

ASPEN TECHNOLOGY INC /DE/  
Form 10-K/A  
March 15, 2007

## UNITED STATES

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

---

Amendment No. 2

to

## FORM 10-K

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, 2006.

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

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

**02141**  
(Zip Code)

Registrant's telephone number, including area code:

**(617) 949-1000**

---

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

None

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

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

### Common stock, \$0.10 par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated Filer

Non-accelerated Filer

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

As of December 31, 2005, the aggregate market value of common stock (the only outstanding class of common equity of the Registrant) held by nonaffiliates of the Registrant was \$319,758,462 based on a total of 40,733,562 shares of common stock held by nonaffiliates and on a closing price of \$7.85 on December 31, 2005 for the common stock as reported on the Nasdaq Global Market.

As of March 9, 2007, 87,749,130 shares of common stock were outstanding.

---

**TABLE OF CONTENTS**

<u>Explanatory Notes</u>		<b>Page</b> ii
	<b><u>PART II</u></b>	
<u>Item 6.</u>	<u>Selected Financial Data</u>	1
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	4
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	28
<u>Item 9A.</u>	<u>Controls and Procedures</u>	28
	<b><u>PART IV</u></b>	
<u>Item 15.</u>	<u>Exhibits, Financial Statement Schedules, and Reports on Form 8-K</u>	41
<u>Signatures</u>		48

This Amendment No. 2 on Form 10-K, which we refer to as this Form 10-K/A, amends and restates portions of our Annual Report on Form 10-K for the fiscal year ended June 30, 2006 as originally filed with the SEC on September 28, 2006, which we refer to as the original Form 10-K, and our Amendment No. 1 to our Annual Report on Form 10-K as filed with the SEC on November 14, 2006, which we refer to as the first Form 10-K/A.

Aspen is our registered trademark.

This Form 10-K/A contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbors created thereby. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words believes, anticipates, plans, expects and similar expressions are intended to identify forward-looking statements. Readers are cautioned that all forward-looking statements involve risks and uncertainties, many of which are beyond our control, including the factors set forth under Item 1A. Risk Factors in the original Form 10-K. Although we believe that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate and there can be no assurance that actual results will be the same as those indicated by the forward-looking statements included in this Form 10-K/A. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. Moreover, we assume no obligation to update these forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements.

## EXPLANATORY NOTES

### Purpose of this Form 10-K/A (Third Restatement)

Subsequent to our issuance of the restatement of the consolidated financial statements for the year ended June 30, 2006, and in the course of preparing the condensed consolidated financial statements for the three and six months ended December 31, 2006, we identified errors in the accounting for foreign currency denominated transactions in the fiscal years ended June 30, 2002 through 2006. We incorrectly accounted for transaction gains and losses on intercompany balances denominated in currencies other than the functional currency as if such balances were of a long term investment nature and included the impact as a component of accumulated other comprehensive income (loss) rather than earnings. These transaction gains and losses should have been included in earnings as the conditions for accounting for these intercompany balances as a long term investment were not met. In addition, we identified errors in the recording of purchase accounting in other than the functional currency of the acquired entity. These purchase accounting adjustments should have been denominated in the currency of the applicable subsidiary and translated to United States Dollars and were incorrectly recorded as United States Dollar denominated net assets in the consolidated financial statements. Accordingly, translation of the balance sheet position related to the purchase accounting allocations and translation impact of the amortization of intangible assets was not properly recorded.

In addition, we identified other errors in the course of preparing the condensed consolidated financial statements for the three and six months ended December 31, 2006. These errors related to the timing of recognition of service revenue and facility leasing costs, and losses on sale of assets and elimination of accounts receivable and offsetting deferred revenues for amounts due from customers that have not met revenue recognition criteria as of June 30, 2006. The tax effect of correcting all of the above errors required further adjustments and we added disclosure relative to reseller relationships in Note 13 to the financial statements.

In order to correct the errors, we are restating our financial statements for the fiscal years ended June 30, 2004, 2005 and 2006, in order to reflect (a) foreign currency transaction gains of \$3.8 million, losses of \$3.1 million, and losses of \$4.4 million, respectively, (b) additional amortization of technology related intangible assets of \$0.7 million, \$1.1 million, and \$1.5 million, respectively, (c) additional facility lease costs of less than \$0.1 million per fiscal year, (d) for the year ended June 30, 2006, a reduction in service revenues of \$0.4 million, (e) for the year ended June 30, 2004, an increase in loss on sales and disposals of assets of \$0.1 million, (f) income tax provision increases of \$0.1 million and decreases of \$1.5 million and \$2.0 million, respectively, and, (g) the reduction of accounts receivable and offsetting reduction in deferred revenues of \$6.5 million at June 30, 2006 to eliminate the gross presentation of amounts due from customers that had not met revenue recognition criteria, and the related balance sheet adjustments. We refer to this as the third restatement. These errors had a cumulative effect of decreasing net loss by \$2.9 million, net of income taxes, for the periods prior to fiscal 2004, which is reflected in the July 1, 2003 beginning accumulated deficit.

**This Form 10-K/A is being filed for the purpose of restating our consolidated financial statements below for the years ended June 30, 2004, 2005 and 2006. See Note 17 to the consolidated financial statements under the caption Third Restatement for a discussion of the third restatement. This Form 10-K/A updates the information provided in Items 6, 7, 8, 9A and 15 of the first Form 10-K/A for the effects of the third restatement. This Form 10-K/A has not been updated for events occurring after the filing of the previous Form 10-K/A, except to reflect the third restatement.**

**Second Restatement**

*The following describes the second restatement reflected in the first Form 10-K/A. We refer to this as the second restatement. This description has not changed in any material respect from the explanatory note provided in the first Form 10-K/A.*

In the course of preparing our condensed consolidated financial statements for the three months ended September 30, 2006, we identified errors in the accounting for stock-based compensation and certain revenue transactions in the fiscal year ended June 30, 2006. The stock-based compensation error was due to a calculation error associated with forfeiture rates upon the adoption of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* (SFAS No. 123R), as of July 1, 2005.

In order to correct these errors, we restated our financial statements for the fiscal year ended June 30, 2006 in order to reflect (a) additional stock-based compensation expense of approximately \$1.4 million and (b) additional revenues of approximately \$0.3 million. These errors had no effect on the fiscal year ended June 30, 2004 or 2005. See Note 17 to the consolidated financial statements under the caption **Second Restatement** for a discussion of the second restatement.

**First Restatement**

*The following describes the first restatement reflected in the original Form 10-K. We refer to this as the first restatement. This description has not changed in any material respect from the explanatory note provided in the original Form 10-K.*

In connection with the preparation of financial statements for the fiscal year ended June 30, 2006, a subcommittee of independent members of our board of directors reviewed our accounting treatment for all stock options granted since we completed our initial public offering in fiscal 1995. Based upon the subcommittee's review, the Audit Committee and management determined that certain option grants during fiscal years 1995 through 2004 were accounted for improperly, and concluded that stock-based compensation associated with certain grants was misstated in fiscal years 1995 through 2005, and in the nine months ended March 31, 2006. The subcommittee identified errors related to the determination of the measurement dates for grants of options allocated among a pool of employees when the specific number of options to be awarded to specific employees had not yet been finalized, and other measurement date errors. As a result of the errors in determining measurement dates, we also recorded payroll withholding tax-related adjustments for certain options formerly classified as Incentive Stock Option (ISO) grants under Internal Revenue Service regulations. These options were determined to have been granted with an exercise price below the fair market value of our stock on the actual grant date, so do not qualify for ISO tax treatment. The disqualification of ISO classification and the resulting conversion to non-qualified status results in additional withholding taxes on exercise of those options. We recorded estimated payroll withholding tax charges of \$0.5 million, \$0.2 million, and \$1.2 million for the years ended June 30, 2004, 2005, and 2006, respectively, in connection with the disqualification of such ISO tax treatment. The stock-based compensation charges, including the aforementioned withholding tax adjustments, increased net loss for the fiscal years ended June 30, 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, and the nine months ended March 31, 2006 by \$0.2 million, \$1.5 million, \$10.0 million, \$7.0 million, \$10.4 million, \$11.5 million, \$9.5 million, \$7.2 million, \$0.5 million, and \$ 1.0 million, respectively.

In addition, as a result of the errors in determining measurement dates, certain options were determined to have been granted with an exercise price below the fair market value of our stock on the actual grant date. These discounted options vesting subsequent to December 2004 result in nonqualified deferred compensation for purposes of Section 409A of the Internal Revenue Code, and holders are subject to an excise tax on the value of the options in the year in which they vest. We have concluded that it is probable we will either implement a plan to assist the affected employees for the amount of this tax, or

iii

---

adjust the terms of the original option grant which would also have financial statement ramifications. As such, we recorded an estimated liability of approximately \$1.0 million in the fourth quarter of fiscal 2006 in connection with this contingency.

The restatement of prior year financial statements also included the adjustments for other errors identified after the applicable period had been reported. Such errors were not previously recorded because we believed the amount of any such errors, both individually and in the aggregate, were not material to our consolidated financial statements. These errors related to the timing of revenue recognition, losses on sales and disposals of assets, interest income, and the calculation of foreign currency gains and losses.

As a result of the foregoing, we restated our financial statements as of June 30, 2005 and for the fiscal years ended June 30, 2004 and 2005 in our consolidated financial statements, in the original Form 10-K. We show the effects of the first restatement on our financial statements for the years ended June 1999, 2000, 2001, 2002 and 2003 in Item 6, Selected Financial Data. We show the effects of the third restatement on our financial statements for the years ended June 30, 2002 and 2003 in Item 6, Selected Financial Data .

We have not amended and we do not intend to amend any of our other previously filed annual reports on Form 10-K or quarterly reports on Form 10-Q for the periods affected by the first, second or third restatements, except for the filing of this Form 10-K/A and the Form 10-Q/A for the quarter ended September 30, 2006. For this reason, the consolidated financial statements and related financial information contained in such previously filed reports should not be relied upon.

## PART II

## Item 6. Selected Financial Data

The following selected consolidated financial data have been derived from our consolidated financial statements. The financial information set forth below reflects the restatements of our financial statements as discussed in Note 17 of the Notes to Consolidated Financial Statements. These 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.

Year Ended June 30, 2002				2003			2004			2005	2006
As Previously Reported	First Restatement Adjustments(3)	Third Restatement Adjustments	As Restated(2)	As Previously Reported	First Restatement Adjustments(3)	Third Restatement Adjustments	As Restated(2)	As Restated(1)	As Restated(1)	As Restated(1)	As Restated(1)
<b>Consolidated Statement of Operations Data:</b>											
Revenues:											
Software licenses	\$ 136,377	\$	\$	\$ 136,377	\$ 162,354	\$(270 )	\$	\$ 162,084	\$ 158,150	\$ 129,621	\$ 152,773
Service and other	186,005			186,005	184,102			184,102	174,296	140,373	140,375
Total revenues	322,382			322,382	346,456	(270 )		346,186	332,446	269,994	293,148
Cost of revenues:											
Cost of software licenses											
	11,830			11,830	13,916			13,916	15,577	16,864	16,805
Cost of service and other											
	118,772	4,121		122,893	106,868	3,381		110,249	101,823	82,744	72,690
Amortization of technology related intangible assets											
	5,042		3	5,045	8,219		106	8,325	7,976	8,220	8,559
Impairment of technology related intangible and computer software development assets											
	1,169			1,169	8,704			8,704	3,250		
Total cost of revenues	136,813	4,121	3	140,937	137,707	3,381	106	141,194	128,626	107,828	98,054
Gross profit	185,569	(4,121 )	(3 )	181,445	208,749	(3,651 )	(106 )	204,992	203,820	162,166	195,094
Operating costs:											
Selling and marketing											
	114,755	2,943		117,698	105,879	2,414		108,293	101,806	96,275	84,505
Research and development											
	74,176	1,943		76,119	65,143	1,595		66,738	60,111	47,276	44,322
General and administrative											
	29,673	2,487	14	32,174	29,644	2,125	27	31,796	34,380	49,315	42,529
Long-lived asset impairment charges											
					105,543			105,543	967		
Restructuring charges and FTC legal costs											
	14,914			14,914	41,080	564		41,644	20,085	24,960	3,993
Charges for in-process research and development											
	14,900			14,900							
Loss (gain) on sales and disposals of assets											
	(346 )			(346 )	(52 )			(52 )	(747 )	14,314	898
Total operating costs	248,072	7,373	14	255,459	347,237	6,698	27	353,962	216,602	232,140	176,247
Income (loss) from operations	(62,503 )	(11,494 )	(17 )	(74,014 )	(138,488 )	(10,349 )	(133 )	(148,970 )	(12,782 )	(69,974 )	18,847
Interest income	6,209			6,209	8,191			8,191	7,296	6,204	5,034
Interest expense	(5,591 )			(5,591 )	(7,132 )			(7,132 )	(4,940 )	(4,170 )	(985 )
Write-off of investments											
	(8,923 )			(8,923 )							
Foreign currency exchange gain (loss)											
	(1,424 )		2,970	1,546	(195 )	(117 )	2,004	1,692	4,832	(3,599 )	(3,360 )
Income (loss) before provision for (benefit from) income taxes and equity in earnings from joint ventures	(72,232 )	(11,494 )	2,953	(80,773 )	(137,624 )	(10,466 )	1,871	(146,219 )	(5,594 )	(71,539 )	19,536

Edgar Filing: ASPEN TECHNOLOGY INC /DE/ - Form 10-K/A

Provision for income taxes	(3,599 )	20	(3,579 )	(1,076 )	15	911	(150 )	(20,239 )	(2,031 )	(6,713 )	
Equity in losses from joint ventures	(166 )		(166 )	(514 )			(514 )	(351 )			
Net income (loss)	(75,997 )	(11,494 )	2,973	(84,518 )	(139,214 )	(10,451 )	2,782	(146,883 )	(26,184 )	(73,570 )	12,823
Accretion of preferred stock discount and dividend	(6,301 )		(6,301 )	(9,184 )			(9,184 )	(6,358 )	(14,450 )	(15,383 )	
Income (loss) attributable to common stockholders	\$(82,298 )	\$(11,494 )	\$2,973	\$(90,819 )	\$(148,398 )	\$(10,451 )	\$2,782	\$(156,067 )	\$(32,542 )	\$(88,020 )	\$(2,560 )
Basic and Diluted income (loss) per share attributable to common stockholders	\$(2.55 )	\$(0.35 )	\$0.09	\$(2.81 )	\$(3.86 )	\$(0.27 )	\$0.07	\$(4.06 )	\$(0.80 )	\$(2.08 )	\$(0.06 )
Weighted average shares outstanding											
Diluted	32,308		32,308	38,476			38,476	40,575	42,381	44,627	

	June 30, 2002 As Restated(2)(4) (In thousands)	2003 As Restated(2)(4)	2004 As Restated(2)	2005 As Restated(1)	2006 As Restated(1)
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 33,571	\$ 51,567	\$ 107,633	\$ 68,149	\$ 86,272
Working capital	43,567	36,409	14,694	2,586	24,743
Total assets	538,219	377,422	354,404	246,430	274,636
Long-term obligations, less current maturities	92,135	89,911	1,952	338	149
Redeemable convertible preferred stock		57,537	106,761	121,210	125,475
Total stockholders' equity (deficit)	223,321	33,985	30,474	(46,169 )	(14,555 )

(1) See Note 17 to the Notes to the Consolidated Financial Statements for a discussion of the restatements.

(2) The restated amounts for these years are unaudited. The unaudited financial results for 1997 and 1998, which are not presented here, the unaudited financial results for 1999, 2000 and 2001, which are presented below in condensed form, and the selected consolidated financial data for 2002 and 2003, presented above, have been restated to reflect adjustments related to the restatement described in Explanatory Notes First Restatement above, and in Note 17 of the Notes to Consolidated Financial Statements. The restatement adjustments affecting these periods primarily related to compensation expense associated with the stock option review, and result in an increased loss applicable to common stockholders for the fiscal years ended June 30, 1997, 1998, 1999, 2000, 2001, 2002 and 2003 of \$0.2 million, \$1.5 million, \$10.0 million, \$7.0 million, \$10.4 million, \$11.5 million and \$10.5 million, respectively. The selected consolidated financial data for 2002 and 2003, presented above, have also been restated to reflect adjustments related to the restatements described in Explanatory Notes Third Restatement above, and in Note 17 of the Notes to Consolidated Financial Statements. The restatement adjustments affecting these periods primarily related to foreign currency transaction gains on intercompany balances, and result in a decreased loss applicable to common shareholders for the years ended June 30, 2002 and 2003 of \$3.0 million and \$2.8 million, respectively. In the consolidated financial statements for the year ended June 30, 2004 these cumulative amounts are reflected as adjustments to the beginning balances of the accumulated deficit of Stockholders' Equity in the Statement of Stockholders' Equity (Deficit) and Comprehensive Income (Loss).

(3) The adjustments related to the year ended June 30, 2002 relate to compensation expense associated with the stock option review. Of the adjustments related to the year ended June 30, 2003, \$9.5 million related to compensation expense associated with the stock option review and \$1.0 million related to other adjustments. These adjustments are further described in Explanatory Notes First Restatement above, and in Note 17 of the Notes to Consolidated Financial Statements.

(4) Of the adjustments related to the year ended June 30, 2002, \$3.0 million related to foreign currency transaction gains on intercompany balances and less than \$0.1 million related to other adjustments. Of the adjustments related to the year ended June 30, 2003, \$2.9 million related to foreign currency transaction gains on intercompany balances, net of income taxes, and was offset by \$0.1 million related to other adjustments. These adjustments are further described in Explanatory Notes Third Restatement above, and in Note 17 of the Notes to Consolidated Financial Statements.

Basic and diluted 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.

### Restatement of Financial Results for Periods Prior to Fiscal 2002

The financial information set forth below reflects the restatement of our financial statements for the years ended June 30, 1999, 2000 and 2001 for the items discussed in Explanatory Notes First Restatement above and in Note 17 of the Notes to Consolidated Financial Statements. The restatement also affects periods prior to fiscal 1999, for which the impact on the net loss for these periods is approximately \$1.7 million in the aggregate. All adjustments for these periods relate to compensation expense associated with the stock option review.

	Year Ended June 30, 1999			2000			2001		
	As Previously Reported	Adjustments	As Restated(1)	As Previously Reported	Adjustments	As Restated(1)	As Previously Reported	Adjustments	As Restated(1)
Total revenues	\$ 219,688	\$	\$ 219,688	\$ 261,070	\$	\$ 261,070	\$ 314,937	\$	\$ 314,937
Gross profit	126,684	(3,680 )	123,004	165,047	(2,528 )	162,519	183,820	(3,741 )	180,079
Income (loss) from operations	(47,775 )	(9,985 )	(57,760 )	(4,218 )	(7,013 )	(11,231 )	(44,347 )	(10,389 )	(54,736 )
Net income (loss)	\$ (27,626 )	\$ (9,985 )	(\$37,611 )	\$ (3,226 )	\$ (7,013 )	\$ (10,239 )	\$ (36,809 )	\$ (10,389 )	\$ (47,198 )
Diluted net income (loss) per share	\$ (1.01 )	\$ (0.36 )	\$ (1.37 )	\$ (0.10 )	\$ (0.23 )	\$ (0.33 )	\$ (1.23 )	\$ (0.35 )	\$ (1.58 )

(1) The Consolidated Financial Statements as of and for the years ended June 30, 1999, 2000 and 2001 were previously audited by Arthur Andersen LLP. The restated amounts for these years were derived from restated financial statements that have not been audited.

### Restatement of Pro Forma Disclosures of Stock-Based Compensation for Periods Prior to Fiscal 2004

The financial information set forth below reflects the restatement of our pro forma disclosures made in accordance with Statement of Financial Accounting Standard No. 123, Accounting for Stock-Based Compensation for the years ended June 30, 1999, 2000, 2001, 2002 and 2003 for the items discussed in Explanatory Notes above and in Note 17 of the Notes to Consolidated Financial Statements.

	1999	2000	2001	2002	2003
	All amounts as restated				
Income (loss) attributable to common shareholders (in thousands)					
As reported	\$ (37,611 )	\$ (10,239 )	\$ (47,198 )	\$ (90,819 )	\$ (156,067 )
Less: Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(30,483 )	(30,558 )	(36,043 )	(33,228 )	(24,081 )
Add: Stock-based compensation expense included in reported net income (loss).	9,985	7,013	10,389	11,494	9,515
Pro forma	\$ (58,109 )	\$ (33,784 )	\$ (72,852 )	\$ (112,553 )	\$ (170,633 )
Income (loss) attributable to common shareholders per share					
Basic and diluted					
As reported	\$ (1.37 )	\$ (0.36 )	\$ (1.58 )	\$ (2.81 )	\$ (4.06 )
Pro forma	(2.11 )	(1.20 )	(2.43 )	(3.48 )	(4.43 )

**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 gives effect to the restatements discussed in Note 17 to the Consolidated Financial Statements.

**Overview**

We are a leading supplier of integrated software and services to the process industries, which consist of oil and gas, petroleum, chemicals, pharmaceuticals and other industries that manufacture and produce products from a chemical process. We provide a comprehensive, integrated suite of software applications that utilize proprietary empirical models of chemical manufacturing processes to improve plant and process design, economic evaluation, production, production planning and scheduling, and operational performance, and an array of services designed to optimize the utilization of these products by our customers.

**Restatements of Financial Results**

**First Restatement**

In connection with the preparation of financial statements for the fiscal year ended June 30, 2006, a subcommittee of independent members of our board of directors reviewed our accounting treatment for all stock options granted since we completed our initial public offering in fiscal 1995. Based upon the subcommittee's review, the Audit Committee and management determined that certain option grants during fiscal years 1995 through 2004 were accounted for improperly, and concluded that stock-based compensation associated with certain grants was misstated in fiscal years 1995 through 2005, and in the nine months ended March 31, 2006. The subcommittee identified errors related to the determination of the measurement dates for grants of options allocated among a pool of employees when the specific number of options to be awarded to specific employees had not yet been finalized, and other measurement date errors. As a result of the errors in determining measurement dates, we also recorded payroll withholding tax-related adjustments for certain options formerly classified as Incentive Stock Option (ISO) grants under Internal Revenue Service regulations. These options were determined to have been granted with an exercise price below the fair market value of our stock on the actual grant date, so do not qualify for ISO tax treatment. The disqualification of ISO classification and the resulting conversion to non-qualified status results in additional withholding taxes on exercise of those options. We recorded estimated payroll withholding tax charges of \$0.5 million, \$0.2 million, and \$1.2 million for the years ended June 30, 2004, 2005, and 2006, respectively, in connection with the disqualification of such ISO tax treatment. The stock-based compensation charges, including the aforementioned withholding tax adjustments, increased net loss for the fiscal years ended June 30, 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, and the nine months ended March 31, 2006 by \$0.2 million, \$1.5 million, \$10.0 million, \$7.0 million, \$10.4 million, \$11.5 million, \$9.5 million, \$7.2 million, \$0.5 million, and \$1.0 million, respectively.

In addition, as a result of the errors in determining measurement dates, certain options were determined to have been granted with an exercise price below the fair market value of our stock on the actual grant date. These discounted options vesting subsequent to December 2004 result in nonqualified deferred compensation for purposes of Section 409A of the Internal Revenue Code, and holders are subject to an excise tax on the value of the options in the year in which they vest. We have concluded that it is probable we will either implement a plan to assist the affected employees for the amount of this tax, or adjust the terms of the original option grant which would also have financial statement ramifications. As such, we recorded an estimated liability of approximately \$1.0 million in the fourth quarter of fiscal 2006 in connection with this contingency.

The restatement of prior year financial statements relating to option grants also includes the adjustments for other errors identified after the applicable period had been reported. We refer to this as

the first restatement. The adjustments for such other errors were not previously recorded because we believed the amount of any such errors, both individually and in the aggregate, were not material to our consolidated financial statements. These errors related to the timing of revenue recognition, losses on sales and disposals of assets, interest income, and the calculation of foreign currency gains and losses.

### **Second Restatement**

In the course of preparing the condensed consolidated financial statements for the three months ended September 30, 2006, we identified errors in the accounting for stock-based compensation and certain revenue transactions in the fiscal year ended June 30, 2006. The stock-based compensation error was due to a calculation error associated with forfeiture rates upon the adoption of SFAS No. 123R, as of July 1, 2005.

In order to correct these errors, we have restated our financial statements for the fiscal year ended June 30, 2006 in order to reflect (a) additional stock-based compensation expense of approximately \$1.4 million and (b) additional revenues of approximately \$0.3 million. We refer to this as the second restatement. These errors had no effect on the fiscal years ended June 30, 2004 or 2005.

### **Third Restatement**

Subsequent to our issuance of the restatement of the consolidated financial statements for the year ended June 30, 2006, and in the course of preparing the condensed consolidated financial statements for the three and six months ended December 31, 2006, we identified errors in the accounting for foreign currency denominated transactions in the fiscal years ended June 30, 2002 through 2006. We incorrectly accounted for transaction gains and losses on intercompany balances denominated in currencies other than the functional currency as if such balances were of a long term investment nature and included the impact as a component of accumulated other comprehensive income (loss) rather than earnings. These transaction gains and losses should have been included in earnings as the conditions for accounting for these intercompany balances as a long term investment were not met. In addition, we identified errors in the recording of purchase accounting entries in other than the functional currency of the acquired entity. These purchase accounting adjustments should have been denominated in the currency of the applicable subsidiary and translated to United States Dollars and were incorrectly recorded as United States Dollar denominated net assets in the consolidated financial statements. Accordingly, translation of the balance sheet position related to the purchase accounting allocations and translation impact of the amortization of intangible assets was not properly recorded.

In addition, we identified other errors in the course of preparing the condensed consolidated financial statements for the three and six months ended December 31, 2006. These errors related to the timing of recognition of service revenue and facility leasing costs, and losses on sale of assets and elimination of accounts receivable and deferred revenue for amounts due from customers that have not met revenue recognition criteria as of June 30, 2006. The tax effect of correcting all of the above errors required further adjustments.

