

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarter ended September 30, 1997.

or

☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Commission File Number:

ASPEN TECHNOLOGY, INC.
(exact name of registrant as specified in its charter)

Massachusetts 04-2739697
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

Ten Canal Park, Cambridge, Massachusetts, 02141
(Address of principal executive office and zip code)

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes X No

As of September 30, 1997, there were 20,592,459 shares of the Registrant's common stock (par value \$.10 per share) outstanding.

ASPEN TECHNOLOGY, INC.

QUARTERLY REPORT ON FORM 10-Q

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ASPEN TECHNOLOGY, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited and in thousands)

	9/30/97	6/30/97
	-----	-----
CURRENT ASSETS:		
Cash and cash equivalents	\$ 12,721	\$ 16,091
Short-term investments	14,895	15,843
Accounts receivable, net	57,887	56,624
Current portion of long-term installments receivable, net	20,475	19,063
Prepaid expenses and other current assets	8,235	7,403
	-----	-----
Total current assets	114,213	115,024
Long-term installments receivable, net	31,694	30,963
Equipment and leasehold improvements, at cost	54,247	47,338
Accumulated depreciation	(22,363)	(19,904)
	-----	-----
Computer software development costs, net	31,884	27,434
	-----	-----
Intangible assets, net	3,791	3,058
Other assets	12,003	12,768
	-----	-----
	3,139	3,017
	-----	-----
	\$196,724	\$192,264
	=====	=====
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 1,776	\$ 288
Accounts payable and accrued expenses	22,398	23,284
Unearned revenue	4,451	4,294
Deferred revenue	15,513	14,372
Deferred income taxes	2,621	1,775
	-----	-----
Total current liabilities	46,759	44,013
Long-term debt, less current maturities	1,710	462
Deferred revenue, less current portion	9,641	9,441
Other liabilities	970	942
Deferred income taxes	5,965	5,965
STOCKHOLDERS' EQUITY:		
Common stock	2,077	2,036
Additional paid-in capital	128,899	127,578
Retained earnings	1,599	2,588
Cumulative translation adjustment	(407)	(255)
Unrealized (gain) loss on investments	13	(4)
Treasury stock, at cost	(502)	(502)
	-----	-----

Total Stockholders' Equity	131,679	131,441
	-----	-----
	\$196,724	\$192,264
	=====	=====

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ASPEN TECHNOLOGY, INC.
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Unaudited and in thousands, except per share amounts)

THREE MONTHS ENDED

9/30/97	9/30/96
-----	-----

REVENUES:

Software licenses	\$21,783	\$16,131
Services and other	22,504	18,737
	-----	-----
	44,287	34,868
	-----	-----

EXPENSES:

Cost of software licenses	1,263	816
Cost of services and other	13,169	11,129
Selling and marketing	14,345	11,286
Research and development	9,431	6,964
General and administrative	4,163	3,721
Costs related to acquisitions	509	-
	-----	-----
Total costs and expenses	42,880	33,916
	-----	-----
Income from operations	1,407	952
Other expense, net	(67)	(22)
Interest income, net	1,379	1,345
	-----	-----
Income before provision for income taxes	2,719	2,275
Provision for income taxes	979	865
	-----	-----
NET INCOME	\$ 1,740	\$ 1,410
	=====	=====

Net income per common and common equivalent share	\$ 0.08	\$ 0.07
	=====	=====

Weighted average number of common and common equivalent shares outstanding	21,637	20,614
	=====	=====

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ASPEN TECHNOLOGY, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited and in thousands)

THREE MONTHS ENDED
9/30/97 9/30/96

CASH FLOWS FROM OPERATING ACTIVITIES:

NET INCOME	\$ 1,741	\$ 1,410
Adjustments to reconcile net income to net cash provided by (used in) operating activities (net of acquisition related activity disclosed below):		
Depreciation and amortization	2,831	2,288

