years, respectively.

The changes in the carrying amount of the goodwill by reporting unit for the years ended June 30, 2003 and 2004 were as follows (in thousands):

Asset Class	Reporting Unit			
	License	Consulting Services	Maintenance and Training	Total
Carrying amount as of June 30, 2002	\$ 67,913	\$ 4,746	\$ 11,049	\$ 83,708
Purchase price adjustment Hyprotech acquisition	1,407	88	264	1,759
Impairment charge	(69,323)	(4,842)		(74,165)
Goodwill acquired during fiscal 2003	2,358	147	442	2,947
Effect of exchange rates used for translation	3	8	73	84
Carrying amount as of June 30, 2003	2,358	147	11,828	14,333
Goodwill acquired during fiscal 2004		366		366
Effect of exchange rates used for translation	6		31	37
Carrying amount as of June 30, 2004	\$ 2,364	\$ 513	\$ 11,859	\$ 14,736

In October 2002, management determined that goodwill should be tested for impairment as a result of the following factors:

The Company experienced a significant decline in demand for products in its manufacturing/supply-chain product line beginning at the end of the quarter ended September 30, 2002 and continuing through the end of the quarter ended December 31, 2002. While these products had been underperforming for several quarters, the lack of demand during this quarter was significant. Discussions with potential customers revealed that investment in this area would not be forthcoming in the near future and purchases would continue to be delayed indefinitely. As a result, management reduced revenue projections for several of these products. The underperforming manufacturing/supply-chain products included Aspen Metals, PetroVantage, Aspen Bulk, Aspen Buy & Sell, AEP and MIMI.

There was a significant decline in the fair market value of the Company's common stock and thus its market capitalization. The Company's market capitalization was approximately \$260 million on July 1, 2002. By December 31, 2002, the market capitalization had decreased to a low of approximately \$108 million. In addition, during this six month period the Company's market capitalization reached a low of approximately \$22 million on October 11, 2002.

An independent third party valued the Company's three reporting units: license, consulting services, and maintenance and training. The valuation was based on an income approach, using a five-year present value calculation of income, and a market approach, using comparable company valuations. Based on this analysis, it was determined that the full values of the goodwill associated with the license reporting unit and consulting services reporting unit were impaired. This resulted in a \$74.2 million aggregate impairment charge included on the accompanying consolidated statement of operations as long-lived asset impairment charges. It was also determined that the fair value of the maintenance and training reporting unit exceeded its carrying value, resulting in no impairment of its goodwill. At December 31, 2003, the Company conducted its annual impairment test and determined that goodwill was not impaired. The Company's next annual impairment test will occur on December 31, 2004.

The Company evaluates its long-lived assets, which include property and leasehold improvements, intangible assets and capitalized software development costs for impairment as events and circumstances indicate that the carrying amount may not be recoverable and at a minimum at each balance sheet date. The Company evaluates the realizability of its long-lived assets based on profitability and undiscounted cash flow expectations for the related asset or subsidiary.

Fiscal 2004 During the fourth quarter of fiscal 2004, the Company completed a comprehensive review of its product offerings, in an effort to reduce duplicative efforts and cut costs. As a result, management decided to discontinue development of certain products, which resulted in an impairment of technology related intangible and computer software development assets of \$3.3 million, related to the impairment of certain computer software development costs. These products were considered part of the next-generation manufacturing/supply chain products. Management's decision was based on concerns about the future revenue projections for these products, and the assessment of costs remaining to bring these products to market.

During the fourth quarter of fiscal 2004, the Company recorded long-lived asset impairment charges of \$1.0 million. This was partially due to management's decision, as part of the Company's June 2004 cost-cutting initiatives that resulted in the June 2004 restructuring plan, to discontinue certain internal capital projects that had previously been put on hold. In addition, certain fixed assets that supported research and development efforts were considered impaired as a result of the consolidation decisions made in the fourth quarter product offering review.

Fiscal 2003 Concurrent with the restructuring plan and goodwill impairment test that was initiated in October 2002, as discussed previously, the Company cancelled certain internal capital projects and discontinued development and support for certain non-critical products, resulting in the evaluation of the realizability of long-lived assets and the recording of an impairment charge related to various long-lived assets. The Company recorded an impairment of technology related intangible and computer software development assets of \$8.7 million, and long-lived asset impairment charges of \$31.4 million. The impairment of technology related intangible and computer software development assets consisted of computer software development costs and intangible assets that were considered to be impaired because they will either no longer be used or their carrying values were in excess of their fair values. The assets that will no longer be used were identified by management's decisions to discontinue future development efforts associated with certain products. The carrying values of the remaining assets were compared to the fair values of those assets resulting in an impairment. The fair values were determined by forecasting the future net cash flows associated with the products.

The long-lived asset impairment charges primarily consisted of a \$23.6 million charge related to the intellectual property purchased from Accenture in February 2002. The fair value of this asset was determined by forecasting the future net cash flows associated with the asset and then was compared to its carrying value. This intellectual property is used primarily in the development of manufacturing/supply chain software products, within the license line of business. The revenue expectations for the manufacturing/supply chain product line were significantly reduced by management, which prompted the review for impairment. The remaining \$7.8 million charge consisted of fixed assets and internal capital projects that were considered to be impaired because they will either no longer be used or their carrying values were in excess of their fair values. The assets that will no longer be used were identified by management's decisions to discontinue future development efforts associated with certain products. The carrying values of the remaining assets were compared to the fair values of those assets resulting

in an impairment. The fair values were determined by forecasting the future net cash flows associated with the products.

Fiscal 2002 In June 2002, with the intent of lowering operating costs, the Company made a decision to standardize with a single provider for certain software products that are sold along with the Company's products. This decision resulted in the impairment of \$1.2 million of prepaid royalty fees, which was recorded in the accompanying consolidated statement of operations as impairment of technology related intangible and computer software development assets.

(n) Comprehensive Income (Loss)

Comprehensive income (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. Comprehensive income (loss) is disclosed in the accompanying consolidated statements of stockholders' equity and comprehensive income (loss). The components of accumulated other comprehensive income (loss) as of June 30, 2003 and 2004 are made up of cumulative translation adjustments.

(o) Fair Value of Stock Options

The Company issues stock options to its employees and outside directors and provides employees the right to purchase stock pursuant to stockholder approved stock option and employee stock purchase plans, which are described more fully in Note 8. The Company accounts for these plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", and has elected the disclosure-only alternative under SFAS No. 123 "Accounting for Stock-Based Compensation," as amended by SFAS No. 148. No material stock-based employee compensation cost is reflected in net income (loss), as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

For pro forma disclosures, the estimated fair value of the options is amortized over the vesting period, typically four years, and the estimated fair value of the stock purchases under the employee stock purchase plan is recorded during the six-month purchase period. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition

provisions of FASB Statement No. 123 to stock-based employee compensation (in thousands, except per share data):

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Net income (loss) attributable to common shareholders (in thousands)			
As reported	\$ (82,298)	\$ (148,398)	\$ (28,164)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(21,734)	(14,566)	(15,246)
Pro forma	\$ (104,032)	\$ (162,954)	\$ (43,410)
Net income (loss) attributable to common shareholders per share			
Basic and diluted			
As reported	\$ (2.55)	\$ (3.86)	\$ (0.69)
Pro forma	(3.22)	(4.24)	(1.07)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants during the applicable period:

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Risk free interest rates	3.91-4.39%	2.78-4.15%	3.27-3.50%
Expected dividend yield	None	None	None
Expected life	5 Years	5 Years	5-7 Years
Expected volatility	72%	125%	99%
Weighted average fair value per option	\$8.00	\$2.63	\$2.51

(p) 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.

Income taxes are provided on undistributed earnings of foreign subsidiaries where such earnings are expected to be remitted to the U.S. parent company. The Company determines annually the amount of unremitted earnings of foreign subsidiaries to invest indefinitely in its non-U.S. operations. Unrecognized provisions for taxes on undistributed earnings of foreign subsidiaries, which are considered permanently invested, are not material to the Company's consolidated financial position or results of operations.

(q) Legal Fees

The Company accrues estimated future legal fees associated with outstanding litigation for which management has determined that it is probable that a loss contingency exists. Liabilities for loss contingencies arising from claims, assessments, litigation and other sources are recorded when it is probable that a liability has been incurred and the amount of the claim assessment or damages can be reasonably estimated.

(r) Advertising costs

The Company charges advertising costs to expense as the costs are incurred. The Company recorded advertising expenses of \$11.9 million, \$14.1 million and \$4.0 million during the years ended June 30, 2002, 2003 and 2004, respectively. As of June 30, 2003 and 2004, the Company had \$0.3 million and \$0.8 million in prepaid advertising on the accompanying consolidated balance sheets.

(s) Recently Issued Accounting Pronouncements

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This pronouncement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The provisions of this statement are effective for transactions that are entered into or modified after June 30, 2003. The adoption of SFAS No. 149 did not have a material effect on the Company's consolidated financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities," which clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," relating to consolidation of certain entities. In December 2003, the FASB revised FIN 46. As revised, FIN 46 will require identification of the Company's participation in variable interest entities (VIE), which are defined as entities with a level of invested equity that is not sufficient to fund future activities to permit them to operate on a stand alone basis, or whose equity holders lack certain characteristics of a controlling financial interest. For entities identified as VIE, FIN 46 sets forth a model to evaluate potential consolidation based on an assessment of which party to the VIE, if any, bears a majority of the exposure to its expected losses, or stands to gain from a majority of its expected returns. FIN 46 also sets forth certain disclosure regarding interests in VIE that are deemed significant, even if consolidation is not required. Certain provisions of FIN 46, as revised, relating to the consolidation of special-purpose entities are effective for periods ending after December 15, 2003. The adoption of these provisions did not have an impact on the Company's financial position, results of operations or cash flows. The remaining provisions of FIN 46, as revised, relating to the consolidation or disclosure of all other VIE are effective for periods ending after March 15, 2004. The adoption of these provisions did not have an impact on the Company's financial position, results of operations or cash flows.

(3) Restructuring Charges and FTC Legal Costs

Restructuring charges and FTC legal costs consist of the following (in thousands):

	Years ended June 30,		
	2002	2003	2004
Restructuring charges	\$ 14,914	\$ 28,122	\$ 15,193
FTC legal costs		12,958	4,892
	\$ 14,914	\$ 41,080	\$ 20,085

(a) Fiscal 2004 Restructuring Plan

During fiscal 2004, the Company recorded \$15.2 million in net restructuring charges. Of this amount, \$23.5 million is associated with a June 2004 restructuring plan, which is offset by \$8.3 million in adjustments to prior restructuring accruals and deferred rent balances.

In June 2004, the Company initiated a plan to reduce its operating expenses in order to better align its operating cost structure with the current economic environment and to improve its operating margins. This plan coincided with a reduction in management's revenue projections for fiscal 2005. The plan to reduce operating expenses resulted in the consolidation of facilities, headcount reductions, and the termination of operating lease contracts. These actions resulted in an aggregate restructuring charge of \$20.1 million. The \$8.3 million in adjustments to the prior restructuring accruals and deferred rent balances is primarily related to the buy-out of the Company's remaining lease obligation for its Houston facility, of which portions had previously been vacated by the Company and included in previous restructuring plans. The components of the restructuring plan are as follows (in thousands):

Fiscal 2004 Restructuring Plan	Closure/ Consolidation of Facilities and Contract exit costs	Employee Severance, Benefits, and Related Costs	Asset Impairments	Total
Restructuring charge	\$ 20,484	\$ 1,191	\$ 1,776	\$ 23,451
Fiscal 2004 payments	(8,435)	(280)		(8,715)
Write-off of impaired assets			(1,776)	(1,776)
Accrued expenses, June 30, 2004	\$ 12,049	\$ 911		\$ 12,960
Expected final payment date	February 2007	December 2004		

Closure/consolidation of facilities: Approximately \$20.5 million of the restructuring charge relates to the termination of facility leases and other lease related costs. The facility leases had remaining terms ranging from several months to eight years. The amount accrued is an estimate of the remaining obligation under the lease or actual costs to buy-out leases, reduced by expected income from the sublease of the underlying properties.

Employee severance, benefits and related costs: Approximately \$1.2 million of the restructuring charge relates to the reduction in headcount. Approximately 35 employees, or 2% of the workforce, were eliminated under the restructuring plan implemented by management. A majority of the employees were located in North America, although Europe was affected, as well. All business units were affected, including services, sales and marketing, research and development, and general and administrative.

Impairment of assets: Approximately \$1.8 million of the restructuring charge relates to charges associated with the impairment of fixed assets associated with the closed and consolidated facilities. These assets were reviewed for impairment in accordance with SFAS No. 144, and were considered to be impaired because their carrying values were in excess of their fair values. The fair values were determined based on a quoted market price from a third party.

(b) Fiscal 2003 Restructuring Plan

During fiscal 2003, the Company recorded \$41.1 million in net restructuring charges and FTC legal costs. Of this amount, \$28.1 million is associated with an October 2002 restructuring plan, and \$13.0 million is FTC legal costs, related to the FTC challenge of the Company's acquisition of Hyprotech.