In order to correct these errors, we are restating our financial statements for the fiscal years ended June 30, 2004, 2005 and 2006, in order to reflect (a) foreign currency transaction gains of \$3.8 million, losses of \$3.1 million, and losses of \$4.4 million, respectively, (b) additional amortization of technology related intangible assets of \$0.7 million, \$1.1 million, and \$1.5 million, respectively, (c) additional facility lease costs of less than \$0.1 million per fiscal year, (d) for the year ended June 30, 2006, a reduction in service revenues of \$0.4 million, (e) for the year ended June 30, 2004, an increase in loss on sales and disposals of assets of \$0.1 million (f) income tax provision increases of \$0.1 million and decreases of \$1.5 million and of \$2.0 million, respectively, and, (g) the reduction of accounts receivable and offsetting reduction in deferred revenues of \$6.5 million at June 30, 2006 to eliminate the gross presentation of

amounts due from customers that had net revenue recognition criteria, and the related balance sheet adjustments. We refer to this as the third restatement. These errors had a cumulative effect of decreasing net loss by \$2.9 million, net of income taxes, for the periods prior to June 30, 2003 which is reflected in the July 1, 2003 beginning accumulated deficit.

#### **Effects of Restatements**

As a result of the foregoing, we have restated our financial statements as of June 30, 2005 and 2006 and for the fiscal years ended June 30, 2004, 2005 and 2006 in our consolidated financial statements, beginning on page F-3. We show the effects of the first, second and third restatements on our financial statements for the years ended June 1999, 2000, 2001, 2002 and 2003 in Item 6, Selected Financial Data. We show the effects of the restatements on each of the quarters in the years ended June 30, 2005 and 2006 in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations - Quarterly Data.

#### **Significant Events - Year Ended June 30, 2006**

Following mediation, on November 16, 2005, we and the plaintiffs on behalf of putative class members, defined to include all persons who purchased our common stock between October 29, 1999 and March 15, 2005, inclusive, whom we refer to collectively as the Class, entered into a Stipulation and Agreement of Compromise, Settlement and Release of Securities Action, which we refer to as the Stipulation, which was filed with the Court on the same date providing, among other things, for settlement and release of all direct and indirect claims of the Class concerning matters covered by the Stipulation. On December 12, 2005, the Court granted preliminary approval of the settlement provided for in the Stipulation. After notice to the Class and hearing, on March 6, 2006, the Court granted final approval of the settlement, and the class action lawsuit was dismissed with prejudice. We entered into the Stipulation to resolve the matter and without acknowledging any fault, liability or wrongdoing of any kind. There has been no adverse determination by the Court against us or any of the other defendants in the case.

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

**Summary of Restructuring Accruals*****Restructuring charges originally arising in Q4 FY05***

In May 2005, we initiated a plan to consolidate several corporate functions and to reduce our operating expenses. The plan to reduce operating expenses primarily resulted in headcount reductions, and also included the termination of a contract and the consolidation of facilities. These actions resulted in an aggregate restructuring charge of \$3.8 million, recorded in the fourth quarter of fiscal 2005. During the year ended June 30, 2006, we recorded an additional \$1.8 million related to headcount reductions, relocation costs and facility consolidations associated with the May 2005 plan that did not qualify for accrual at June 30, 2005.

As of June 30, 2006, there was \$0.6 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):

<b>Fiscal 2005 Restructuring Plan</b>	<b>Closure/ Consolidation of Facilities</b>	<b>Employee Severance, Benefits, and Related Costs</b>	<b>Contract Termination Costs</b>	<b>Total</b>
Restructuring charge	\$ 84	\$ 3,465	\$ 300	\$ 3,849
Fiscal 2005 payments		(1,005 )	(300 )	(1,305 )
Accrued expenses, June 30, 2005	84	2,460		2,544
Restructuring charge	614	1,157		1,771
Restructuring charge Accretion	1	21		22
Fiscal 2006 payments	(600 )	(3,125 )		(3,725 )
Accrued expenses, June 30, 2006	\$ 99	\$ 513		\$ 612
Expected final payment date	May 2007	December 2006		

***Restructuring charges originally arising in Q4 FY04***

In June 2004, we initiated a plan to reduce our operating expenses in order to better align our operating cost structure with the then-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. During the year ended June 30, 2005, we recorded \$14.4 million related to headcount reductions and facility consolidations associated with the June 2004 restructuring plan that did not qualify for accrual at June 30, 2004. In addition, we recorded \$0.4 million in restructuring charges related to the accretion of the discounted restructuring accrual and a \$0.8 million decrease to the accrual related to changes in estimates of severance benefits and sublease terms. During the year ended June 30, 2006, we recorded a \$0.7 million increase to the accrual primarily due to a change in the estimate of future operating costs and sublease assumptions associated with the facilities.

As of June 30, 2006, there was \$7.0 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):

<b>Fiscal 2004 Restructuring Plan</b>	<b>Closure/ Consolidation of Facilities and Contract exit costs</b>	<b>Employee Severance, Benefits, and Related Costs</b>	<b>Asset Impairments</b>	<b>Total</b>
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
Restructuring charge	9,132	4,349	968	14,449
Impairment of assets			(968 )	(968 )
Fiscal 2005 payments	(12,915	) (4,534	)	(17,449 )
Restructuring charge Accretion	446	3		449
Change in estimate Revised assumptions	(287	) (497	)	(784 )
Accrued expenses, June 30, 2005	8,425	232		8,657
Change in estimate Revised assumptions	643	27		670
Restructuring charge Accretion	432			432
Fiscal 2006 payments	(2,645	) (67	)	(2,712 )
Accrued expenses, June 30, 2006	\$ 6,855	\$ 192	\$	\$ 7,047
Expected final payment date	September 2012	December 2006		

#### ***Restructuring charges originally arising in Q2 FY03***

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 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 \$28.7 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. During fiscal 2005 and fiscal 2006, we recorded \$7.0 million and \$1.0 million increases, respectively to the accrual primarily due to a change in the estimate of the facility vacancy term, extending to the term of the lease.

As of June 30, 2006, there was \$10.0 million remaining in accrued expenses relating to the remaining lease payments. The components of the restructuring plan are as follows (in thousands):

<b>Fiscal 2003 Restructuring Plan</b>	<b>Closure/ Consolidation of Facilities</b>	<b>Employee Severance, Benefits, and Related Costs</b>	<b>Impairment of Assets and Disposition Costs</b>	<b>Total</b>
Restructuring charge	\$ 17,347	\$ 10,028	\$ 1,278	\$ 28,653
Additional impairment of assets			302	302
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
Fiscal 2005 payments	(2,266)	(63)	(403)	(2,732)
Change in estimate Revised assumptions	7,239	(69)	(195)	6,975
Accrued expenses, June 30, 2005	11,698	160	78	11,936
Change in estimate Revised assumptions	1,116	(95)		1,021
Fiscal 2006 payments	(2,848)	(65)	(78)	(2,991)
Accrued expenses, June 30, 2006	\$ 9,966	\$	\$	\$ 9,966
Expected final payment date	September 2012			

***Restructuring charges originally arising in Q4 FY02***

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. During fiscal 2005, we recorded a \$0.2 million increase to the accrual due to changes in estimates of sublease assumptions and severance settlements. During fiscal 2006, we recorded a \$0.1 million increase to the accrual due to changes in estimates of sublease assumptions.

As of June 30, 2006, there was \$0.5 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
Fiscal 2005 payments	(994)	(284)	(1,278)
Change in estimate Revised assumptions.	93	87	180
Accrued expenses, June 30, 2005	782	111	893
Change in estimate Revised assumptions	75		75
Fiscal 2006 payments	(375)	(66)	(441)
Accrued expenses, June 30, 2006	\$ 482	\$ 45	\$ 527
Expected final payment date	September 2012	December 2006	

#### 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;
- allowance for doubtful accounts;
- accounting for securitization of installments receivable;
- restructuring accruals; and
- accounting for stock-based compensation.

***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. When we provide professional services considered not essential to the functionality of the software, and for which Vendor Specific Objective Evidence of fair value, or VSOE, has been established, we recognize revenue for the delivered software when the basic criteria of SOP 97-2 are met. VSOE has been established, in most instances, for Software Maintenance Services, Training and professional services rates. When we provide professional services that are considered essential to the functionality of the software, we recognize revenue when the basic criteria of SOP 97-2 are met and when the services have been completed. When we provide professional services, which involve significant production, modification or customization of the licensed software, we recognize such revenue and any related software licenses in accordance with SOP 81-1, *Accounting for Performance of Construction Type and Certain Performance Type Contracts*. These statements all 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 reasonably assured.

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. These two criteria are particularly relevant to reseller transactions where, specifically, revenue is only recognized upon delivery to the end user, since the determination of whether the fee is fixed or determinable and whether collection is probable is more difficult. 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 Fixed-Fee 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 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 December 31st of the carrying value of our 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 \$49.0 million as of June 30, 2006.

#### ***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. Deferred tax assets also result from unused operating loss carryforwards, research and development tax credit carryforwards and foreign tax credit carryforwards. 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 any valuation allowance recorded against these deferred tax assets and liabilities. 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. Since that point, we have provided a full valuation allowance for all U.S. domiciled net deferred tax assets.

***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.

***Accounting for Securitization of Installments Receivable***

We made judgments with respect to several variables associated with our June 2005 securitization transaction that had a significant impact on the valuation of our retained interest in the sold receivables, as well as the calculation of the loss on the transaction. These judgments include the discount rate used to value the retained interest in the sold receivables, and estimates of rates of default. In determining these factors, we consulted third parties with respect to fair market discount rates, and analyzed our historical collection experience to default rates and collection timing. If the historical collection data do not reflect the future ability to collect outstanding receivables, the value of our retained interest may fluctuate.

***Accounting for Restructuring Accruals***

We follow SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities. In accounting for these obligations, we are required to make assumptions related to the amounts of employee severance, benefits, and related costs and to the time period over which facilities will remain vacant, sublease terms, sublease rates and discount rates. We base our estimates and assumptions on the best information available at the time the obligation has arisen. These estimates are reviewed and revised as facts and circumstances dictate; changes in these estimates could have a material effect on the amount accrued on the balance sheet.

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

We adopted SFAS No. 123(R), Share-Based Payment, effective July 1, 2005. Under the fair value provisions of this statement, stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the vesting period. SFAS 123(R) requires significant judgment and the use of estimates, particularly for assumptions such as stock price volatility and expected option lives, as well as expected option forfeiture rates to value stock-based compensation in net income. If actual results differ significantly from these estimates, stock-based compensation expense and our results of operations could fluctuate significantly.

**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:

	<b>Year Ended June 30,</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>Revenues:</b>			
Software licenses	47.6 %	48.0 %	52.1 %
Service and other	52.4	52.0	47.9
Total revenues	100.0	100.0	100.0
<b>Cost of revenues:</b>			
Cost of software licenses	4.7	6.3	5.7
Cost of service and other	30.6	30.6	24.8
Amortization of technology related intangible assets	2.4	3.0	2.9
Impairment of technology related intangible and computer software development assets	1.0		
Total cost of revenues	38.7	39.9	33.4
Gross margin	61.3	60.1	66.6
<b>Operating costs:</b>			
Selling and marketing	30.6	35.7	28.9
Research and development	18.1	17.5	15.1
General and administrative	10.3	18.3	14.5
Long-lived asset impairment charges	0.3		
Restructuring charges and FTC legal costs	6.0	9.2	1.4
Loss (gain) on sales and disposals of assets	(0.2 )	5.3	0.3
Total operating costs	65.2	86.0	60.2
Income (loss) from operations	(3.9 )	(25.9 )	6.4
Interest income	2.2	2.3	1.7
Interest expense	(1.5 )	(1.6 )	(0.3 )
Foreign currency exchange gain (loss)	1.5	(1.3 )	(1.1 )
Income (loss) before provision for income taxes and equity in earnings from joint ventures	(1.7 )%	(26.5 )%	6.7 %

**Comparison of Fiscal 2006 to Fiscal 2005**

**Revenues.** Revenues are derived from software licenses, consulting services and maintenance and training. Total revenues for fiscal 2006 increased 8.6% to \$293.1 million from \$270.0 million in fiscal 2005. Total revenues from customers outside the United States were \$167.0 million or 56.9% of total revenues and \$162.7 million or 60.3% of total revenues for fiscal 2006 and 2005, respectively. The geographical mix of revenues can vary from period to period.

Software license revenues represented 52.1% and 48.0% of total revenues for fiscal 2006 and 2005, respectively. Revenues from software licenses in fiscal 2006 increased 17.9% to \$152.8 million from \$129.6 million in fiscal 2005. 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. Our new customer base is less significant since we believe that we already have the significant players in the process industries as existing customers. We believe that the increase principally reflected

strength in our energy end-market, as well as continued strength in our chemicals and engineering & construction end-markets, combined with the increased efforts and time that our management were able to dedicate to software license activities, and the increased willingness of our customers to make investments in our products, following the resolution of the Federal Trade Commission, or FTC, proceedings and the audit committee investigation in fiscal 2005.

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 were relatively unchanged at \$140.4 million for fiscal 2006 and fiscal 2005 as a 1.8% decline in the consulting services business was offset by an increase in maintenance and training revenues. Consulting services declined due to the December 2004 sale of a portion of our consulting business to Honeywell, as part of our settlement with the FTC.

*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 2006 decreased to \$16.8 million from \$16.9 million in fiscal 2005. Cost of software licenses as a percentage of revenues from software licenses decreased to 11.0% for fiscal 2006 from 13.0% for fiscal 2005. The reduction in cost as a percentage of revenue is due to the increase in revenue over a base of costs, of which many are fixed in nature.

*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 2006 decreased 12.2% to \$72.7 million from \$82.7 million for fiscal 2005. Cost of service and other, as a percentage of revenues from service and other, decreased to 51.6% for fiscal 2006 from 58.9% for fiscal 2005. The decrease in cost is primarily due to decreased payroll costs of \$8.9 million and decreased rent and facility costs of \$3.5 million related to reductions in headcount and facility consolidations offset in part by increases of \$3.1 million in reimbursable costs and \$2.1 million in stock-based compensation costs.

*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 was \$8.6 million and \$8.2 in fiscal 2006 and fiscal 2005, respectively. The increase is primarily the result of changes in foreign currency translation rates affecting amortization expense incurred in subsidiaries operating in currencies other than the U.S. dollar.

*Selling and Marketing.* Selling and marketing expenses for fiscal 2006 decreased 12.2% to \$84.5 million from \$96.3 million for fiscal 2005, declining as a percentage of total revenues to 28.9% from 35.7%. The reduction in cost is primarily due to a decrease in payroll costs of \$4.0 million, lower rent and facility costs of \$5.9 million, lower marketing and advertising costs of \$2.2 million, lower travel expenses of \$1.5 million and a \$2.7 million decrease in advertising costs related to AspenWorld, which took place in October 2004, partially offset by a \$3.1 million increase in stock-based compensation costs.

*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 2006 decreased 6.2% to \$44.3 million from \$47.3 million for fiscal 2005, and decreased as a percentage of total revenues to 15.1% from 17.5%. The decrease is primarily attributable to a \$0.7 million decrease in payroll costs, a \$1.7 million reduction in consultant costs, a \$1.0 million reduction in depreciation, and a \$0.5 million decrease in rent and facility costs, partially offset by a \$1.2 million decrease in software development costs eligible for capitalization and a \$1.6 million increase in stock-based compensation costs.

We capitalized software development costs that amounted to 13.9% of our total engineering costs during fiscal 2006, as compared to 15.3% in fiscal 2005. These percentages will vary from quarter to quarter and year to year, depending upon the stage of development for the various projects in a given period.

*General and Administrative.* General and administrative expenses consist primarily of salaries of administrative, executive, financial and legal personnel, and outside professional fees. General and administrative expenses for fiscal 2006 decreased 13.8% to \$42.5 million from \$49.3 million for fiscal 2005, and decreased as a percentage of total revenues to 14.5% from 18.3%. This decrease is due to a \$7.1 million reduction in legal, accounting and consulting costs associated with the internal investigation by the audit committee, a \$1.9 million decrease in payroll costs, and a \$1.0 million reduction in rent and facility costs, partially offset by a \$3.3 million increase in stock-based compensation costs and increased recruiting costs of \$0.7 million.

*Restructuring Charges and FTC Legal Costs.* During fiscal 2006 we recorded an additional \$1.8 million related to headcount reductions, relocation costs and facility consolidations associated with the May 2005 plan that did not qualify for accrual at June 30, 2005. The remaining \$2.2 million relates to revisions of estimates associated with lease exit costs and accretion of the discounted restructuring accruals under previous restructuring plans. During fiscal 2005, we recorded \$25.0 million in restructuring charges and FTC legal costs. Of this amount, \$14.4 million related to headcount reductions and facility consolidations associated with the June 2004 restructuring plan that did not qualify for accrual at June 30, 2004, \$3.8 million related to the May 2005 restructuring charge, \$0.4 million related to the accretion of discounted restructuring accruals, and \$6.5 million related to adjustments to prior restructuring accruals, all offset by \$0.2 million in FTC legal cost, related to the FTC challenge of our acquisition of Hyprotech.

*Loss (Gain) on Sales of Assets.* Losses and gains on sales and disposals of assets primarily result from our programs to sell installment receivable contracts and from disposals of fixed assets. Loss on sales of assets was a \$0.9 million loss in fiscal 2006 as compared to a \$14.3 million loss in fiscal 2005. This decline is due to the absence of the \$14.6 million loss incurred on the securitization of installments receivable in fiscal 2005.

*Interest Income.* Interest income is generated from investment of excess cash 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 \$5.0 million for fiscal 2006 as compared to \$6.2 million in fiscal 2005. This decrease primarily is due to the securitization of approximately \$71.2 million of our installments receivable in June 2005, which significantly lowered the average carrying balance of our installments receivable.

*Interest Expense.* Interest expense was incurred under our convertible debentures and through the course of other financing transactions. Interest expense in fiscal 2006 decreased to \$1.0 million from \$4.2 million in fiscal 2005. This decrease in interest expense resulted from the retirement of our convertible debentures in June 2005.

*Foreign currency exchange gain (loss).* Foreign currency exchange gains and losses are primarily incurred as a result of the revaluation of intercompany accounts denominated in foreign currencies and reflect movement in period end exchange rates. The revaluation adjustments are primarily related to unrealized gains and losses on intercompany balances that have not settled in cash. In fiscal 2006 we recorded a foreign currency exchange loss of \$3.4 million, compared to a \$3.6 million loss in fiscal 2005.

*Provision for/Benefit from Income Taxes.* We recorded a provision for income taxes of \$6.7 million for fiscal 2006, primarily related to foreign taxes. We recorded a provision for income taxes of \$2.0 million for fiscal 2005 and provided a full valuation allowance against the net operating losses generated during fiscal 2005.

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.

#### *Comparison of Fiscal 2005 to Fiscal 2004*

*Revenues.* Total revenues for fiscal 2005 decreased 18.8% to \$270.0 million from \$332.4 million in fiscal 2004. Total revenues from customers outside the United States were \$162.7 million or 60.3% of total revenues and \$190.8 million or 57.4% of total revenues for fiscal 2005 and 2004, respectively. The geographical mix of revenues can vary from period to period.

Software license revenues represented 48.0% and 47.6% of total revenues for fiscal 2005 and 2004, respectively. Revenues from software licenses in fiscal 2005 decreased 18.3% to \$129.6 million from \$158.2 million in fiscal 2004. 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. We believe that the decrease was primarily due to distractions caused by the ongoing uncertainty of the FTC proceedings, our audit committee investigation, changes in sales management and delays in purchasing from customers.

Revenues from service and other for fiscal 2005 decreased 19.5% to \$140.4 million from \$174.3 million for fiscal 2004. These decreases were attributable primarily to the consulting services business. Consulting services decreased due to the general low-level of licenses of our supply chain products during the two most recent fiscal years. Our consulting services are more heavily linked to the implementation of our supply chain products than they are to our other products. We believe that the decrease was also due to distractions caused by the ongoing uncertainty of the FTC proceedings and our audit committee investigation.

*Cost of Software Licenses.* Cost of software licenses for fiscal 2005 increased 8.3% to \$16.9 million from \$15.6 million in fiscal 2004. Cost of software licenses as a percentage of revenues from software licenses increased to 13.0% for fiscal 2005 from 9.8% for fiscal 2004. The cost increase is primarily due to an increase in amortization of computer software development costs of \$0.9 million. The increase in the amortization of computer software development costs is related to several significant product releases, including *aspenONE* in December 2004.

*Cost of Service and Other.* Cost of service and other for fiscal 2005 decreased 18.7% to \$82.7 million from \$101.8 million for fiscal 2004. Cost of service and other, as a percentage of revenues from service and

other, increased to 58.9% for fiscal 2005 from 58.4% for fiscal 2004. The decrease in cost is primarily due to decreased payroll costs of \$10.7 million related to reductions in headcount, as well as a decrease in reimbursable expenses of \$5.5 million and a \$2.3 million reduction in stock-based compensation.

*Amortization of Technology Related Intangible Assets.* Amortization expense for fiscal 2005 increased 3.1% to \$8.2 million from \$8.0 million for fiscal 2004. The increase is primarily the result of changes in foreign currency translation rates affecting amortization expense incurred in subsidiaries operating in currencies other than the U.S. dollar.

*Selling and Marketing.* Selling and marketing expenses for fiscal 2005 decreased 5.4% to \$96.3 million from \$101.8 million for fiscal 2004, while increasing as a percentage of total revenues to 35.7% from 30.6%. The decrease in cost is primarily due to a decrease in payroll costs of \$6.0 million attributable to the headcount reductions effected in the June 2004 restructuring plan and a \$1.7 million decrease in stock-based compensation expense, offset by an increase in advertising costs of \$2.6 million related to AspenWorld, which took place in October 2004.

*Research and Development.* Research and development expenses for fiscal 2005 decreased 21.4% to \$47.3 million from \$60.1 million for fiscal 2004, and decreased as a percentage of total revenues to 17.5% from 18.1%. The decrease is primarily attributable to a \$5.6 million decrease in payroll costs and a \$2.7 million decrease in facilities related costs associated with the June 2004 restructuring plan, and a \$2.1 million decrease in consulting costs, partially offset by a decline in stock-based compensation expense of \$1.1 million.

We capitalized software development costs that amounted to 15.3% of our total engineering costs during fiscal 2005, as compared to 11.2% in fiscal 2004. These percentages will vary from quarter to quarter, depending upon the stage of development for the various projects in a given period. This increase is primarily due to the significant amount of effort associated with the development and release of *AspenONE* in December 2004 and *AspenONE 2004.1* in May 2005.

*General and Administrative.* General and administrative expenses for fiscal 2005 increased 43.4% to \$49.3 million from \$34.4 million for fiscal 2004, and increased as a percentage of total revenues to 18.3% from 10.3%. This increase is due to a \$7.1 million increase in legal, accounting and consulting costs associated with the internal investigation by the audit committee, \$3.8 million in litigation defense and settlement costs related to KBC, a \$1.9 million increase in audit and consulting fees associated with the Sarbanes-Oxley Act, specifically our Section 404 efforts, and \$3.4 million in contract and employment termination costs, offset in part by a \$1.5 million decline in stock-based compensation expense.

*Long-Lived Asset Impairment Charges.* In fiscal 2004, this amount consisted of \$1.0 million in impairment charges based on our decision 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.

*Restructuring Charges and FTC Legal Costs.* During fiscal 2005, we recorded \$25.0 million in restructuring charges and FTC legal costs. Of this amount, \$14.4 million related to headcount reductions and facility consolidations associated with the June 2004 restructuring plan that did not qualify for accrual at June 30, 2004, \$3.8 million related to the May 2005 restructuring charge, \$0.4 million related to the accretion of discounted restructuring accruals, and \$6.5 million related to adjustments to prior restructuring accruals, all offset by \$0.2 million in FTC legal costs, related to the FTC challenge of our acquisition of Hyprotech.

In May 2005, we initiated a plan to consolidate several corporate functions and to reduce our operating expenses. The plan to reduce operating expenses primarily resulted in headcount reductions, and also included the termination of a contract and the consolidation of facilities. These actions resulted in an



aggregate restructuring charge of \$3.8 million, recorded in the fourth quarter of fiscal 2005. The components of the restructuring plan are as follows:

*Closure/consolidation of facilities:* Approximately \$0.1 million of the restructuring charge relates to the termination of a facility lease. The facility lease had a remaining term of two years. The amount accrued is an estimate of the remaining obligation under the lease, reduced by expected income from the sublease of the underlying properties.

*Employee severance, benefits and related costs:* Approximately \$3.4 million of the restructuring charge relates to the reduction in headcount. Approximately 130 employees, or 10% of the workforce, were eliminated under the restructuring plan. The employees were primarily located in North America and Europe. All business units were affected, including services, sales and marketing, research and development, and general and administrative.

*Contract termination costs:* Approximately \$0.3 million of the restructuring charge relates to charges associated with the termination of a contract for a future user conference. The contract was terminated in June 2005.

*Loss (Gain) on Sales of Assets.* Loss (gain) on sales of assets was a \$14.3 million loss in fiscal 2005 as compared to \$0.7 million gain in fiscal 2004. This decrease is primarily due to the loss of \$14.6 million incurred on the June 2005 securitization of installments receivable.

*Interest Income.* Interest income was \$6.2 million for fiscal 2005 as compared to \$7.3 million in fiscal 2004. This decrease primarily is due to the increased sale of receivables and lower license revenues, resulting in the decrease of installments receivable balance.

*Interest Expense.* Interest expense in fiscal 2005 decreased to \$4.2 million from \$4.9 million in fiscal 2004. This decrease in interest expense results from the elimination of interest bearing debt, such as the retirement of a portion of the convertible debentures in January 2004, March 2004 and May 2004, and the retirement of the remaining portion in June 2005.

*Foreign currency exchange gain (loss).* Foreign currency exchange gains and losses are primarily incurred as a result of the revaluation of intercompany accounts denominated in foreign currencies and reflect movement in period end exchange rates. The revaluation adjustments are primarily related to unrealized gains and losses on related intercompany balances that have not settled in cash.

In fiscal 2005 we recorded a foreign currency exchange loss of \$3.6 million, compared to a \$4.8 million gain in fiscal 2004. This increase was due to favorable exchange rate fluctuations.

*Provision for/Benefit from Income Taxes.* We recorded a provision for income taxes of \$2.0 million for fiscal 2005, primarily related to foreign taxes. We recorded a provision for income taxes of \$20.2 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 2004 and 2005.