Deferred income taxes	846	-
Decrease (increase) in accounts receivable	15	(1,508)
(Increase) decrease in installments receivable	(2,142)	1,902
Increase in prepaid expenses and other current assets	(679)	(82)
Decrease in accounts payable and accrued expenses	(3,506)	(2,640)
Increase (decrease) in unearned revenue	575	(4,658)
Increase in deferred revenue	369	2,380
	-----	-----
Net cash provided by (used in) operating activities	51	(908)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment and leasehold improvements	(4,331)	(4,038)
Sale of investment securities	965	8,992
Increase in other long-term assets	(99)	(200)
Increase in computer software development costs	(901)	(305)
Increase (decrease) in other long-term liabilities	28	(366)
Cash used in the purchase of business, net of cash acquired	(591)	-
	-----	-----
Net cash provided by (used in) investing activities	(4,929)	4,083
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock under employee stock purchase plans	-	381
Exercise of stock options	887	629
Proceeds from (payments of) long-term debt and capital lease obligations	774	(161)
	-----	-----
Net cash provided by financing activities	1,661	849
	-----	-----
EFFECTS OF EXCHANGE RATE CHANGES ON CASH	(153)	21
	-----	-----
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,370)	4,045
CASH AND CASH EQUIVALENTS, beginning of period	16,091	9,005
	-----	-----
CASH AND CASH EQUIVALENTS, end of period	\$12,721	\$13,050
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS RELATED TO ACQUISITIONS:		
During the three months ended September 30, 1997, the Company acquired certain companies in pooling-of-interests transactions as described in Note 4		
These acquisitions are summarized as follows-		
Book value of assets acquired, excluding cash	\$ 3,717	\$ -
Liabilities assumed	5,136	-
Book value of equity	(1,419)	-
	-----	-----
	\$ 3,717	\$ -
	=====	=====

ASPEN TECHNOLOGY, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 1997
(UNAUDITED)

1. BASIS OF PRESENTATION

In the opinion of management, the accompanying consolidated condensed financial statements have been prepared in conformity with generally accepted accounting principles and include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation. The results of operations for the three month period ended September 30, 1997 are not necessarily indicative of the results to be expected for the full year. It is suggested that these interim consolidated condensed financial statements be read in conjunction with the audited consolidated financial statements for the year ended June 30, 1997, which are contained in the Company's Form 10-K, as previously filed with

the Securities and Exchange Commission.

2. ACCOUNTING POLICIES

(a) Revenue Recognition

The Company recognizes revenue from software licenses upon the shipment of its products, pursuant to a signed noncancelable license agreement. In the case of license renewals, revenue is recognized upon execution of the renewal license agreement. The Company has no significant vendor obligations or collectibility risk associated with its product sales. The Company recognizes revenue from postcontract customer support ratably over the period of the postcontract arrangement. The Company accounts for insignificant vendor obligations by deferring a portion of the revenue and recognizing it either ratably as the obligations are fulfilled or when the related services are performed. If significant application development services are performed in connection with the purchase of a license, the license fees are recognized as the application development services are performed.

Service revenues from fixed-price contracts are recognized on the percentage-of-completion 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.

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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.

Installments receivable represent the present value of future payments related to the financing of noncancelable term license agreements that provide for payment in installments over a one- to five-year period. A portion of the revenue from each installment agreement is recognized as interest income in the accompanying consolidated condensed statements of income loss. The interest rates in effect for the three months ended September 30, 1996 was 11% and for the three months ended September 30, 1997 was 8.5%.