In October 2002, management initiated a plan to further reduce operating expenses in response to first quarter revenue results that were below expectations and general economic uncertainties. In addition, management revised revenue expectations for the remainder of the fiscal year and beyond, primarily related to the manufacturing/supply chain product line, which has been affected the most by the current economic conditions. The plan to reduce operating expenses resulted in headcount reductions, consolidation of facilities, and discontinuation of development and support for certain non-critical products. These actions resulted in an aggregate restructuring charge of \$16.1 million, recorded during the three months ended December 31, 2002. In June 2003, the Company reviewed its estimates to this plan and recorded a \$12.0 million increase to the accrual, primarily due to revisions of the facility sub-lease assumptions, as well as increases to severance and other costs. The components of the restructuring plan are as follows (in thousands):

Fiscal 2003 Restructuring Plan	Closure/ Consolidation of Facilities	Employee Severance, Benefits, and Related Costs	Impairment of Assets and Disposition Costs	Total
Restructuring charge	\$ 17,347	\$ 10,028	\$ 714	\$ 28,089
Additional impairment of assets			866	866
Fiscal 2003 payments	(3,548)	(7,297)		(10,845)
Accrued expenses, June 30, 2003	13,799	2,731	1,580	18,110
Fiscal 2004 payments	(2,567)	(2,170)	(770)	(5,507)
Change in estimate Revised assumptions	(4,507)	(269)	(134)	(4,910)
Accrued expenses, June 30, 2004	\$ 6,725	\$ 292	\$ 676	\$ 7,693

Expected final payment date

December 2010

April 2005

April 2005

Closure/consolidation of facilities: Approximately \$17.4 million of the restructuring charge relates to the termination of facility leases and other lease related costs. Of this amount, approximately \$8.7 million was recorded in the three months ended December 31, 2002 and approximately \$8.7 million was recorded as a result of the June 2003 increase to the accrual. The facility leases had remaining terms ranging from several months to eight years. The amount accrued is an estimate of the remaining obligation under the lease or actual costs to buy-out leases, reduced by expected income from the sublease of the underlying properties. The June 2003 increase to the accrual is primarily due

to revised estimates related to sublease assumptions, as actual sublease rates have been significantly less than originally estimated and the Company has experienced delays contracting with sub-lessors. The revisions to the accrual that occurred in fiscal 2004 relate to revisions made to sublease assumptions and to the buyout of a remaining lease obligation.

Employee severance, benefits and related costs: Approximately \$10.0 million of the restructuring charge relates to the reduction in headcount. Of this amount, approximately \$8.2 million was recorded in the three months ended December 31, 2002 and approximately \$1.8 million was recorded as a result of the June 2003 increase to the accrual. Approximately 400 employees, or 20% of the workforce, were eliminated under the restructuring plan implemented by management. All geographic regions and business units were affected, including services, sales and marketing, research and development, and general and administrative. The revisions to the accrual that occurred in fiscal 2004 relate to revisions of estimates of severance terms and benefit levels.

Impairment of assets and disposition costs: Approximately \$0.7 million of the restructuring charge relates to charges associated disposing of certain products and assets. This consisted of costs related to preparing certain development groups for divestment or closure, offset by a gain related to the cancellation of a note payable to a European government. The note payable was related to the research and development group that was divested as part of the restructuring plan. The revisions to the accrual that occurred in fiscal 2004 relate to changes in estimates of ongoing costs of disposal activities.

(c) Fiscal 2002 Restructuring Plan

In the third quarter of fiscal 2002, revenues were lower than expectations as customers delayed spending due to the general weakness in the economy. The Company reduced revenue expectations for the fourth quarter and for the fiscal year 2003. Based upon the impact of these reduced revenue expectations, management evaluated the Company's current business and made significant changes, resulting in a restructuring plan for its operations. This restructuring plan included a reduction in headcount, tighter cost controls, and the close-down and consolidation of facilities. The restructuring charge is broken down as follows (in thousands):

Fiscal 2002 Restructuring Plan	Closure/ Consolidation of Facilities	Employee Severance, Benefits, and Related Costs	Total
Restructuring charge	\$ 4,901	\$ 8,285	\$ 13,186
Fiscal 2002 payments		(1,849)	(1,849)
Accrued expenses, June 30, 2002	4,901	6,436	11,337
Fiscal 2003 payments	(695)	(4,748)	(5,443)
Accrued expenses, June 30, 2003	4,206	1,688	5,894
Fiscal 2004 payments	(1,302)	(1,060)	(2,362)
Change in estimate Revised assumptions	(1,221)	(320)	(1,541)
Accrued expenses, June 30, 2004	\$ 1,683	\$ 308	\$ 1,991
Expected final payment date	December 2010	April 2005	

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Closure/consolidation of facilities: Approximately \$4.9 million of the restructuring charge relates to the termination of facility leases and other lease-related costs. The facility leases had remaining terms ranging from several months to nine years. The amount accrued is an estimate of the actual costs to buy-out leases or to sublease the underlying properties. The revisions to the accrual that occurred in fiscal 2004 relate to revisions made to sublease assumptions, as actual sublease rates have been significantly less than originally estimated and the Company has experienced delays contracting with sub-lessors, and to the buyout of a remaining lease obligation.

Employee severance, benefits and related costs: Approximately \$8.3 million of the restructuring charge relates to the reduction in headcount. Approximately 200 employees, or 10% of the workforce, were eliminated under the changes to the business plan implemented by management. Business units impacted included sales and marketing, services, research and development, and general and administrative, across all geographic areas. The revisions to the accrual that occurred in fiscal 2004 relate to revisions of estimates of severance terms and benefit levels.

Write-off of assets: Approximately \$1.2 million of the restructuring charge relates to the write-off of prepaid royalties related to third-party software products that the Company will no longer support and sell.

(d) Fiscal 2001 Restructuring Plan

In the third quarter of fiscal 2001 the revenues realized by the Company were reduced from the Company's expectations as customers delayed spending in the widespread slowdown in information technology spending and the deferral of late-quarter purchasing decisions. The Company reduced its revenue expectations for the fourth quarter and for the fiscal year 2002 until revenue visibility and predictability improved. Based on these reduced revenue expectations Company management evaluated the business plan and made significant changes, resulting in a restructuring plan for the Company's operations. This restructuring plan included a reduction in headcount, a substantial decrease in discretionary spending and a sharpening of the Company's e-business focus to emphasize its

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marketplace solutions, and resulted in a pre-tax restructuring charge totaling \$7.0 million. The restructuring charge is broken down as follows (in thousands):

Fiscal 2001 Restructuring Plan	Closure/ Consolidation of Facilities	Employee Severance, Benefits, and Related Costs	Write-off of Assets	Total
Restructuring charge	\$ 2,774	\$ 3,148	\$ 1,047	\$ 6,969
Write-off of asset			(1,047)	(1,047)
Fiscal 2001 payments	(114)	(1,878)		(1,992)
Accrued expenses, June 30, 2001	2,660	1,270		3,930
Change in estimate Revised assumptions	(800)			(800)
Fiscal 2002 payments	(723)	(1,217)		(1,940)
Accrued expenses, June 30, 2002	1,137	53		1,190
Fiscal 2003 payments	(397)	(53)		(450)
Accrued expenses, June 30, 2003	740			740
Fiscal 2004 payments	(412)			(412)
Change in estimate Revised assumptions	(328)			(328)
Accrued expenses, June 30, 2004	\$	\$	\$	\$

Closure/consolidation of facilities: Approximately \$2.8 million of the restructuring charge relates to the termination of facility leases and other lease-related costs. The facility leases had remaining terms ranging from one month to six years. The amount accrued reflects the Company's best estimate of the actual costs to buy out the leases in certain cases of the net cost to sublease the properties in other cases. Included in this amount is the write-off of certain assets, primarily leasehold improvements. The revisions to the accrual that occurred in fiscal 2002 relate to revisions made to sublease assumptions, as actual sub-lease rates have been significantly less than originally estimated and the Company has experienced delays contracting with sub-lessors. In June 2004 the Company executed a buy-out of the remaining facility lease obligation as part of the June 2004 restructuring plan.

Employee severance, benefits and related costs: Approximately \$3.2 million of the restructuring charge relates to the reduction in workforce. Approximately 100 employees, or 5% of the workforce, were eliminated under the changes to the business plan implemented by Company management. Areas impacted included sales and marketing, services, general and administrative, and research and development.

Write-off of assets: Approximately \$1.0 million of the restructuring and other charges relates to the impairment of an investment in certain e-business initiatives that the Company will no longer support as a direct consequence of the change in business plan.

(e) Fiscal 1999 Restructuring Plan

In the fourth quarter of fiscal 1999, the Company experienced a significant slow down in certain of its businesses due to difficulties that customers in its core vertical markets of refining, chemicals and petrochemicals were experiencing. These markets were experiencing a significant decrease in pricing for their products, which significantly reduced their revenues and related cash inflows. In turn, these

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companies began to reduce their capital spending and lengthened the evaluation and decision-making cycle for purchases. The impact of this on the Company was dramatic, lowering license revenues from expected levels by a significant amount. Based on these reduced revenues, Company management made significant changes to the business plan, resulting in a restructuring plan. The restructuring plan resulted in a pre-tax restructuring charge totaling \$17.9 million. The restructuring and other charges are broken down as follows (in thousands):

Fiscal 1999 Restructuring Plan	Closure/ Consolidation of Facilities	Employee Severance, Benefits, and Related Costs	Write-off of Assets	Other	Total
Restructuring and other charges	\$ 10,224	\$ 4,324	\$ 3,060	\$ 259	\$ 17,867
Write-off of assets, and other	(5,440)		(3,060)	(101)	(8,601)
Fiscal 1999 payments	(24)	(2,386)		(57)	(2,467)
Accrued expenses, June 30, 1999	4,760	1,938		101	6,799
Fiscal 2000 payments	(1,408)	(1,462)		(97)	(2,967)
Accrued expenses, June 30, 2000	3,352	476		4	3,832
Fiscal 2001 payments	(1,484)	(126)			(1,610)
Accrued expenses, June 30, 2001	1,868	350		4	2,222
Change in estimate Revised assumptions	(250)				(250)
Fiscal 2002 payments	(1,243)	(350)		(4)	(1,597)
Accrued expenses, June 30, 2002	375				375
Fiscal 2003 net sublease receipts (lease payments)	147				147
Accrued expenses, June 30, 2003	522				522
Fiscal 2004 payments net of sublease receipts (lease payments)	(4)				(4)
Change in estimate sub-lease assumptions	(428)				(428)
Accrued expenses, June 30, 2004	\$ 90	\$	\$	\$	\$ 90
Expected final payment date	December 2004				

Closure/consolidation of facilities: Approximately \$10.2 million of the restructuring charge relates to the termination of facility leases and other lease-related costs. The facility leases had remaining terms ranging from one month to six years. The amount accrued reflects the Company's best estimate of actual costs to buy out the leases in certain cases or the net cost to sublease the properties in other cases. Included in this amount is the write-off of certain assets, primarily building and leasehold improvements and revisions to certain obligations that relate to the closing of facilities. The adjustments to the accrual during fiscal 2002 and 2004 are due to changes in some of the original sublease assumptions, as actual sub-lease terms have been longer than originally estimated.

Employee severance, benefits and related costs: Approximately \$4.3 million of the restructuring charge relates to the reduction in workforce. Approximately 200 employees, or 12% of the workforce,

were eliminated as the Company rationalized its product and service offerings against customer needs in various markets.

Write-off of assets: Approximately \$3.1 million of the restructuring and other charge relates to the write-off of certain assets that had been determined to be of no further value to the Company as a direct consequence of the change in the business plans that have been made as a result of the restructuring. These business plan changes are the result of management's assessment and rationalization of certain non-core products and activities acquired in recent years. The write-off was based on management's assessment of the current fair value of certain assets, including intangible assets, and their resale value, if any.

(4) Acquisitions and Dispositions

(a) Acquisitions During Fiscal Year 2004

In July 2003, the Company acquired 100% of APC Consulting, Inc. (APCC), a consulting services provider based in Houston, Texas, for a purchase price of approximately \$0.5 million in cash. This acquisition was accounted for as a purchase, and accordingly, the results of operations from the date of acquisition are included in the Company's consolidated statements of operations commencing as of the acquisition date.

The purchase price was allocated to the fair market value of assets acquired and liabilities assumed, as follows (in thousands):

Description	Amount	Life
Goodwill	\$ 366	
Acquired technology	79	3 years
Customer contracts	70	1 year
	515	
Net fair value of tangible assets acquired, less liabilities assumed	10	
	\$ 525	

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

(b) Acquisitions and Dispositions During Fiscal Year 2003

In January 2003, the Company acquired a portion of the salesforce of Soteica S.R.L. and purchased the exclusive marketing rights held by Soteica. Soteica was a sales agent of Hyprotech that held exclusive rights to market Hyprotech products in certain South and Latin American countries, including Argentina, Brazil, Mexico and Venezuela. The purchase price consists of 12 quarterly payments of \$0.3 million beginning in April 2003, the net present value of which is \$3.0 million. Allocation of the purchase price was based on an independent appraisal of the fair value of the net assets acquired.

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The purchase price was allocated to the fair market value of assets acquired and liabilities assumed, as follows (in thousands):

Description	Amount	Life
Marketing rights	\$ 80	2 months
Goodwill	2,947	
	<u>3,027</u>	
Net fair value of tangible assets acquired, less liabilities assumed		
	<u>3,027</u>	
Total purchase price	\$ 3,027	

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

On January 31, 2003, the Company completed the sale of the assets and liabilities associated with the Aspen Metals products. These products were originally acquired by the Company in the December 2000 acquisition of Broner Systems. The Company will receive an aggregate of £300,000 (\$494,000 as of January 31, 2003), to be paid in four semi-annual installments from June 2003 to January 2005.

(c) Acquisitions During Fiscal Year 2002

On May 31, 2002, the Company acquired Hyprotech, a market leader in providing software and service solutions designed to improve profitability and operating performance for process industry clients by simulating plant design and operations. The Company acquired 100% of the outstanding capital of Hyprotech for a purchase price of approximately \$105.0 million, consisting of \$96.6 million in cash and \$8.4 million in transaction costs. This acquisition was accounted for as a purchase, and accordingly, the results of operations from the date of acquisition are included in the Company's consolidated statements of operations commencing as of the acquisition date.