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 10 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. These losses relate to net losses incurred by certain joint ventures in which we have an equity interest. These investments were liquidated during fiscal 2005, and there were no material gains or losses realized.

#### **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 involve the services of 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 tables presents previously reported and restated quarterly consolidated statement of operations data for fiscal 2005 and 2006. These data are unaudited but, in our opinion, reflect all adjustments necessary for a fair presentation of these data in accordance with US GAAP. See

Restatements of Financial Results above and Note 17 to the Notes to the Consolidated Financial Statements for a discussion of the first, second, and third restatements.

Edgar Filing: ASPEN TECHNOLOGY INC /DE/ - Form 10-K/A

	Quarter ended September 30, 2004				Quarter ended December 31, 2004					
	As Previously Reported	First Restatement Stock-based Compensation and Related Tax Adjustments	Other Adjustments	Third Restatement Adjustments	As Restated (1)	As Previously Reported	First Restatement Stock-based Compensation and Related Tax Adjustments	Other Adjustments	Third Restatement Adjustments	As Restated (1)
<b>Revenues:</b>										
Software licenses	\$ 25,273	\$	\$ (220 )	\$	\$ 25,053	\$ 36,732	\$	\$ (116 )	\$	\$ 36,616
Service and other	37,997		(70 )		37,927	34,893		(70 )		34,823
Total revenues	63,270		(290 )		62,980	71,625		(186 )		71,439
<b>Cost of revenues:</b>										
Cost of software licenses	3,941				3,941	4,731				4,731
Cost of service and other	22,108	56			22,164	21,913	50			21,963
Amortization of technology related intangible assets	1,774			205	1,979	1,778			319	2,097
Total cost of revenues	27,823	56		205	28,084	28,422	50		319	28,791
Gross profit	35,447	(56 )	(290 )	(205 )	34,896	43,203	(50 )	(186 )	(319 )	42,648
<b>Operating costs:</b>										
Selling and marketing	22,375	40	(12 )		22,403	23,401	36	(12 )		23,425
Research and development	12,183	26	(12 )		12,197	11,574	23	(12 )		11,585
General and administrative	10,427	30	2	8	10,467	12,694	27	2	10	12,733
Restructuring charges and FTC legal costs	21,508				21,508	219				219
Loss (gain) on sales and disposals of assets	(362 )				(362 )	5				5
Total operating costs	66,131	96	(22 )	8	66,213	47,893	86	(22 )	10	47,967
Income (loss) from operations	(30,684 )	(152 )	(268 )	(213 )	(31,317 )	(4,690 )	(136 )	(164 )	(329 )	(5,319 )
Interest income, net	654		9		663	657		9		666
Foreign currency exchange gain (loss)	(393 )		(40 )	(2,161 )	(2,594 )	351		10	(638 )	(277 )
Income (loss) before provision for taxes	(30,423 )	(152 )	(299 )	(2,374 )	(33,248 )	(3,682 )	(136 )	(145 )	(967 )	(4,930 )
Benefit from (provision for) income taxes	340		4	702	1,046	573		2	920	1,495
Income (loss)	(30,083 )	(152 )	(295 )	(1,672 )	(32,202 )	(3,109 )	(136 )	(143 )	(47 )	(3,435 )
Accretion of preferred stock discount and dividend	(3,528 )				(3,528 )	(3,589 )				(3,589 )
Income (loss) applicable to common stockholders	\$ (33,611 )	\$ (152 )	\$ (295 )	\$ (1,672 )	\$ (35,730 )	\$ (6,698 )	\$ (136 )	\$ (143 )	\$ (47 )	\$ (7,024 )
Basic income (loss) per share applicable to common shareholders	\$ (0.80 )	\$ (0.00)	\$ (0.01)	\$ (0.04 )	\$ (0.85 )	\$ (0.16 )	\$ (0.00)	\$ (0.01)	\$ (0.00)	\$ (0.17 )
Basic weighted average shares outstanding	41,796				41,796	42,153				42,153
Diluted income (loss) per share applicable to common shareholders	\$ (0.80 )	\$ (0.00)	\$ (0.01)	\$ (0.04 )	\$ (0.85 )	\$ (0.16 )	\$ (0.00)	\$ (0.01)	\$ (0.00)	\$ (0.17 )
Diluted weighted average shares outstanding	41,796				41,796	42,153				42,153



Edgar Filing: ASPEN TECHNOLOGY INC /DE/ - Form 10-K/A

	Quarter ended March 31, 2005				Quarter ended June 30, 2005					
	As Previously Reported	First Restatement Stock-based Compensation and Related Tax Adjustments	Other Adjustments	Third Restatement Adjustments	As Restated (1)	As Previously Reported	First Restatement Stock-based Compensation and Related Tax Adjustments	Other Adjustments	Third Restatement Adjustments	As Restated (1)
<b>(In thousands, except per share data)</b>										
<b>Revenues:</b>										
Software licenses	\$ 31,097	\$ (140 )	\$	\$ 30,957	\$ 36,131	\$	\$ 864	\$	\$ 36,995	
Service and other	33,121	(300 )		32,821	34,323		479		34,802	
Total revenues	64,218	(440 )		63,778	70,454		1,343		71,797	
<b>Cost of revenues:</b>										
Cost of software licenses	4,035			4,035	4,157				4,157	
Cost of service and other	19,215	45		19,260	19,402	38	(83 )		19,357	
Amortization of technology related intangible assets	1,778			2,081	1,782			281	2,063	
Total cost of revenues	25,028	45		25,376	25,341	38	(83 )	281	25,577	
Gross profit	39,190	(45 )	(440 )	(303 )	38,402	45,113	(38 )	1,426	(281 )	46,220
<b>Operating costs:</b>										
Selling and marketing	24,299	32	(12 )		24,319	26,112	28	(12 )		26,128
Research and development	11,552	21	(12 )		11,561	11,927	18	(12 )		11,933
General and administrative	12,746	24	22	10	12,802	13,308	21	(26 )	10	13,313
Restructuring charges and FTC legal costs	(97 )				(97 )	3,277		53		3,330
Loss (gain) on sales and disposals of assets	81				81	13,911		679		14,590
Total operating costs	48,581	77	(2 )	10	48,666	68,535	67	682	10	69,294
Income (loss) from operations	(9,391 )	(122 )	(438 )	(313 )	(10,264 )	(23,422 )	(105 )	744	(291 )	(23,074 )
Interest income, net	477		9		486	185		34		219
Foreign currency exchange gain (loss)	(16 )		3	127	114	676		(1,072 )	(446 )	(842 )
Income (loss) before provision for taxes	(8,930 )	(122 )	(426 )	(186 )	(9,664 )	(22,561 )	(105 )	(294 )	(737 )	(23,697 )
Benefit from (provision for) income taxes	(1,133 )		7	(22 )	(1,148 )	(3,556 )		264	(132 )	(3,424 )
Income (loss)	(10,063 )	(122 )	(419 )	(208 )	(10,812 )	(26,117 )	(105 )	(30 )	(869 )	(27,121 )
Accretion of preferred stock discount and dividend	(3,630 )				(3,630 )	(3,703 )				(3,703 )
Income (loss) applicable to common stockholders	\$ (13,693 )	\$ (122 )	\$ (419 )	\$ (208 )	\$ (14,442 )	\$ (29,820 )	\$ (105 )	\$ (30 )	\$ (869 )	\$ (30,824 )
Basic income (loss) per share applicable to common shareholders	\$ (0.32 )	\$ (0.00 )	\$ (0.01 )	\$ (0.01 )	\$ (0.34 )	\$ (0.69 )	\$ (0.01 )	\$ (0.00 )	\$ (0.02 )	\$ (0.72 )
Basic weighted average shares outstanding	42,639				42,639	42,942				42,942
Diluted income (loss) per share applicable to common shareholders	\$ (0.32 )	\$ (0.00 )	\$ (0.01 )	\$ (0.01 )	\$ (0.34 )	\$ (0.69 )	\$ (0.01 )	\$ (0.00 )	\$ (0.02 )	\$ (0.72 )
Diluted weighted average shares outstanding	42,639				42,639	42,942				42,942

## Quarter ended September 30, 2005

	As Previously Reported (In thousands, except per share data)	First Restatement Stock-based Compensation and Related Tax Adjustments	Other Adjustments	Second Restatement Adjustments	Third Restatement Adjustments	As Restated (1)
<b>Revenues:</b>						
Software licenses	\$ 24,317	\$	\$ (280)	\$	\$	\$ 24,037
Service and other	35,736			61		35,797
Total revenues	60,053		(280 )	61		59,834
<b>Cost of revenues:</b>						
Cost of software licenses	3,782		93			3,875
Cost of service and other	17,244	55		44		17,343
Amortization of technology related intangible assets	1,782				324	2,106
Total cost of revenues	22,808	55	93	44	324	23,324
Gross profit	37,245	(55 )	(373 )	17	(324 )	36,510
<b>Operating costs:</b>						
Selling and marketing	18,647	40	(12 )	83		18,758
Research and development	10,134	26	(12 )	35		10,183
General and administrative	10,185	30	106	138	10	10,469
Restructuring charges and FTC legal costs	2,199					2,199
Loss (gain) on sales and disposals of assets	61					61
Total operating costs	41,226	96	82	256	10	41,670
Income (loss) from operations	(3,981 )	(151 )	(455 )	(239 )	(334 )	(5,160 )
Interest income, net	151		665			816
Foreign currency exchange gain (loss)	(663 )		459		(3,093 )	(3,297 )
Income (loss) before provision for taxes	(4,493 )	(151 )	669	(239 )	(3,427 )	(7,641 )
Benefit from (provision for) income taxes	(640 )		(10 )		959	309
Income (loss)	(5,133 )	(151 )	659	(239 )	(2,468 )	(7,332 )
Accretion of preferred stock discount and dividend	(3,778 )					(3,778 )
Income (loss) applicable to common stockholders	\$ (8,911 )	\$ (151 )	\$ 659	\$ (239 )	\$ (2,468 )	\$ (11,110)
Basic income (loss) per share applicable to common shareholders	\$ (0.21 )	\$ (0.00)	\$ 0.02	\$ (0.01)	\$ (0.06 )	\$ (0.26 )
Basic weighted average shares outstanding	43,237					43,237
Diluted income (loss) per share applicable to common shareholders	\$ (0.21 )	\$ (0.00)	\$ 0.02	\$ (0.01)	\$ (0.06 )	\$ (0.26 )
Diluted weighted average shares outstanding	43,237					43,237

Quarter ended December 31, 2005						
	First Restatement Stock-based Compensation			Second Restatement	Third Restatement	
	As Previously Reported	and Related Tax Adjustments	Other Adjustments	Adjustments	Adjustments	As Restated (1)
(In thousands, except per share data)						
<b>Revenues:</b>						
Software licenses	\$ 41,690	\$	\$ 180	\$	\$	\$ 41,870
Service and other	34,701			50		34,751
Total revenues	76,391		180	50		76,621
<b>Cost of revenues:</b>						
Cost of software licenses	4,244					4,244
Cost of service and other	17,859	50		53		17,962
Amortization of technology related intangible assets	1,773				355	2,128
Total cost of revenues	23,876	50		53	355	24,334
Gross profit	52,515	(50 )	180	(3 )	(355 )	52,287
<b>Operating costs:</b>						
Selling and marketing	20,624	36	(12 )	111		20,759
Research and development	11,771	23	(12 )	44		11,826
General and administrative	9,884	27		181	9	10,101
Restructuring charges and FTC legal costs	995					995
Loss (gain) on sales and disposals of assets	316					316
Total operating costs	43,590	86	(24 )	336	9	43,997
Income (loss) from operations	8,925	(136 )	204	(339 )	(364 )	8,290
Interest income, net	244		510			754
Foreign currency exchange gain (loss)	1,055				(244 )	811
Income (loss) before provision for taxes	10,224	(136 )	714	(339 )	(608 )	9,855
Benefit from (provision for) income taxes	(2,080 )		(11 )		80	(2,011 )
Income (loss)	8,144	(136 )	703	(339 )	(528 )	7,844
Accretion of preferred stock discount and dividend	(3,843 )					(3,843 )
Income (loss) applicable to common stockholders	\$ 4,301	\$ (136 )	\$ 703	\$ (339 )	\$ (528 )	\$ 4,001
Basic income (loss) per share applicable to common shareholders	\$ 0.10	\$ (0.00)	\$ 0.01	\$ (0.01)	\$ (0.01)	\$ 0.09
Basic weighted average shares outstanding	43,753					43,753
Diluted income (loss) per share applicable to common shareholders	\$ 0.08	\$ (0.00)	\$ 0.01	\$ (0.00)	\$ (0.01)	\$ 0.08
Diluted weighted average shares outstanding	52,765					52,765

Edgar Filing: ASPEN TECHNOLOGY INC /DE/ - Form 10-K/A

Quarter ended March 31, 2006

Quarter ended June 30, 2006

	Quarter ended March 31, 2006			Quarter ended June 30, 2006			Quarter ended June 30, 2006			
	As Previously Reported	First Restatement Stock-based Compensation and Related Tax Adjustments	Other Adjustments	Second Restatement Adjustments	Third Restatement Adjustments	As Restated (\$)	As Previously Reported	Second Restatement Adjustments	Third Restatement Adjustments	As Restated (\$)
<b>Revenues:</b>										
Software licenses	\$ 41,750	\$	\$ 642	\$	\$	\$ 42,392	\$ 44,387	\$ 87	\$	\$ 44,474
Service and other	35,351			64	(678 )	34,737	34,776	75	239	35,090
Total revenues	77,101		642	64	(678 )	77,129	79,163	162	239	79,564
<b>Cost of revenues:</b>										
Cost of software licenses	4,518					4,518	4,168			4,168
Cost of service and other	18,231	259		52		18,542	18,794	49		18,843
Amortization of technology related intangible assets	1,776				386	2,162	1,739		424	2,163
Total cost of revenues	24,525	259		52	386	25,222	24,701	49	424	25,174
Gross profit	52,576	(259 )	642	12	(1,064 )	51,907	54,462	113	(185 )	54,390
<b>Operating costs:</b>										
Selling and marketing	21,325	186	(2 )	106		21,615	23,178	195		23,373
Research and development	11,844	122	(2 )	41		12,005	10,245	63		10,308
General and administrative	9,498	135	32	112	14	9,791	12,019	135	14	12,168
Restructuring charges and FTC legal costs	534					534	265			265
Loss (gain) on sales and disposals of assets	103					103	418			418
Total operating costs	43,304	443	28	259	14	44,048	46,125	393	14	46,532
Income (loss) from operations	9,272	(702 )	614	(247 )	(1,078 )	7,859	8,337	(280 )	(199 )	7,858
Interest income, net	558		499			1,057	1,422			1,422
Foreign currency exchange gain (loss)	304				489	793	(79 )		(1,588 )	(1,667 )
Income (loss) before provision for taxes	10,134	(702 )	1,113	(247 )	(589 )	9,709	9,680	(280 )	(1,787 )	7,613
Benefit from (provision for) income taxes	(3,083 )		(17 )		5	(3,095 )	(2,865 )		949	(1,916 )
Income (loss)	7,051	(702 )	1,096	(247 )	(584 )	6,614	6,815	(280 )	(838 )	5,697
Accretion of preferred stock discount and dividend	(3,888 )					(3,888 )	(3,874 )			(3,874 )
Income (loss) applicable to common stockholders	\$ 3,163	\$ (702 )	\$ 1,096	\$ (247 )	\$ (584 )	\$ 2,726	\$ 2,941	\$ (280 )	\$ (838 )	\$ 1,823
Basic income (loss) per share applicable to common shareholders	\$ 0.07	\$ (0.02)	\$ 0.03	\$ (0.01)	\$ (0.01)	\$ 0.06	\$ 0.06	\$ (0.00)	\$ (0.02)	\$ 0.04
Basic weighted average shares outstanding	44,561					44,561	46,989			46,989
Diluted income (loss) per share applicable to common shareholders	\$ 0.06	\$ (0.02)	\$ 0.02	\$ (0.00)	\$ (0.01)	\$ 0.05	\$ 0.05	\$ (0.00)	\$ (0.02)	\$ 0.03
Diluted weighted average shares outstanding	55,497					55,497	58,646			58,646

(1) See Note 17 to the Consolidated Financial Statements.

## Liquidity and Capital Resources

In fiscal 2006, operating activities provided \$19.9 million of cash as net income, excluding non-cash expenses for stock-based compensation and depreciation and amortization, was partially offset by cash payments related to restructuring, legal and financial accruals and an increase in installments receivable. In fiscal 2004 and 2005, operating activities provided \$40.9 million and \$25.9 million of cash, respectively.

In fiscal 2006, investing activities used \$10.5 million of cash primarily as a result of the capitalization of computer software development costs and the ordinary purchases of property and equipment. In fiscal 2004 and 2005, investing activities used \$7.6 million and \$11.8 million of cash, respectively.

In fiscal 2006, financing activities provided \$8.5 million of cash primarily due to exercise of stock options, partially offset by payment of preferred stock dividends. In fiscal 2004 and 2005, financing activities provided \$22.2 million of cash and used \$53.7 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.

On June 15, 2005, we paid \$58.2 million to retire all of the outstanding principal amount of our convertible debentures, together with interest accrued thereon. We funded this payment with (a) \$8.6 million of our existing cash, (b) \$5.8 million obtained from our sales of installments receivable under our existing receivables programs with Silicon Valley Bank and GE Capital Corporation, and (c) \$43.8 million through the sale of additional installments receivable under the arrangement described below.

On June 15, 2005, we securitized outstanding installment software license receivables totaling \$71.2 million. Such securitization was structured in a manner so that the securitization qualified as a sale. We received \$43.8 million of cash and retained an interest in the sold receivables valued at \$16.6 million. We also retained certain limited recourse obligations relative to the receivables valued at approximately \$1.0 million. Overall, the transaction (including \$2.1 million in aggregate fees and expenses, including fees of the lenders' agent and fees of our outside legal counsel and financial advisors) resulted in a loss of \$14.6 million in the quarter ended June 30, 2005 and was recorded as a loss on sales and disposals of assets in the accompanying consolidated statement of operations. We expect that these installments receivable will generate approximately \$17.5 million and \$14.0 million of cash flows during fiscal years 2007 and 2008 that we would have received, if not for the securitization of these receivables. This transaction allowed us to accelerate the collection of cash associated with our installments receivable. From time to time, it is likely that we will engage in other securitization transactions.

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. On May 16, 2006, holders of the Series D converted 30,000 Series D preferred shares into 3,000,000 shares of common stock. At the time of the conversion, we also made a cash payment of \$2.4 million to settle the accrued dividends on the converted shares. As a result, the shares of Series D preferred currently are convertible into an aggregate of 33,336,400 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.

We have had arrangements to sell installments receivable to three financial institutions, General Electric Capital Corporation, Bank of America and Silicon Valley Bank. We sold certain installment contracts for aggregate proceeds of approximately \$97.6 million and \$77.1 million during fiscal 2005 and 2006, respectively. As of June 30, 2006, there was in excess of \$60 million in additional availability under the arrangements. We expect to continue to have the ability to sell receivables, as the collection of the sold receivables will reduce the outstanding balance, and the availability under the arrangements can be increased. At June 30, 2006, we had a partial recourse obligation that was within the range of \$0.1 million to \$1.5 million.

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 (8.25% at June 30, 2006). 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, 2006, there were \$8.5 million in letters of credit outstanding under the line of credit, and there was \$11.8 million available for future borrowing. As of June 30, 2006, we were in compliance with the tangible net worth and adjusted quick ratio covenants. The loan arrangement expires in January 2007. We are currently in negotiations to either: (i) extend this line of credit with our current lender and amend the terms of the facility; or (ii) obtain a facility from another lender.

As of June 30, 2006, we had cash and cash equivalents totaling \$86.3 million. Our commitments as of June 30, 2006 consisted of capital lease obligations and leases for 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, 2006 are as follows (in thousands):

	2007	2008	2009	2010	2011	Thereafter	Total
Operating leases	\$ 9,680	\$ 7,437	\$ 7,570	\$ 7,406	\$ 6,460	\$ 14,834	\$ 53,387
Debt obligations	247	149					396
Total commitments	\$ 9,927	\$ 7,586	\$ 7,570	\$ 7,406	\$ 6,460	\$ 14,834	\$ 53,783

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 2007. 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, including those further described in Item 1A. Risk Factors. 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 2007.

## **New Accounting Pronouncements**

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertain Tax Positions, an Interpretation of FAS 109 (FIN 48), which clarifies the criteria for recognition and measurement of benefits from uncertain tax positions. Under FIN 48, an entity should recognize a tax benefit when it is more-likely-than-not, based on the technical merits, that the position would be sustained upon examination by a taxing authority. The amount to be recognized should be measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. Furthermore, any change in the recognition, derecognition or measurement of a tax position should be recognized in the interim period in which the change occurs. We expect to adopt FIN 48 as of July 1, 2007, and any change in net assets as a result of applying the Interpretation will be recognized as an adjustment to retained earnings on that date. We are in the process of evaluating our uncertain tax positions in accordance with FIN 48.

## **Item 8. Financial Statements and Supplementary Data**

The consolidated financial statements of Aspen Technology, Inc. are filed as a part of this Form 10-K/A beginning on page F-1 and are incorporated herein by reference.

## **Item 9A. Controls and Procedures**

*Disclosure Controls and Procedures.* Our management, with the participation of our chief executive officer and our current chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2006, the final day of the fiscal year covered by this Form 10-K/A. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Management, including our chief executive officer (who also was our then-acting chief financial officer), had previously concluded that our disclosure controls and procedures were not effective at the reasonable assurance level as of June 30, 2006 because of the existence of four material weaknesses described in 1) through 4) under Management's Report on Internal Control over Financial Reporting in the original Form 10-K. In connection with the second restatement of our consolidated financial statements described in Note 17 to the consolidated financial statements, our current management, including our chief executive officer and our current chief financial officer, determined that a new material weakness in internal control over the calculation and review of forfeiture rates affecting its stock-based compensation expense also existed as of June 30, 2006. In connection with the third restatement of our consolidated financial statements described in Note 17 to the consolidated financial statements, our current management, including our chief executive officer and our current chief financial officer, have determined that an additional material weakness in internal control over the accounting for foreign

currency transactions related to the consolidation of our foreign subsidiaries also existed as of June 30, 2006. In connection with this filing on Form 10-K/A management re-evaluated the effectiveness of disclosure controls and procedures and concluded that disclosure controls and procedures were not effective. Additionally, management has revised its report on internal control over financial reporting as described below.

*Management's Report on Internal Control Over Financial Reporting and Attestation of Independent Registered Public Accounting Firm (as Revised).* Management's revised report on our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act), including the description of material weaknesses in our internal control over financial reporting as of June 30, 2006 and the remedial measures we are undertaking to address those material weaknesses and the independent registered public accounting firm's related audit report are included below.

*Changes in Internal Control Over Financial Reporting.* We previously reported six material weaknesses in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act), which were described in Item 9A and Management's Report on Internal Control Over Financial Reporting in our Annual Report on Form 10-K for the fiscal year ended June 30, 2005, which we filed on September 13, 2005. A material weakness is a significant deficiency (as defined in Public Company Accounting Oversight Board Auditing Standard No. 2), or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

During the first three quarters of the year ended June 30, 2006, we reported on Form 10-Q material changes made to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) to address our previously reported material weaknesses. During the fourth quarter, management completed testing to assess the effectiveness of its remedial measures and based on that testing has concluded in the fourth quarter that three of the previously reported material weaknesses no longer constitute material weaknesses as of June 30, 2006. For the three remaining items which management believes still constitute material weaknesses as of June 30, 2006, we have made changes in our internal controls over financial reporting as they relate to these control areas, but there continues to be additional work required for us to conclude that these control areas are operating such that they no longer constitute material weaknesses.

A discussion of the changes reported on Form 10-Q in previous quarters and their impact on our previously reported material weaknesses is included below. The following three previously reported material weaknesses no longer constituted material weaknesses as of June 30, 2006:

1) *Inadequate staffing and ineffective training and communication within the accounting and finance organization.*

- We increased the staffing and level of expertise of our accounting and finance organization, including hiring a vice president corporate controller, a director of corporate accounting, a manager of financial reporting, a manager of revenue operations, a credit and collections manager, an accounts payable manager, a sales tax analyst, and additional general accountants in general ledger, payroll, and collections in our Cambridge, Massachusetts headquarters, as well as a manager of revenue operations for the Asia Pacific region.

- We consolidated our North American accounting operations into a single shared service center at our Cambridge, Massachusetts headquarters.

- We implemented procedures under which we hold periodic meetings of cross-functional teams to improve communication and provide additional training.

- We held several training sessions on revenue recognition and internal credit policies for regional sales personnel, sales and executive management and new finance management.

During the fourth quarter of 2006, management concluded that the remedial measures described above were sufficient such that inadequate staffing and ineffective training and communication within the accounting and finance organization no longer constituted a material weakness as of June 30, 2006.

2) *Ineffective revenue recognition controls.*

- We took steps to improve our procedures relating to approving revenue arrangements sold through foreign agents, including redefining the identification, approval, recording and monitoring processes for agents and their commissions, and increasing coordination amongst our internal functional organizations.
- We completed an inventory of software currently held by our resellers.
- We implemented a policy requiring each customer to provide written confirmation of acceptance of ongoing maintenance.
- We enhanced our documentation regarding our pricing policies relating to consulting services and software maintenance services.

During the fourth quarter of 2006, management concluded that the remedial measures described above were sufficient such that ineffective revenue recognition controls no longer constituted a material weakness as of June 30, 2006.

3) *Inadequate controls over bank accounts.*

- We enhanced our existing policies and procedures related to the maintenance of bank accounts to include a periodic evaluation of our existing accounts, and closed accounts and updated bank signatory authorizations as appropriate for our business.
- We implemented policies and procedures to ensure bank accounts are included in our general ledger chart of accounts on a timely basis.

During the fourth quarter of 2006, management concluded that the remedial measures described above were sufficient such that inadequate controls over bank accounts no longer constituted a material weakness as of June 30, 2006.