(b) Computer Software Development Costs

In compliance with Statement of Financial Accounting Standards (SFAS) No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed", certain computer software development costs are capitalized in the accompanying consolidated condensed balance sheets. Capitalization of computer software development costs begins upon the establishment of technological feasibility and ends upon market introduction. Amortization of capitalized computer software development costs is included in cost of revenues and is provided on a product-by-product basis at the greater of the amount computed using (a) the ratio of current gross revenues for a product to the total of current and anticipated future gross revenues or (b) the straight-line method over the remaining estimated economic life of the product, not to exceed three years. Total amortization expense charged to operations in the three month period ended September 30, 1997 was \$168,000 as compared to \$203,000 for the three month period ended September 30, 1996.

(c) Net Income Per Share

Net income per common and common equivalent share is computed using the weighted average number of common and dilutive common equivalent shares outstanding during each period. Fully diluted earnings per common share are not presented as they are not materially different from primary earnings per share. Dilutive common equivalent shares consist of stock options and stock warrants (using the treasury stock method).

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, Earnings Per Share (SFAS 128). This Statement establishes standards for computing and presenting earnings per share and applies to entities with publicly traded common stock or potential common stock. SFAS 128 is effective for financial statements for both interim and annual periods ending after December 15, 1997 and early adoption is not permitted. When adopted, the statement will require restatement of prior years' earnings per share. The Company will adopt this statement for its quarter ended December 31, 1997. Assuming that SFAS 128 had been implemented, basic income per share would have been \$0.09 and \$0.07 for the three month periods ended September 30, 1997 and September 30, 1996, respectively. Under this Statement, diluted income per share would not have differed from the net income per share disclosed on the accompanying statement of income.

(d) Investments

The Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities". Under SFAS No. 115, securities purchased to be held for indefinite periods of time, and not intended at the time of purchase to be held until maturity, are classified as available-for-sale securities. Securities classified as available-for-sale are required to be recorded at market value in the financial statements. Unrealized gains and losses have been accounted for as a separate component of stockholders' equity. Investments held as of September 30, 1997 consist of \$2,351,000 in money market accounts and \$12,544,000 in municipal bonds.

3. SALE OF INSTALLMENTS RECEIVABLE

The Company sold, with limited recourse, certain of its installment contracts to two financial institutions for approximately \$9.5 million during the three month period ended September 30, 1997. The financial institutions have partial recourse to the Company only upon non-payment 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 and varies depending upon whether the customers under the installment contracts are foreign or domestic entities. Collections of these receivables reduce the Company's recourse obligations, as defined.

At September 30, 1997, the balance of the uncollected principal portion of all contracts sold was \$74.2 million. The Company's potential recourse obligation related to these contracts is approximately \$6.5 million. In addition, the Company is obligated to pay additional costs to the financial institutions in the event of default by the customer.

4. ACQUISITIONS

(a) Special Analysis and Simulation Technologies ("SAST")

On August 28, 1997, the Company acquired 100% of the outstanding shares of common stock of SAST, a global leader in dynamic simulation and operator training services and applications. The Company exchanged 288,330 shares of its common stock valued at approximately \$10.2 million and paid approximately \$841,000 in cash for all outstanding shares of SAST common stock. The acquisition has been accounted for as a pooling

of interests. This transaction is immaterial to the Company's financial position and results of operations, and accordingly the historical financial statements have not been restated.

(b) NeuralWare, Inc.

On August 27, 1997 the Company acquired 100% of the outstanding shares of common stock of NeuralWare, Inc., a leading provider of neural net technology. The Company exchanged 26,502 shares of its common stock for all outstanding shares of NeuralWare, Inc. common stock. The acquisition has been accounted for as a pooling of interests. This transaction is immaterial to the Company's financial position and results of operation, and accordingly the historical financial statements have not been restated.

5. SHAREHOLDERS RIGHTS PLAN

On October 9, 1997, the Board of Directors voted to adopt a Shareholders Rights Plan (the Plan). The Plan gives certain shareholders the right to purchase additional share, at a specified price, under certain circumstances.

