UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

FOR THE QUARTER ENDED March 31, 2005

or

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

Commission File Number: 000-24786

Aspen Technology, Inc.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

As of May 6, 2005, there were 42,891,695 shares of the registrant's common stock (par value $0.10 per share) outstanding.

PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

ASPEN TECHNOLOGY, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited and in thousands)

	March 31, 2005	June 30, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 69,127	$ 107,677
Accounts receivable, net	54,199	50,874
Unbilled services	12,262	15,518
Current portion of long-term installments receivable, net	24,946	25,244
Deferred tax asset	275	31
Prepaid expenses and other current assets	12,682	10,084
Total current assets	173,491	209,428
Long-term installments receivable, net	61,294	65,527
Property and leasehold improvements, at cost	52,290	63,295
Accumulated depreciation and amortization	(37,129)	(44,631)
	15,161	18,664
Computer software development costs, net	17,965	16,863
Purchased intellectual property, net	871	1,295
Other intangible assets, net	14,037	19,571
Goodwill, net	14,757	14,736
Deferred tax asset	2,613	2,492
Other assets	3,038	3,158
	$ 303,227	$ 351,734
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Current portion of long-term debt	$ 58,108	$ 58,595
Accounts payable and accrued expenses	63,005	83,115
Unearned revenue	20,613	18,051
Deferred revenue	30,937	33,462
Deferred tax liability	441	325
Total current liabilities	173,104	193,548
Long-term debt and obligations, less current maturities	1,049	1,952
Deferred revenue, less current portion	3,465	5,363
Deferred tax liability	4,241	4,220
Other liabilities	24,101	11,527
Redeemable preferred stock	117,508	106,761
Stockholders' equity (deficit):		
Common stock	4,312	4,173
Additional paid-in capital	344,158	338,804
Accumulated deficit	(368,908)	(314,906)
Accumulated other comprehensive income	710	805
Treasury stock, at cost	(513)	(513)
Total stockholders' equity (deficit)	(20,241)	28,363
	$ 303,227	$ 351,734

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

ASPEN TECHNOLOGY, INC.
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(Unaudited and in thousands, except for per share data)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2005	2004 (As Restated, see Note 12)	2005	2004 (As Restated, see Note 12)
Software licenses	$ 31,097	$ 36,636	$ 93,102	$ 113,636
Service and other	33,121	44,939	106,011	130,090
Total revenues	64,218	81,575	199,113	243,726
Cost of software licenses	4,035	3,854	12,707	11,786
Cost of service and other	19,215	25,345	63,236	73,973
Amortization of technology related intangibles	1,778	1,806	5,330	5,480
Total Cost of Revenues	25,028	31,005	81,273	91,239
Gross Profit	39,190	50,570	117,840	152,487

Operating costs:				
Selling and marketing	24,299	23,841	70,075	71,449
Research and development	11,552	14,234	35,309	44,534
General and administrative	12,746	6,399	35,867	19,878
Restructuring charges and FTC legal costs	(97)	—	21,630	2,000
Loss (gain) on sales and disposals of assets	81	(206)	(276)	(885)
Total operating costs	48,581	44,268	162,605	136,976
Income (loss) from operations	(9,391)	6,302	(44,765)	15,511
Other income (expense), net	(16)	256	(58)	(189)
Interest income, net	477	419	1,788	1,956
Income (loss) before benefit from (provision for) income taxes and equity in earnings from joint ventures	(8,930)	6,977	(43,035)	17,278
Provision for income taxes	(1,133)	(341)	(220)	(2,330)
Equity in earnings from joint ventures	—	—	—	(100)
Net income (loss)	(10,063)	6,636	(43,255)	14,848
Accretion of preferred stock discount and dividend	(3,630)	(3,400)	(10,747)	(2,900)
Net income (loss) applicable to common shareholders	$ (13,693)	$ 3,236	$ (54,002)	$ 11,948
Basic net income (loss) per share applicable to common shareholders	$ (0.32)	$ 0.08	$ (1.28)	$ 0.30
Diluted net income (loss) per share applicable to common shareholders	$ (0.32)	$ 0.06	$ (1.28)	$ 0.25
Weighted average shares outstanding—Basic	42,639	41,049	42,193	40,326
Weighted average shares outstanding—Diluted	42,639	51,907	42,193	48,275

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

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

	Nine Months Ended March 31, 2005	Nine Months Ended March 31, 2004 (As Restated, see Note 12)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (43,255)	$ 14,848
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	19,133	20,367
Gain on sale of property	—	(170)
Asset impairment charges, write-offs under restructuring charges and asset sales and disposals	1,190	—
Deferred income taxes	(187)	(3,370)
Decrease (increase) in accounts receivable	(2,762)	19,230
Decrease (increase) in unbilled services	3,531	(2,712)
Decrease in installments receivable	4,544	18,562
Decrease (increase) in prepaid expenses and other current assets	(2,486)	3,942
Decrease in accounts payable and accrued expenses	(20,332)	(11,253)
Increase (decrease) in unearned revenue	2,428	(5,589)
Decrease in deferred revenue	(4,679)	(5,166)
Increase (decrease) in other liabilities	12,122	(7,859)
Net cash (used in) provided by operating activities	(30,753)	40,830
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and leasehold improvements	(4,836)	(2,388)
Proceeds from sale of land	—	1,096
Decrease in other long-term assets	224	1,042
Increase in computer software development costs	(6,893)	(5,303)
Cash used in the purchase of a business, net of cash acquired	—	(200)
Net cash used in investing activities	(11,505)	(5,753)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of Series D redeemable convertible preferred stock	—	89,341
Retirement of Series B redeemable convertible preferred stock	—	(30,000)
Payment of Series B redeemable convertible preferred stock dividend	—	(296)
Issuance of common stock under employee stock purchase plans	1,853	3,022
Exercise of stock options	3,104	3,351
Payment of amount owed to Accenture	—	(10,068)
Payments of long-term debt and capital lease obligations	(1,449)	(28,307)
Net cash provided by financing activities	3,508	27,043