The three remaining previously reported material weaknesses which management believes require further work and still constituted material weaknesses as of June 30, 2006, as well as the related significant changes to internal controls over financial reporting, are as follows:

1) *Inadequate financial statement preparation and review procedures.*

- We significantly increased the number and expertise of experienced supervisory personnel within the accounting and finance organization.
- We implemented procedures under which we hold periodic meetings of cross-functional teams to improve communication and provide additional training.
- We enhanced our existing monthly closing meetings to include a formal planning and financial review process, and have extended attendance at those meetings to a broader group of senior financial management and staff.
- We implemented policies and procedures to identify and add accounts, including bank accounts, to our general ledger chart of accounts on a timely basis.
- We enhanced our existing policies and procedures relating to general ledger account reconciliations, including establishment of a formal escalation method to notify senior financial management of accounts that have unreconciled or unadjusted variances.
- We implemented formal policies and procedures to ensure that our accounting and analysis of intangible assets, reserves and accruals are adequately supported and documented.
- We have implemented procedures for the timely preparation of memoranda to support all non-routine transactions.

Although the remedial measures implemented above improved our financial statement preparation and review as of June 30, 2006, certain of our processes and systems require further work and are dependent upon the recruiting and training of a number of qualified staff that were hired late in the fiscal year. As a result, certain controls over our periodic financial close process were not in place for a sufficient duration or were not effective as of June 30, 2006. Specifically, we did not have effective controls and procedures as of June 30, 2006 with respect to the (a) review of manual journal entries recorded at the consolidated level; (b) timely disposition of required adjustments identified through the period-end account analysis and reconciliation process, and (c) accounting for complex non-routine transactions.

This material weakness over our period financial close process as of June 30, 2006 is discussed further in Management's Report on Internal Control Over Financial Reporting (as revised) included below.

2) *Ineffective and inadequate controls over the accounts receivable function.*

- We enhanced our policies and procedures relating to determining the creditworthiness of new and existing customers.
- We improved our policies and procedures to ensure that accurate invoices are submitted to customers and that all invoices paid by customers are recorded accurately and timely in our records.
- We enhanced our bad debt policies to clarify when reserves and write-offs are required and have implemented procedures designed to assess the proper valuation of our accounts receivable reserves.
- We engaged external collections agencies and legal counsel to assist with the collection of certain outstanding accounts receivable.

Although the remedial measures implemented above improved the internal controls over our accounts receivable function as of June 30, 2006, our accounts receivable reconciliation and review

31

---

procedures require further work. As a result, controls in the accounts receivable function over the process to record customer invoice payments timely and accurately were not effective as of June 30, 2006. Specifically, we did not have effective procedures and controls over our accounts receivable function to provide reasonable assurance that all customer invoice payments are being recorded timely and accurately, and reflected as liabilities in those cases where we collected cash from customers relating to invoices previously sold to financial institutions.

This material weakness over controls in our accounts receivable function to record customer invoice payments timely and accurately as of June 30, 2006 is discussed further in Management's Report on Internal Control Over Financial Reporting (as revised) included below.

3) *Inadequate controls over the accounting for taxes.*

- We implemented policies and procedures for the determination, review and documentation of income tax and sales tax liabilities and deferred income tax assets and liabilities as well as for preparing income tax provision calculations.
- We increased the level of review of all quarterly and annual tax accounts and calculations.

Although the remedial measures implemented above improved our controls over the accounting for taxes, further work is required to develop effective controls over the accounting for our income tax provision, income tax liabilities and deferred income tax accounts and related disclosures. As a result, controls over the accounting for income taxes were not adequate to prevent or detect a material misstatement of our financial position or results of operations as of June 30, 2006. Specifically, we did not have effective design or operational controls over the accounting for income taxes to provide reasonable assurance that the relevant income tax accounts and related disclosures can be prepared in accordance with generally accepted accounting principles.

This material weakness over the accounting for income taxes as of June 30, 2006 is discussed further in Management's Report on Internal Control Over Financial Reporting (as revised) included below.

In addition, during the fourth quarter, management identified one new material weakness in internal control over the accrual of goods and services received as of June 30, 2006. As a result, controls over the accrual of goods and services received were not effective as of June 30, 2006 to provide reasonable assurance that all goods and services received are being recorded timely and completely.

This material weakness over the accrual of goods and services received as of June 30, 2006 is discussed further in Management's Report on Internal Control Over Financial Reporting (as revised) included below.

In November 2006, our current management, including our chief executive officer and our current chief financial officer, identified a new material weakness in internal control over the calculation and review of forfeiture rates affecting stock-based compensation expense for the year ended June 30, 2006. Specifically, we did not have effective operational and review controls in place to provide reasonable assurance that the calculation of stock-based compensation expense reflected accurate forfeiture rates under the provisions of FASB Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* (SFAS No. 123R), which was adopted on July 1, 2005. This control deficiency resulted in the restatement of the consolidated financial statements for the year ended June 30, 2006 as described in Note 17 to the consolidated financial statements under the caption *Second Restatement*. This material weakness relating to the calculation and review of forfeiture rates affecting stock-based compensation expense for the year ended June 30, 2006 is discussed further in Management's Report on Internal Control Over Financial Reporting (as revised) included below.

In February 2007, our current management, including our chief executive officer and our current chief financial officer, identified an additional material weakness in internal control over the accounting for

foreign currency transactions related to the consolidation of our foreign subsidiaries. Specifically, we did not have adequate controls and procedures to ensure that (a) transaction gains and losses on intercompany balances denominated in currencies other than the functional currency were properly accounted for in earnings instead of accumulated other comprehensive income (loss) and (b) translation of all foreign denominated balances, including those generated from the application of purchase accounting, is accounted for in the functional currency of the applicable entity and translated at the appropriate current exchange rates. This control deficiency resulted in the restatement of the consolidated financial statements for the years ended June 30, 2004, 2005 and 2006 as described in Note 17 to the consolidated financial statements under the caption Third Restatement. This material weakness relating to the classification of foreign currency transaction gains and losses for the years ended June 30, 2004, 2005 and 2006 is discussed further in Management's Report on Internal Control over Financial Reporting (as revised) included below.

**Remediation**

Management has identified the following measures to address the material weaknesses described above and in Management's Report on Internal Control Over Financial Reporting (as revised) included below.

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

- Upgrade our existing financial applications, which will allow management to streamline the capturing of relevant data, improve the general ledger and entity account level reporting structures and enhance the information query and reporting capability for the consolidated books worldwide;
- Implement enhanced controls to review all manual journal entries recorded at the consolidated level prior to posting;
- Implement enhanced controls to reconcile subsidiary-level books to the consolidated books;
- Simplify the legal entity structure;
- Implement improved processes and procedures to ensure that all reconciling items identified in balance sheet account reconciliations are accounted for properly and timely;
- Implement procedures to help ensure that the proper accounting of all complex non-routine transactions is researched, detailed in memoranda and reviewed by senior management prior to recording; and
- Continue to assess the adequacy and expertise of the finance and accounting staff on a global basis.

In order to improve controls in the accounts receivable function over the process to record customer invoice payments timely and accurately, we intend to:

- Implement improved accounts receivable reconciliation and review procedures to ensure all cash receipts are timely applied to applicable accounts receivables balances and to timely record the appropriate liability in the case where the receivable has been sold to a financial institution.
- Assess the adequacy of the accounting applications deployed to service accounts receivable which have been sold.

In order to improve controls over the accounting for income taxes, we intend to:

- Further enhance our policies and procedures for determining and documenting income tax liabilities and deferred income tax assets and liabilities, as well as for preparing income tax provision calculations;
- Further increase the level of review of all quarterly and annual tax accounts and calculations;

- Improve the internal reporting of financial account balances to the tax department.
- Increase the number of personnel with specialized corporate and international tax expertise in the tax department.

33

---

In order to improve controls over the accrual of goods and services received, we intend to:

- Complete the final phase of a system implementation that will allow for accurate and timely reports of open purchase orders;
- Implement additional reviews of open purchase orders for appropriate accounting treatment in each reporting period; and
- Implement improved processes and procedures to allow for communication of any known liabilities to finance management so they can be recorded timely and accurately.

In order to improve controls over the calculation and review of forfeiture rates affecting stock-based compensation expense we intend to:

- Adjust the calculation methodology for our stock-based compensation expense to include accurate forfeiture rates under the provisions of SFAS No. 123R; and
- Increase the level of management review of our stock-based compensation expense calculations to ensure forfeiture rates are accurately reflected under the provisions of SFAS No. 123R.

In order to improve controls over the accounting for foreign currency transactions related to the consolidation of our foreign subsidiaries we intend to:

- Make changes to the financial closing process to ensure that translation and transaction gains and losses related to our foreign subsidiaries are prepared and reviewed in accordance with generally accepted accounting principles; and
- Review and document our intentions to settle balances between subsidiaries denominated in currencies other than the U.S. dollar.

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

**Management's Report on Internal Control over Financial Reporting (as Revised)**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for our company. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Exchange Act, as a process designed by, or under the supervision of, a company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In connection with the original filing of our 2006 Annual Report filed on Form 10-K, management, including our chief executive officer (who was also our then-acting chief financial officer), assessed the effectiveness of our internal controls over financial reporting as of June 30, 2006. In connection with this assessment, we identified the following four material weaknesses in internal control over financial reporting as of June 30, 2006. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework.

1) *Inadequate and ineffective controls over the periodic financial close process*

We did not have effective design or operational controls and procedures that provided reasonable assurance that financial statements could be prepared in accordance with generally accepted accounting principles. Specifically, we did not have adequate controls and procedures with respect to the (a) review of manual journal entries recorded at the consolidated level; (b) timely disposition of required adjustments identified through the period-end account analysis and reconciliation process, and (c) accounting for complex non-routine transactions. As a result of this identified weakness, material post closing adjustments were identified and posted to our books and records and financial statements. These adjustments, which are reflected in our financial statements as of and for the year ended June 30, 2006 (as set forth below and incorporated by reference in Item 8 of this Form 10-K/A), caused changes in assets, liabilities, stockholders' equity, revenues, and expenses.

2) *Inadequate and ineffective controls in the accounts receivable function over the process to record customer invoice payments timely and accurately*

We did not have effective design or operational controls and procedures over our accounts receivable function to provide reasonable assurance that all customer invoice payments are being recorded

timely and accurately, and reflected as liabilities in those cases where we collected cash from customers relating to invoices previously sold to financial institutions. As a result of this identified weakness, material post-closing adjustments were posted to our books and records and financial statements. These adjustments, which are reflected in our financial statements as of and for the year ended June 30, 2006, caused changes to accounts receivable and accrued expenses.

3) *Inadequate and ineffective controls over the accounting for income taxes*

We did not have adequate design or operational controls over the accounting for income taxes to provide reasonable assurance that the relevant income tax accounts and related disclosures can be prepared in accordance with generally accepted accounting principles. As a result of this identified weakness, post-closing adjustments have been posted to our books and records and our financial statements. These adjustments, which are reflected in the accompanying financial statements for the year ended June 30, 2006, caused changes to income taxes payable, deferred income tax assets and liabilities, the income tax provision, and additional paid-in capital.

4) *Inadequate and ineffective controls over accrual of goods and services received*

We did not have effective operational controls in place to provide reasonable assurance that all goods and services received are being recorded timely and completely. As a result of this identified weakness, material post-closing adjustments were posted to our books and records and financial statements. These adjustments, which are reflected in the accompanying financial statements as of and for the year ended June 30, 2006, caused changes to unbilled services, property and leasehold improvements, accounts payable, service and other revenue, cost of services, and operating expenses.

In November 2006, our current management, including our chief executive officer and our current chief financial officer identified a new material weakness in internal control over the calculation and review of forfeiture rates affecting stock-based compensation expense for the year ended June 30, 2006, described below. This control deficiency resulted in the restatement of the consolidated financial statements for the year ended June 30, 2006 as described in Note 17 to the consolidated financial statements under the caption *Second Restatement*.

5) *Inadequate and ineffective controls over the calculation and review of forfeiture rates affecting stock-based compensation expense*

We did not have effective design or operational controls in place to provide reasonable assurance that the calculation of stock-based compensation expense reflected accurate forfeiture rates under the provisions of SFAS No. 123R, which was adopted on July 1, 2005. This control deficiency resulted in the restatement of the consolidated financial statements for the year ended June 30, 2006 as described in Note 17 to the consolidated financial statements under the caption *Second Restatement*.

In February 2007, our current management, including our chief executive officer and our current chief financial officer, identified an additional material weakness in internal control over the accounting for foreign currency transactions related to the consolidation of our foreign subsidiaries. This control deficiency resulted in the restatement of the consolidated financial statements for the years ended June 30, 2004, 2005 and 2006 and prior periods as described in Note 17 to the consolidated financial statements under the caption *Third Restatement*.

6) *Inadequate controls over the accounting for foreign currency transactions related to the consolidation of our foreign subsidiaries.*

We did not have adequate controls and procedures to ensure that (a) transaction gains and losses on intercompany balances denominated in currencies other than the functional currency were properly accounted for in earnings instead of accumulated other comprehensive income (loss) and (b) translation of all foreign denominated balances, including those generated from the application of

purchase accounting, is accounted for in the functional currency of the applicable entity and translated at the appropriate current exchange rates. As a result of these identified weaknesses, material post-closing adjustments were recorded to our books and records and financial statements. This control deficiency resulted in the restatement of the consolidated financial statements for the years ended June 30, 2004, 2005 and 2006 as described in Note 17 to the consolidated financial statements under the caption Third Restatement.

In connection with management's assessment of the effectiveness of internal control over financial reporting in the Company's original filing of its 2006 Annual Report on Form 10-K, management, including our chief executive officer (who was our then-acting chief financial officer), had previously concluded that our internal control over financial reporting was not effective at the reasonable assurance level as of June 30, 2006 because of the existence of the four material weaknesses described in 1) through 4) above. In connection with the restatement of the Company's consolidated financial statements described in Note 17 to the consolidated financial statements under the caption Second Restatement, our current management, including our chief executive officer and our current chief financial officer, have determined that the material weakness described in 5) above over the calculation and review of forfeiture rates affecting stock-based compensation expense also existed as of June 30, 2006. In connection with the restatement of our consolidated financial statements described in Note 17 to the consolidated financial statements under the caption Third Restatement, our current management, including our chief executive officer and our current chief financial officer, have determined the material weakness described in 6) above over the accounting for foreign currency transactions related to the consolidation of our foreign subsidiaries also existed as of June 30, 2006. Accordingly, management has revised this report on internal control over financial reporting to include the additional material weaknesses. In making this revised assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework. Based on this revised assessment as of June 30, 2006, management has concluded that our internal control over financial reporting was not effective based on those criteria, because of the six material weaknesses described above.

Deloitte & Touche LLP, our independent registered public accounting firm, has issued a report on our revised assessment of our internal control over financial reporting. This report appears on page 37.

37

---

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting (as revised), that Aspen Technology, Inc. and subsidiaries (the Company) did not maintain effective internal control over financial reporting as of June 30, 2006, because of the effect of the material weaknesses identified in management's revised assessment based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weaknesses have been identified and included in management's revised assessment:

**1. *Inadequate and ineffective controls over the periodic financial close process.***

The Company did not have effective design or operational controls and procedures that provided reasonable assurance that financial statements could be prepared in accordance with generally accepted accounting principles. Specifically, the Company did not have adequate controls and

procedures with respect to the (a) review of manual journal entries recorded at the consolidated level; (b) timely disposition of required adjustments identified through the period-end account analysis and reconciliation process, and (c) accounting for complex non-routine transactions. As a result of these identified weaknesses, material post closing adjustments were identified and posted to the Company's books and records and financial statements. These adjustments, which are reflected in the Company's financial statements as of and for the year ended June 30, 2006, caused changes in assets, liabilities, stockholders' equity, revenues and expenses. Such weaknesses could continue to impact the balances in all of the accounts previously mentioned.

*2. Inadequate and ineffective controls in the accounts receivable function over the process to record customer invoice payments timely and accurately.*

The Company did not have effective design or operational controls over the accounts receivable function to provide reasonable assurance that all customer invoice payments are being recorded timely and accurately, and reflected as liabilities in those cases where the Company collected cash from customers relating to invoices previously sold to financial institutions. As a result of these identified weaknesses, material post-closing adjustments were posted to the Company's books and records and financial statements. These adjustments, which are reflected in the Company's financial statements as of and for the year ended June 30, 2006, caused changes to accounts receivable and accrued expenses. Such weaknesses could continue to impact the balances in all of the accounts previously mentioned.

*3. Inadequate and ineffective controls over the accounting for income taxes.*

The Company did not have adequate design or operational controls over the accounting for income taxes to provide reasonable assurance that the relevant income tax accounts and related disclosures can be prepared in accordance with generally accepted accounting principles. As a result of these identified weaknesses, post-closing adjustments have been posted to the Company's books and records and its financial statements. These adjustments, which are reflected in the accompanying financial statements for the year ended June 30, 2006, caused changes to income taxes payable, deferred income tax assets and liabilities, the income tax provision, and additional paid-in capital. Such weaknesses could continue to impact the balances in the accounts previously mentioned.

*4. Inadequate and ineffective controls over accrual of goods and services.*

The Company did not have adequate design or operational controls in place to provide reasonable assurance that all goods and services received are being recorded timely and completely. As a result of these identified weaknesses, material post-closing adjustments were posted to the Company's books and records and financial statements. These adjustments, which are reflected in the financial statements as of and for the year ended June 30, 2006, caused changes to unbilled services, property and leasehold improvements, accounts payable, service and other revenue, cost of services, and operating expenses. Such weaknesses could continue to impact the balances in all of the accounts previously mentioned.

*5. Inadequate and ineffective controls over the calculation and review of forfeiture rates affecting stock-based compensation.*

The Company did not have effective design or operational controls in place to provide reasonable assurance that the calculation of stock-based compensation expense reflected accurate forfeiture rates under the provisions of Statement of Financial Accounting Standards No. 123(R) *Share-Based Payment*, which was adopted on July 1, 2005. These identified weaknesses resulted in a material adjustment to increase stock-based compensation and additional paid-in capital. This material weakness contributed to the restatement of the previously reported consolidated financial statements

for the year ended June 30, 2006, as discussed in Note 17 to the consolidated financial statements under the caption Second Restatement.

**6. Inadequate controls over accounting for foreign currency transactions related to the consolidation of foreign subsidiaries.**

The Company did not have adequate design or operational controls to ensure that (a) transaction gains and losses on intercompany balances denominated in currencies other than the functional currency were properly accounted for in earnings instead of accumulated other comprehensive income (loss) and (b) translation of all foreign denominated balances, including those generated from the application of purchase accounting, is accounted for in the functional currency of the applicable entity and translated at the appropriate current exchange rates. As a result of these identified weaknesses, material post-closing adjustments were recorded to the Company's books and records and financial statements. These adjustments, which are reflected in the Company's financial statements as of and for the year ended June 30, 2006, caused changes in foreign exchange gains and losses, amortization of technology related intangible assets, and changes to the translation of balance sheets at the appropriate exchange rates. Such weaknesses could continue to impact the balances in all of the accounts previously mentioned. This control deficiency resulted in the restatement of the consolidated financial statements for the years ended June 30, 2004, 2005 and 2006 as described in Note 17 to the consolidated financial statements under the caption Third Restatement.

These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements as of and for the year ended June 30, 2006 (as restated), of the Company and this report does not affect our report on such restated financial statements.

In our opinion, management's revised assessment that the Company did not maintain effective internal control over financial reporting as of June 30, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of June 30, 2006, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended June 30, 2006 (as restated), of the Company and our report dated September 28, 2006 (November 14, 2006 as to the effects of the restatement discussed in Note 17 under the caption Second Restatement and March 14, 2007 as to the effects of the restatement discussed in Note 17 under the caption Third Restatement) expressed an unqualified opinion on those financial statements and includes explanatory paragraphs relating to the restatement of the Company's consolidated financial statements described in Note 17 and the adoption of Statement of Financial Accounting Standard No. 123(R) *Share-Based Payment* described in Note 8.

/s/ DELOITTE & TOUCHE LLP

Boston, Massachusetts

September 28, 2006 (November 14, 2006 as to the effects of the material weakness related to forfeiture rates used to calculate stock-based compensation expense and March 14, 2007 as to the effects of the material weakness related to accounting for foreign currency transactions discussed in Management's Report on Internal Control over Financial Reporting (as revised))

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

**(a)(1) Financial Statements**

Description	Page
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
Consolidated Financial Statements:	
<u>Balance Sheets (restated) as of June 30, 2005 and 2006</u>	F-3
<u>Statements of Operations (restated) for the years ended June 30, 2004, 2005 and 2006</u>	F-4
<u>Statements of Stockholders' Equity (Deficit) and Comprehensive Income (Loss) (restated) for the years ended June 30, 2004, 2005 and 2006</u>	F-5
<u>Statements of Cash Flows (restated) for the years ended June 30, 2004, 2005 and 2006</u>	F-6
<u>Notes to Consolidated Financial Statements</u>	F-7

**(a)(2) Financial Statement Schedules**

All 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.
4.10(9)	Form of Warrant of Aspen Technology, Inc. dated as of May 9, 2002.
4.11(1)	Form of WD Common Stock Purchase Warrant of Aspen Technology, Inc. dated as of August 14, 2003.
41	

- 4.12(1) Form of WB Common Stock Purchase Warrant of Aspen Technology, Inc. dated as of August 14, 2003.
- 10.1(10) 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(11) 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(11) 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(10) System License Agreement between Aspen Technology, Inc. and the Massachusetts Institute of Technology, dated March 30, 1982, as amended.
- 10.5(10) Vendor Program Agreement, dated March 29, 1990, between Aspen Technology, Inc. and General Electric Capital Corporation.
- 10.6(12) Rider No. 1, dated December 14, 1994, to Vendor Program Agreement between Aspen Technology, Inc. and General Electric Capital Corporation.
- 10.7(10) Letter Agreement, dated March 25, 1992, between Aspen Technology, Inc. and Sanwa Business Credit Corporation.
- 10.8(16) 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).
- 10.9(32) Amended and Restated Direct Finance and Services Addendum to Letter Agreement, effective December 30, 2004, by and among Aspen Technology, Inc. Fleet Business Credit LLC, Fleet Business Credit (UK) Limited, and Fleet Business Credit (Deutschland) GmbH.
- 10.10(13) 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.
- 10.11(13) 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.
- 10.12(25) Export-Import Bank Borrower Agreement, dated as of April 1, 2005, by and between Aspen Technology, Inc. and AspenTech Inc. in favor of the Export-Import Bank of the United States and Silicon Valley Bank.
- 10.13(25) Promissory Note (Ex-Im), dated April 1, 2005, by and between Aspen Technology, Inc. and AspenTech, Inc. in favor of Silicon Valley Bank.
- 10.14(13) 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.
- 10.15(13) Security Agreement, dated as of January 30, 2003, by and between Silicon Valley Bank and AspenTech Securities Corporation.
- 10.16(13) Unconditional Guaranty, dated as of January 30, 2003, by AspenTech Securities Corporation in favor of Silicon Valley Bank.
- 10.17(14) First Loan Modification Agreement, effective as of June 27, 2003, by and among Silicon Valley Bank, Aspen Technology, Inc. and AspenTech, Inc.

- 10.18(14) Pledge Agreement, effective as of June 27, 2003, by Aspen Technology, Inc. in favor of Silicon Valley Bank.
- 10.19(26) First Loan Modification Agreement (Exim), dated as of September 10, 2004, by and among Aspen Technology, Inc., AspenTech, Inc. and Silicon Valley Bank.
- 10.20(26) Second Loan Modification Agreement, dated as of September 10, 2004, by and among Aspen Technology, Inc., AspenTech, Inc. and Silicon Valley Bank.
- 10.21(25) Fourth Loan Modification Agreement, dated April 1, 2005 by and among Silicon Valley Bank, Aspen Technology, Inc. and AspenTech, Inc.
- 10.22(25) Third Loan Modification Agreement (Exim), dated as of April 1, 2005, by and among Silicon Valley Bank, Aspen Technology, Inc. and AspenTech, Inc.
- 10.23(27) Sixth Loan Modification Agreement, dated as of June 15, 2005, by and among Aspen Technology, Inc., Aspentech, Inc. and Silicon Valley Bank
- 10.24(27) Fourth Loan Modification Agreement EXIM, dated as of June 15, 2005, by and among Aspen Technology, Inc., Aspentech, Inc. and Silicon Valley Bank
- 10.25(27) Partial Release and Acknowledgement Agreement, dated as of June 15, 2005, by and among Aspen Technology, Inc., Aspentech, Inc. and Silicon Valley Bank
- 10.26(27) Loan Agreement, dated as of June 15, 2005, among Aspen Technology, Inc., Aspen Technology Receivables II LLC, Guggenheim Corporate Funding, LLC and the lenders named therein
- 10.27(27) Security Agreement, dated as of June 15, 2005, between Aspen Technology Receivables II LLC and Guggenheim Corporate Funding, LLC
- 10.28(27) Purchase and Sale Agreement, dated as of June 15, 2005, between Aspen Technology, Inc. and Aspen Technology Receivables I LLC
- 10.29(27) Purchase and Resale Agreement, dated as of June 15, 2005, between Aspen Technology Receivables I LLC and Aspen Technology Receivables II LLC
- 10.30(24) Non-Recourse Receivables Purchase Agreement, dated December 31, 2003, between Silicon Valley Bank and Aspen Technology, Inc.
- 10.31(26) Second Amendment to Non-Recourse Receivables Purchase Agreement, dated as of September 30, 2004, by and between Silicon Valley Bank and Aspen Technology, Inc.
- 10.32(28) Third Amendment to Non-Recourse Receivables Purchase Agreement, dated as of December 31, 2004, by and between Silicon Valley Bank and Aspen Technology, Inc.
- 10.33(29) Fifth Amendment to Non-Recourse Receivables Purchase Agreement, dated as of March 31, 2005, by and between Silicon Valley Bank and Aspen Technology, Inc.
- 10.34(15) Securities Purchase Agreement dated June 1, 2003 by and among Aspen Technology, Inc. and the Purchasers listed therein.
- 10.35(15) Repurchase and Exchange Agreement dated as of June 1, 2003 by and among Aspen Technology, Inc. and the Holders named therein.
- 10.36(1) Investor Rights Agreement dated as of August 14, 2003 by and among Aspen Technology, Inc. and the Stockholders Named therein.
- 10.37(1) Management Rights Letter dated as of August 14, 2003 by and among Aspen Technology, Inc. and the entities named therein.
- 10.38(17) Amended and Restated Registration Rights Agreement dated as of March 19, 2002 between Aspen Technology, Inc. and the Purchasers named therein.