The purchase price was allocated to the fair market value of assets acquired and liabilities assumed, as follows (in thousands):

Description	Amount	Life
Purchased in-process research and development	\$ 14,900	
Goodwill	59,270	
Acquired technology	23,800	5 years
Customer contracts	1,000	4 years
	<u>98,970</u>	
Net fair value of tangible assets acquired, less liabilities assumed	13,474	
	<u>112,444</u>	
Less Deferred taxes	7,440	
	<u>105,004</u>	
Total purchase price	\$ 105,004	

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In December 2002, the Company made adjustments to the purchase price allocation associated with the acquisition. These consisted of various adjustments to the opening balance sheet to accrue for certain obligations and contingencies and to write-off certain assets. These adjustments resulted in an approximately \$1.8 million increase to goodwill.

The following table represents selected unaudited pro forma combined financial information for the Company and Hyprotech, assuming the companies had combined at the beginning of fiscal 2002 (in thousands, except per share data):

	Year Ended June 30, 2002(1)
Pro forma revenue	\$ 366,426
Pro forma net income (loss)	(69,811)
Pro forma net income (loss) applicable to common shareholders	(76,112)
Pro forma net income (loss) per share applicable to common shareholders	\$ (2.12)
Pro forma weighted average common shares outstanding	35,912

(1) Does not reflect the charge for in-process research and development

Pro forma results are not necessarily indicative of either actual results of operations that would have occurred had the acquisition been made at the beginning of fiscal 2002 or of future results.

On April 30, 2002, the Company acquired 100% of Richardson Engineering Services, Inc. (Richardson) and Skelton & Plummer Project Engineering, PTY Limited (S&P). Richardson is a provider of construction cost estimation software and data, while the group of employees acquired from S&P will expand the scope of sales and service in sub-Saharan Africa.

These acquisitions were accounted for as purchase transactions, and accordingly, the results of operations from the dates of acquisition are included in the Company's consolidated statements of operations commencing as of the acquisition dates. Total purchase price for these acquisitions was approximately \$3.2 million, consisting of \$3.1 million in cash and \$0.1 million in acquisition-related costs.

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The purchase prices were allocated to the fair market value of assets acquired and liabilities assumed, as follows (in thousands):

Description	Amount	Life
Goodwill	\$ 1,561	
Acquired technology	1,510	5 years
	<u>3,071</u>	
Net fair value of tangible assets acquired, less liabilities assumed	(445)	
	<u>\$ 2,626</u>	

Pro forma information related to these acquisitions is not presented, as the effect of these acquisitions was not material.

(d) Purchase Price Allocation

Allocation of the purchase prices for all acquisitions were based on estimates of the fair value of the net assets acquired. The fair market value of significant intangible assets acquired was based on independent appraisals. In making each of these purchase price allocations, the Company considered present value calculations of income, an analysis of project accomplishments and remaining outstanding items and an assessment of overall contributions, as well as project risks. The values assigned to purchased in-process technology were determined by estimating the costs to develop the acquired technologies into commercially viable products, estimating the resulting net cash flows from the projects, and discounting the net cash flows to their present values. The revenue projections used to value the in-process research and development were based on estimates of relevant market sizes and growth factors, expected trends in technology, and the nature and expected timing of new product introductions by the Company and its competitors. The resulting net cash flows from the projects are based on estimates of cost of sales, operating expenses, and income taxes from the projects. The rates utilized to discount the net cash flows to their present value were based on estimated costs of capital calculations. Due to the nature of the forecasts and the risks associated with the projected growth and profitability of the developmental projects, discount rates of 20 to 40 percent were considered appropriate for the in-process research and development. Risks related to the completion of technology under development include the inherent difficulties and uncertainties in achieving technological feasibility, anticipated levels of market acceptance and penetration, market growth rates and risks related to the impact of potential changes in future target markets.

(5) Line of Credit

In January 2003, the Company executed a Loan Arrangement with Silicon Valley Bank. This arrangement provides a line of credit of up to the lesser of (i) \$15.0 million or (ii) 70% of eligible domestic receivables, and a line of credit of up to the lesser of (i) \$10.0 million or (ii) 80% of eligible foreign receivables. The lines of credit bear interest at the bank's prime rate (4.00% at June 30, 2004). The Company needs to maintain a \$4.0 million compensating cash balance with the bank, otherwise it is subject to an unused line fee and collateral handling fees. The lines of credit will initially be collateralized by nearly all of the assets of the Company, and upon achieving certain net income targets, the collateral will be reduced to a lien on the accounts receivable. The Company is required to

meet certain financial covenants, including minimum tangible net worth, minimum cash balances and an adjusted quick ratio. The Company capitalized \$0.3 million in costs associated with the origination of the Loan Arrangement, which are being amortized to interest expense over the life of the agreement. The Loan Arrangement expires in January 2005.

As of June 30, 2004, there were \$11.9 million in letters of credit outstanding under the line of credit, and there was \$7.4 million available for future borrowing. As of June 30, 2004, the Company was in default of the tangible net worth covenant. On September 10, 2004, the Company executed an amendment to the Loan Arrangement that adjusted the terms of certain financial covenants, and cured the default as of June 30, 2004. The Loan Arrangement expires in January 2005, and the Company is currently in negotiations with the bank to amend and extend the agreement.

(6) Long-Term Obligations

Long-term obligations consist of the following at June 30, 2003 and 2004 (in thousands):

	2003	2004
5 ¹ / ₄ % Convertible subordinated debentures, mature on June 15, 2005	\$ 86,250	\$ 56,745
Capital lease obligations due in various monthly installments of principal plus interest, maturing through February 2005	3,050	406
Note payable to Soteica incurred in connection with salesforce acquisition, payable in quarterly installments of approximately \$273 plus interest at 6% per year	2,777	1,819
Note payable of a UK subsidiary due in monthly installments of approximately \$50 plus interest at 9% per year	847	766
Mortgage payable of a UK subsidiary due in annual installments of approximately \$100 plus interest at 6% per year	836	811
	<u>93,760</u>	<u>60,547</u>
Less Current portion	3,849	58,595
	<u>\$ 89,911</u>	<u>\$ 1,952</u>

Maturities of these long-term obligations are as follows (in thousands):

Years Ending June 30,	Amount
2005	\$ 58,595
2006	963
2007	224
2008	183
2009	181
Thereafter	401
	<u>\$ 60,547</u>

The mortgage payable of the UK subsidiary and the capital lease obligations are collateralized by the property and equipment to which they relate.

In June 1998, the Company sold \$86.3 million of the Debentures to qualified institutional buyers. The Debentures are convertible into shares of the Company's common stock at any time prior to June 15, 2005, unless previously redeemed or repurchased, at a conversion price of \$52.97 per share, subject to adjustment in certain events. Interest on the Debentures is payable on June 15 and December 15 of each year. The Debentures are redeemable in whole or part at the option of the Company at any time on or after June 15, 2001 at the following redemption prices expressed as a percentage of principal plus accrued interest through the date of redemption:

12 Months Beginning June 15 of	Redemption Price
2001	103.00%
2002	102.25%
2003	101.50%
2004	100.75%

In the event of a change of control, as defined, each holder of the Debentures may require the Company to repurchase the Debentures, in whole or in part, for cash or, at the Company's option, for common stock (valued at 95% of the average last reported sale prices for the 5 trading days immediately preceding the repurchase date) at a repurchase price of 100% of the principal amount of the Debentures to be repurchased, plus accrued interest to the repurchase date. The Debentures are unsecured obligations subordinate in right of payment to all existing and future senior debt of the Company, as defined, and effectively subordinate in right of payment to all indebtedness and other liabilities of the Company's subsidiaries. The Company has filed a shelf registration statement in respect of the Debentures and common stock issuable upon conversion thereof.

In connection with the sale and issuance of the Debentures, the Company incurred approximately \$3.9 million of issuance costs. These costs have been classified as other assets in the accompanying consolidated balance sheets and are being amortized, as interest expense, over the term of the Debentures. The Company recorded interest expense associated with these debentures of \$5.1 million, \$5.1 million and \$4.5 million in the years ended June 30, 2002, 2003 and 2004, respectively.

During fiscal 2004, the Company used a portion of the proceeds from the Series D-1 and Series D-2 redeemable convertible preferred stock financing to repurchase and retire \$29.5 million of the Debentures.

(7) Preferred Stock

The Company's Board of Directors is authorized, subject to any limitations prescribed by law, without further stockholder approval, to issue, from time to time, up to an aggregate of 10,000,000 shares of preferred stock in one or more series. Each such series of preferred stock shall have such number of shares, designations, preferences, voting powers, qualifications and special or relative rights or privileges, which may include, among others, dividend rights, voting rights, redemption and sinking fund provisions, liquidation preferences and conversion rights, as shall be determined by the Board of Directors in a resolution or resolutions providing for the issuance of such series. Any such series of preferred stock, if so determined by the Board of Directors, may have full voting rights with the common stock or limited voting rights and may be convertible into common stock or another security of the Company.

Series B redeemable convertible preferred stock

In February and March 2002, the Company sold 40,000 shares of Series B-I convertible preferred stock (Series B-I Preferred), and 20,000 shares of Series B-II convertible preferred stock (Series B-II Preferred and, collectively with Series B-I Preferred, the Series B Preferred) together with (i) warrants to purchase 507,584 shares of common stock at an initial exercise price of \$23.99 per share and (ii) warrants to purchase 283,460 shares of common stock at an initial exercise price of \$20.64 per share, to three institutional investors for an aggregate purchase price of \$60.0 million. The Company received approximately \$56.6 million in net cash proceeds after closing costs.

The Company allocated the net consideration received from the sale of the Series B Preferred between the Series B Preferred and the warrants on the basis of the relative fair values at the date of issuance, allocating \$8.0 million to the warrants. The warrants are exercisable at any time prior to the fifth anniversary of their issue date. The fair value of the common shares into which the Series B Preferred was convertible on the date of issuance exceeded the proceeds allocated to the Series B Preferred by \$3.2 million, resulting in a beneficial conversion feature that was recognized as an increase in additional paid-in-capital and as a discount to the Series B Preferred. This additional discount was immediately accreted through a charge to accumulated deficit in fiscal 2002. The remaining discount on the Series B Preferred was being accreted to its redemption value over the earliest period of redemption.

The Series B Preferred accrued dividends at an annual rate of 4% that were payable quarterly, commencing June 30, 2002, in either cash or common stock, at the Company's option (subject to the satisfaction of specified conditions). During fiscal 2003, the Company issued 731,380 shares of common stock in settlement of its dividend obligations through March 31, 2003. In July 2003, the Company issued 120,740 shares of common stock in settlement of its dividend obligations for the three months ended June 30, 2003.

In June 2003, the Company amended the terms of the Series B Preferred in conjunction with the Series D-1 and Series D-2 redeemable convertible preferred stock financing. This amendment gave the holders of the Series B Preferred the right to redeem their Series B Preferred shares for cash in certain circumstances that were outside of the Company's control. As a result of this redemption feature, the carrying value of the Series B Preferred was reclassified outside of stockholders' equity on the accompanying consolidated balance sheet. In August 2003, the Company repurchased all of the outstanding shares of Series B Preferred.

Series D redeemable convertible preferred stock

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

Preferred, for new warrants to purchase 791,044 shares of common stock at an exercise price of \$4.08. These transactions are referred to collectively as the Series D Preferred financing.

The Company incurred \$10.7 million in costs related to the issuance of the Series D-1 and D-2 Preferred (together, the Series D Preferred) and allocated the net proceeds received between the Series D Preferred and the warrants on the basis of the relative fair values at the date of issuance, allocating \$15.5 million of proceeds to the warrants. The warrants are exercisable at any time prior to the seventh anniversary of their issue date. The remaining discount on the Series D Preferred is being accreted to its redemption value over the earliest period of redemption.

The value of total consideration paid to the holders of the Series B Preferred, consisting of cash, Series D-2 Preferred and warrants, was less than the carrying value of the Series B Preferred at the time of retirement. This resulted in a gain of \$6.5 million, which the Company recorded in the accretion of preferred stock discount and dividend line of the accompanying consolidated condensed statement of operations.

Each share of Series D Preferred is entitled to vote on all matters in which holders of common stock are entitled to vote, receiving a number of votes equal to the number of shares of common stock into which it is then convertible. In addition, holders of Series D-1 Preferred, as a separate class, are entitled to elect a certain number of directors, based on a formula as defined in the series D Preferred Certificate of Designations. The holders of the Series D-1 Preferred are entitled to elect a number of the Company's directors calculated as a ratio of the Series D-1 Preferred voting power as compared to the total voting power of the Company's common stock. The Series D-1 Preferred holders have elected four of the Company's current directors.

The Series D Preferred earns cumulative dividends at an annual rate of 8%, which are payable when and if declared by the Board of Directors, in cash or, subject to certain conditions, common stock. As of June 30, 2004, the Company has accrued \$8.7 million in dividends on the Series D Preferred.

Each share of Series D Preferred is convertible at any time into a number of shares of common stock equal to its stated value divided by the then-effective conversion price. The stated value is currently \$333.00 per share and is subject to adjustment in the event of any stock dividend, stock split, reverse stock split, recapitalization, or like occurrences. The current conversion price is \$3.33 per share. As a result, each share of Series D Preferred currently is convertible into 100 shares of common stock, and in the aggregate, the Series D Preferred currently is convertible into 36,336,400 shares of common stock. The Series D Preferred have anti-dilution rights that will adjust the conversion ratio downwards in the event that the Company issues certain additional securities at a price per share less than the conversion price then in effect.

The Series D Preferred is subject to redemption at the option of the holders as follows: 50% on or after August 14, 2009 and 50% on or after August 14, 2010. The shares will be redeemed for cash at a price of \$333.00 per share, plus accumulated but unpaid dividends.

The Series D Preferred is subject to redemption at the option of the Company, at any time after August 2006 at a price of \$416.25 per share plus any accumulated and unpaid dividends if, among other things, the average trading price of the Company's common stock exceeds \$7.60 per share for 45 consecutive days. If the Company makes such an election, the holders of the Series D Preferred may

elect to convert their Series D Preferred shares into shares of common stock rather than have them redeemed.