ASPEN TECHNOLOGY, INC. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS

RESULTS OF OPERATIONS

Revenues are derived from software licenses and maintenance and other services. Total revenues for the three months ended September 30, 1997 was \$44.3 million, an increase of 27.0% from \$34.9 million in the comparable period of fiscal 1997. Software license revenues represented 49.2% of total revenues for the three months ended September 30, 1997, as compared to 46.3% in the comparable period of fiscal 1997. Revenues from software licenses for the three months ended September 30, 1997 was \$21.8 million, an increase of 35.0% from \$16.1 million in the comparable period of fiscal 1997. The growth in software license revenues was attributable to software license renewals covering existing users, the expansion of existing customer relationships through licenses covering additional users, additional software products, and, to a lesser extent, to the addition of new customers.

Total revenues from customers outside the United States were \$20.7 million or 46.8% of total revenues for the three months ended September 30, 1997, as compared to \$21.0 million or 60.3% of total revenues for the comparable period in fiscal year 1997. The geographical mix of license revenues can vary from quarter to quarter; however for fiscal year 1998, the overall mix of revenues from customers outside the United States is expected to be relatively consistent with the prior year.

Revenues from services and other consist of consulting services, post contract support on software licenses, training and sales of documentation. Since the acquisitions of DMCC and Setpoint (January and February 1996), the Company has continued to generate a significant amount of consulting revenues from services for the analysis, design, and automation of process engineering plants. As a result, revenues from services and other for the three months ended September

30, 1997 was \$22.5 million, an increase of 20.1% from \$18.7 million in the comparable period in fiscal 1997. This increase reflects a continued focus during fiscal year 1998 on providing high value added consulting and training services to existing customers.

Neither the Company's joint venture and similar activities, nor any discounting or similar activities has historically had a material effect on the Company's revenues.

Cost of software licenses consists of royalties, amortization of previously capitalized software costs, costs related to the delivery of software (including disk duplication and third party software costs), printing of manuals and packaging. Cost of software licenses for the three months ended September 30, 1997 was \$1.3 million, an increase of 54.8% from \$0.8 million in the comparable period of fiscal 1997. Cost of software licenses as a percentage of revenues from software licenses was 5.8% for the three months ended September 30, 1997 as compared to 5.1% for the three months ended September 30, 1996. The increase in costs is primarily due to the increase in software license revenues. These costs have increased slightly as a percentage of revenues due to the generation of a greater portion of sales which have third party costs.

Cost of services and other consists of the cost of execution of application consulting services, technical support expenses, the cost of training services and the cost of manuals sold separately. Cost of maintenance and other services for the three months ended September 30, 1997 was \$13.2 million, an increase of 18.3% from \$11.1 million in the comparable period in fiscal year 1997. Cost of services and other as a percentage of services revenue was 58.5% in the three months ended September 30, 1997 and 59.4% in the comparable period of fiscal year 1997. This percentage decrease reflected improved efficiency in the execution of the implementation services projects.

Selling and marketing expenses for the three months ended September 30, 1997 were \$14.3 million, an increase of 27.1% from \$11.3 million in the comparable period in fiscal year 1997. As a percentage of revenues, selling and marketing expenses were 32.4% for the three months ended September 30, 1997 and September 30, 1996. The Company continues to invest in sales personnel and regional sales offices to improve the Company's geographic proximity to its customers, to maximize the penetration of existing accounts and to add new customers.

Research and development expenses consist primarily of personnel and outside consultancy costs required to conduct the Company's product development efforts. Capitalized research and development costs are amortized over three years. Research and development expenses during the three months ended September 30, 1997 were \$9.4 million, an increase of 35.4% from \$7.0 million in the comparable period of fiscal 1997. The increase in costs reflects continued investment in the development of the Company's core modeling products and a common software architecture encompassing the Company's expanded family of software products. The Company capitalized 8.7% of its total research and development costs during the three months ended September 30, 1997 as compared to 5.6% in the comparable period of fiscal year 1997.