- 10.39(10) Equity Joint Venture Contract between Aspen Technology, Inc. and China Petrochemical Technology Company.
- 10.40(28)+ Purchase and Sale Agreement, dated October 6, 2004, by and among Aspen Technology, Inc., Hyprotech Company, AspenTech Canada Ltd., and Hyprotech UK Ltd. (collectively, the AspenTech Parties ) and Honeywell International Inc., Honeywell Control Systems Limited and Honeywell Limited-Honeywell Limitee (collectively, the Honeywell Parties ).
- 10.41(28)+ Amendment No. 1 to the Purchase and Sale Agreement, dated October 6, 2004 by and among the AspenTech Parties and the Honeywell Parties.
- 10.42(28)+ Hyprotech License Agreement, dated as of December 23, 2004, by and between Aspen Technology, Inc. and Honeywell International, Inc.
- 10.43(28)+ Hyprotech License Agreement, dated as of December 23, 2004, by and between AspenTech Canada Ltd. and Honeywell Limited-Honeywell Limitee.
- 10.44(28)+ Hyprotech License Agreement, dated as of December 23, 2004, by and between Hyprotech Company and Honeywell Limited-Honeywell Limitee.
- 10.45(28)+ Hyprotech License Agreement, dated as of December 23, 2004, by and between AspenTech Ltd. and Honeywell Control Systems Limited.
- 10.46(28)+ Hyprotech License Agreement, dated as of December 23, 2004, by and between Hyprotech UK Ltd. and Honeywell Control Systems Limited.
- 10.47(10)\* 1988 Non-Qualified Stock Option Plan, as amended.
- 10.48(18)\* 1995 Stock Option Plan.
- 10.49(27)\* Amended and Restated 1995 Directors Stock Option Plan.
- 10.50(18)\* 1995 Employees Stock Purchase Plan.
- 10.51(19)\* 1998 Employees Stock Purchase Plan.
- 10.52(20)\* Amendment No. 1 to 1998 Employees Stock Purchase Plan.
- 10.53(21)\* 1996 Special Stock Option Plan.
- 10.54(34)\* Restated 2001 Stock Option Plan.
- 10.55(30)\* 2005 Stock Incentive Plan.
- 10.56(10)\* Form of Employee Confidentiality and Non-Competition Agreement.
- 10.57(31)\* Employment Agreement, dated as of December 7, 2004, between Aspen Technology, Inc. and Mark E. Fusco.
- 10.58(23)\* Employment Agreement, dated April 1, 2002, by and between Aspen Technology, Inc. and C. Steven Pringle
- 10.59(3)\* Letter Agreement, dated June 24, 2003, by and between Aspen Technology, Inc. and C. Steven Pringle.
- 10.60(23)\* Offer Letter, dated June 16, 2003, by and between Aspen Technology, Inc. and Charles F. Kane.
- 10.61(23)\* Letter Agreement, dated June 24, 2003, by and between Aspen Technology, Inc. and Manolis Kotzabasakis.
- 10.62(14)\* Letter Amendment, dated August 18, 2003, by and between Aspen Technology, Inc. and C. Steve Pringle.
- 10.63(14)\* Letter Amendment, dated August 18, 2003, by and between Aspen Technology, Inc. and Charles F. Kane.

10.64(14)*	Letter Amendment, dated August 18, 2003, by and between Aspen Technology, Inc. and Manolis Kotzabasakis.
10.65(32)*	Amendment No. 1 to Employment and Change of Control Agreement, dated as of October 28, 2005, between Aspen Technology, Inc. and Mark E. Fusco.
10.66(32)*	Aspen Technology, Inc. Executive Annual Incentive Bonus Plan FY06
10.67(32)*	Aspen Technology, Inc. Operations Executives Plan FY06
10.68(33)*	Aspen Technology, Inc. Executive Annual Incentive Bonus Plan FY07
10.69(33)*	Aspen Technology, Inc. Operations Executives Plan FY07
10.70(22)	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.
10.71(17)	Amended and Restated Securities Purchase Agreement dated as of March 19, 2002 between Aspen Technology, Inc. and the Purchasers named therein.
10.72(34)	Tenth Loan Modification Agreement, dated as of September 14, 2006, between Silicon Valley Bank and Aspen Technology, Inc.
10.73(34)	Sixth Loan Modification Agreement (EXIM) , dated as of September 14, 2006, between Silicon Valley Bank and Aspen Technology, Inc.
14.1(32)	Code of Conduct and Business Ethics
21.1(34)	Subsidiaries of Aspen Technology, Inc.
23.1	Consent of Deloitte & Touche LLP
24.1(34)	Power of Attorney.
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 Principal Financial and Accounting 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 Principal Financial and Accounting 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.

(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 5, 2002 (filed on June 7, 2002), and incorporated herein by reference.

(10) 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.

(11) 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.

(12) 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.

(13) 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.

(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, 2003, and incorporated herein by reference.

(15) 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.

(16) 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.

(17) 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.

(18) 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.

(19) 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.

(20) 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.

(21) 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.

(22) 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.

(23) 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.

(24) 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.

(25) Previously filed as an exhibit to the Quarterly Report on Form 10-Q of Aspen Technology, Inc. for the fiscal quarter ended March 31, 2005, and incorporated herein by reference.

- (26) Previously filed as an exhibit to the Quarterly Report on Form 10-Q of Aspen Technology, Inc. for the fiscal quarter ended September 30, 2004, and incorporated herein by reference.
- (27) Previously filed as an exhibit to the Current Report on Form 8-K of Aspen Technology, Inc. dated June 15, 2005 (filed on June 20, 2005), and incorporated herein by reference.
- (28) Previously filed as an exhibit to the Quarterly Report on Form 10-Q of Aspen Technology, Inc. for the fiscal quarter ended December 31, 2004, and incorporated herein by reference.
- (29) Previously filed as an exhibit to the Quarterly Report on Form 10-Q of Aspen Technology, Inc. for the fiscal quarter ended March 31, 2005, and incorporated herein by reference.
- (30) Previously filed as an exhibit to the Current Report on Form 8-K of Aspen Technology, Inc. dated May 26, 2005 (filed on June 2, 2005), and incorporated herein by reference.
- (31) Previously filed as an exhibit to the Current Report on Form 8-K of Aspen Technology, Inc. dated December 21, 2004 (filed on December 23, 2004), and incorporated herein by reference.
- (32) Previously filed as an exhibit to the Annual report on Form 10-K of Aspen Technology, Inc. for the year ended June 30, 2005, and incorporated herein by reference.
- (33) Previously files as an exhibit to the Current Report on Form 8-K of aspen Technology, Inc. dated June 29, 2006 (filed on July 6, 2006), and incorporated by reference.
- (34) Previously filed as an exhibit to the Annual Report on Form 10-K of Aspen Technology, Inc. for the fiscal year ended June 30, 2006 (filed on September 28, 2006), and incorporated herein by reference.

Confidential treatment requested as to certain portions

\* Management contract or 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. 2 on Form 10-K/A to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 14, 2007

ASPEN TECHNOLOGY, INC.  
By: /s/ MARK E. FUSCO  
Mark E. Fusco  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Amendment No. 2 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 14, 2007.

<b>Signature</b>	<b>Title</b>
/s/ MARK E. FUSCO Mark E. Fusco	President, Chief Executive Officer and Director <i>(Principal Executive Officer)</i>
/s/ BRADLEY T. MILLER Bradley T. Miller	Senior Vice President and Chief Financial Officer <i>(Principal Accounting and Financial Officer)</i>
/s/ STEPHEN M. JENNINGS Stephen M. Jennings	Chairman of the Board of Directors
/s/ DONALD P. CASEY Donald P. Casey	Director
/s/ GARY E. HAROIAN Gary E. Haroian	Director
/s/ JOAN C. MCARDLE Joan C. McArdle	Director
/s/ DAVID M. MCKENNA David M. McKenna	Director
/s/ MICHAEL PEHL Michael Pehl	Director

**ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

<u>Report of Independent Registered Public Accounting Firm</u>	F-2
Consolidated Financial Statements:	
<u>Balance Sheets (Restated) as of June 30, 2005 and 2006</u>	F-3
<u>Statements of Operations (Restated) for the years ended June 30, 2004, 2005 and 2006</u>	F-4
<u>Statements of Stockholders' Equity (Deficit) and Comprehensive Income (Loss) (Restated) for the years ended June 30, 2004, 2005 and 2006</u>	F-5
<u>Statements of Cash Flows (Restated) for the years ended June 30, 2004, 2005 and 2006</u>	F-6
<u>Notes to Consolidated Financial Statements</u>	F-7

F-1

---

**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, 2005 and 2006, and the related consolidated statements of operations, stockholders' equity (deficit) and comprehensive income (loss), and cash flows for each of the three years in the period ended June 30, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the 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, 2005 and 2006, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 17, the accompanying consolidated financial statements have been restated.

As discussed in Note 8 to the consolidated financial statements, effective July 1, 2005 the Company adopted Statement of Financial Accounting Standards No. 123(R) *Share-Based Payment*, based on the modified prospective application transition method.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of June 30, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated September 28, 2006 (November 14, 2006 as to the effects of the material weakness related to forfeiture rates used to calculate stock-based compensation expense and March 14, 2007 as to the effects of the material weakness related to accounting for foreign currency transactions discussed in Management's Report on Internal Control over Financial Reporting (as revised)) expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an adverse opinion on the effectiveness of the Company's internal control over financial reporting because of material weaknesses.

/s/ DELOITTE & TOUCHE LLP

Boston, Massachusetts

September 28, 2006 (November 14, 2006 as to the effects of the restatement discussed in Note 17 under the caption "Second Restatement" and March 14, 2007 as to the effects of the restatement discussed in Note 17 under the caption "Third Restatement")

**ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	<b>June 30, 2005</b>	<b>2006</b>
	<b>(As restated, see Note 17)</b>	<b>(As restated, see Note 17)</b>
	<b>(In thousands, except share data)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 68,149	\$ 86,272
Accounts receivable, net of allowance for doubtful accounts of \$4,653 in 2005 and \$5,110 in 2006	51,528	49,163
Unbilled services	9,826	8,518
Current portion of long-term installments receivable, net of unamortized discount of \$345 in 2005 and \$650 in 2006	5,355	12,123
Deferred tax asset	692	
Prepaid expenses and other current assets	11,156	9,179
Total current assets	146,706	165,255
Long-term installments receivable, net of unamortized discount of \$2,846 in 2005 and \$7,786 in 2006	18,445	35,681
Retained interest in sold receivables	16,667	19,010
Property and leasehold improvements, at cost:		
Computer equipment	12,033	11,213
Purchased software	25,725	20,552
Furniture and fixtures	7,143	6,960
Leasehold improvements	5,723	6,046
	50,624	44,771
Less Accumulated depreciation and amortization	39,433	36,097
	11,191	8,674
Computer software development costs, net of accumulated amortization of \$37,734 in 2005 and \$46,891 in 2006	17,411	15,456
Purchased intellectual property, net of accumulated amortization of \$1,531 in 2005 and \$2,096 in 2006	730	165
Other intangible assets, net of accumulated amortization of \$39,189 in 2005 and \$50,221 in 2006	14,371	6,711
Goodwill	16,899	18,035
Deferred tax asset	1,354	3,097
Other assets	2,656	2,552
	\$ 246,430	\$ 274,636
<b>LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)</b>		
Current liabilities:		
Current portion of long-term obligations	\$ 1,042	\$ 247
Accounts payable	5,086	4,613
Accrued expenses	80,720	77,716
Deferred revenue	57,272	57,936
Total current liabilities	144,120	140,512
Long-term obligations, less current portion	338	149
Deferred revenue, less current portion	2,093	2,609
Deferred tax liability	1,695	
Other liabilities	23,143	20,446
Commitments and contingencies (Notes 11, 12, 13 and 14)		
Series D redeemable convertible preferred stock, \$0.10 par value		
Authorized 367,000 shares in 2005 and 2006		
Issued and outstanding 363,364 shares in 2005 and 333,364 shares in 2006 (Liquidation preference of \$139,470 as of June 30, 2006)	121,210	125,475
Stockholders' equity (deficit):		
Common stock, \$0.10 par value		
Authorized 120,000,000 shares		
Issued 43,299,816 shares in 2005 and 49,090,499 shares in 2006		
Outstanding 43,066,352 shares in 2005 and 48,857,035 shares in 2006	4,330	4,909
Additional paid-in capital	402,799	430,811
Accumulated deficit	(455,417 )	(457,977 )
Deferred compensation	(414 )	
Accumulated other comprehensive income (loss)	3,046	8,215
Treasury stock, at cost 233,464 shares of common stock in 2005 and 2006	(513 )	(513 )
Total stockholders' equity (deficit)	(46,169 )	(14,555 )
	\$ 246,430	\$ 274,636

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

F-3

---

**ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Years Ended June 30,		
	2004	2005	2006
	(As restated, see Note 17)	(As restated, see Note 17)	(As restated, see Note 17)
	(In thousands, except per share data)		
<b>Revenues:</b>			
Software licenses	\$ 158,150	\$ 129,621	\$ 152,773
Service and other	174,296	140,373	140,375
Total revenues	332,446	269,994	293,148
<b>Cost of revenues:</b>			
Cost of software licenses	15,577	16,864	16,805
Cost of service and other	101,823	82,744	72,690
Amortization of technology related intangible assets	7,976	8,220	8,559
Impairment of technology related intangible and computer software development assets	3,250		
Total cost of revenues	128,626	107,828	98,054
Gross profit	203,820	162,166	195,094
<b>Operating costs:</b>			
Selling and marketing	101,806	96,275	84,505
Research and development	60,111	47,276	44,322
General and administrative	34,380	49,315	42,529
Long-lived asset impairment charges	967		
Restructuring charges and FTC legal costs	20,085	24,960	3,993
Loss (gain) on sales and disposals of assets	(747 )	14,314	898
Total operating costs	216,602	232,140	176,247
Income (loss) from operations	(12,782 )	(69,974 )	18,847
Interest income	7,296	6,204	5,034
Interest expense	(4,940 )	(4,170 )	(985 )
Foreign currency exchange gain (loss).	4,832	(3,599 )	(3,360 )
Income (loss) before provision for income taxes and equity in earnings from joint ventures	(5,594 )	(71,539 )	19,536
Provision for income taxes	(20,239 )	(2,031 )	(6,713 )
Equity in losses from joint ventures	(351 )		
Net income (loss)	(26,184 )	(73,570 )	12,823
Accretion of preferred stock discount and dividend	(6,358 )	(14,450 )	(15,383 )
Income (loss) attributable to common shareholders	\$ (32,542 )	\$ (88,020 )	\$ (2,560 )
Basic and diluted income (loss) per share attributable to common shareholders	\$ (0.80 )	\$ (2.08 )	\$ (0.06 )
Basic and diluted weighted average shares outstanding	40,575	42,381	44,627

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

**ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT) AND**  
**COMPREHENSIVE INCOME (LOSS)**

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)		Treasury Stock Number of Shares	Treasury Stock Cost	Stockholders Equity (Deficit)	Total Comprehensive Income (Loss)
	Number of Shares (In thousands, except share data)	\$0.10 Par Value			Deferre Compensation	Net				
<b>Balance, June 30, 2003</b> <b>(As previously reported)</b>	39,279,268	\$ 3,929	\$ 315,726	\$ (286,742)	\$	\$ (1,445)	233,464	\$ (513)	\$ 30,955	
Adjustments to beginning stockholders equity in connection with restatement (see Note 17)			56,214	(48,113)	(6,163)	1,092			3,030	
<b>Balance, June 30, 2003</b> <b>(As Restated, See Note 17)</b>	<b>39,279,268</b>	<b>3,929</b>	<b>371,940</b>	<b>(334,855)</b>	<b>(6,163)</b>	<b>(353)</b>	<b>233,464</b>	<b>(513)</b>	33,985	
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	
Unearned stock-based compensation (As Restated, See Note 17)			1,197		(1,197)					
Stock-based compensation expense (As restated, see Note 17)			110		6,593				6,703	
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	
Accrual of Series D redeemable convertible preferred stock dividend.				(8,690)					(8,690)	
Accretion of discount on Series D redeemable convertible preferred stock.				(3,181)					(3,181)	
Translation adjustment, not tax effected						(994)			(994)	\$ (994)
Net loss (As Restated, See Note 17)				(26,184)					(26,184)	(26,184)
Comprehensive loss for the year ended June 30, 2004 (As Restated, See Note 17)										\$ (27,178)
<b>Balance, June 30, 2004</b> <b>(As Restated, See Note 17)</b>	<b>41,716,887</b>	<b>4,173</b>	<b>396,325</b>	<b>(367,397)</b>	<b>(767)</b>	<b>(1,347)</b>	<b>233,464</b>	<b>(513)</b>	30,474	
Issuance of common stock under employee stock purchase plans	315,751	31	1,822						1,853	
Exercise of stock options	1,267,178	126	3,481						3,607	
Stock-based compensation (As restated, see Note 17)			1,171		353				1,524	
Accrual of Series D redeemable convertible preferred stock				(10,692)					(10,692)	

Edgar Filing: ASPEN TECHNOLOGY INC /DE/ - Form 10-K/A

dividend.

Accretion of discount on Series D redeemable convertible preferred stock				(3,758)					(3,758)	
Translation adjustment, not tax effected					4,393				4,393	\$ 4,393
Net loss (As Restated, See Note 17)				(73,570)					(73,570)	(73,570)
Comprehensive loss for the year ended June 30, 2005 (As Restated, See Note 17).										\$ (69,177)
<b>Balance, June 30, 2005 (As Restated, See Note 17)</b>	43,299,816	4,330	402,799	(455,417)	(414)	3,046	233,464	(513)	(46,169)	
Issuance of common stock under employee stock purchase plans	188,119	19	820						839	
Exercise of stock options.	2,602,564	260	10,729						10,989	
Conversion of Series D redeemable convertible preferred stock.	3,000,000	300	8,380						8,680	
Accrual of Series D redeemable convertible preferred stock dividend				(11,518)					(11,518)	
Accretion of discount on Series D redeemable convertible preferred stock				(3,865)					(3,865)	
Elimination of deferred compensation upon the adoption of SFAS 123(R)			(414)		414					
Stock-based compensation (As Restated, see Note 17).			8,378						8,378	
Tax benefit from stock options			119						119	
Translation adjustment, not tax effected						5,169			5,169	\$ 5,169
Net income (As Restated, see Note 17)				12,823					12,823	12,823
Comprehensive income for the year ended June 30, 2006 (As Restated, see Note 17)										\$ 17,992
<b>Balance, June 30, 2006 (As Restated, see Note 17)</b>	49,090,499	\$ 4,909	\$ 430,811	\$ (457,977)	\$	\$ 8,215	233,464	\$ (513)	\$ (14,555)	

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

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

	<b>Years Ended June 30,</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<b>(As restated, see Note 17)</b>	<b>(As restated, see Note 17)</b>	<b>(As restated, see Note 17)</b>
	<b>(In thousands)</b>		
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$(26,184 )	\$(73,570 )	\$ 12,823
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	27,569	25,999	23,870
Transaction (gains) losses on intercompany accounts	(3,823 )	3,118	4,436
Loss on securitization of installments receivable		14,585	
Stock-based compensation	6,703	1,524	8,230
Accretion of discount on retained interest in sold receivables.		(40 )	(2,343 )
Asset impairment charges and write-offs under restructuring charges	6,018	1,190	
(Gain) loss on the disposal of property	(170 )	(271 )	898
Gain on repurchase of convertible debt	(299 )		
Deferred income taxes	4,285	(2,744 )	(2,992 )
<b>Changes in assets and liabilities:</b>			
Accounts receivable	27,057	(1,230 )	(4,540 )
Unbilled services	604	5,704	1,168
Prepaid expenses and other current assets	3,476	(1,374 )	1,649
Long-term installments receivable, including proceeds from securitization	15,233	39,735	(23,729 )
Accounts payable and accrued expenses	5,623	(2,042 )	(3,903 )
Deferred revenue	(20,718 )	3,697	7,047
Other liabilities	(4,482 )	11,651	(2,697 )
Net cash provided by operating activities	40,892	25,932	19,917
<b>Cash flows from investing activities:</b>			
Purchase of property and leasehold improvements	(2,711 )	(5,160 )	(3,457 )
Proceeds from sale of property	1,096	1,954	
Capitalized computer software development costs	(8,247 )	(8,545 )	(7,111 )
(Increase) decrease in other assets	2,432	(59 )	104
Cash used in the purchase of businesses, net of cash acquired	(200 )		
Net cash used in investing activities	(7,630 )	(11,810 )	(10,464 )
<b>Cash flows from financing activities:</b>			
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 convertible preferred stock dividends	(296 )		(2,439 )
Payment of amounts owed to Accenture	(10,068 )		
Issuance of common stock under employee stock purchase plans	3,022	1,853	839
Exercise of stock options and warrants	4,121	3,607	10,989
Tax benefit from stock options.			119
Payments of long-term debt and capital lease obligations	(4,733 )	(2,436 )	(984 )
Repayment of convertible debt	(29,196 )	(56,745 )	
Net cash provided by (used in) financing activities	22,191	(53,721 )	8,524
Effect of exchange rate changes on cash and cash equivalents	613	115	146
Increase (decrease) in cash and cash equivalents	56,066	(39,484 )	18,123
Cash and cash equivalents, beginning of year	51,567	107,633	68,149
Cash and cash equivalents, end of year	\$ 107,633	\$ 68,149	\$ 86,272
<b>Supplemental disclosure of cash flow information:</b>			
Income taxes paid	\$ 6,569	\$ 2,700	\$ 7,821
Interest paid	\$ 5,967	\$ 4,116	\$ 1,240
<b>Supplemental disclosure of non-cash financing activities:</b>			
Accretion of discount on Series D redeemable convertible preferred stock	\$ 3,181	\$ 3,758	\$ 3,865
Accrual of dividend on Series D redeemable convertible preferred stock	\$ 8,690	\$ 10,692	\$ 11,518
Issuance of common stock in settlement of Series B convertible preferred stock dividend	\$ 598	\$	\$
Issuance of common stock in conversion of Series D redeemable convertible preferred stock	\$	\$	\$ 8,680
Non-cash purchases of property	\$ 96	\$ 72	\$ 107
<b>Supplemental disclosure of cash flows related to acquisition:</b>			
Fair value of assets acquired, excluding cash	\$ 525	\$	\$
Payment in connection with the acquisition, net of cash acquired	(200 )		
Liabilities assumed	\$ 325	\$	\$

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

F-6

---

**ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(1) Operations**

Aspen Technology, Inc. (the Company) and its subsidiaries are a leading supplier of integrated software and services to the process industries, which consist of oil and gas, petroleum, chemicals, pharmaceutical and other industries that manufacture and produce products from a chemical process. The Company develops software to design, operate, manage and optimize its customers' key business processes.

**(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**

Cash and cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less. Cash and cash equivalents as of June 30, 2005 and 2006 were as follows (in thousands):

Description	June 30, 2005		June 30, 2006	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Cash and cash equivalents	\$ 57,127	\$ 57,127	\$ 37,220	\$ 37,220
Money market funds	11,022	11,022	49,052	49,052
Total cash and cash equivalents	\$ 68,149	\$ 68,149	\$ 86,272	\$ 86,272

**(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 have historically resulted from portions of the Company's installments receivable that are denominated in currencies other than the U.S. dollar, primarily the Euro, Japanese Yen, Canadian Dollar and the British

Pound Sterling. In addition, the Company incurred an exposure as part of the June 2005 securitization of installments receivable, in that the Company is obligated, in the form of a guarantee, to cover the exposure in the installments receivable that were transferred to its subsidiary, resulting from changes in foreign currency exchange rates.

The foreign exchange contracts are entered into to hedge recorded installments receivable, both held and securitized, 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.

The Company's guarantee to cover the exposure in the securitized installments receivable represents an embedded derivative. The Company calculates the value of this guarantee at each balance sheet date, and if the value of the guarantee represents an obligation, the fair value is recorded as a liability. As of June 30, 2005 and 2006, the value of this embedded derivative represented an asset to the Company, and as such, no entry was recorded.

At June 30, 2006, the Company had effectively hedged \$27.3 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 held and securitized long-term installments receivable that were denominated in foreign currency was \$28.5 million at June 30, 2005 and \$40.3 million at June 30, 2006. The installments receivable as of June 30, 2006 mature at various times through December 2011. 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. During fiscal 2004, 2005 and 2006 the net gain recognized in the consolidated statements of operations was not material.

The following table provides information about the Company's foreign currency derivative financial instruments outstanding as of June 30, 2006. 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 (In thousands)	Estimated Fair Value*	Average Contract Rate
Euro	\$ 17,021	\$ 17,746	1.25
British Pound Sterling	3,603	3,704	1.82
Japanese Yen	3,501	3,360	111.18
Canadian Dollar	2,819	2,890	1.14
Swiss Franc	345	327	1.22
Total	\$ 27,289	\$ 28,027	

\* The estimated fair value is derived from the estimated amount at which the contracts could be settled based on the spot rates as of June 30, 2006. 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:

<b>Asset Classification</b>	<b>Estimated Useful Life</b>
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 \$13.0 million, \$9.7 million and \$5.7 million for the years ended June 30, 2004, 2005 and 2006, respectively.

**(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. Consulting services do not generally involve customizing or modifying the licensed software, but rather involve helping customers deploy the software to their specific business processes. As the services provided are not essential to the functionality of the software and are described in the agreement such that the total price of the arrangement would be expected to vary as the result of the inclusion or exclusion of the services, the Company accounts separately for the services element of the arrangement. Occasionally, the Company provides professional services considered essential to the functionality of the software and recognizes revenue for such professional services and any related software licenses when the basic criteria of SOP 97-2 are met and when the services has been completed. When the Company provides professional services, which involve significant production, modification or customization of the licensed software, it recognizes such revenue and any related software licenses in accordance with SOP 81-1, Accounting for Performance of Construction Type and Certain Performance Type Contracts using either the percentage-of-completion method using zero estimate of profit methodology until such service project is complete or the completed-contract method. 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 generally does not provide specified upgrades to its customers in connection with the licensing of its software products.