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

	Years Ended June 30,		
	2002	2003	2004
Beneficial conversion feature related to issuance of Series B Preferred	\$ (3,232)	\$	\$
Accrual of dividend on Series B Preferred	(860)	(2,400)	(296)
Accretion of discount on Series B Preferred	(2,209)	(6,784)	(643)
Gain on retirement of Series B preferred, net of warrant modification charge			6,452
Accrual of dividend on Series D preferred			(8,690)
Accretion of discount on Series D preferred			(3,181)
	<u>\$ (6,301)</u>	<u>\$ (9,184)</u>	<u>\$ (6,358)</u>

(8) Common Stock

(a) Common stock financing

In May 2002, the Company issued and sold 4,166,665 shares of common stock together with warrants to purchase common stock to a group of institutional investors and two individuals, for an aggregate purchase price of \$50 million. The net proceeds from this transaction were \$48.0 million. The Company issued warrants with five-year lives to purchase up to 750,000 additional shares of common stock at a price of \$15.00 per share and also issued a second class of warrants that entitled the investors to purchase, on or prior to July 28, 2002, up to 2,083,333 shares of common stock at a price of \$13.20, together with five year warrants to purchase an additional 375,000 shares of common stock at a price of \$15.60. The second class of warrants expired unexercised.

(b) Warrants

In connection with the August 1997 acquisition of NeuralWare, Inc., the Company converted warrants to purchase NeuralWare common stock into warrants to purchase 10,980 shares of the Company's common stock. Warrants to purchase 1,260 shares have expired through June 30, 2004. All remaining warrants are currently exercisable with an exercise price of \$120.98 per share.

In connection with the February and March 2002 sales of Series B Preferred, the Company issued warrants with five-year lives to purchase 791,044 shares of common stock at an exercise price ranging from \$20.64 to \$23.99 per share, as noted above in Note 7. In August 2003, in conjunction with the Series D Preferred financing, these warrants were exchanged for new warrants to purchase 791,044 shares of common stock at an exercise price of \$4.08 per share. As of June 30, 2004, none of these warrants had been exercised.

In connection with the May 2002 sale of common stock to private investors, the Company issued warrants to purchase up to 3,208,333 shares of common stock, as noted above in Note 8(a). During fiscal 2003 the second class of warrants to purchase up to 2,458,333 shares of common stock expired.

unexercised. In August 2003, the remaining warrants were canceled, and new warrants were issued to purchase 1,152,665 shares at an exercise price of \$9.76 per share, due to the impact of the Series D Preferred financing on the warrants' anti-dilution provisions. In January 2004, warrants to purchase 129,191 shares of common stock were exercised in a cashless exercise, resulting in the issuance of 17,922 shares of common stock. As of June 30, 2004, warrants to purchase 1,023,474 shares of common stock at an exercise price of \$9.76 were exercisable.

In connection with the August 2003 Series D Preferred financing, the Company issued warrants with seven-year lives to purchase 7,267,286 shares of common stock at an exercise price of \$3.33 per share. As of June 30, 2004, none of these warrants had been exercised.

(c) Stock Options

In December 2000, the shareholders approved the establishment of the 2001 Stock Option Plan (the 2001 Plan), which provides for the issuance of incentive stock options and nonqualified options. Under the 2001 Plan the Board of Directors may grant stock options to purchase up to an aggregate of 4,000,000 shares of common stock. At July 1, 2002, July 1, 2003 and July 1, 2004, the 2001 Plan was expanded to cover an additional 5% of the outstanding shares on the preceding June 30, rounded down to the nearest number divisible by 10,000. In no event, however, may the number of shares subject to incentive options under the 2001 Option Plan exceed 8,000,000 unless the 2001 Plan is amended, and approved, by the shareholders. As of June 30, 2004, there were 278,470 shares of common stock available for grant under the 2001 Plan. On July 1, 2004, the total number of shares of common stock issuable under the 2001 stock option plan increased by 2,080,000.

In November 1995, the Board of Directors approved the establishment of the 1995 Stock Option Plan (the 1995 Plan) and the 1995 Directors Stock Option Plan (the 1995 Directors Plan), which provided for the issuance of incentive stock options and nonqualified options. Under these plans, the Board of Directors may grant stock options to purchase up to an aggregate of 3,827,687 (as adjusted) shares of common stock. In December 1996, the shareholders of the Company approved the establishment of the 1996 Special Stock Option Plan (the 1996 Plan). This plan provides for the issuance of incentive stock options and nonqualified options to purchase up to 500,000 shares of common stock. The exercise price of options are granted at a price not less than 100% of the fair market value of the common stock on the date of grant. Stock options become exercisable over varying periods and expire no later than 10 years from the date of grant. As of June 30, 2004, there were 459,560 shares of common stock available for grant under the 1995 Plan, 472,579 shares available for grant under the 1995 Directors Plan, and 50,648 shares available for grant under the 1996 Plan.

The following is a summary of stock option activity under all stock option plans in fiscal 2001, 2002 and 2003:

	Number of Shares	Weighted Average Exercise Price
Outstanding, June 30, 2001	6,810,637	\$ 15.37
Options granted	707,210	13.29
Options exercised	(185,625)	8.73
Options terminated	(340,977)	16.36
	<hr/>	<hr/>
Outstanding, June 30, 2002	6,991,245	15.29
Options granted	3,158,555	2.88
Options exercised	(56,934)	2.56
Options terminated	(1,678,484)	11.26
	<hr/>	<hr/>
Outstanding, June 30, 2003	8,414,382	\$ 11.35
Options granted	6,278,204	3.04
Options exercised	(1,321,997)	3.12
Options terminated	(1,005,496)	16.55
	<hr/>	<hr/>
Outstanding, June 30, 2004	12,365,093	\$ 7.52
	<hr/>	<hr/>
Exercisable, June 30, 2004	7,464,123	\$ 10.48
	<hr/>	<hr/>

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The following tables summarize information about stock options outstanding and exercisable under the 1995 Plan, the 1995 Directors' Plan, the 1996 Plan, the Petrolsoft Plan and the 2001 Plan at June 30, 2004:

Range of Exercise Prices	Options Outstanding at June 30, 2004	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable at June 30, 2004	Weighted Average Exercise Price
\$2.21-\$4.33	7,383,760	8.9	\$ 2.80	2,769,649	\$ 2.84
4.33-8.67	1,212,192	6.1	7.71	995,066	8.04
8.67-13.00	222,691	5.9	9.91	155,658	10.27
13.00-17.34	2,831,079	4.6	14.14	2,828,379	14.14
17.34-21.67	45,563	5.7	24.05	45,563	20.63
21.67-26.01	138,500	4.6	24.05	138,500	24.05
26.01-30.34	317,540	3.5	29.09	317,540	29.09
30.34-34.68	147,752	4.7	31.48	147,752	31.48
34.68-39.01	29,000	5.9	38.18	29,000	38.18
39.01-43.34	37,016	5.5	40.04	37,016	40.04
June 30, 2004	12,365,093	7.3	\$ 7.52	7,464,123	\$ 10.48
Exercisable, June 30, 2003				5,372,666	\$ 13.72
Exercisable, June 30, 2002				4,544,779	\$ 15.55

(d) Employee Stock Purchase Plans

In October 1997, the Company's Board of Directors approved the 1998 Employee Stock Purchase Plan, under which the Board of Directors may grant stock purchase rights for a maximum of 1,000,000 shares through September 30, 2007. In December 2000 and 2003, the shareholders voted to increase the number of shares eligible under the 1998 Employee Stock Purchase Plan by 2,000,000 and 3,000,000 shares, respectively.

Participants are granted options to purchase shares of common stock on the last business day of each semi-annual payment period for 85% of the market price of the common stock on the first or last business day of such payment period, whichever is less. The purchase price for such shares is paid through payroll deductions, and the current maximum allowable payroll deduction is 10% of each eligible employee's compensation. Under the plan, the Company issued 313,337 shares in 2002, 759,771 shares in 2003 and 976,960 shares in 2004. As of June 30, 2004, there were 3,149,530 shares available for future issuance under the 1998 Employee Stock Purchase Plan as amended. In addition, on July 1, 2004, the Company issued 210,241 shares under the 1998 Employee Stock Purchase Plan.

(e) Stockholder Rights Plan

During fiscal 1998, the Board of Directors of the Company adopted a Stockholder Rights Agreement (the Rights Plan) and distributed one Right for each outstanding share of Common Stock. The Rights were issued to holders of record of Common Stock outstanding on March 12, 1998. Each share of Common Stock issued after March 12, 1998 will also include one Right, subject to certain limitations. Each Right when it becomes exercisable will initially entitle the registered holder to

purchase from the Company one one-hundredth (1/100th) of a share of Series A Preferred Stock at a price of \$175.00 (the Purchase Price).

The Rights will become exercisable and separately transferable when the Company learns that any person or group has acquired beneficial ownership of 15% or more of the outstanding Common Stock or on such other date as may be designated by the Board of Directors following the commencement of, or first public disclosure of an intent to commence, a tender or exchange offer for outstanding Common Stock that could result in the offeror becoming the beneficial owner of 15% or more of the outstanding Common Stock. In such circumstances, holders of the Rights will be entitled to purchase, for the Purchase Price, a number of hundredths of a share of Series A Preferred Stock equivalent to the number of shares of Common Stock (or, in certain circumstances, other equity securities) having a market value of twice the Purchase Price. Beneficial holders of 15% or more of the outstanding Common Stock, however, would not be entitled to exercise their Rights in such circumstances. As a result, their voting and equity interests in the Company would be substantially diluted if the Rights were to be exercised.

The Rights expire in March 2008, but may be redeemed earlier by the Company at a price of \$.01 per Right, in accordance with the provisions of the Rights Plan.

The Company amended the Rights Plan in June 2003 so that the terms of the Rights Plan would not be applicable to the securities issued as part of the Series D preferred financing or to any securities issued in the future pursuant to the preemptive rights granted as part of this financing.

(f) Restricted Stock

In fiscal 2001, restricted stock covering 94,500 shares of the Company's common stock was issued. The restricted stock is subject to vesting terms whereby the entire amount will vest upon the earlier of seven years from the date of grant or the attainment of certain performance goals, as defined.

Consideration of \$3.00 per share was received for these shares, resulting in deferred compensation of \$1.5 million based on the fair market value on the date of issuance of the restricted stock. Of this deferred compensation, \$0.1 million and \$0.2 million was expensed in fiscal 2001 and fiscal 2002, respectively. The consideration received was in the form of secured promissory notes from the holders of the restricted stock. These notes are subject to interest at an annual rate of 5.07%, are due seven years from the date of issuance and are secured by the restricted stock. The interest under these notes is subject to full recourse against the personal assets of the holders of the restricted stock.

In May 2002, the holders of the restricted stock were terminated from their employment with the Company. At the time of termination, the performance goals had not been attained, and none of the restricted stock had vested. In accordance with the terms of the restricted stock agreements, the Company repurchased the stock at the original purchase price of \$3.00 per share. The Company recorded an entry to reverse the \$1.2 million of unamortized deferred compensation and \$0.3 million of the previously recognized compensation expense associated with the stock.

(9) Income Taxes

The Company accounts for income taxes under the provisions of SFAS No. 109, "Accounting for Income Taxes." Under the liability method specified by SFAS No. 109, a deferred tax asset or liability is

measured based on the difference between the financial statement and tax bases of assets and liabilities, as measured by the enacted tax rates.

Income (loss) before provision for (benefit from) income taxes consists of the following (in thousands):

	Years Ended June 30,		
	2002	2003	2004
Domestic	\$ (54,234)	\$ (69,793)	\$ (2,377)
Foreign	(18,164)	(68,345)	467
Total	\$ (72,398)	\$ (138,138)	\$ (1,910)

The provisions for (benefit from) income taxes shown in the accompanying consolidated statements of operations are composed of the following (in thousands):

	Years Ended June 30,		
	2002	2003	2004
Federal			
Current	\$	\$	\$
Deferred	1,195	1,076	20,333
State			
Current	142		748
Deferred			1,823
Foreign			
Current	1,366		13,934
Deferred	896		(16,942)
	\$ 3,599	\$ 1,076	\$ 19,896

The provision for (benefit from) income taxes differs from that based on the federal statutory rate due to the following (in thousands):

	Years Ended June 30,		
	2002	2003	2004
Federal tax at statutory rate	\$ (24,592)	\$ (46,740)	\$ (584)
State income tax, net of federal tax benefit	94		1,697
Tax effect resulting from foreign goodwill impairment		17,129	
Tax effect resulting from foreign activities	9,633	7,184	(4,566)
Tax credits generated	(3,660)	(522)	(1,193)
Permanent differences, net	(234)	48	(1,070)
Valuation allowance	22,358	23,977	25,612
Provision for income taxes	\$ 3,599	\$ 1,076	\$ 19,896

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The approximate tax effect of each type of temporary difference and carry forward is as follows (in thousands):

	June 30,	
	2003	2004
Deferred tax assets:		
Revenue related	\$ 1,501	\$ 1,286
Federal and state tax credits	19,028	18,768
Federal and state loss carryforwards	18,943	23,405
Foreign loss carryforwards	4,368	6,583
Restructuring accruals	27,056	22,771
Other reserves and accruals	6,053	10,455
Intangible assets	10,879	9,526
Property, plant and equipment	1,019	
Other temporary differences	1,592	1,704
	<u>90,439</u>	<u>94,498</u>
Valuation allowance	(79,622)	(90,944)
	<u>10,817</u>	<u>3,554</u>
Deferred tax liabilities:		
Intangible assets	(7,315)	(4,219)
Revenue related	(1,320)	
Property, plant and equipment		(1,032)
Other		(325)
	<u>(8,635)</u>	<u>(5,576)</u>
Net deferred tax assets (liabilities)	<u>\$ 2,182</u>	<u>\$ (2,022)</u>

As of June 30, 2004, the Company had net operating loss (NOL) carryforwards for U.S. federal and state income tax purposes of approximately \$72 million and \$39 million, respectively, and foreign net operating loss carryforwards of approximately \$20 million. The Company had federal tax credits and state tax credits of approximately \$20 million and \$3 million, respectively. The tax credits and NOL carryforwards expire at various dates from 2005 through 2024. The Company has determined that it underwent an ownership change (as defined under section 382 of the Internal Revenue Code of 1986, as amended) during the year ended June 30, 2004. As such, the recognition of the Company's federal NOLs and tax credits may be limited. Moreover, an ownership change might have also occurred under the laws of certain states and foreign countries in which the Company has generated NOLs and tax credits. Accordingly, it is possible that these NOL and tax credits could also be limited under rules similar to those of section 382. Due to the uncertainty surrounding the realization and timing of these tax attributes, the Company has recorded a valuation allowance of approximately \$79.6 million and \$90.9 million as of June 30, 2003 and 2004, respectively.