General and administrative expenses consist primarily of salaries of administrative, executive, financial and legal personnel, outside professional fees, and amortization of certain intangibles. General and administrative expenses for the three months ended September 30, 1997 were \$4.2 million, an increase of 11.9% from \$3.7 million in the comparable period of fiscal year 1997. The dollar increase principally reflected the growth in the scale and scope of the Company's operations.

Interest income is generated from the sale of software pursuant to installment contracts for off-line modeling software and the investment of excess cash in short-term and long-term investments. Under these contracts, the Company offers customers the option to make annual payments for its term licenses instead of a single license fee payment at the beginning of the license term. A substantial majority of the off-line modeling customers elect to license these products through installment contracts. The Company believes this election is made principally because the customers prefer to pay for the Company's off-line modeling products out of their operating budgets, rather than out of their capital budgets. Included in the annual payments is an implicit interest charge based upon the interest rate established by the Company at the time of the license. The Company sells a portion of the installment contracts to unrelated financial institutions. The interest earned by the Company on the installment contract portfolio in any one year is the result of the implicit interest established by the Company on installment contracts and the size of the contract portfolio. Interest income was \$1.4 million for the three months ended September 30, 1997 and 1996.

Interest expense is generated from interest charged on the Company's bank line of credit, subordinated notes payable and capital lease obligations. Interest expense for the three months ended September 30, 1997 was \$0.07 million as compared to \$0.02 million in the comparable period of fiscal year 1997.

The effective tax rate decreased for the three months ended September 30, 1997 to 36.0% of pretax income from 38.0% for the comparable period of fiscal year 1997. This decrease is primarily due to utilization of various tax credits and carryforwards.

LIQUIDITY AND CAPITAL RESOURCES

During the three months ended September 30, 1997, the Company's cash and cash equivalents balance decreased by \$3.4 million. Operations provided \$0.05 million of cash during this period primarily related to net income offset in part by increases in installments receivable and decreases in accounts payable and accrued expenses.

In recent years, the Company has had arrangements to sell long-term contracts to two financial institutions, General Electric Capital Corporation ("GECC") and Sanwa Business Credit Corporation ("SBCC"). During the three months ended September 30, 1997, installment contracts increased to \$52.2 million, net of \$9.5 million of installment contracts sold to GECC and SBCC. The Company's arrangements with the two financial institutions provide for the sale of installment contracts up to certain limits and with certain recourse obligations. At September 30, 1997, the balance of the uncollected principal portion of the contracts sold to these two financial institutions was \$74.2 million, for which the Company has a partial recourse obligation of approximately \$6.5 million. The availability under these arrangements will increase as the financial institutions receive payment on installment contracts previously sold.

The Company maintains a \$30.0 million bank line of credit, expiring December 31, 1998, that provides for borrowings of specified percentages of eligible accounts receivable and eligible current installment contracts. Advances under the line of credit bear interest at a rate equal to the bank's prime rate (8.5% at September 30, 1997) plus a specified margin or, at the Company's option, a rate equal to a defined LIBOR (5.7% at September 30, 1997) plus a specified margin. The line of credit agreement requires the Company to provide the bank with certain periodic financial reports and to comply with certain financial tests, including maintenance of minimum levels of consolidated net income before taxes and of the ratio of current assets to current liabilities.

ASPEN TECHNOLOGY, INC.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is not a party to any pending material proceedings.

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits
None

(b) Reports on Form 8-K
Current Report on Form 8-K dated October 9, 1997.

SIGNATURE

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

ASPEN TECHNOLOGY, INC.

Date: November 14, 1997

by: /s/ Mary A. Palermo

Mary A. Palermo
Executive Vice President
Chief Financial Officer

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 1997 INCLUDED IN THE COMPANY'S FORM 10-K FOR SUCH PERIOD AND THE CONDENSED FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 1997 INCLUDED IN THE COMPANY'S FORM 10-Q FOR SUCH PERIOD AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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