Service revenues from fixed-price contracts where the services are not essential to the functionality of the software 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 \$6.5 million, \$8.0 million and \$9.2 in fiscal 2004, 2005 and 2006, respectively. During the year ended June 30, 2004, the Company recorded impairment charges of \$3.3 million associated with the capitalized computer software development costs of certain products (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. 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 (deficit) in the accompanying consolidated balance sheets. All foreign currency transaction gains or losses are included in the foreign currency exchange gain (loss) line item in the accompanying consolidated statements of operations.

**(i) Net Income (Loss) per Share**

Basic earnings per share was determined by dividing income (loss) attributable to common shareholders by the weighted average common shares outstanding during the period. Diluted earnings per share was determined by dividing 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 shareholders and basic and diluted weighted average shares outstanding are as follows (in thousands, except per share data):

	<b>Years Ended June 30,</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
Income (loss) attributable to common shareholders	\$ (32,542 )	\$ (88,020 )	\$ (2,560 )
Basic and Diluted weighted average common shares outstanding	40,575	42,381	44,627
Basic and Diluted income (loss) per share attributable to common shareholders	\$ (0.80 )	\$ (2.08 )	\$ (0.06 )

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):

	<b>Years Ended June 30,</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
Convertible preferred stock	36,336	36,336	33,336
Options and warrants	21,457	20,129	18,542
Convertible debt	1,071		
Preferred stock dividend, to be settled in common stock	1,197	3,727	2,169
Total	60,061	60,192	54,047

**(j) Concentration of Credit Risk**

Financial instruments that potentially subject the Company to concentrations of credit risk are principally cash and cash equivalents, 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 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, 2005 and 2006, 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.

The following table summarizes allowance for doubtful accounts activity for the years ended June 30, 2004, 2005 and 2006:

	2004	2005	2006
	(In thousands)		
Balance, beginning of year	\$ 2,503	\$ 3,697	\$ 4,653
Provision for bad debts	2,404	2,223	2,180
Write-offs	(1,210 )	(1,267 )	(1,723 )
Balance, end of year	\$ 3,697	\$ 4,653	\$ 5,110

**(l) Financial Instruments**

Financial instruments consist of cash and cash equivalents, accounts receivable, installments receivable, accounts payable, long-term obligations and foreign exchange contracts. The estimated fair value of these financial instruments approximates their carrying value.

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

Intangible assets subject to amortization consist of the following at June 30, 2005 and 2006 (in thousands):

Asset Class	Estimated Useful Life	June 30, 2005		June 30, 2006	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Acquired technology	3-5 years	\$ 50,321	\$ 36,038	\$ 53,586	\$46,896
Uncompleted contracts	4 years	2,249	2,228	2,356	2,356
Trade name	10 years	758	720	758	758
Other	3-12 years	232	203	232	211
		\$ 53,560	\$ 39,189	\$ 56,932	\$ 50,221

Aggregate amortization expense for intangible assets subject to amortization was \$8.0 million, \$8.2 million and \$8.6 million for the years ended June 30, 2004, 2005 and 2006, respectively, and is expected to be \$6.7 million during the year ending June 30, 2007.

The changes in the carrying amount of the goodwill by reporting unit for the years ended June 30, 2005 and 2006 were as follows (in thousands):

Asset Class	Reporting Unit			Total
	License	Consulting Services	Maintenance and Training	
Carrying amount as of June 30, 2004	\$ 2,364	\$ 513	\$ 13,316	\$ 16,193
Effect of exchange rates used for translation	(1 )		707	706
Carrying amount as of June 30, 2005	2,363	513	14,023	16,899
Effect of exchange rates used for translation	(5 )		1,141	1,136
Carrying amount as of June 30, 2006	\$ 2,358	\$ 513	\$ 15,164	\$ 18,035

The Company tests goodwill for impairment annually at the reporting unit level using a fair value approach in accordance with the provisions of SFAS 142, Goodwill and other Intangible Assets. The Company conducted its annual impairment test at December 31, 2004 and 2005 and determined that goodwill was not impaired in fiscal years 2005 and 2006. The Company's next annual impairment test will occur on December 31, 2006. If an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value, goodwill will be evaluated for impairment between annual tests.

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.

**(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 (deficit) and comprehensive income (loss). The components of accumulated other comprehensive income (loss) as of June 30, 2005 and 2006 are made up of cumulative translation adjustments.

**(o) Accounting for Stock-Based Compensation**

The Company adopted SFAS No. 123 (revised 2004), Share-Based Payment, (SFAS 123(R)) effective July 1, 2005. Under the fair value provisions of this statement, stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the vesting period. SFAS 123(R) requires significant judgment and the use of estimates, particularly for assumptions such as stock price volatility and expected option lives, as well as expected option forfeiture rates to value stock-based compensation in net income. If actual results differ significantly from these estimates, stock-based compensation expense and our results of operations could be materially impacted. See Note 8, Stock-Based Compensation, in the notes to consolidated financial statements for more discussion.

**(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 \$4.0 million, \$7.3 million and \$2.0 million during the years ended June 30, 2004, 2005 and 2006, respectively. As of June 30, 2005 and 2006, the Company had no prepaid advertising on the accompanying consolidated balance sheets.

***(s) Accounting for Restructuring Accruals***

The Company follows SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities. In accounting for these obligations, we are required to make assumptions related to the amounts of employee severance, benefits, and related costs and to the time period over which facilities will remain vacant, sublease terms, sublease rates and discount rates. We base our estimates and assumptions on the best information available at the time the obligation has arisen. These estimates are reviewed and revised as facts and circumstances dictate; changes in these estimates could have a material effect on the amount accrued on the balance sheet.

***(t) Recently Issued Accounting Pronouncements***

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertain Tax Positions, an Interpretation of FAS 109 (FIN 48), which clarifies the criteria for recognition and measurement of benefits from uncertain tax positions. Under FIN 48, an entity should recognize a tax benefit when it is more-likely-than-not, based on the technical merits, that the position would be sustained upon examination by a taxing authority. The amount to be recognized, given the more likely than not threshold was passed, should be measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. Furthermore, any change in the recognition, derecognition or measurement of a tax position should be recognized in the interim period in which the change occurs. The Company expects to adopt FIN 48 as of July 1, 2007, and any change in net assets as a result of applying the Interpretation will be recognized as an adjustment to retained earnings on that date. The Company is in the process of evaluating its uncertain tax positions in accordance with FIN 48. The impact cannot currently be estimated.

**(u) Reclassifications**

Certain prior year financial statement line items have been combined so as to conform with the current year presentation; specifically, unearned revenue and deferred revenue were previously reported separately and have been combined as deferred revenue in the current year presentation.

**(3) Restructuring Charges and FTC Legal Costs**

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

	Years ended June 30,		
	2004	2005	2006
Restructuring charges	\$ 15,193	\$ 25,118	\$ 3,993
FTC legal costs	4,892	(158 )	
	\$ 20,085	\$ 24,960	\$ 3,993

During fiscal 2006, the Company recorded \$4.0 million in restructuring charges. Of this amount, \$1.8 million related to headcount reductions, relocation costs and facility consolidation costs associated with the May 2005 plan that did not qualify for accrual at June 30, 2005, \$1.7 million from adjustments to prior restructuring accruals and \$0.5 million from the accretion of discounted restructuring accruals.

**(a) Restructuring charges originally arising in Q4 FY05.**

In May 2005, the Company initiated a plan to consolidate several corporate functions and to reduce its operating expenses. The plan to reduce operating expenses primarily resulted in headcount reductions, and also included the termination of a contract and the consolidation of facilities. These actions resulted in an aggregate restructuring charge of \$3.8 million, recorded in the fourth quarter of fiscal 2005. During the year ended June 30, 2006, the Company recorded an additional \$1.8 million related to headcount reductions, relocation costs and facility consolidations associated with the May 2005 plan that did not qualify for accrual at June 30, 2005.

As of June 30, 2006, there was \$0.6 million remaining in accrued expenses relating to the remaining severance obligations and lease payments. During the year ended June 30, 2006, the following activity was recorded (in thousands):

Fiscal 2005 Restructuring Plan	Closure/ Consolidation of Facilities	Employee Severance, Benefits, and Related Costs	Contract Termination Costs	Total
Restructuring charge	\$ 84	\$ 3,465	\$ 300	\$ 3,849
Fiscal 2005 payments		(1,005 )	(300 )	(1,305 )
Accrued expenses, June 30, 2005	84	2,460		2,544
Restructuring charge	614	1,157		1,771
Restructuring charge Accretion	1	21		22
Fiscal 2006 payments	(600 )	(3,125 )		(3,725 )
Accrued expenses, June 30, 2006	\$ 99	\$ 513	\$	\$ 612
Expected final payment date	May 2007	December 2006		

*Closure/consolidation of facilities:* Approximately \$0.1 million and \$0.6 million of the restructuring charges recorded in fiscal 2005 and 2006, respectively, related to the termination of a facility lease. The facility lease had a remaining term of two years. The amount accrued is an estimate of the remaining obligation under the lease, reduced by expected income from the sublease of the underlying properties.

*Employee severance, benefits and related costs:* Approximately \$3.5 million and \$1.2 million of the restructuring charges recorded in fiscal 2005 and 2006, respectively, related to the reduction in headcount. Approximately 130 employees, or 10% of the workforce, were eliminated under the restructuring plan. The employees were primarily located in North America and Europe. All business units were affected, including services, sales and marketing, research and development, and general and administrative.

*Contract termination costs:* Approximately \$0.3 million of the restructuring charge related to charges associated with the termination of a contract for a future user conference. The contract was terminated in June 2005.

***(b) Restructuring charges originally arising in Q4 FY04***

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 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. During the year ended June 30, 2005, the Company recorded \$14.4 million related to headcount reductions and facility consolidations associated with the June 2004 restructuring plan that did not qualify for accrual at June 30, 2004. In addition, the Company recorded \$0.4 million in restructuring charges related to the accretion of the discounted restructuring accrual and a \$0.8 million decrease to the accrual related to changes in estimates of severance benefits and sublease terms. During the year ended June 30, 2006 the Company recorded a \$0.7 million increase to the accrual primarily due to a change in the estimate of future operating costs and sublease assumptions associated with the facilities.

As of June 30, 2006, there was \$7.0 million remaining in accrued expenses relating to the remaining severance obligations and lease payments. During the year ended June 30, 2006, the following activity was recorded (in thousands):

<b>Fiscal 2004 Restructuring Plan</b>	<b>Closure/ Consolidation of Facilities and Contract exit costs</b>	<b>Employee Severance, Benefits, and Related Costs</b>	<b>Asset Impairments</b>	<b>Total</b>
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
Restructuring charge	9,132	4,349	968	14,449
Impairment of assets			(968)	(968)
Fiscal 2005 payments	(12,915)	(4,534)		(17,449)
Restructuring charge Accretion	446	3		449
Change in estimate Revised assumptions	(287)	(497)		(784)
Accrued expenses, June 30, 2005	8,425	232		8,657
Change in estimate Revised assumptions	643	27		670
Restructuring charge Accretion	432			432
Fiscal 2006 payments	(2,645)	(67)		(2,712)
Accrued expenses, June 30, 2006	\$ 6,855	\$ 192	\$	\$ 7,047
Expected final payment date	September 2012	December 2006		

*Closure/consolidation of facilities:* Approximately \$20.5 million and \$9.1 million of the fiscal 2004 and 2005 restructuring charges, respectively, related to the termination of facility leases and other lease related costs. The costs recorded in fiscal 2005 related to termination activities did not qualify for accrual as of June 30, 2004. 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 and \$4.4 million of the fiscal 2004 and 2005 restructuring charges, respectively, related to the reduction in headcount. In the aggregate, approximately 147 employees, or 9% of the workforce, were eliminated under the restructuring plan implemented by management. The fiscal 2005 restructuring charge related to employees had not been notified in a manner that would allow for accrual as of June 30, 2004. Such notification occurred in Q1, 2005. 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 and \$1.0 million of the fiscal 2004 and 2005 restructuring charges, respectively, related 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.

**(c) Restructuring charges originally arising in Q2 FY03**

In October 2002, management initiated a plan to further reduce operating expenses in response to first quarter revenue results that were below expectations and to general economic uncertainties. 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 \$28.7 million. During fiscal 2004, the Company 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 benefit obligations. During fiscal 2005 and fiscal 2006, the Company recorded \$7.0 million and \$1.0 million increases, respectively to the accrual primarily due to a change in the estimate of the facility vacancy term, extending to the term of the lease.

As of June 30, 2006, there was \$10.0 million remaining in accrued expenses relating to the remaining lease payments. The components of the restructuring plan are as follows (in thousands):

<b>Fiscal 2003 Restructuring Plan</b>	<b>Closure/ Consolidation of Facilities</b>	<b>Employee Severance, Benefits, and Related Costs</b>	<b>Impairment of Assets and Disposition Costs</b>	<b>Total</b>
Restructuring charge	\$ 17,347	\$ 10,028	\$ 1,278	\$ 28,653
Additional impairment of assets			302	302
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
Fiscal 2005 payments	(2,266)	(63)	(403)	(2,732)
Change in estimate Revised assumptions.	7,239	(69)	(195)	6,975
Accrued expenses, June 30, 2005	11,698	160	78	11,936
Change in estimate Revised assumptions.	1,116	(95)		1,021
Fiscal 2006 payments	(2,848)	(65)	(78)	(2,991)
Accrued expenses, June 30, 2006	\$ 9,966	\$	\$	\$ 9,966
Expected final payment date	September 2012			

*Closure/consolidation of facilities:* Approximately \$17.4 million of the restructuring charge related 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 sublessors. 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 and the revisions to the accrual that occurred in fiscal 2005 relate to revised estimates with respect to the facility vacancy term.

*Employee severance, benefits and related costs:* Approximately \$10.0 million of the restructuring charge related 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 \$1.3 million of the restructuring charge related to charges associated with 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.

**(d) Restructuring charges originally arising in Q4 FY02**

In the fourth quarter of fiscal 2002, management initiated a plan to reduce operating expenses and to restructure operations around the Company's two primary product lines, engineering software and manufacturing/supply chain software. The Company reduced worldwide headcount by approximately 10%, or 200 employees, closed and consolidated facilities, and disposed of certain assets, resulting in an aggregate restructuring charge of \$13.2 million. During fiscal 2004, the Company 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. During fiscal 2005, the Company recorded a \$0.2 million increase to the accrual due to changes in estimates of sublease assumptions and severance settlements. During fiscal 2006, the Company recorded a \$0.1 million increase to the accrual due to changes in sublease assumptions.

As of June 30, 2006, there was \$0.5 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):

<b>Fiscal 2002 Restructuring Plan</b>	<b>Closure/ Consolidation of Facilities</b>	<b>Employee Severance, Benefits, and Related Costs</b>	<b>Total</b>
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
Fiscal 2005 payments	(994)	(284)	(1,278)
Change in estimate - Revised assumptions	93	87	180
Accrued expenses, June 30, 2005	782	111	893
Change in estimate - Revised assumptions	75		75
Fiscal 2006 payments	(375)	(66)	(441)
Accrued expenses, June 30, 2006	\$ 482	\$ 45	\$ 527
Expected final payment date	September 2012	December 2006	

*Closure/consolidation of facilities:* Approximately \$4.9 million of the restructuring charge related 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 related 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 related to the write-off of prepaid royalties related to third-party software products that the Company will no longer support and sell.

#### **(4) 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 (8.25% at June 30, 2006). The Company needs to maintain a \$4.0 million compensating cash balance with the bank, or it is subject to an unused line fee and collateral handling fees. The lines of credit initially were collateralized by nearly all of the assets of the Company, and upon the Company's achieving certain net income targets, the collateral would 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.

As of June 30, 2006, there were \$8.5 million in letters of credit outstanding under the line of credit, and there was \$11.8 million available for future borrowing. On September 15, 2006, the Company executed an amendment to the Loan Arrangement that adjusted the terms of certain financial covenants. The Loan Arrangement expires in January 2007.

#### **(5) Accrued Expenses and Other Liabilities**

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

	<b>June 30, 2005</b>	<b>2006</b>
Royalties and outside commissions	\$ 12,777	\$ 10,288
Payroll and payroll-related	13,047	21,784
Restructuring accruals	8,833	4,965
Payable to financing companies	16,662	11,407
Income and other taxes	12,009	11,918
Other	17,392	17,354
	<b>\$ 80,720</b>	<b>\$ 77,716</b>

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

	<b>June 30, 2005</b>	<b>2006</b>
Restructuring accruals	\$ 15,197	\$ 13,191
Deferred rent	5,255	4,321
Royalties and outside commissions	2,691	2,534
Other		400
	<b>\$ 23,143</b>	<b>\$ 20,446</b>

**(6) Long-Term Obligations**

Long-term obligations consist of the following at June 30, 2005 and 2006 (in thousands):

	2005	2006
Note payable incurred in connection with an acquisition, payable in quarterly installments of approximately \$273, plus interest at 6% per year through January 2006	\$ 803	
Note payable of a UK subsidiary due in monthly installments of approximately \$50 plus interest at 9% per year, through March 2008	577	396
	1,380	396
Less Current portion	1,042	247
	\$ 338	\$ 149

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

Years Ending June 30,	Amount
2007	\$ 247
2008	149
	\$ 396

In June 1998, the Company sold \$86.3 million of debentures to qualified institutional buyers. 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. In June 2005, the Company paid \$58.2 million to retire the entire outstanding principal amount of the Debentures, together with interest accrued thereon.

The Company recorded interest expense associated with these debentures of \$4.5 million and \$2.9 million in the years ended June 30, 2004 and 2005, respectively.

**(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.

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 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 three 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, 2006, the Company has accrued \$28.5 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. Each share of Series D Preferred currently is convertible into 100 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.

On May 16, 2006, the Holders of the Series D Preferred converted 30,000 shares into 3,000,000 shares of common stock. At the time of the conversion the Company also paid \$2.4 million in dividends on the converted shares. As of June 30, 2006, the Series D Preferred is convertible into 33,336,400 shares of common stock.

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

	<b>Years Ended June 30,</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
Accrual of dividend on Series B preferred	(296 )		
Accretion of discount on Series B preferred	(643 )		
Gain on retirement of Series B preferred, net of warrant modification charge	6,452		
Accrual of dividend on Series D preferred	(8,690 )	(10,692 )	(11,518 )
Accretion of discount on Series D preferred	(3,181 )	(3,758 )	(3,865 )
	\$ (6,358 )	\$ (14,450 )	\$ (15,383 )

#### **(8) Stock-Based Compensation**

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 programs. Option awards are generally granted with an exercise price equal to the market price of the Company's stock at the date of grant; those options generally vest over four years and have 7 and 10-year contractual terms.

Effective July 1, 2005, the Company adopted the provisions of SFAS No. 123(R), using the Statement's modified prospective application method. Prior to July 1, 2005, the Company followed Accounting Principles Board Opinion 25, *Accounting for Stock Issued to Employees*, and related interpretations in accounting for its stock-based compensation. Under the provisions of SFAS No. 123(R), the Company recognizes the fair value of stock-based compensation in net income, over the requisite service period of the individual grantees, which generally equals the vesting period. All of the Company's stock-based compensation is accounted for as equity instruments and there have been no liability awards granted. The Company's policy is to issue new shares upon exercise of stock options.

The Company has elected the modified prospective transition method for adopting SFAS 123(R), and consequently prior periods have not been modified. Under this method, the provisions of SFAS 123(R) apply to all awards granted or modified after the date of adoption. The unrecognized expense of awards not yet vested at the date of adoption shall be recognized in net income in the periods after the date of adoption using the same valuation method (*i.e.*, Black-Scholes) and assumptions determined under the original provisions of SFAS 123, *Accounting for Stock-Based Compensation* (SFAS 123) as disclosed in

previous filings. Under the provisions of SFAS 123(R), the Company recorded \$8.4 million of stock-based compensation for the year ended June 30, 2006, respectively, included in the following categories (in thousands):

Recorded as expense:	
Cost of service and other	\$ 1,442
Selling and marketing	2,534
Research and development	1,239
General and administrative	3,015
	8,230
Capitalized computer software development costs:	148
Total stock-based compensation	\$ 8,378

The Company utilized the Black-Scholes valuation model for estimating the fair value of the stock compensation granted after the adoption of SFAS 123(R). The weighted-average fair values of the options granted under the stock option plans and shares subject to purchase under the employee stock purchase plan were \$4.20 and \$4.73, respectively, for the year ended June 30, 2006 using the following assumptions:

	Year Ended June 30, 2006			
	Stock Option Plans		Stock Purchase Plan	
Average risk-free interest rate	4.56	%	4.02	%
Expected dividend yield	None		None	
Expected life	6.0 Years		0.5 Years	
Expected volatility	85	%	42	%

The dividend yield of zero is based on the fact that the Company has never paid cash dividends on common stock and has no present intention to pay cash dividends. Expected volatility is based on the historical volatility of the Company's common stock over the period commensurate with or longer than the expected life of the options. The risk-free interest rate is the U.S. Treasury Strips rate over a period commensurate with the expected life of the options on the date of grant. The expected life was calculated using the method outlined in SEC Staff Accounting Bulletin Topic 14.D.2, *Expected Term*, as the Company's historical experience does not provide a reasonable basis for the expected term of the option.

Edgar Filing: ASPEN TECHNOLOGY INC /DE/ - Form 10-K/A

A summary of option activity under all stock option plans in fiscal 2004, 2005 and 2006 follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (\$000)
Outstanding, June 30, 2003	8,414,382	\$ 11.35		
Options granted	6,278,204	3.04		
Options exercised	(1,321,997 )	3.12		
Options forfeited	(101,435 )	4.74		
Options expired	(904,061 )	16.55		
Outstanding, June 30, 2004	12,365,093	7.52		
Options granted	4,076,825	6.18		
Options exercised	(1,271,047 )	2.84		
Options forfeited	(2,681,580 )	3.54		
Options expired	(1,451,575 )	14.78		
Outstanding at June 30, 2005	11,037,716	8.56		
Options granted	3,147,500	5.74		
Options exercised	(2,602,564 )	4.22		
Options forfeited.	(1,177,311 )	4.99		
Options expired.	(944,892 )	15.11		
Outstanding at June 30, 2006	9,460,449	\$ 7.37	7.0	\$ 52,820
Exercisable at June 30, 2006	5,402,058	\$ 8.76	5.7	\$ 22,648

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, the 2001 Plan and the 2005 Plan at June 30, 2006:

Range of Exercise Prices	Options Outstanding at June 30, 2006	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable at June 30, 2006	Weighted Average Exercise Price
\$2.21-\$4.33	1,932,900	6.4	\$ 2.81	1,430,466	\$ 2.82
4.33-8.67	5,658,956	8.3	5.93	2,251,252	6.33
8.67-13.00	245,845	7.5	10.80	97,592	10.29
13.00-17.34	1,279,868	3.0	14.05	1,279,868	14.05
17.34-21.67	15,438	3.9	20.63	15,438	20.63
21.67-26.01	88,500	3.2	23.69	88,500	23.69
26.01-30.34	150,540	1.5	28.94	150,540	28.94
30.34-34.68	27,386	2.6	31.28	27,386	31.28
34.68-39.01	24,000	4.0	38.50	24,000	38.50
39.01-43.34	37,016	3.5	40.04	37,016	40.04
June 30, 2006	9,460,449	7.0	\$ 7.37	5,402,058	\$ 8.76
Exercisable, June 30, 2005				7,094,332	\$ 10.37
Exercisable, June 30, 2004				7,464,123	\$ 10.48

As of June 30, 2006, the total compensation cost related to unvested awards not yet recognized was \$16.7 million. The weighted average period over which this will be recognized is approximately three years. The total intrinsic value of options exercised during the year ended June 30, 2006 was \$14.9 million. The

Company received \$11.0 million from option exercises during the year ended June 30, 2006; a \$0.1 million tax benefit was realized for tax deductions from option exercises during the year ended June 30, 2006.

Prior to July 1, 2005, the Company's employee stock compensation plans were accounted for in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related interpretations. The Company elected the disclosure-only alternative permitted under SFAS No. 123 for fixed stock-based awards to employees.

Under APB 25, compensation expense was measured as of the date the number of shares and exercise price become fixed. Generally, this occurred on the grant date, in which case the stock option was accounted for as a fixed award as of the date of grant. Compensation expense associated with fixed awards was measured as the difference between the fair market value of our stock on the date of grant and the grant recipient's exercise price, which was the intrinsic value of the award on that date. Stock compensation expense was recognized over the vesting period using the ratable method, whereby an equal amount of expense was recognized for each year of vesting. The Company recognized stock-based compensation charges of \$6.7 million and \$0.4 million in the years ended June 30, 2004 and 2005 associated with the amortization to compensation expense related to stock option awards that had an intrinsic value on the date of grant.

SFAS 123(R) requires the presentation of pro forma information for the comparative period prior to the adoption as if all of the Company's employee stock options had been accounted for under the fair value method of the original SFAS 123. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation to the prior-year periods (in thousands, except per share data).

	2004	2005
Income (loss) attributable to common shareholders (in thousands)		
As reported	\$ (32,542 )	\$ (88,020 )
Less: Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(21,949 )	(9,344 )
Add: Stock-based compensation expense included in reported net income (loss).	6,703	1,524
Pro forma	\$ (47,788 )	\$ (95,840 )
Income (loss) attributable to common shareholders per share		
Basic and diluted		
As reported	\$ (0.80 )	\$ (2.08 )
Pro forma	(1.18 )	(2.26 )

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:

	2004		2005	
Risk free interest rates	3.27	3.50%	3.49	4.17%
Expected dividend yield	None		None	
Expected life	5-7 Years		5 Years	
Expected volatility	99%		100%	

The weighted average fair value per option granted was \$2.51 and \$4.74 for the years ended June 30, 2004 and 2005, respectively.