(10) Operating Leases

The Company leases its facilities and various office equipment under noncancellable operating leases with terms in excess of one year. Rent expense charged to operations was approximately

\$12.3 million, \$13.9 million and \$11.7 million for the years ended June 30, 2002, 2003 and 2004, respectively. Future minimum lease payments under these leases as of June 30, 2004 are as follows (in thousands):

	<u>Amount</u>
Years Ending June 30, 2005	\$ 12,744
2006	10,489
2007	9,561
2008	8,186
2009	7,597
Thereafter	25,273
	<u>\$ 73,850</u>

(11) Sale of Installments Receivable

Installments receivable represent the present value of future payments related to the financing of noncancellable term and perpetual license agreements that provide for payment in installments, generally over a one- to five-year period. A portion of each installment agreement is recognized as interest income in the accompanying consolidated statements of operations. The interest rates utilized for the years ended June 30, 2002, 2003, and 2004 ranged from 7.0% to 9.0%.

The Company has arrangements to sell certain of its installments receivable to two financial institutions. The Company sold, with limited recourse, certain of its installment contracts for aggregate proceeds of \$66.7 million and \$54.9 million during fiscal 2003 and 2004, respectively. The financial institutions have certain recourse to the Company upon nonpayment by the customer under the installments receivable. The amount of recourse is determined pursuant to the provisions of the Company's contracts with the financial institutions. Collections of these receivables reduce the Company's recourse obligations, as defined. Generally, no gain or loss is recognized on the sale of the receivables due to the consistency of the discount rates used by the Company and the financial institutions.

At June 30, 2004, there was approximately \$50 million of additional availability under the arrangements. The Company expects that there will be continued ability to sell installments receivable, as the collection of the sold receivables will reduce the outstanding balance and the availability under the arrangements can be increased. The Company's potential recourse obligation related to these contracts is within the range of \$1.4 million to \$4.1 million. In addition, the Company is obligated to pay additional costs to the financial institutions in the event of default by the customer.

In December 2003, the Company entered into an arrangement to sell certain of its accounts receivable to a third financial institution, Silicon Valley Bank, pursuant to which the Company has the ability to sell receivables through January 1, 2005. Under this agreement, the total outstanding balance of sold receivables may not exceed \$35.0 million at any one time. The Company has agreed to act as the bank's agent for collection of the sold receivables. During the year ended June 30, 2004, the Company sold receivables for aggregate proceeds of \$42.5 million under this agreement. As of June 30, 2004 there was \$5.0 million in availability.

(12) Commitments and Contingencies

(a) FTC complaint

On August 7, 2003, the FTC announced that it has authorized its staff to file a civil administrative complaint alleging that the acquisition of Hyprotech in May 2002 was anticompetitive and seeking to declare the acquisition in violation of Section 5 of the FTC Act and Section 7 of the Clayton Act. On July 15, 2004 the FTC announced that it had accepted a proposed consent decree for public comment. The public comment period ended August 13, 2004, and the FTC is currently considering whether to make the proposed consent decree final.

If the FTC approves the proposed consent decree in its current form, then the Company would be allowed to complete a sale to an FTC-approved buyer within 90 days of the order becoming final if it has entered into a definitive agreement with a potential buyer and submitted an application for approval of that buyer to the FTC within 5 days of the order being approved. If the Company has not identified a potential buyer, then it will have 60 days from the date on which the order becomes final to complete the sale required by the order. If the Company fails to close a transaction within the 60 or 90 day timeframes, then the FTC may appoint a trustee who will be empowered to find an acquirer of the assets offered under the consent decree. The trustee will have an initial one year period to complete the sale. This period may be extended at the FTC's discretion for up to two additional years.

Under the terms of the published proposed consent decree the Company would sell its operator training services business and rights to the Hyprotech product line to an FTC-approved buyer, maintain certain technical standards with respect to the Hyprotech product line for 5 years, and provide the FTC-approved buyer of rights to the Hyprotech product line with all releases for the Hyprotech products for 2 years. The proposed consent decree provides for the Company to obtain rights to the Hyprotech products from the FTC-approved buyer. The Hyprotech product AXSYS was sold to Bentley Systems, Inc. in accordance with the terms of the proposed consent decree.

If the FTC does not approve a consent decree then it will likely return the case to litigation where an administrative law judge will adjudicate the complaint in a trial-type proceeding if the Company does not reach a settlement with the FTC prior to the conclusion of this proceeding. Any decision of the administrative law judge may be appealed to the commissioners of the FTC by either the FTC staff or the Company. Upon appeal, the commissioners will issue their own decision and order after reviewing legal briefs and hearing oral arguments. If the FTC commissioners rule against the Company, it may file a petition for review in a federal circuit court of appeals. If the court of appeals affirms the FTC's ruling, then the court will enter its own order of enforcement. Any decision of the court of appeals may be appealed by either the FTC, or by the Company, to the U.S. Supreme Court. The Company disagrees with the FTC that the acquisition of Hyprotech is anticompetitive and, if the matter returns to litigation, it intends to defend the proceedings vigorously.

It is not certain whether the FTC will approve the proposed consent decree in its present form or in an amended form acceptable to the Company. If the FTC approves a consent decree it is not certain whether the Company could successfully identify an acquirer acceptable to the FTC or negotiate acceptable terms. If the Company does not successfully close a transaction within the time periods set forth in the consent decree, then a trustee would be appointed by the FTC who could have up to three years to close a transaction. If the FTC does not approve a consent decree and the case is returned to litigation, then, because of the additional time to prepare for a trial, and the length of the appeals process, the final outcome of this matter may not be determined for several years. If the FTC were to prevail in this challenge, it could seek to impose a wide variety of remedies, some of which would have

a material adverse effect on the Company's ability to continue to operate under its current business plan and on its results of operations. These potential remedies include the divestiture of Hyprotech, as well as mandatory licensing of Hyprotech software products and other engineering software products to one or more of the Company's competitors. As of June 30, 2004, the Company had accrued \$17.9 million to cover the cost of (1) professional service fees associated with its cooperation in the FTC's investigation since its commencement on June 7, 2002, and (2) estimated future professional services fees relating to negotiation of the proposed consent decree and implementation of the terms of a final consent decree.

(b) Litigation

On May 31, 2002, the Company acquired the capital stock of Hyprotech from AEA Technology plc. AEA is engaged in arbitration proceedings in England over a contract dispute with KBC Advanced Technologies PLC, an English technology and consulting services company. The dispute remains in arbitration and concerns alleged breaches by each party of an agreement to develop and market a product known as HYSYS.Refinery. The Company indemnified AEA under the Sale and Purchase Agreement with AEA dated May 10, 2002 against any costs, damages or expenses in respect of a claim brought by KBC alleging damages due to AEA's (a) failure to comply with its contractual obligations after the acquisition, (b) breach of non-competition clauses with respect to activities occurring after the acquisition, (c) breach of certain obligations to KBC under its agreement by virtue of the acquisition, or (d) execution of the acquisition agreement. On March 31, 2003, the arbitrator delivered a partial decision in the arbitration, as a result of which the Company has not received any request under the indemnification agreement, nor does it expect to receive one. On April 22, 2004 the arbitrator delivered a further partial decision stating that (a) the contract between AEA and KBC had been terminated and that AEA and Hyprotech were in breach of the non-compete provisions contained in that agreement, and (b) for a period of three years from the date of the award, Hyprotech shall not directly or indirectly sell or market a product which competes with HYSYS.Refinery. A further hearing is scheduled for December 2004, at which the arbitrator will determine whether there has been a breach by Hyprotech of obligations relating to confidentiality. The Company believes that no such breach occurred. The Company is working with AEA in the resolution of this matter. It is too early to determine the likely outcome of this matter.

In addition, on September 11, 2002, KBC filed a separate complaint in state district court in Houston, Texas against the Company and Hyprotech. KBC's claim alleges tortious interference with contract and existing business relations, tortious interference with prospective business relationships, conversion of intellectual property and civil conspiracy. KBC has requested actual and exemplary damages, costs and interest. The Company believes the causes of action to be without merit and will defend the case vigorously. Also, the Company has filed a counterclaim against KBC requesting actual and punitive damages and attorney fees. A trial date has been set for January 19, 2004. On August 25, 2003, KBC filed an additional complaint in the state district court in Houston, Texas against the Company and Hyprotech alleging breach of non-compete provisions and requesting injunctive relief preventing sale of the Company's product Aspen RefSYS. The Company believes the causes of action to be without merit and will defend the case vigorously. On September 15, 2003, the court set aside the application for injunction pending resolution of the arbitration in London. Following the London arbitrator's award of April 22, 2004 in relation to the non-compete, on May 7, 2004, the Houston court agreed to enter a judgment in Texas against Hyprotech on exactly the same terms as the arbitrator's

award against Hyprotech. The Houston court further stated that KBC may not bring any further claims against Hyprotech in Houston and that all such claims are reserved for the arbitrator in London. KBC has applied to the Houston court to have re-instated its application for injunctive relief against the Company. A hearing is scheduled for September 15, 2004 in Houston to resolve KBC's application. As of the filing date of this report, the Company has accrued \$5.9 million to cover the cost of (1) professional service fees associated with our legal defense since its commencement and (2) estimated future costs relating to the matter.

(c) Other

The Company has entered into agreements with two executive officers providing for the payment of cash and other benefits in certain events of their voluntary or involuntary termination within three years following a change of control. Payment under these agreements would consist of a lump sum equal to approximately three times each executive's annual taxable compensation. The agreements also provide that the payments would be increased in the event that it would subject the officer to excise tax as a parachute payment under the Internal Revenue Code. The increase would be equal to the additional tax liability imposed on the executive as a result of the payment. The Company has entered into a substantially similar agreement with a third executive officer, except that payment under this agreement would consist of a lump sum equal to approximately (i) twice this executive's annual taxable compensation if he is terminated within the first year following a change of control and (ii) this executive's annual taxable compensation if he is terminated within the second or third year following a change of control.

The Company has also entered into agreements with four executive officers, providing for severance payments in the event that the executive is terminated by the Company other than for cause. Payments under one of these agreements consist of continuation of base salary for a period of 18 months, payments under two of these agreements consist of continuation of base salary for a period of 12 months, and payments under the fourth agreement consist of continuation of base salary for a period of six months.

(13) Retirement and Profit Sharing Plans

The Company maintains a defined contribution retirement plan under Section 401(k) of the Internal Revenue Code covering all eligible employees, as defined. Under the plan, a participant may elect to defer receipt of a stated percentage of his or her compensation, subject to limitation under the Internal Revenue Code, which would otherwise be payable to the participant for any plan year. The Company may make discretionary contributions to this plan, including making matching contributions equal to 25% of pretax employee contributions up to a maximum of 6% of an employee's salary. During the fiscal years ended June 30, 2002, 2003 and 2004, the Company made matching contributions of approximately \$1.3 million, \$0.1 million and \$1.0 million, respectively.

(14) Joint Ventures and Other Investments

In May 1993, the Company entered into an Equity Joint Venture agreement with China Petrochemical Technology Company to form a limited liability company governed by the laws of the People's Republic of China. This joint venture has the nonexclusive right to distribute the Company's

products within the People's Republic of China. The Company invested \$0.3 million on August 6, 1993, which represents a 25% equity interest in the joint venture as of June 30, 2004.

In November 1993, the Company invested approximately \$0.1 million in a Cyprus-based company, representing approximately a 14% equity interest. In December 1995, the Company exercised its option to increase its equity interest to 22.5%, acquiring additional shares for approximately \$0.1 million. In fiscal 2001, a third party invested in the entity and purchased a portion of the existing shareholders' equity interests. As a result of this transaction, the Company's equity interest increased to 31.58%.

The Company is accounting for the above two investments using the equity method. The net investments of approximately \$0.7 million and \$0.3 million are included in other assets in the accompanying consolidated balance sheets as of June 30, 2003 and 2004, respectively. In the accompanying consolidated statements of operations for the years ended June 30, 2002, 2003, and 2004, the Company has recognized losses of approximately \$0.2 million, \$0.5 million and \$0.4 million, respectively, as its portion of the losses from these joint ventures. The Company does not have any commitments to provide additional funding to these entities.

In November 2000, the Company invested \$0.6 million in a global chemical B2B e-commerce site supporting major chemical companies in Asia. This investment entitles the Company to a minority interest in the B2B company and is accounted for using the cost method and, accordingly, is being valued at cost unless a permanent impairment in its value occurs or the investment is liquidated. As of June 30, 2004, the Company has determined that an other than temporary impairment has not occurred. This investment is included in other assets in the accompanying consolidated balance sheet as of June 30, 2003 and 2004.

ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(15) Accrued Expenses and Other Liabilities

Accrued expenses in the accompanying consolidated balance sheets consist of the following (in thousands):

	June 30,	
	2003	2004
Royalties and outside commissions	\$ 14,677	\$ 14,512
Acquisition and legal-related	13,005	7,333
Payroll and payroll-related	12,998	14,191
Restructuring accruals	12,257	16,561
Payable to financing companies	4,332	1,333
Income taxes	536	7,801
Other	10,938	13,695
	<u>\$ 68,743</u>	<u>\$ 75,426</u>

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

	June 30,	
	2003	2004
Restructuring accruals	\$ 13,009	\$ 6,122
Deferred rent		3,913
Royalties and outside commissions	3,000	1,492
	<u>\$ 16,009</u>	<u>\$ 11,527</u>

(16) Related Party Transactions

During the year ended June 30, 2003, the Company recorded license revenue of \$2.8 million associated with sales to Accenture. During this period, Accenture owned approximately 1.6 million shares of the Company's common stock.

A director of the Company provided advisory services to the Company as a director of PetroVantage during fiscal 2002 and 2003. The Company made payments of \$32,000 to the director as compensation for services rendered during fiscal 2002. Separately, during fiscal 2003, the director provided general consulting services to the Company, for which the Company made payments totaling approximately \$230,000 during the year.

(17) Segment and Geographic Information

The Company follows the provisions of SFAS No. 131, "Disclosures about Segments of an Enterprise and related Information," which establishes standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments in interim financial reports issued to stockholders. It also established standards for disclosures about products and services, and geographic areas. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is the Chief Executive Officer of the Company.

The Company is organized geographically and by line of business. The Company has three major line of business operating segments: license, consulting services and maintenance and training. The Company also evaluates certain subsets of business segments by vertical industries as well as by product categories. While the Executive Management Committee evaluates results in a number of different ways, the line of business management structure is the primary basis for which it assesses financial performance and allocates resources.

The license line of business is engaged in the development and licensing of software. The consulting services line of business offers implementation, advanced process control, real-time optimization and other consulting 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 the Company's products.

The accounting policies of the line of business operating segments are the same as those described in the summary of significant accounting policies. The Company does not track assets or capital expenditures by operating segments. Consequently, it is not practical to show assets, capital expenditures, depreciation or amortization by operating segments.

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

	<u>License</u>	<u>Consulting Services</u>	<u>Maintenance and Training</u>	<u>Total</u>
Year ended June 30, 2002				
Revenues from external customers	\$ 136,377	\$ 127,719	\$ 58,286	\$ 322,382
Controllable expenses	60,869	89,221	11,602	161,692
Controllable margin(1)	\$ 75,508	\$ 38,498	\$ 46,684	\$ 160,690
Year ended June 30, 2003				
Revenues from external customers	\$ 162,354	\$ 103,741	\$ 80,361	\$ 346,456
Controllable expenses	65,394	81,943	12,361	159,698
Controllable margin(1)	\$ 96,960	\$ 21,798	\$ 68,000	\$ 186,758
Year ended June 30, 2004				
Revenues from external customers	\$ 158,661	\$ 96,512	\$ 77,823	\$ 332,996
Controllable expenses	64,963	67,214	14,323	146,500
Controllable margin(1)	\$ 93,698	\$ 29,298	\$ 63,500	\$ 186,496

- (1) The Controllable Margins reported reflect only the expenses of the line of business and do not represent the actual margins for each operating segment since they do not contain an allocation for selling and marketing, general and administrative, development and other corporate expenses incurred in support of the line of business.

Profit Reconciliation:

	Years Ended June 30		
	2002	2003	2004
	(In thousands)		
Total controllable margin for reportable segments	\$ 160,690	\$ 186,758	\$ 186,496
Selling and marketing	(89,483)	(91,353)	(89,129)
Research and development	(19,966)		
General and administrative and overhead	(83,107)	(78,618)	(78,111)
Asset impairment charges	(1,169)	(114,247)	(4,217)
Restructuring charges and FTC legal costs	(14,914)	(41,080)	(20,085)
Charges for in-process research and development	(14,900)		
Interest and other income and expense	(460)	916	3,487
Write-off of investments	(8,923)		
Income (loss) before (provision for) benefit from income taxes and equity in earnings from joint ventures	\$ (72,232)	\$ (137,624)	\$ (1,559)

Geographic Information:

Domestic and export sales as a percentage of total revenues are as follows:

	Years Ended June 30,		
	2002	2003	2004
United States	54.2%	46.6%	42.8%
Europe	28.4	30.2	33.0
Japan	5.1	3.9	4.6
Other	12.3	19.3	19.6
	100.0%	100.0%	100.0%

During the years ended June 30, 2002, 2003 and 2004 there were no customers that individually represented greater than 10% of the Company's total revenue.

Revenues, income (loss) from operations and identifiable assets for the Company's North American, European and Asian operations are as follows (in thousands). The Company has intercompany distribution arrangements with its subsidiaries. The basis for these arrangements, disclosed below as transfers between geographic locations, is cost plus a specified percentage for services and a commission rate for sales generated in the geographic region.

	North America	Europe	Asia	Eliminations	Consolidated
Year ended June 30, 2002					
Revenues	\$ 274,554	\$ 77,865	\$ 18,504	\$ (48,541)	\$ 322,382
Identifiable assets	\$ 468,951	\$ 97,561	\$ 12,943	\$ (176,014)	\$ 403,441
Year ended June 30, 2003					
Revenues	\$ 259,108	\$ 106,725	\$ 12,876	\$ (32,253)	\$ 346,456
Identifiable assets	\$ 524,090	\$ 64,917	\$ (6,959)	\$ (266,789)	\$ 315,259
Year ended June 30, 2004					
Revenues	\$ 240,830	\$ 83,427	\$ 16,825	\$ (8,086)	\$ 332,996
Identifiable assets	\$ 604,560	\$ 32,786	\$ (4,229)	\$ (331,713)	\$ 301,404

(18) Restatement of Consolidated Financial Statements

In October 2004, subsequent to the issuance of the Company's financial statements for the year ended June 30, 2004, the audit committee of the Company's Board of Directors commenced a detailed investigation of the accounting for certain software license and service agreement transactions entered into with certain alliance partners and other customers during fiscal years 2000 through 2002. The scope of the audit committee investigation was later expanded to include certain transactions entered into during fiscal years 1999, 2003 and 2004. Based upon the audit committee's investigation, the audit committee and Company management determined that certain transactions entered into in fiscal years 1999 through 2002 were accounted for improperly, and concluded that license revenue associated with the transactions was misstated in fiscal years 1999 through 2004. Additionally, the audit committee and Company management concluded, based on information discovered during the investigation, that the accounting for software license sales to resellers should have been recorded on a sell-through or consignment basis of accounting rather than a sell-in or upfront basis of accounting, resulting in the deferral of license revenue from the period in which it was originally recorded to the period in which the software licenses were sold by the reseller to end users.

In addition, the Company determined that its previous accounting for tax withholdings involving transactions in Japan required restatement, that the timing of certain reductions in software license revenues should be restated, and that equity in earnings from joint ventures and loss (gain) on sales and disposals of assets should be reclassified. The restatement also includes the recording of previously identified errors that were previously not recorded because in each case and in aggregate the Company believed the amount of any such error was not material to the Company's consolidated financial statements.

As a result of the foregoing, the Company has restated its financial statements as of June 30, 2003 and 2004 and for the fiscal years ended June 30, 2002, 2003 and 2004, including the corresponding interim periods for fiscal years 2003 and 2004. The restatement also affects periods prior to fiscal 2002 and these prior periods errors have been reflected in the adjustments to the fiscal year 2002 beginning accumulated deficit. The foregoing restatement adjustments did not affect the Company's reported cash, cash equivalents and short-term investments balance during these reported periods.

Revenue and Expense Adjustments

Set forth below are the adjustments to the Company's previously issued statements of operations for the fiscal years ended June 30, 2002, 2003 and 2004, and accumulated deficit as of June 30, 2001.

Accumulated deficit and net income (loss)

	Accumulated Deficit	Net Income (Loss)		
		Years ended June 30,		
		As of June 30, 2001	2002	2003
As previously reported	\$ (24,127)	\$ (77,165)	\$ (160,833)	\$ (28,690)
Restatement adjustments:				
Software license revenues	(26,243)	2,464	22,495	6,391
Service and other revenues	(138)	(686)	1,240	909
Cost of revenues	(1,200)	1,200		239
Operating costs	(1,727)	295	(685)	(667)
Other	(193)	(910)	(355)	(298)
Provision for income taxes	(2,418)	(1,195)	(1,076)	310
Total restatement adjustments	(31,919)	1,168	21,619	6,884
As restated	\$ (56,046)	\$ (75,997)	\$ (139,214)	\$ (21,806)

Software license revenue

	Years ended June 30,		
	2002	2003	2004
	(In thousands)		
License revenue, as previously reported	\$ 133,913	\$ 139,859	\$ 152,270
Revenue restatement adjustments:			
Arrangements outside of contractual terms	4,983	7,366	3,122
Sell-through basis of revenue recognition	(6,253)	12,213	1,581
Revenue recognition timing adjustments	2,769	1,874	683
Foreign withholding taxes	1,013	820	1,021
Other	(48)	222	(16)
Total license revenue restatement adjustments	2,464	22,495	6,391
License revenue, as restated	\$ 136,377	\$ 162,354	\$ 158,661

Arrangements outside of contractual terms Through the course of the audit committee investigation, instances of unauthorized side arrangements with customers were identified. Generally, these side arrangements were executed contemporaneously with the software license transaction and provided customers with various rights that were not considered in the original revenue recognition assessment. The consideration provided to customers included terms such as (i) rights to terminate the arrangement; (ii) variable pricing; (iii) rights to unspecified future

products; and (iv) commitments made by the Company to provide consideration in the future. Had these elements to the arrangements been taken into consideration or known at the time the transactions were recorded, a portion or all of the revenue would have been deferred until the contingencies had lapsed, the additional products were provided, or other consideration was provided by the Company. Accordingly, the Company has adjusted revenue on these transactions for the years ended June 30, 2002, 2003 and 2004 to properly reflect all elements of the transactions.

Restatement to sell-through basis of revenue recognition The Company sells certain of its products through distributors and other resellers. Previously, business arrangements with the Company's distributors and resellers were believed to require payment within a customary collection period and provide no return rights. Accordingly, revenue was recognized upon shipment, on a sell-in or upfront basis, given that management believed all other criteria of SOP No. 97-2 had been met. The Company has determined that, as sales pertained to distributors or resellers, it did not meet the criteria of SOP No. 97-2 that required the vendor's obligation to the buyer to be complete and the fees to be fixed or determinable at the time of product shipment. The Company had provided concessions to various distributors and resellers, including return rights outside the contractual terms, and in some instances facilitated the resale of the Company's software by its distributors. In addition, in some instances, distributors and resellers were not obligated to pay for delivered software licenses until they had been sold through to an end user. Accordingly, the Company has adjusted revenue on all distributor and reseller transactions for the years ended June 30, 2002, 2003 and 2004 to reflect the sell-through or consignment basis of revenue recognition.

Revenue recognition timing adjustments and receivable write-offs Due to the errors discovered during the investigation, the Company undertook a comprehensive review of revenue recognition and identified timing issues related to the recording of revenue in the period in which it was earned. In addition, the Company has identified a number of receivable write-offs that were recorded as reductions in license revenue that should have been recorded as bad debt expense.

Foreign withholding taxes Software license and maintenance revenues earned from customers in Japan which were previously recorded net of the 10% Japanese withholding taxes are being restated for the years ended June 30, 2002, 2003 and 2004 to record the gross amount of the revenue and the related 10% income tax expense. Additionally, as part of a change in the Japan-US tax treaty, the Japanese withholding tax law was repealed effective July 1, 2004 and provided approximately \$1.5 million of income tax relief to the Company. The \$1.5 million in tax relief associated with the tax law change is being restated to reduce income tax expense by \$1.5 million as of the enactment date of the tax law change which occurred in the quarter ended March 31, 2004.

Service and other revenue

Service and other revenue consists primarily of consulting services and maintenance services. Maintenance service revenue has been adjusted to account for the gross amount of revenue associated with 10% Japanese withholding taxes, as discussed above. Also, the timing and amount of the recognition of maintenance revenue has been adjusted in accordance with the arrangements outside of contractual terms noted above. These side arrangements have resulted in the restatement of

maintenance revenue for certain transactions where the value of the maintenance element of the transaction was not properly recorded or the timing of the recognition of the maintenance revenue was deferred until a contingency was resolved.

Cost of revenues

The Company's cost of service and other revenue consists primarily of costs associated with the provision of consulting services. These costs have been adjusted to account for payments made to a customer associated with an unauthorized side arrangement, which obligated the Company to pay for unused consulting services. Additionally, cost of service and other revenue decreased \$1.2 million during fiscal 2002 and an equal and offsetting increase was recorded in fiscal 2001.

Operating costs

In addition, for the correction of previously identified errors that were previously determined to be immaterial to the Company's consolidated financial statements, general and administrative costs were reduced in the year ended June 30, 2002 as a result of the restatement of a transaction with a distributor for which sell-through to the end-user ultimately did not occur. Originally, the Company had recorded a \$1.9 million bad debt expense upon non-payment by the customer. As sell-through to the end user did not occur, revenue recognition associated with this transaction was reversed (see "Restatement to sell-through basis of revenue recognition" above), and the later provision for bad debt expense required reversal. In addition, general and administrative costs have generally been increased to account for bad debt expense associated with uncollectible receivables that had previously been reported as a reduction in revenue, as discussed above (see "Revenue recognition timing adjustments and receivable write-offs" above). Consequently, the financial statement schedule listed in the Index at Item 15(a)(2) has been restated.

Loss (gain) on sales and disposals of assets

The Company has determined that gains and losses on sales and disposals of assets have historically been misclassified on its statements of operations below income (loss) from operations. Consequently, the Company has reclassified (gain) loss on sales of assets to income (loss) from operations.