The fair value of the shares issued under the employee stock purchase plan 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:

	2004		2005	
Risk free interest rates	3.49	3.50%	3.49	4.17%
Expected dividend yield	None		None	
Expected life	6 months		6 months	
Expected volatility	42%		42%	

The weighted average fair value of shares issued under the employee stock purchase plan was \$4.46 and \$1.96 for the years ended June 30, 2004 and 2005, respectively

In May 2005, the shareholders approved the establishment of the 2005 Stock Incentive Plan (the 2005 Plan), which provides for the reservation of up to 4,000,000 shares of common stock for issuance under the 2005 Plan. The 2005 Plan provides for the grant of incentive and nonqualified stock options and other stock-based awards, including the grant of shares based upon certain conditions, the grant of securities convertible into common stock and the grant of stock appreciation rights. Restricted stock and other stock-based awards granted under the 2005 Plan may not exceed, in the aggregate, 2,000,000 shares of common stock. As of June 30, 2006, there were 3,925,000 shares of common stock available for issuance subject to awards under the 2005 Plan.

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, 2006, there were 786,950 shares of common stock available for grant under the 2001 Plan.

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. Stock options become exercisable over varying periods and expire no later than 10 years from the date of grant. As of June 30, 2006, there were 119,252 shares available for grant under the 1996 Plan.

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 976,960 shares in 2003, 315,751 shares in 2005, and 188,119 shares in 2006. As of June 30, 2006, there were 2,645,939 shares available for future issuance under the 1998 Employee Stock Purchase Plan as amended. In addition, on July 1, 2006, the Company issued 61,395 shares under the 1998 Employee Stock Purchase Plan.

**(9) Common Stock****(a) 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 expired unexercised through June 30, 2005 and the remaining warrants expired unexercised in April 2006.

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 previously 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, 2006, none of these warrants had been exercised. Such warrants will expire in fiscal 2007.

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 at a price of \$13.20 per share. In August 2003, the 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, 2006, 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, 2006, none of these warrants had been exercised. In July 2006, 6,006,006 warrants were exercised in a cashless exercise, resulting in the issuance of 4,369,336 shares of the Company's common stock.

A summary of the Company's outstanding common stock warrants at June 30, 2006 is as follows:

<b>Warrant:</b>	<b>Outstanding</b>	<b>Exercise Price</b>	<b>Expiration Date</b>
Series B warrants	791,044	\$ 4.08	Feb Mar 2007
Private placement warrants	1,023,474	\$ 9.76	May 2007
Series D warrants(1)	7,267,286	\$ 3.33	Aug 2010
Total outstanding at June 30, 2006	9,081,804		

(1) After the exercise of 6,006,006 Series D warrants in July 2006, 1,261,280 Series D warrants and 3,075,798 total warrants were outstanding.

**(b) 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.

#### (10) 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 income taxes consists of the following (in thousands):

	Years Ended June 30,		
	2004	2005	2006
Domestic	\$ (9,999 )	\$ (66,270 )	\$ 15,505
Foreign	4,405	(5,269 )	4,031
Total	\$ (5,594 )	\$ (71,539 )	\$ 19,536

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

	Years Ended June 30,		
	2004	2005	2006
Federal			
Current	\$	\$	\$
Deferred	20,333	45	
State			
Current	739	778	990
Deferred	1,823		
Foreign			
Current	14,205	4,028	8,718
Deferred	(16,861 )	(2,820 )	(2,995 )
	\$ 20,239	\$ 2,031	\$ 6,713

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

	Years Ended June 30,		
	2004	2005	2006
Federal tax at statutory rate	\$ (1,958 )	\$ (25,038 )	\$ 6,837
State income tax, net of federal tax benefit	1,688	541	566
Utilization of net operating loss carryforward			(5,711 )
Tax effect resulting from foreign activities	(9,566 )	1,423	2,365
Tax credits generated	(1,193 )	(1,397 )	(1,000 )
Permanent differences, net	1,337	425	3,408
Expiration of tax attributes		12,410	(48 )
Provision for tax contingencies	4,319		2,317
Valuation allowance	25,612	13,667	(2,021 )
Provision for income taxes	\$ 20,239	\$ 2,031	\$ 6,713

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

	June 30,	2006
	2005	
Deferred tax assets:		
Revenue related	\$ 456	\$ 3,253
Federal and state tax credits	14,023	12,531
Federal and state loss carryforwards	42,288	47,014
Foreign loss carryforwards	7,150	5,087
Restructuring accruals	21,004	18,301
Other reserves and accruals	13,552	10,281
Intangible assets	5,838	4,276
Property, plant and equipment	2,089	2,467
Other temporary differences	257	2,477
	106,657	105,687
Valuation allowance	(104,611 )	(102,590 )
	2,046	3,097
Deferred tax liabilities:		
Revenue related	1,721	
Intangible assets	(3,416 )	
	(1,695 )	
Net deferred tax assets (liabilities)	\$ 351	\$ 3,097

Upon customer payment of certain foreign receivables, withholding taxes are withheld by customers and remitted to local tax authorities. Under current U.S. tax law, these withholding taxes may be creditable against U.S. taxes payable subject to certain limitations. The Company has recorded a full valuation allowances against these credits, and will recognize the benefit of these credits only when it is more likely than not that these deferred tax assets will be realized. The withholding taxes are included in the foreign tax provision as they are withheld and remitted. Utilization of the taxes as foreign tax credits is recorded as a reduction of the domestic tax expense in the period it is more likely than not that these deferred tax assets will be realized.

As of June 30, 2006, the Company had net operating loss (NOL) carryforwards for U.S. federal and state income tax purposes of approximately \$148.6 million and \$51.7 million, respectively, and foreign net

operating loss carryforwards of approximately \$17.1 million. The Company had federal tax credits and state tax credits of approximately \$14.5 million and \$3.6 million, respectively. The tax credits and NOL carryforwards expire at various dates from 2007 through 2025. 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 \$104.6 million and \$102.6 million as of June 30, 2005 and 2006, respectively.

### (11) Operating Leases

The Company leases its facilities and various office equipment under noncancelable operating leases with terms in excess of one year. Rent expense charged to operations was approximately \$11.7 million, \$9.3 million and \$7.5 million for the years ended June 30, 2004, 2005 and 2006, respectively. Future minimum lease payments under these leases as of June 30, 2006, net of sub-lease income of \$1.8 million, \$1.8 million, \$0.7 million, \$0.6 million, and \$0.4 million for the years ended June 30, 2007, 2008, 2009, 2010, and 2011, respectively, are as follows (in thousands):

Years ended June 30,	Amount
2007	\$ 9,680
2008	7,437
2009	7,570
2010	7,406
2011	6,460
Thereafter	14,834
	\$ 53,387

The Company has issued approximately \$8.3 million of standby letters of credit in connection with certain facility leases that expire through 2016.

### (12) Sale of Installments Receivable

#### (a) Traditional Activities

Installments receivable represent the present value of future payments related to the financing of noncancelable 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, 2004, 2005, and 2006 ranged from 7.0% to 8.0%.

The Company has arrangements to sell certain of its installments receivable to three financial institutions. The Company has sold, and treated as sales certain of its installment contracts for aggregate proceeds of \$54.9 million, \$97.6 million and \$77.1 million during fiscal 2004, 2005 and 2006, respectively. 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.

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 in the contracts. The Company's potential recourse obligation related to these contracts is within the range of \$0.1 million to \$1.5 million. In addition, the Company is obligated to pay additional costs to the financial institutions in the event of default by the customer.

***(b) Securitization of Installments Receivable***

***Initial Transaction***

On June 15, 2005, the Company securitized certain outstanding installment software license receivables (which receivables were not sold in the traditional sales described above) with a net carrying value of \$71.2 million. Such securitization was structured in a manner so that the securitization qualified as a sale. The Company received \$43.8 million of cash and retained an interest in the sold receivables valued at \$16.6 million. It also retained certain limited recourse obligations relative to the receivables valued at approximately \$1.0 million. Overall, the transaction (including \$2.1 million in aggregate fees and expenses, including fees of the lenders' agent and fees of the Company's outside legal counsel and financial advisors) resulted in a loss of \$14.6 million in the quarter ended June 30, 2005 and was recorded as a loss on sales and disposals of assets in the accompanying consolidated statement of operations.

The amount of the loss was based on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer.

As noted above, the retained interest in the sold receivables was recorded at its fair market value of \$16.6 million at the time of the transaction and was (and currently is) classified as a long-term asset on the Company's consolidated balance sheet. The Company estimates fair value based on the present value of future expected cash flows based on using management's best estimates of key assumptions, principally credit losses, and discount rates commensurate with the risks involved.

The Company retained the servicing rights relative to the receivables and receives annual servicing fees of \$0.1 million per year. The benefits of servicing are just adequate to compensate the servicer for its responsibilities, and thus no servicing asset or liability has been recorded.

In connection with the above transaction, the Company incurred an obligation to guaranty that the proceeds from all foreign denominated installments receivable included in the securitized pool will be equal to the U.S. dollar value on the initial contract date. The fair value of this obligation, as of the transaction date and as of June 30, 2005 and 2006 was not material and has thus been accorded no value.

***Ongoing Retained Interests***

The Company values its retained interest in sold receivables in accordance with the guidance of EITF No. 99-20 Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interest in Securitized Financial Assets. Accordingly, its retained interest is being accreted through interest income over the anticipated life of the retained interest. The accretion methodology is assessed quarterly and any diminution in value is recorded directly to the statement of operations.

Key economic assumptions used in subsequently measuring potential impairment in the carrying value of the Company's retained interests in the software license receivables at June 30, 2005 and 2006 and the effect on the fair value of those interests from adverse changes in those assumptions are as follows (in thousands, except for annualized rates):

	<b>June 30,</b>	
	<b>2005</b>	<b>2006</b>
Balance sheet carrying value of retained interest in sold receivables	\$ 16,667	\$ 19,010
Expected credit losses (annual rate):	0.82 %	0.82 %
Impact on fair value of 10% adverse change	\$ (48 )	\$ (34 )
Impact on fair value of 20% adverse change	\$ (96 )	\$ (68 )
Residual cash flow discount rate (annual rate):	16.0 %	16.0 %
Impact on fair value of 10% adverse change	\$ (923 )	\$ (774 )
Impact on fair value of 20% adverse change	\$ (1,790 )	\$ (1,512 )

These sensitivities are hypothetical and presented for illustrative purposes only. Changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption is calculated without changing any other assumption; in reality, changes in one assumption may result in changes in another, which may magnify or counteract the sensitivities. Further, this analysis does not assume any impact resulting from management's intervention to mitigate these variations.

### **(13) Commitments and Contingencies**

#### **(a) FTC Settlement**

On December 21, 2004, the FTC approved the Company's proposed consent decree, which constituted a complete and final settlement of the FTC's complaint against the Company relating to its acquisition of Hyprotech in May 2002. The FTC's approval also constituted approval of the transactions contemplated by the purchase and sale agreement that the Company and its subsidiaries Hyprotech Company, AspenTech Canada Ltd., AspenTech Ltd. and Hyprotech UK Ltd. entered into on October 6, 2004 with Honeywell International, Inc. and its subsidiaries Honeywell Control Systems Limited and Honeywell Limited-Honeywell Limitee. The Company previously completed the sale of its AXSYS product line to Bentley Systems Incorporated on July 21, 2004, as set forth in the FTC consent decree. The Company recorded a \$0.3 million gain related to this sale.

On December 23, 2004, the Company and its subsidiaries completed the transactions with Honeywell contemplated by the October 6, 2004 purchase agreement, which relates to the sale of the Company's operator training business and ownership of rights to the intellectual property to the Hyprotech engineering products to Honeywell International. Under the terms of the transactions:

- the Company retains a perpetual, worldwide, royalty-free license to the entire Hyprotech engineering software product line and has the right to continue to develop and sell the Hyprotech engineering products, other than AXSYS which was sold to Bentley Systems;
- the Company retains its customer licenses for HYSYS and related products;
- the Company retains all rights in its Aspen RefSYS and Aspen Oil & Gas solutions;
- the Company agreed to a cash payment of approximately \$6.0 million from Honeywell in consideration of the transfer of the Company's operator training services business, the Company's covenant not-to-compete in the operator training business for three years, and the transfer of

ownership of the intellectual property of the Company's Hyprotech engineering products, \$1.2 million of which is subject to holdback and may be released upon the resolution of any adjustments for uncollected billed accounts receivable and unbilled accounts receivable;

- the Company transferred and Honeywell assumed, as of the closing date, approximately \$4 million in accounts receivable relating to the operator training business; and
- the Company entered into a two-year support agreement with Honeywell under which the Company agrees to provide Honeywell with source code to new releases of the Hyprotech products provided to customers under standard software maintenance services agreements.

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

***(b) KBC Settlement***

On October 1, 2004, the Company, together with its subsidiaries AspenTech, Inc. and Hyprotech Company, entered into a Settlement Agreement with KBC Advanced Technologies Plc, KBC Advanced Technologies Inc. and AEA Technology Plc. Pursuant to the settlement agreement, the parties agreed to settle (1) the arbitration proceedings in England relating to a contract dispute involving the parties and (2) the legal proceedings filed by KBC in state district court in Houston, Texas against the Company and Hyprotech Company.

As part of the settlement, KBC recognized the Company's right to develop, market and license Aspen RefSYS, and the Company recognized KBC's right to develop, market and license HYSYS.Refinery, their respective refinery-wide simulation products. The Company licensed commercial, object code, copies of Aspen HYSYS, Aspen PIMS, and Aspen Orion to KBC for use as part of KBC's consulting services business, without the right to sublicense. In addition, the Company paid KBC \$3.75 million in lieu of costs incurred in the dispute. This charge was recorded in fiscal 2005 in general and administrative expenses.

***(c) Litigation***

***U.S. Attorney's Office Investigation and Wells Notice***

In October 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 (and later, fiscal 2000 to 2004), which investigation concluded in March 2005. 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.

On June 9, 2006, the Company announced that it had received a Wells Notice letter from the SEC of possible civil enforcement action regarding the Company's originally filed financial statements for fiscal years 2000 through 2004, which the Company restated in March 2005 following the conclusion of the audit committee's review. In addition, on July 7, 2006, the Company announced that three of its former executive officers had each received a Wells Notice letter regarding the same matter.

The Company has cooperated fully with the subpoena requests and in the investigation by the U.S. Attorney's Office and the SEC. The investigation by the U.S. Attorney's Office is ongoing in coordination with the SEC, to which the audit committee had initially reported the initiation of the audit committee's investigation. 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.

### *Class Action Suits*

In November 2004, two putative class action lawsuits were filed against the Company in the United States District Court for the 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. 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. On August 26, 2005, the plaintiffs filed a consolidated amended complaint containing allegations materially similar to the prior complaints and expanding the class action period.

Following mediation, on November 16, 2005, the Company and the plaintiffs on behalf of putative class members, defined to include all persons who purchased our common stock between October 29, 1999 and March 15, 2005, inclusive, (the Class), entered into a Stipulation and Agreement of Compromise, Settlement and Release of Securities Action, which (the Stipulation). The Stipulation was filed with the Court on the same date and provided, among other things, for settlement and release of all direct and indirect claims of the Class concerning matters covered by the Stipulation. On December 12, 2005, the Court granted preliminary approval of the settlement provided for in the Stipulation. After notice to the Class and after the hearing, on March 6, 2006, the Court granted final approval of the settlement, and the class action lawsuit was dismissed with prejudice. The Company entered into the Stipulation to resolve the matter and without acknowledging any fault, liability or wrongdoing of any kind. There has been no adverse determination by the Court against the Company or any of the other defendants in the case.

Members of the Class who opted out of the settlement (representing 1,457,969 shares of common stock, or less than 1% of the shares putatively purchased during the Class Action period) may bring their own individual actions, (Opt Out Claims). To date, state law Opt Out Claims, including claims of fraud, statutory treble damages, deceptive practices, and/or rescissory damages liability, based on the restated results of one or more fiscal periods included in the restated financial statements referenced in the Class Action, have been filed in Massachusetts Superior Court. The Company has responded by motion to dismiss on the grounds that the claims fail properly to state a claim. If not dismissed or settled on terms acceptable to us, the Company plans to defend the Opt Out Claims vigorously.

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

On September 6, 2006, the Company also announced that, in connection with the preparation of financial statements for the fiscal year-ended June 30, 2006, a subcommittee of independent directors was appointed to review the Company's accounting treatment for stock option grants for prior years. Following that announcement, the Company and certain of its officers and directors were named defendants in a purported federal securities class action lawsuits filed in Massachusetts federal district court, alleging violations of the Exchange Act and claiming material misstatements concerning its financial condition and results. In response to the Company's motion to dismiss the complaint, the parties stipulated to voluntary dismissal of the plaintiff's claims with prejudice on September 26, 2006 without any payment by the Company.

***Derivative Suit***

On December 1, 2004, a putative derivative action lawsuit was filed as a related action to the first filed of the Class Actions (described above) in the United States District Court for the District of Massachusetts, captioned Caviness v. Evans, et al., Civil Action No. 04-12524 (D. Mass.), (the Derivative Action). The complaint, as subsequently amended, alleged, among other things, that the former and current director and officer defendants caused the Company to issue false and misleading financial statements, and brought derivative claims for the following: breach of fiduciary duty for insider trading; breach of fiduciary duty; abuse of control; gross mismanagement; waste of corporate assets; and unjust enrichment.

On August 18, 2005, the Court granted defendants' motion to dismiss the Derivative Action for failure of the plaintiff to make a pre-suit demand on the Company's board of directors to take the actions referenced in the Derivative Action complaint.

On April 12, 2005, the Company received a letter on behalf of another shareholder, demanding that the board of directors of the Company take actions substantially similar to those referenced in the Derivative Action. On February 28, 2006, the Company received a letter on behalf of Mr. Caviness, demanding that the Company take actions referenced in the Derivative Action complaint. The board of directors responded to both of the foregoing letters that the board has taken the letters under advisement pending further regulatory investigation developments, which the board continues to monitor and with which the Company continues to cooperate. In its responses, the board also requested confirmation of each person's status as a stockholder of Aspen Technology, Inc., and, with respect to the most recent letter, also referred the purported stockholder to the March 6, 2006 final approval of the settlement of direct and indirect claims of the Class in the Class Actions.

***Other***

From time to time, the Company is subject to legal proceedings, claims, and litigation arising in the ordinary course of business. The outcome of these matters is currently not determinable, and there can be no assurance that such matters will not have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

***(d) Other***

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

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

also entered into an agreement with its former chairman and founder pursuant to which, in the event of a change in control, all amounts due to him for the remainder of the term of his agreement become immediately due and payable.

The Company maintains strategic alliance relationships with third parties, including resellers, agents and systems integrators (collectively Agents or Agent ) that market, sell and/or integrate the Company's products and services. The cessation or termination of certain relationships, by the Company or an Agent, may subject the Company to material liability and/or expense. This material liability and/or expense includes potential payments due upon the termination or cessation of the relationship by the Company or an Agent, costs related to the establishment of a direct sales presence or development of a new Agent in the territory.

No such events of termination or cessation have occurred. The Company is not able to reasonably estimate the amount of any such liability and/or expense if such event were to occur, given the range of factors that could affect the ultimate determination of the liability. Actual payments could be in the range of zero to twenty million dollars. If the Company reacquires the territorial rights for an applicable sales territory and establishes a direct sales presence, future commissions otherwise payable to an Agent for existing customer maintenance contracts and other intangible assets may be assumed from the Agent. If any of the foregoing were to occur, the Company may be subject to litigation and liability such that its operating results, cash flows and financial condition could be materially and adversely affected.

#### **(14) 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 up to a maximum of 6% of an employee's pretax contribution. During the fiscal years ended June 30, 2004, 2005 and 2006, the Company made matching contributions of approximately \$0.1 million, \$1.0 million and \$0.8 million, respectively. These contributions, which vested immediately, were expensed in each respective year.

#### **(15) Joint Ventures and Other Investments**

In November 2000, the Company invested \$0.6 million in a global chemical business-to-business e-commerce company supporting major chemical companies in Asia. This investment entitles the Company to a minority interest in this 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, 2006, 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, 2005 and 2006.

In the accompanying consolidated statements of operations for the year ended June 30, 2004, the Company has recognized losses of approximately \$0.4 million, as its portion of the losses from a joint venture that was dissolved in 2005 and from its investment in a Cyprus-based company that was surrendered in fiscal 2005.

#### **(16) 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):

	License	Consulting Services	Maintenance and Training	Total
<b>Year ended June 30, 2004</b>				
Revenues from external customers	\$ 158,150	\$ 96,512	\$ 77,784	\$ 332,446
Controllable expenses	66,825	69,854	14,323	151,002
Controllable margin(1)	\$ 91,325	\$ 26,658	\$ 63,461	\$181,444
<b>Year ended June 30, 2005</b>				
Revenues from external customers	\$ 129,621	\$ 65,248	\$ 75,125	\$ 269,994
Controllable expenses	64,225	53,835	16,299	134,359
Controllable margin(1)	\$ 65,396	\$ 11,413	\$ 58,826	\$135,635
<b>Year ended June 30, 2006</b>				
Revenues from external customers	\$ 152,773	\$ 63,919	\$ 76,456	\$ 293,148
Controllable expenses	66,045	47,093	14,715	127,853
Controllable margin(1)	\$ 86,728	\$ 16,826	\$ 61,741	\$165,295

(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		
	2004	2005	2006
	(In thousands)		
Total controllable margin for reportable segments	\$181,444	\$135,635	\$165,295
Selling and marketing	(90,907 )	(80,349 )	(70,716 )
General and administrative and overhead	(79,764 )	(85,986 )	(70,841 )
Asset impairment charges	(4,217 )		
Restructuring charges and FTC legal costs	(20,085 )	(24,960 )	(3,993 )
Gain (loss) on sales and disposals of assets	747	(14,314 )	(898 )
Interest and other income and expense	7,188	\$ (1,565 )	689
Income (loss) before (provision for) benefit from income taxes and equity in earnings from joint ventures	\$ (5,594 )	\$ (71,539 )	\$ 19,536

**Geographic Information:**

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

	Years Ended June 30,					
	2004		2005		2006	
United States	42.8	%	39.7	%	42.9	%
Europe	33.0		37.2		30.5	
Japan	4.6		5.8		5.3	
Other	19.6		17.3		21.3	
	100.0	%	100.0	%	100.0	%

During the years ended June 30, 2004, 2005 and 2006 there were no customers that individually represented greater than 10% of the Company's total revenue.

The Company has long-lived assets of approximately \$20.6 million that reside in the United States, and \$28.4 million that reside in other geographic locations as of June 30, 2006.

Revenues for the Company's North American, European and Asian operations are as follows for the years ended June 30 (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
2004	\$ 240,280	\$ 83,427	\$ 16,825	\$ (8,086 )	\$ 332,446
2005	\$ 180,465	\$ 75,035	\$ 17,916	\$ (3,422 )	\$ 269,994
2006	\$ 215,588	\$ 60,201	\$ 19,165	\$ (1,806 )	\$ 293,148

**(17) Restatements of Consolidated Financial Statements****First Restatement**

In connection with the preparation of consolidated financial statements for the fiscal year ended June 30, 2006, a subcommittee of independent members of the board of directors reviewed the Company's accounting treatment for all stock options granted since the Company completed its initial public offering in fiscal 1995. Based upon the subcommittee's review, the Audit Committee and Company management determined that certain option grants during fiscal years 1995 through 2004 were accounted for improperly, and concluded that stock-based compensation associated with certain grants was misstated in fiscal years 1995 through 2005, and in the nine months ended March 31, 2006. The subcommittee identified errors related to the determination of the measurement dates for grants of options allocated among a pool of employees when the specific number of options to be awarded to specific employees had not yet been finalized, and other measurement date errors. As a result of the errors in determining measurement dates, the Company has also recorded payroll withholding tax-related adjustments for certain options formerly classified as Incentive Stock Option (ISO) grants under Internal Revenue Service regulations. These options were determined to have been granted with an exercise price below the fair market value of the Company's stock on the actual grant date, so do not qualify for ISO tax treatment. The disqualification of ISO classification and the resulting conversion to non-qualified status results in additional withholding taxes on exercise of those options. The Company recorded estimated payroll withholding tax charges of \$0.5 million, \$0.2 million, and \$1.2 million for the years ended June 30, 2004, 2005, and 2006, respectively, in connection with the disqualification of such ISO tax treatment. The stock-based compensation charges, including the aforementioned withholding tax adjustments, increased the net loss by \$7.2 million and \$0.5 million for the years ended June 30, 2004 and 2005, and resulted in compensation charges totaling \$50.1 million for the periods prior to fiscal 2004, which is reflected in the July 1, 2003 beginning accumulated deficit.



In addition, as a result of the errors in determining measurement dates, certain options were determined to have been granted with an exercise price below the fair market value of the Company's stock on the actual grant date. These discounted options vesting subsequent to December 2004 result in nonqualified deferred compensation for purposes of Section 409A of the Internal Revenue Code, and holders are subject to an excise tax on the value of the options in the year in which they vest. Management has concluded that it is probable the Company will either implement a plan to assist the affected employees for the amount of this tax, or adjust the terms of the original option grant which would also have financial statement ramifications. As such, the Company recorded an estimated liability of approximately \$1.0 million in the fourth quarter of fiscal 2006 in connection with this contingency.

The restatement of prior year financial statements also includes the adjustments for other errors identified after the applicable period had been originally reported. Such errors were not previously recorded because the Company believed the amount of any such errors, both individually and in the aggregate, were not material to the Company's consolidated financial statements. These errors related to the timing of revenue recognition, losses on sales and disposals of assets, interest income, and the calculation of foreign currency gains and losses.

### **Second Restatement**

Subsequent to the issuance of the consolidated financial statements for the fiscal year ended June 30, 2006, and in the course of preparing the condensed consolidated financial statements for the three months ended September 30, 2006, the Company identified errors in the accounting for stock-based compensation and certain revenue transactions in the fiscal year ended June 30, 2006. The stock-based compensation error was due to a calculation error associated with forfeiture rates upon the adoption of SFAS No. 123R, as of July 1, 2005.

In order to correct these errors, the Company has restated its financial statements for the fiscal year ended June 30, 2006 in order to reflect (a) additional stock-based compensation expense of approximately \$1.4 million and (b) additional revenues of approximately \$0.3 million. These errors had no effect on the fiscal year ended June 30, 2004 or 2005.