Equity in earnings from joint ventures

The Company has determined that equity in earnings from joint ventures has historically been misclassified on its statements of operations. Consequently, the Company has reclassified equity in earnings from joint ventures below the provision for (benefit from) income taxes.

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Impact of the Financial Statement Adjustments on the Consolidated Statements of Operations

The following table presents the impact of the financial statement adjustments on the Company's previously reported consolidated statements of operations for the fiscal years ended June 30, 2002, 2003 and 2004 (in thousands, except per share data).

Consolidated Statements of Operations

	Years Ended June 30,					
	2002 As Previously Reported	2002 As Restated	2003 As Previously Reported	2003 As Restated	2004 As Previously Reported	2004 As Restated
Revenues:						
Software licenses	\$ 133,913	\$ 136,377	\$ 139,859	\$ 162,354	\$ 152,270	\$ 158,661
Service and other	186,691	186,005	182,862	184,102	173,426	174,335
Total revenues	320,604	322,382	322,721	346,456	325,696	332,996
Cost of revenues:						
Cost of software licenses	11,830	11,830	13,916	13,916	15,566	15,577
Cost of service and other	119,972	118,772	106,868	106,868	99,433	99,183
Amortization of technology related intangible assets	5,042	5,042	8,219	8,219	7,270	7,270
Impairment of technology related intangible and computer software development assets	1,169	1,169	8,704	8,704	3,250	3,250
Total cost of revenues	138,013	136,813	137,707	137,707	125,519	125,280
Gross profit	182,591	185,569	185,014	208,749	200,177	207,716
Operating costs:						
Selling and marketing	115,225	114,755	105,883	105,879	99,486	100,028
Research and development	74,458	74,176	65,086	65,143	59,095	58,955
General and administrative	29,216	29,673	28,462	29,644	31,714	32,727
Long-lived asset impairment charges			106,093	105,543	967	967
Restructuring charges and FTC legal costs	14,914	14,914	41,080	41,080	20,833	20,085
Charges for in-process research and development	14,900	14,900				
Loss (gain) on sales and disposals of assets		(346)		(52)		(879)
Total operating costs	248,713	248,072	346,604	347,237	212,095	211,883
Income (loss) from operations	(66,122)	(62,503)	(161,590)	(138,488)	(11,918)	(4,167)
Interest income	6,768	6,209	8,485	8,191	7,433	7,296
Interest expense	(5,591)	(5,591)	(7,132)	(7,132)	(4,940)	(4,940)
Write-off of investments	(8,923)	(8,923)				
Foreign currency exchange gain (loss)	(1,073)	(1,424)	(134)	(195)	413	252
Income (loss) on equity in joint ventures and gain (loss) on sales of assets	180		(462)		528	
Income (loss) before provision for income taxes	(74,761)	(72,232)	(160,833)	(137,624)	(8,484)	(1,559)
Provision for income taxes	(2,404)	(3,599)		(1,076)	(20,206)	(19,896)
Equity in earnings from joint ventures		(166)		(514)		(351)
Net income (loss)	(77,165)	(75,997)	(160,833)	(139,214)	(28,690)	(21,806)

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Years Ended June 30,

Accretion of preferred stock discount and dividend	(6,301)	(6,301)	(9,184)	(9,184)	(6,358)	(6,358)
Net income (loss) attributable to common shareholders	\$ (83,466)	\$ (82,298)	\$ (170,017)	\$ (148,398)	\$ (35,048)	\$ (28,164)
Basic and diluted net income (loss) per share attributable to common shareholders	\$ (2.58)	\$ (2.55)	\$ (4.42)	\$ (3.86)	\$ (0.86)	\$ (0.69)
Basic and diluted weighted average shares outstanding	32,308	32,308	38,476	38,476	40,575	40,575

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Impact of the Adjustments on the Consolidated Balance Sheets

The following is a summary of the impact of the adjustments on the Company's previously reported consolidated balance sheets as of June 30, 2003 and 2004 (in thousands, except share data).

	June 30,			
	2003 As Previously Reported	2003 As Restated	2004 As Previously Reported	2004 As Restated
Accounts receivable, net of allowance for doubtful accounts	\$ 77,725	\$ 76,080	\$ 52,667	\$ 50,874
Current portion of long-term installments receivable	34,720	34,813	21,475	25,244
Total current assets	193,801	192,249	207,452	209,428
Long-term installments receivable	73,377	70,715	67,724	65,527
Computer software development costs, net of accumulated amortization	17,728	17,728	15,933	16,863
Total assets	378,480	374,266	351,025	351,734
Accrued expenses	73,472	68,743	76,895	75,426
Unearned revenue	20,492	27,926	14,783	18,051
Deferred revenue	37,266	38,159	33,025	33,462
Total current liabilities	151,863	155,461	191,312	193,548
Deferred tax liability	13,258	14,578	4,220	4,220
Other liabilities	16,009	16,009	10,806	11,527
Accumulated deficit	(277,610)	(286,742)	(312,658)	(314,906)
Total stockholders' equity	40,087	30,955	30,611	28,363
Total liabilities and stockholders' equity	378,480	374,266	351,025	351,734

(19) Subsequent Events*(a) Sale of AXSYS Product*

In August 2004, under the terms of the proposed settlement with the FTC, the Company's AXSYS product was sold to Bentley Systems, Inc. The proceeds and gain recorded on the sale was not material.

*(b) Litigation**U.S. Attorney's Office Investigation*

On October 29, 2004, the Company announced that it had received a subpoena from the U.S. Attorney's Office for the Southern District of New York requesting documents relating to transactions to which the Company was a party during the 2000 to 2002 time frame, associated documents dating from January 1, 1999, and additional materials. The Company intends to cooperate fully with the subpoena requests and in the investigation by the U.S. Attorney's Office.

Class Action Suits

In November 2004, two putative class action lawsuits were filed against the Company in the United States District Court District of Massachusetts, captioned, respectively, *Fener v. Aspen Technology, Inc., et. al.*, Civil Action No. 04-12375 (D. Mass.) (filed Nov. 9, 2004) and *Stockmaster v. Aspen Technology, Inc., et. al.*, Civil Action No. 04-12387 (D. Mass.) (filed Nov. 10, 2004) (the "Class Actions"). The Class Actions allege, among other things, that the Company violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder in connection with various statements about its financial condition for fiscal years 2000 through 2004. The time for the defendants to move, answer or otherwise respond to the complaints has been extended to sixty days following the filing of a consolidated amended complaint. On February 2, 2005, the Court consolidated the cases under the caption *Aspen Technology, Inc. Securities Litigation*, Civil Action No. 04-12375 (D. Mass.), and appointed The Operating Engineers and Construction Industry and Miscellaneous Pension Fund (Local 66) and City of Roseville Employees' Retirement System as lead plaintiff, purporting to represent a putative class of persons who purchased Aspen Technology, Inc. common stock between January 25, 2000 and October 29, 2004. No consolidated amended complaint has been filed and no class has been certified. The Company believes that plaintiffs' claims lack merit and intends to litigate the dispute vigorously. The Company is currently unable to determine whether resolution of these matters will have a material adverse impact on its financial position or results of operations, or reasonably estimate the amount of the loss, if any, that may result from resolution of these matters. However, the ultimate outcome could have a material adverse effect on the Company's financial position or results of operations.

Derivative Action

On December 1, 2004, a purported derivative action was filed in the United States District Court District of Massachusetts, captioned *Caviness v. Evans, et. al.*, Civil Action No. 04-12524 (D. Mass.). The complaint alleges, among other things, that the former and current director and officer defendants caused the Company to issue false and misleading financial statements, and brings derivative claims for the following: (1) breach of fiduciary duty for insider trading; (2) breach of fiduciary duty; (3) abuse of control; (4) gross mismanagement; (5) waste of corporate assets; (6) unjust enrichment. The Company has moved to dismiss the complaint for failure to make a demand on the board of the Company and for failing to allege particularized facts showing why plaintiff's failure to make a demand should be excused. The time for plaintiff to respond to the motions to dismiss or, in the alternative, to file an amended complaint has been extended until March 30, 2005. The Company believes that plaintiff's claims lack merit and intends to litigate the dispute vigorously. The Company is currently unable to determine whether resolution of these matters will have a material adverse impact on its financial position or results of operations, or reasonably estimate the amount of the loss, if any, that may result from resolution of these matters. However, the ultimate outcome could have a material adverse effect on the Company's financial position or results of operations.

(c) Line of Credit

As of December 31, 2004, the Company was in default of the tangible net worth covenant. On January 28, 2005, the Company executed an amendment to the Loan Arrangement that adjusted the terms of certain financial covenants, cured the default as of December 31, 2004, and extended the expiration date of the arrangement to April 1, 2005. The Company is currently negotiating a renewal of this facility. The Company uses the line of credit primarily for letters of credit.

ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES
SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

Description	Balance, Beginning of Period As Restated(2)	Charged to Costs and Expenses As Restated(2)	Deductions	Other(1)	Balance, End of Period As Restated(2)
(In thousands)					
Allowance for doubtful accounts:					
June 30, 2002	\$ 1,905	\$ 257	\$ (141)	\$ 2,344	\$ 4,365
June 30, 2003	4,365	1,126	(3,010)	22	2,503
June 30, 2004	2,503	2,404	(1,210)		3,697

(1) Other relates primarily to amounts acquired in acquisitions.

(2) See Note 18 to the Consolidated Financial Statements.

EXHIBIT INDEX

- 3.1(1) Certificate of Incorporation of Aspen Technology, Inc., as amended.
 - 3.2(2) By-laws of Aspen Technology, Inc.
 - 4.1(3) Specimen Certificate for Shares of Aspen Technology, Inc.'s common stock, \$.10 par value.
 - 4.2(2) Rights Agreement dated as of March 12, 1998 between Aspen Technology, Inc. and American Stock Transfer and Trust Company, as Rights Agent, including related forms of the following: (a) Certificate of Designation of Series A Participating Cumulative Preferred Stock of Aspen Technology, Inc.; and (b) Right Certificate.
 - 4.3(4) Amendment No. 1 dated as of October 26, 2001 to Rights Agreement dated as of March 12, 1998 between Aspen Technology, Inc. and American Stock Transfer & Trust Company, as Rights Agent.
 - 4.4(5) Amendment No. 2 dated as of February 6, 2002 to Rights Agreement dated as of March 12, 1998 between Aspen Technology, Inc. and American Stock Transfer & Trust Company.
 - 4.5(6) Amendment No. 3 dated as of March 19, 2002 to Rights Agreement dated as of March 12, 1998 between Aspen Technology, Inc. and American Stock Transfer & Trust Company.
 - 4.6(7) Amendment No. 4 dated as of May 9, 2002 to Rights Agreement dated as of March 17, 1998 between Aspen Technology, Inc. and American Stock Transfer & Trust Company, as Rights Agent.
 - 4.7(8) Amendment No. 5 dated as of June 1, 2003 to Rights Agreement dated as of March 17, 1998 between Aspen Technology, Inc. and American Stock Transfer & Trust Company, as Rights Agent.
 - 4.8(9) Indenture dated as of June 17, 1998 between Aspen Technology, Inc. and The Chase Manhattan Bank, as trustee, with respect to up to \$86,250,000 principal amount of 5¹/₄% Convertible Subordinated Debentures due June 15, 2005 of Aspen Technology, Inc.
 - 4.9(9) Form of 5¹/₄% Convertible Subordinated Debentures due June 15, 2005 of Aspen Technology, Inc. (included in Sections 2.2, 2.3 and 2.4 of the Indenture).
 - 4.9(10) Form of Warrant of Aspen Technology, Inc. dated as of May 9, 2002.
 - 4.10(1) Form of WD Common Stock Purchase Warrant of Aspen Technology, Inc. dated as of August 14, 2003.
 - 4.11(1) Form of WB Common Stock Purchase Warrant of Aspen Technology, Inc. dated as of August 14, 2003.
 - 10.1(11) Lease Agreement dated as of January 30, 1992 between Aspen Technology, Inc. and Teachers Insurance and Annuity Association of America regarding Ten Canal Park, Cambridge, Massachusetts.
 - 10.2(12) First Amendment to Lease Agreement dated May 5, 1997 between Aspen Technology, Inc. and Beacon Properties, L.P., successor-in-interest to Teachers Insurance and Annuity Association of America, regarding Ten Canal Park, Cambridge, Massachusetts.
 - 10.3(12) Second Amendment to Lease Agreement dated as of August 14, 2000 between Aspen Technology, Inc. and EOP-Ten Canal Park, L.L.C., successor-in-interest to Beacon Properties, L.P. regarding Ten Canal Park, Cambridge, Massachusetts.
 - 10.4(11) System License Agreement between Aspen Technology, Inc. and the Massachusetts Institute of Technology, dated March 30, 1982, as amended.
 - 10.9(11) Vendor Program Agreement between Aspen Technology, Inc. and General Electric Capital Corporation.
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- 10.10(13) Rider No. 1, dated December 14, 1994, to Vendor Program Agreement between Aspen Technology, Inc. and General Electric Capital Corporation.
 - 10.11(14) Rider No. 2, dated September 4, 2001, to Vendor Program Agreement between Aspen Technology, Inc. and General Electric Capital Corporation.
 - 10.12(11) Letter Agreement, dated March 25, 1992, between Aspen Technology, Inc. and Sanwa Business Credit Corporation.
 - 10.13(20) Third Amendment, effective as of March 28, 2003, to the Letter Agreement by and between Aspen Technology, Inc. and Fleet Business Credit, LLC (formerly Sanwa Business Credit Corporation).
 - 10.14(11) Equity Joint Venture Contract between Aspen Technology, Inc. and China Petrochemical Technology Company.
 - 10.15(15) Loan and Security Agreement, dated as of January 30, 2003, by and among Silicon Valley Bank and Aspen Technology, Inc., AspenTech, Inc. and Hyprotech Company.
 - 10.16(15) Export-Import Bank Loan and Security Agreement, dated as of January 30, 2003, by and among Silicon Valley Bank, Aspen Technology, Inc. and AspenTech, Inc.
 - 10.17(15) Export-Import Bank Borrower Agreement, dated as of January 30, 2003, by and between Aspen Technology, Inc. and AspenTech Inc. in favor of the Export-Import Bank of the United States and Silicon Valley Bank.
 - 10.18(15) Promissory Note (Ex-Im), dated January 30, 2003, by and between Aspen Technology, Inc. and AspenTech, Inc. in favor of Silicon Valley Bank.
 - 10.19(15) Form of Negative Pledge Agreement, dated as of January 30, 2003, in favor of Silicon Valley Bank, executed by Aspen Technology, Inc., AspenTech, Inc. and Hyprotech Company.
 - 10.20(15) Security Agreement, dated as of January 30, 2003, by and between Silicon Valley Bank and AspenTech Securities Corporation.
 - 10.21(15) Unconditional Guaranty, dated as of January 30, 2003, by AspenTech Securities Corporation in favor of Silicon Valley Bank.
 - 10.22(16) First Loan Modification Agreement, effective as of June 27, 2003, by and among Silicon Valley Bank, Aspen Technology, Inc. and AspenTech, Inc.
 - 10.23(16) Pledge Agreement, effective as of June 27, 2003, by Aspen Technology, Inc. in favor of Silicon Valley Bank.
 - 10.24(32) Non-Recourse Receivables Purchase Agreement, dated December 31, 2003, between Silicon Valley Bank and Aspen Technology, Inc.
 - 10.26(17) Securities Purchase Agreement dated June 1, 2003 by and among Aspen Technology, Inc. and the Purchasers listed therein.
 - 10.27(17) Repurchase and Exchange Agreement dated as of June 1, 2003 by and among Aspen Technology, Inc. and the Holders named therein.
 - 10.28(18) Registration Rights Agreement dated June 15, 2001 between Aspen Technology, Inc. and Michael B. Feldman.
 - 10.29(18) Registration Rights Agreement dated June 15, 2001 between Aspen Technology, Inc. and the former stockholders of Computer Processes Unlimited, L.L.C.
 - 10.30(19) Registration Rights Agreement dated as of February 8, 2002 between Aspen Technology, Inc. and Accenture LLP.
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- 10.31(1) Investor Rights Agreement dated as of August 14, 2003 by and among Aspen Technology, Inc. and the Stockholders Named therein.
 - 10.32(1) Management Rights Letter dated as of August 14, 2003 by and among Aspen Technology, Inc. and the entities named therein.
 - 10.33(21) Amended and Restated Registration Rights Agreement dated as of March 19, 2002 between Aspen Technology, Inc. and the Purchasers named therein.
 - 10.34(11)* 1988 Non-Qualified Stock Option Plan, as amended.
 - 10.35(22)* 1995 Stock Option Plan.
 - 10.36(31)* Amended and Restated 1995 Directors Stock Option Plan.
 - 10.37(22)* 1995 Employees' Stock Purchase Plan.
 - 10.38(23)* 1998 Employees' Stock Purchase Plan.
 - 10.39(24)* Amendment No. 1 to 1998 Employees' Stock Purchase Plan.
 - 10.40(25)* 1996 Special Stock Option Plan.
 - 10.41(24)* 2001 Stock Option Plan.
 - 10.42(11)* Form of Employee Confidentiality and Non-Competition Agreement.
 - 10.43(11)* Noncompetition, Confidentiality and Proprietary Rights Agreement between Aspen Technology, Inc. and Lawrence B. Evans.
 - 10.44(16)* Employment and Transition Agreement, dated as of June 30, 2003, by and between Aspen Technology, Inc. and Lawrence B. Evans.
 - 10.45(24)* Change in Control Agreement between Aspen Technology, Inc. and David McQuillin dated August 12, 1997.
 - 10.46(26)* Severance Agreement between Aspen Technology, Inc. and David L. McQuillin dated September 30, 2002.
 - 10.47(15)* Employment Agreement, dated as of November 26, 2002, by and between Aspen Technology, Inc. and David L. McQuillin.
 - 10.48(30)* Letter Agreement, dated June 24, 2003, by and between Aspen Technology, Inc. and David L. McQuillin.
 - 10.49(26)* Employment Agreement between Aspen Technology, Inc. and Wayne Sim dated May 9, 2002.
 - 10.50(26)* Change in Control Agreement between Aspen Technology, Inc. and Wayne Sim dated May 9, 2002.
 - 10.51(16)* Letter Agreement, dated June 24, 2003, by and between Aspen Technology, Inc. and Wayne Sim.
 - 10.52(27)* Change in Control Agreement between Aspen Technology, Inc. and Stephen J. Doyle dated August 12, 1997.
 - 10.53(15)* Employment Agreement, dated as of November 26, 2002, by and between Aspen Technology, Inc. and Stephen J. Doyle.
 - 10.54(30)* Letter Agreement, dated June 24, 2003, by and between Aspen Technology, Inc. and Stephen J. Doyle.
 - 10.55(30)* Employment Agreement, dated April 1, 2002, by and between Aspen Technology, Inc. and C. Steven Pringle
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- 10.56(3)* Letter Agreement, dated June 24, 2003, by and between Aspen Technology, Inc. and C. Steven Pringle.
 - 10.57(30)* Offer Letter, dated June 16, 2003, by and between Aspen Technology, Inc. and Charles F. Kane.
 - 10.58(30)* Letter Agreement, dated June 24, 2003, by and between Aspen Technology, Inc. and Manolis Kotzabasakis.
 - 10.59(16)* Letter Amendment, dated August 18, 2003, by and between Aspen Technology, Inc. and David L. McQuillin.
 - 10.60(16)* Letter Amendment, dated August 18, 2003, by and between Aspen Technology, Inc. and Wayne Sim.
 - 10.61(16)* Letter Amendment, dated August 18, 2003, by and between Aspen Technology, Inc. and Stephen J. Doyle.
 - 10.62(16)* Letter Amendment, dated August 18, 2003, by and between Aspen Technology, Inc. and C. Steve Pringle.
 - 10.63(16)* Letter Amendment, dated August 18, 2003, by and between Aspen Technology, Inc. and Charles F. Kane.
 - 10.64(16)* Letter Amendment, dated August 18, 2003, by and between Aspen Technology, Inc. and Manolis Kotzabasakis.
 - 10.65(12) Financing Partner Agreement between Aspen Technology, Inc. and IBM Credit Corporation dated June 15, 2000.
 - 10.66(29) Securities Purchase Agreement dated as of May 9, 2002 between Aspen Technology, Inc. and the Purchasers listed therein, and related Amendment dated June 5, 2002.
 - 10.67(28) Share Purchase Agreement dated as of May 10, 2002 between Aspen Technology, Inc. and AEA Technology plc.
 - 10.68(19) Stockholder Agreement dated as of February 8, 2002 between Aspen Technology, Inc. and Accenture LLP.
 - 10.69(21) Amended and Restated Securities Purchase Agreement dated as of March 19, 2002 between Aspen Technology, Inc. and the Purchasers named therein.
 - 10.70(33) First Loan Modification Agreement (Exim), dated as of September 10, 2004, by and among Aspen Technology, Inc., AspenTech, Inc. and Silicon Valley Bank.
 - 10.71(33) Second Loan Modification Agreement, dated as of September 10, 2004, by and among Aspen Technology, Inc., AspenTech, Inc. and Silicon Valley Bank.
 - 21.1(33) Subsidiaries of Aspen Technology, Inc.
 - 23.1 Consent of Independent Registered Public Accounting Firm.
 - 24.1 Power of Attorney (included in signature page to Amendment No. 1 on Form 10-K/A).
 - 31.1 Certification of President and Chief Executive Officer pursuant to Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
 - 31.2 Certification of Senior Vice President and Chief Financial Officer pursuant to Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
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- 32.1 Certification of President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Senior 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
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- (1) Previously filed as an exhibit to the Current Report on Form 8-K of Aspen Technology, Inc. dated August 21, 2003 (filed on August 22, 2003), and incorporated herein by reference.
- (2) Previously filed as an exhibit to the Current Report on Form 8-K of Aspen Technology, Inc. dated March 12, 1998 (filed on March 27, 1998), and incorporated herein by reference.
- (3) Previously filed as an exhibit to Amendment No. 1 to the Registration Statement on Form 8-A of Aspen Technology, Inc. (filed on June 12, 1998), and incorporated herein by reference.
- (4) Previously filed as an exhibit to Amendment No. 2 to the Registration Statement on Form 8-A of Aspen Technology, Inc. filed on November 8, 2001, and incorporated herein by reference.
- (5) Previously filed as an exhibit to Amendment No. 3 to the Registration Statement on Form 8-A of Aspen Technology, Inc. filed on February 12, 2002, and incorporated herein by reference.
- (6) Previously filed as an exhibit to Amendment No. 4 to the Registration Statement on Form 8-A of Aspen Technology, Inc. filed on March 20, 2002, and incorporated herein by reference.
- (7) Previously filed as an exhibit to Amendment No. 5 to the Registration Statement on Form 8-A of Aspen Technology, Inc. filed on May 31, 2002, and incorporated herein by reference.
- (8) Previously filed as an exhibit to Amendment No. 6 to Form 8-A of Aspen Technology, Inc. filed on June 2, 2003, and incorporated herein by reference.
- (9) Previously filed as an exhibit to the Current Report on Form 8-K of Aspen Technology, Inc. dated June 17, 1998 (filed on June 19, 1998), and incorporated herein by reference.
- (10) Previously filed as an exhibit to the Current Report on Form 8-K of Aspen Technology, Inc. dated June 5, 2002 (filed on June 7, 2002), and incorporated herein by reference.
- (11) Previously filed as an exhibit to the Registration Statement on Form S-1 of Aspen Technology, Inc. (Registration No. 33-83916) (filed on September 13, 1994), and incorporated herein by reference.
- (12) Previously filed as an exhibit to the Annual Report on Form 10-K of Aspen Technology, Inc. for the fiscal year ended June 30, 2000, and incorporated herein by reference.
- (13) Previously filed as an exhibit to the Registration Statement on Form S-1 of Aspen Technology, Inc. (Registration No. 33-88734) (filed on January 29, 1995), and incorporated herein by reference.
- (14)

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Previously filed as an exhibit to the Annual Report on Form 10-K of Aspen Technology, Inc. for the fiscal year ended June 30, 2001, and incorporated herein by reference.

(15) Previously filed as an exhibit to the Quarterly Report on Form 10-Q of Aspen Technology, Inc. for the fiscal quarter ended December 31, 2002, and incorporated herein by reference.

(16) Previously filed as an exhibit to the Annual Report on Form 10-K of Aspen Technology, Inc. for the fiscal year ended June 30, 2003, and incorporated herein by reference.

(17) Previously filed as an exhibit to the Current Report on Form 8-K of Aspen Technology, Inc. filed on June 2, 2003, and incorporated herein by reference.

(18) Previously filed as an exhibit to the Registration Statement on Form S-3 of Aspen Technology, Inc. (Registration No. 333-63208) (filed on June 15, 2001), and incorporated herein by reference.

(19) Previously filed as an exhibit to the Current Report on Form 8-K of Aspen Technology, Inc. dated February 12, 2002 (filed on February 12, 2002), and incorporated herein by reference.

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- (20) Previously filed as an exhibit to the Quarterly Report on Form 10-Q of Aspen Technology, Inc. for the fiscal quarter ended March 31, 2002, and incorporated herein by reference.
- (21) Previously filed as an exhibit to the Current Report on Form 8-K filed by Aspen Technology, Inc. on March 19, 2002, and incorporated herein by reference.
- (22) Previously filed as an exhibit to the Registration Statement on Form S-8 of Aspen Technology, Inc. (Registration No. 333-11651) (filed on September 9, 1996), and incorporated herein by reference.
- (23) Previously filed as an exhibit to the Registration Statement on Form S-8 of Aspen Technology, Inc. (Registration No. 333-44575) (filed on January 20, 1998), and incorporated herein by reference.
- (24) Previously filed as an exhibit to the Definitive Proxy Statement on Schedule 14A of Aspen Technology, Inc. filed November 13, 2000, and incorporated herein by reference.
- (25) Previously filed as an exhibit to the Annual Report on Form 10-K of Aspen Technology, Inc. for the fiscal year ended June 30, 1997, and incorporated herein by reference.
- (26) Previously filed as an exhibit to the Annual Report on Form 10-K of Aspen Technology, Inc. for the fiscal year ended June 30, 2002, and incorporated herein by reference.
- (27) Previously filed as an exhibit to the Registration Statement on Form S-8 of Aspen Technology, Inc. (Registration No. 333-42536) (filed on July 28, 2000), and incorporated herein by reference.
- (28) Previously filed as an exhibit to the Current Report on Form 8-K of Aspen Technology, Inc. dated June 5, 2002 (filed on June 6, 2002), and incorporated herein by reference.
- (29) Previously filed as an exhibit to the Current Report on Form 8-K of Aspen Technology, Inc. dated May 31, 2002 (filed on May 31, 2002), and incorporated herein by reference.
- (30) Previously filed as an exhibit to the Current Report on Form 8-K of Aspen Technology, Inc. dated July 11, 2003 (filed on July 11, 2003), and incorporated herein by reference.
- (31) Previously filed as an exhibit to the Definitive Proxy Statement on Schedule 14A of Aspen Technology Inc. filed on July 11, 2003 and incorporated herein by reference.
- (32) Previously filed as an exhibit to the Quarterly Report on Form 10-Q of Aspen Technology, Inc. for the fiscal quarter ended December 31, 2003, and incorporated herein by reference.
- (33) Previously filed as an exhibit to the Annual Report on Form 10-K of Aspen Technology, Inc. for the fiscal year ended June 30, 2004, and incorporated herein by reference.

Confidential treatment requested as to certain portions

*

Management contract of compensatory plan