### **Third Restatement**

Subsequent to the Company's issuance of restated consolidated financial statements for the year ended June 30, 2006, and in the course of preparing the condensed consolidated financial statements for the three and six months ended December 31, 2006, the Company identified errors in the accounting for foreign currency denominated transactions in the years ended June 30, 2002 through 2006, and the three months ended September 30, 2005 and 2006. The Company incorrectly accounted for transaction gains and losses on intercompany balances denominated in currencies other than the functional currency as if such balances were of a long term investment nature and included the impact as a component of accumulated other comprehensive income (loss) rather than earnings. These transaction gains and losses should have been included in earnings as the conditions for accounting for these intercompany balances as long term investments were not met. In addition, the Company identified errors in the recording of purchase accounting in other than the functional currency of the acquired entity. These purchase accounting adjustments should have been denominated in the currency of the applicable subsidiary and translated to United States Dollars and were incorrectly recorded as United States Dollar denominated net assets in the consolidated financial statements. Accordingly, translation of the balance sheet position related to the purchase accounting allocations and translation impact of the amortization of intangible assets was not properly recorded.

In addition, the Company identified other errors in the course of preparing the condensed consolidated financial statements for the three and six months ended December 31, 2006. These errors related to the timing of recognition of service revenue and facility leasing costs, losses on sale of assets and inappropriate gross presentation of receivables and deferred revenue for customers that did not meet

revenue recognition criteria. The tax effect of correcting all of the above errors required further adjustments. The Company also added disclosure relative to reseller relationships in Note 13.

In order to correct these errors, the Company has restated its financial statements for the fiscal years ended June 30, 2004, 2005 and 2006, in order to reflect (a) foreign currency transaction gains of \$3.8 million, losses of \$3.1 million, and losses of \$4.4 million, respectively, (b) additional amortization of technology related intangible assets of \$0.7 million, \$1.1 million, and \$1.5 million, respectively, (c) additional facility lease costs of less than \$0.1 million per fiscal year, (d) for the year ended June 30, 2006, a reduction in service revenues of \$0.4 million, (e) for the year ended June 30, 2004 an increase in loss on sales and disposals of assets of \$0.1 million, (f) income tax provision increase of \$0.1 million and decrease of \$1.5 million and of \$2.0 million, respectively, and (g) the reduction of accounts receivable and offsetting reduction in deferred revenues of \$6.5 million at June 30, 2006 to eliminate the gross presentation of amounts due from customers that had not met revenue recognition criteria. These errors had a cumulative effect of decreasing net loss by \$2.9 million, net of income taxes, for the periods prior to fiscal 2004, which is reflected in the July 1, 2003 beginning accumulated deficit.

### Effects of Restatements

As a result of the foregoing, the Company has restated its financial statements as of June 30, 2005 and 2006 and for the fiscal years ended June 30, 2004, 2005 and 2006. The first and third restatement also affected periods prior to fiscal 2004 which are reflected in the opening accumulated deficit and other comprehensive loss of the Company as of June 30, 2003.

The effect of the restatements are summarized as follows:

	Income (loss) attributable to common shareholders			Accumulated deficit July 1, 2003
	2004 (In thousands)	2005	2006	
Originally reported	\$ (28,164 )	\$ (83,822 )	\$ 2,963	\$ (286,742 )
First Restatement				
Stock compensation	(7,199 )	(515 )		(50,051 )
Other	(50 )	(887 )		(936 )
Second Restatement				
Stock compensation forfeiture rate			(1,355 )	
Other			250	
Third Restatement				
Foreign currency transaction related	3,823	(3,118 )	(4,436 )	2,119
Foreign currency translation related	(706 )	(1,108 )	(1,489 )	(108 )
Other	(165 )	(38 )	(486 )	(16 )
Tax effects	(81 )	1,468	1,993	879
As restated	\$ (32,542 )	\$ (88,020 )	\$ (2,560 )	\$ (334,855 )

**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, 2004, 2005 and 2006 (amounts in thousands).

	Year ended June 30, 2004			Third	As Rested
	As Previously Reported	First Restatement Stock-based Compensation and Related Payroll Withholding Tax Adjustments	Other Adjustments	Restatement Adjustments	
<b>Revenues:</b>					
Software licenses	\$ 158,661	\$	\$ (511 )	\$	\$ 158,150
Service and other	174,335		(39 )		174,296
Total revenues	332,996		(550 )		332,446
<b>Cost of revenues:</b>					
Cost of software licenses	15,577				15,577
Cost of service and other	99,183	2,557	83		101,823
Amortization of technology related intangible assets	7,270			706	7,976
Impairment of technology related intangible and computer software development assets	3,250				3,250
Total cost of revenues	125,280	2,557	83	(706 )	128,626
Gross profit	207,716	(2,557 )	(633 )	(706 )	203,820
<b>Operating costs:</b>					
Selling and marketing	100,028	1,826	(48 )		101,806
Research and development	58,955	1,204	(48 )		60,111
General and administrative	32,727	1,612	8	33	34,380
Long-lived asset impairment charges	967				967
Restructuring charges and FTC legal costs	20,085				20,085
Loss (gain) on sales and disposals of assets	(879 )			132	(747 )
Total operating costs	211,883	4,642	(88 )	165	216,602
Income (loss) from operations	(4,167 )	(7,199 )	(545 )	(871 )	(12,782 )
Interest income	7,296				7,296
Interest expense	(4,940 )				(4,940 )
Foreign currency exchange gain (loss)	252		757	3,823	4,832
Income (loss) before provision for income taxes and equity in earnings from joint ventures	(1,559 )	(7,199 )	212	2,952	(5,594 )
Provision for income taxes	(19,896 )		(262 )	(81 )	(20,239 )
Equity in losses from joint ventures	(351 )				(351 )
Net income (loss)	(21,806 )	(7,199 )	(50 )	2,871	(26,184 )
Accretion of preferred stock discount and dividend	(6,358 )				(6,358 )
Income (loss) attributable to common shareholders	\$ (28,164 )	\$ (7,199 )	\$ (50 )	\$ 2,871	\$ (32,542 )
Basic income (loss) per share attributable to common shareholders	\$ (0.69 )	\$ (0.18 )	\$ (0.00 )	\$ 0.07	\$ (0.80 )
Diluted income (loss) per share attributable to common shareholders	\$ (0.69 )	\$ (0.18 )	\$ (0.00 )	\$ 0.07	\$ (0.80 )
Basic weighted average shares outstanding	40,575				40,575
Diluted weighted average shares outstanding	40,575				40,575

Edgar Filing: ASPEN TECHNOLOGY INC /DE/ - Form 10-K/A

	Year ended June 30, 2005			Third Restatement	
	As Previously Reported	First Restatement Stock-based Compensation and Related Payroll Withholding Tax Adjustments	Other Adjustments	Adjustments	As Restated
<b>Revenues:</b>					
Software licenses	\$ 129,233	\$	\$ 388	\$	\$ 129,621
Service and other	140,334		39		140,373
Total revenues	269,567		427		269,994
<b>Cost of revenues:</b>					
Cost of software licenses	16,864				16,864
Cost of service and other	82,638	189	(83 )		82,744
Amortization of technology related intangible assets	7,112			1,108	8,220
Impairment of technology related intangible and computer software development assets					
Total cost of revenues	106,614	189	\$ (83 )	1,108	107,828
Gross profit	162,953	(189 )	510	(1,108 )	162,166
<b>Operating costs:</b>					
Selling and marketing	96,187	136	(48 )		96,275
Research and development	47,236	88	(48 )		47,276
General and administrative	49,175	102		38	49,315
Long-lived asset impairment charges					
Restructuring charges and FTC legal costs	24,907		53		24,960
Loss (gain) on sales and disposals of assets	13,635		679		14,314
Total operating costs	231,140	326	636	38	232,140
Income (loss) from operations	(68,187 )	(515 )	(126 )	(1,146 )	(69,974 )
Interest income	6,143		61		6,204
Interest expense	(4,170 )				(4,170 )
Foreign currency exchange gain (loss)	618		(1,099 )	(3,118 )	(3,599 )
Income (loss) before provision for income taxes and equity in earnings from joint ventures	(65,596 )	(515 )	(1,164 )	(4,264 )	(71,539 )
Provision for income taxes	(3,776 )		277	1,468	(2,031 )
Equity in losses from joint ventures					
Net income (loss)	(69,372 )	(515 )	(887 )	(2,796 )	(73,570 )
Accretion of preferred stock discount and dividend	(14,450 )				(14,450 )
Income (loss) attributable to common shareholders	\$ (83,822 )	\$ (515 )	\$ (887 )	\$ (2,796 )	\$ (88,020 )
Basic income (loss) per share attributable to common shareholders	\$ (1.98 )	\$ (0.01 )	\$ (0.02 )	\$ (0.07 )	\$ (2.08 )
Diluted income (loss) per share attributable to common shareholders	\$ (1.98 )	\$ (0.01 )	\$ (0.02 )	\$ (0.07 )	\$ (2.08 )
Basic weighted average shares outstanding	42,381				42,381
Diluted weighted average shares outstanding	42,381				42,381

Edgar Filing: ASPEN TECHNOLOGY INC /DE/ - Form 10-K/A

	Year ended June 30, 2006		Third Restatement	As Restated
	As Previously Reported	Second Restatement Adjustments		
<b>Revenues:</b>				
Software licenses	152,686	\$ 87	\$	\$ 152,773
Service and other	140,564	250	(439 )	140,375
Total revenues	293,250	337	(439 )	293,148
<b>Cost of revenues:</b>				
Cost of software licenses	16,805			16,805
Cost of service and other	72,492	198		72,690
Amortization of technology related intangible assets	7,070		1,489	8,559
Impairment of technology related intangible and computer software development assets				
Total cost of revenues	96,367	198	1,489	98,054
Gross profit	196,883	139	(1,928 )	195,094
<b>Operating costs:</b>				
Selling and marketing	84,010	495		84,505
Research and development	44,139	183		44,322
General and administrative	41,916	566	47	42,529
Long-lived asset impairment charges				
Restructuring charges and FTC legal costs	3,993			3,993
Loss (gain) on sales and disposals of assets	898			898
Total operating costs	174,956	1,244	47	176,247
Income (loss) from operations	21,927	(1,105 )	(1,975 )	18,847
Interest income	5,034			5,034
Interest expense	(985 )			(985 )
Foreign currency exchange gain (loss)	1,076		(4,436 )	(3,360 )
Income (loss) before provision for income taxes and equity in earnings from joint ventures	27,052	(1,105 )	(6,411 )	19,536
Provision for income taxes	(8,706 )		1,993	(6,713 )
Equity in losses from joint ventures				
Net income (loss)	18,346	(1,105 )	(4,418 )	12,823
Accretion of preferred stock discount and dividend	(15,383 )			(15,383 )
Income (loss) attributable to common shareholders	\$ 2,963	\$ (1,105 )	\$ (4,418 )	\$ (2,560 )
Basic income (loss) per share attributable to common shareholders	\$ 0.07	\$ (0.03 )	\$ (0.10 )	\$ (0.06 )
Diluted income (loss) per share attributable to common shareholders	\$ 0.06	\$ (0.03 )	\$ (0.09 )	\$ (0.06 )
Basic weighted average shares outstanding	44,627			44,627
Diluted weighted average shares outstanding	53,771		(9,144 )	44,627

**Balance Sheet Adjustments**

The following is a summary of the impact of the financial statement adjustments on the Company's previously reported consolidated balance sheets as of June 30, 2005 and 2006 (in thousands).

	June 30, 2005			June 30, 2006				
	As Previously Reported	First Restatement Adjustments	Third Restatement Adjustments	As Restated	As Previously Reported	Second Restatement Adjustments	Third Restatement Adjustments	As Restated
<b>Assets:</b>								
Accounts receivable, net of allowance for doubtful accounts	\$ 52,254	\$ (152 )	\$ (574 )	\$ 51,528	\$ 55,654	\$	\$ (6,491 )	\$ 49,163
Prepaid expenses and other current assets	11,483	(184 )	(143 )	11,156	8,813		366	9,179
Total current assets	147,759	(336 )	(717 )	146,706	171,380		(6,125 )	165,255
Long-term installments receivable	19,425	(980 )		18,445	35,681			35,681
Property and leasehold improvements, net of accumulated depreciation	11,388	(432 )	235	11,191	8,351		323	8,674
Other intangible assets	12,123		2,248	14,371	5,131		1,580	6,711
Goodwill	14,729		2,170	16,899	14,917		3,118	18,035
Deferred tax asset	1,354			1,354	1,595		1,502	3,097
Total assets	244,242	(1,748 )	3,936	246,430	274,238		398	274,636
<b>Liabilities:</b>								
Accrued expenses	79,321	1,272	127	80,720	77,033		683	77,716
Deferred revenue	58,334	(488 )	(574 )	57,272	64,238	(250 )	(6,052 )	57,936
Total current liabilities	143,783	784	(447 )	144,120	146,131	(250 )	(5,369 )	140,512
Deferred tax liability	2,760		(1,065 )	1,695	1,309		(1,309 )	
<b>Stockholders' equity (deficit):</b>								
Additional paid-in capital	345,278	57,521		402,799	429,456	1,355		430,811
Accumulated deficit	(398,727 )	(59,639 )	2,949	(455,417 )	(455,403 )	(1,105 )	(1,469 )	(457,977 )
Deferred compensation		(414 )		(414 )				
Accumulated other comprehensive income (loss)	547		2,499	3,046	(330 )		8,545	8,215
Total stockholders' equity (deficit)	(49,085 )	(2,532 )	5,448	(46,169 )	(21,881 )	250	7,076	(14,555 )
Total liabilities and stockholders' equity (deficit)	244,242	(1,748 )	3,936	246,430	274,238		398	274,636

**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.
  - 4.10(9) Form of Warrant of Aspen Technology, Inc. dated as of May 9, 2002.
  - 4.11(1) Form of WD Common Stock Purchase Warrant of Aspen Technology, Inc. dated as of August 14, 2003.
  - 4.12(1) Form of WB Common Stock Purchase Warrant of Aspen Technology, Inc. dated as of August 14, 2003.
  - 10.1(10) 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(11) 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(11) 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(10) System License Agreement between Aspen Technology, Inc. and the Massachusetts Institute of Technology, dated March 30, 1982, as amended.
  - 10.5(10) Vendor Program Agreement, dated March 29, 1990, between Aspen Technology, Inc. and General Electric Capital Corporation.
  - 10.6(12) Rider No. 1, dated December 14, 1994, to Vendor Program Agreement between Aspen Technology, Inc. and General Electric Capital Corporation.
-

- 10.7(10) Letter Agreement, dated March 25, 1992, between Aspen Technology, Inc. and Sanwa Business Credit Corporation.
  - 10.8(16) 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).
  - 10.9(32) Amended and Restated Direct Finance and Services Addendum to Letter Agreement, effective December 30, 2004, by and among Aspen Technology, Inc. Fleet Business Credit LLC, Fleet Business Credit (UK) Limited, and Fleet Business Credit (Deutschland) GmbH.
  - 10.10(13) 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.
  - 10.11(13) 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.
  - 10.12(25) Export-Import Bank Borrower Agreement, dated as of April 1, 2005, by and between Aspen Technology, Inc. and AspenTech Inc. in favor of the Export-Import Bank of the United States and Silicon Valley Bank.
  - 10.13(25) Promissory Note (Ex-Im), dated April 1, 2005, by and between Aspen Technology, Inc. and AspenTech, Inc. in favor of Silicon Valley Bank.
  - 10.14(13) 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.
  - 10.15(13) Security Agreement, dated as of January 30, 2003, by and between Silicon Valley Bank and AspenTech Securities Corporation.
  - 10.16(13) Unconditional Guaranty, dated as of January 30, 2003, by AspenTech Securities Corporation in favor of Silicon Valley Bank.
  - 10.17(14) First Loan Modification Agreement, effective as of June 27, 2003, by and among Silicon Valley Bank, Aspen Technology, Inc. and AspenTech, Inc.
  - 10.18(14) Pledge Agreement, effective as of June 27, 2003, by Aspen Technology, Inc. in favor of Silicon Valley Bank.
  - 10.19(26) First Loan Modification Agreement (Exim), dated as of September 10, 2004, by and among Aspen Technology, Inc., AspenTech, Inc. and Silicon Valley Bank.
  - 10.20(26) Second Loan Modification Agreement, dated as of September 10, 2004, by and among Aspen Technology, Inc., AspenTech, Inc. and Silicon Valley Bank.
  - 10.21(25) Fourth Loan Modification Agreement, dated April 1, 2005 by and among Silicon Valley Bank, Aspen Technology, Inc. and AspenTech, Inc.
  - 10.22(25) Third Loan Modification Agreement (Exim), dated as of April 1, 2005, by and among Silicon Valley Bank, Aspen Technology, Inc. and AspenTech, Inc.
  - 10.23(27) Sixth Loan Modification Agreement, dated as of June 15, 2005, by and among Aspen Technology, Inc., Aspentech, Inc. and Silicon Valley Bank
  - 10.24(27) Fourth Loan Modification Agreement EXIM, dated as of June 15, 2005, by and among Aspen Technology, Inc., Aspentech, Inc. and Silicon Valley Bank
  - 10.25(27) Partial Release and Acknowledgement Agreement, dated as of June 15, 2005, by and among Aspen Technology, Inc., Aspentech, Inc. and Silicon Valley Bank
-

- 10.26(27) Loan Agreement, dated as of June 15, 2005, among Aspen Technology, Inc., Aspen Technology Receivables II LLC, Guggenheim Corporate Funding, LLC and the lenders named therein
- 10.27(27) Security Agreement, dated as of June 15, 2005, between Aspen Technology Receivables II LLC and Guggenheim Corporate Funding, LLC
- 10.28(27) Purchase and Sale Agreement, dated as of June 15, 2005, between Aspen Technology, Inc. and Aspen Technology Receivables I LLC
- 10.29(27) Purchase and Resale Agreement, dated as of June 15, 2005, between Aspen Technology Receivables I LLC and Aspen Technology Receivables II LLC
- 10.30(24) Non-Recourse Receivables Purchase Agreement, dated December 31, 2003, between Silicon Valley Bank and Aspen Technology, Inc.
- 10.31(26) Second Amendment to Non-Recourse Receivables Purchase Agreement, dated as of September 30, 2004, by and between Silicon Valley Bank and Aspen Technology, Inc.
- 10.32(28) Third Amendment to Non-Recourse Receivables Purchase Agreement, dated as of December 31, 2004, by and between Silicon Valley Bank and Aspen Technology, Inc.
- 10.33(29) Fifth Amendment to Non-Recourse Receivables Purchase Agreement, dated as of March 31, 2005, by and between Silicon Valley Bank and Aspen Technology, Inc.
- 10.34(15) Securities Purchase Agreement dated June 1, 2003 by and among Aspen Technology, Inc. and the Purchasers listed therein.
- 10.35(15) Repurchase and Exchange Agreement dated as of June 1, 2003 by and among Aspen Technology, Inc. and the Holders named therein.
- 10.36(1) Investor Rights Agreement dated as of August 14, 2003 by and among Aspen Technology, Inc. and the Stockholders Named therein.
- 10.37(1) Management Rights Letter dated as of August 14, 2003 by and among Aspen Technology, Inc. and the entities named therein.
- 10.38(17) Amended and Restated Registration Rights Agreement dated as of March 19, 2002 between Aspen Technology, Inc. and the Purchasers named therein.
- 10.39(10) Equity Joint Venture Contract between Aspen Technology, Inc. and China Petrochemical Technology Company.
- 10.40(28)+ Purchase and Sale Agreement, dated October 6, 2004, by and among Aspen Technology, Inc., Hyprotech Company, AspenTech Canada Ltd., and Hyprotech UK Ltd. (collectively, the AspenTech Parties ) and Honeywell International Inc., Honeywell Control Systems Limited and Honeywell Limited-Honeywell Limitee (collectively, the Honeywell Parties ).
- 10.41(28)+ Amendment No. 1 to the Purchase and Sale Agreement, dated October 6, 2004 by and among the AspenTech Parties and the Honeywell Parties.
- 10.42(28)+ Hyprotech License Agreement, dated as of December 23, 2004, by and between Aspen Technology, Inc. and Honeywell International, Inc.
- 10.43(28)+ Hyprotech License Agreement, dated as of December 23, 2004, by and between AspenTech Canada Ltd. and Honeywell Limited-Honeywell Limitee.
- 10.44(28)+ Hyprotech License Agreement, dated as of December 23, 2004, by and between Hyprotech Company and Honeywell Limited-Honeywell Limitee.
-

- 10.45(28)+ Hyprotech License Agreement, dated as of December 23, 2004, by and between AspenTech Ltd. and Honeywell Control Systems Limited.
  - 10.46(28)+ Hyprotech License Agreement, dated as of December 23, 2004, by and between Hyprotech UK Ltd. and Honeywell Control Systems Limited.
  - 10.47(10)\* 1988 Non-Qualified Stock Option Plan, as amended.
  - 10.48(18)\* 1995 Stock Option Plan.
  - 10.49(27)\* Amended and Restated 1995 Directors Stock Option Plan.
  - 10.50(18)\* 1995 Employees Stock Purchase Plan.
  - 10.51(19)\* 1998 Employees Stock Purchase Plan.
  - 10.52(20)\* Amendment No. 1 to 1998 Employees Stock Purchase Plan.
  - 10.53(21)\* 1996 Special Stock Option Plan.
  - 10.54(34)\* Restated 2001 Stock Option Plan.
  - 10.55(30)\* 2005 Stock Incentive Plan
  - 10.56(10)\* Form of Employee Confidentiality and Non-Competition Agreement.
  - 10.57(31)\* Employment Agreement, dated as of December 7, 2004, between Aspen Technology, Inc. and Mark E. Fusco.
  - 10.58(23)\* Employment Agreement, dated April 1, 2002, by and between Aspen Technology, Inc. and C. Steven Pringle
  - 10.59(3)\* Letter Agreement, dated June 24, 2003, by and between Aspen Technology, Inc. and C. Steven Pringle.
  - 10.60(23)\* Offer Letter, dated June 16, 2003, by and between Aspen Technology, Inc. and Charles F. Kane.
  - 10.61(23)\* Letter Agreement, dated June 24, 2003, by and between Aspen Technology, Inc. and Manolis Kotzabasakis.
  - 10.62(14)\* Letter Amendment, dated August 18, 2003, by and between Aspen Technology, Inc. and C. Steve Pringle.
  - 10.63(14)\* Letter Amendment, dated August 18, 2003, by and between Aspen Technology, Inc. and Charles F. Kane.
  - 10.64(14)\* Letter Amendment, dated August 18, 2003, by and between Aspen Technology, Inc. and Manolis Kotzabasakis.
  - 10.65(32)\* Amendment No. 1 to Employment and Change of Control Agreement, dated as of October 28, 2005, between Aspen Technology, Inc. and Mark E. Fusco.
  - 10.66(32)\* Aspen Technology, Inc. Executive Annual Incentive Bonus Plan FY06
  - 10.67(32)\* Aspen Technology, Inc. Operations Executives Plan FY06
  - 10.68(33)\* Aspen Technology, Inc. Executive Annual Incentive Bonus Plan FY07
  - 10.69(33)\* Aspen Technology, Inc. Operations Executives Plan FY07
  - 10.70(22) 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.
-

10.71(17)	Amended and Restated Securities Purchase Agreement dated as of March 19, 2002 between Aspen Technology, Inc. and the Purchasers named therein.
10.72(34)	Tenth Loan Modification Agreement, dated as of September 14, 2006, between Silicon Valley Bank and Aspen Technology, Inc.
10.73(34)	Sixth Loan Modification Agreement (EXIM) , dated as of September 14, 2006, between Silicon Valley Bank and Aspen Technology, Inc.
14.1(32)	Code of Conduct and Business Ethics
21.1(34)	Subsidiaries of Aspen Technology, Inc.
23.1	Consent of Deloitte & Touche LLP.
24.1(34)	Power of Attorney.
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 Acting Principal Financial and Accounting 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 Acting Principal Financial and Accounting 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.

(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 5, 2002 (filed on June 7, 2002), and incorporated herein by reference.

(10) 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.



- (11) 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.
- (12) 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.
- (13) 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.
- (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, 2003, and incorporated herein by reference.
- (15) 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.
- (16) 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.
- (17) 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.
- (18) 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.
- (19) 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.
- (20) 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.
- (21) 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.
- (22) 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.
- (23) 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.
- (24) 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.
- (25) Previously filed as an exhibit to the Quarterly Report on Form 10-Q of Aspen Technology, Inc. for the fiscal quarter ended March 31, 2005, and incorporated herein by reference.
- (26) Previously filed as an exhibit to the Quarterly Report on Form 10-Q of Aspen Technology, Inc. for the fiscal quarter ended September 30, 2004, and incorporated herein by reference.

(27) Previously filed as an exhibit to the Current Report on Form 8-K of Aspen Technology, Inc. dated June 15, 2005 (filed on June 20, 2005), and incorporated herein by reference.

(28) Previously filed as an exhibit to the Quarterly Report on Form 10-Q of Aspen Technology, Inc. for the fiscal quarter ended December 31, 2004, and incorporated herein by reference.

(29) Previously filed as an exhibit to the Quarterly Report on Form 10-Q of Aspen Technology, Inc. for the fiscal quarter ended March 31, 2005, and incorporated herein by reference.

(30) Previously filed as an exhibit to the Current Report on Form 8-K of Aspen Technology, Inc. dated May 26, 2005 (filed on June 2, 2005), and incorporated herein by reference.

(31) Previously filed as an exhibit to the Current Report on Form 8-K of Aspen Technology, Inc. dated December 21, 2004 (filed on December 23, 2004), and incorporated herein by reference.

---

(32) Previously filed as an exhibit to the Annual report on Form 10-K of Aspen Technology, Inc. for the year ended June 30, 2005, and incorporated herein by reference.

(33) Previously filed as an exhibit to the Current Report on Form 8-K of Aspen Technology, Inc., dated June 29, 2006 (filed on July 6, 2006), and incorporated herein by reference.

(34) Previously filed as an exhibit to the Annual Report on Form 10-K of Aspen Technology, Inc. for the fiscal year ended June 30, 2006 (filed on September 28, 2006), and incorporated herein by reference.

Confidential treatment requested as to certain portions

\* Management contract or compensatory plan

---