EFFECTS OF EXCHANGE RATE CHANGES ON CASH		200		700
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(38,550)		62,820
CASH AND CASH EQUIVALENTS, beginning of period		107,677		51,567
CASH AND CASH EQUIVALENTS, end of period	$	69,127	$	114,387

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

ASPEN TECHNOLOGY, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

1. Interim Condensed and Consolidated Financial Statements

The accompanying unaudited interim consolidated condensed financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America for interim financial information and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC) for reporting on Form 10-Q. Accordingly, certain information and footnote disclosures required for complete financial statements are not included herein. These unaudited interim consolidated condensed financial statements should be read in conjunction with the audited consolidated financial statements for the year ended June 30, 2004, which are contained in Amendment No. 1 to the Annual Report on Form on 10-K/A of Aspen Technology, Inc. (the Company), as previously filed with the SEC. In the opinion of management, all adjustments, consisting of normal and recurring adjustments, considered necessary for a fair presentation of the financial position, results of operations, and cash flows at the dates and for the periods presented have been included. The consolidated condensed balance sheet presented as of June 30, 2004 has been derived from the consolidated financial statements. The results of operations for the three and nine month periods ended March 31, 2005 are not necessarily indicative of the results to be expected for the full year.

2. Installment Sales and Subsequent Sale of Installments Receivable

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 over a one to five-year period. A portion of each installment agreement is recognized as interest income in the accompanying consolidated condensed statements of operations. The interest rates utilized for the three and nine months ended March 31, 2005 and 2004 were within the range of 7.0% to 8.0%.

The Company has arrangements to sell certain of its installments receivable to three financial institutions. The Company sold, with limited recourse, certain of its installment contracts for aggregate proceeds of approximately $15.8 million and $67.0 million during the three and nine months ended March 31, 2005, respectively, and $18.1 million and $69.9 million during the three and nine months ended March 31, 2004, respectively. The sale of these receivables have qualified and continue to qualify as “sales” as set forth in Statement of Financial Accounting Standards (SFAS), No. 140 “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - a Replacement of FASB Statement No. 125.” The financial institutions have certain recourse to the Company upon nonpayment by the customer under the installments receivable. The amount of recourse is determined pursuant to the provisions of the Company’s contracts with the financial institutions. Collections of these receivables reduce the Company’s recourse obligations, as defined. Generally, no gain or loss is recognized on the sale of the receivables due to the consistency of the discount rates used by the Company and the financial institutions.

At March 31, 2005, there was approximately $65 million of additional availability under the arrangements. The Company expects that there will be continued ability to sell installments receivable, as the collection of the sold receivables will reduce the outstanding balance and the availability under the arrangements can be increased. The Company’s potential recourse obligation related to these contracts is within the range of $0.7 million to $2.9 million. In addition, the Company is obligated to pay additional costs to the financial institutions in the event of default by the customer.

3. Derivative Instruments and Hedging

The Company follows the provisions of 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 to be immediately recognized in earnings.

Forward foreign exchange contracts are used primarily by the Company to hedge certain balance sheet exposures resulting from changes in foreign currency exchange rates. Such exposures primarily result from portions of the Company’s installment receivables that are denominated in currencies other than the U.S. dollar, primarily the Euro, the Japanese Yen and the British Pound Sterling. These foreign exchange contracts are entered into to hedge recorded installments receivable made in the

normal course of business, and accordingly, are not speculative in nature. As part of its overall strategy to manage the level of exposure to the risk of foreign currency exchange rate fluctuations, the Company hedges the majority of its installments receivable denominated in foreign currencies.

At March 31, 2005, the Company had effectively hedged $26.6 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 installments receivable that were denominated in foreign currency was $22.5 million and $26.0 million at March 31, 2005 and 2004, respectively. The installments receivable held as of March 2005 mature at various times through April 2010.

The Company records its foreign currency exchange contracts at fair value in its consolidated balance sheet and the related gains or losses on these hedge contracts are recognized in earnings. Gains and losses resulting from the impact of currency exchange rate movements on forward foreign exchange contracts are designated to offset certain accounts and installments receivable and are recognized as other income or expense in the period in which the exchange rates change and offset the foreign currency losses and gains on the underlying exposures being hedged. During the three and nine months ended March 31, 2005 and 2004 the net gain recognized in the consolidated statements of operations was not material. A small portion of the forward foreign currency exchange contract is designated to hedge the future interest income of the related receivables. The ineffective portion of a derivative's change in fair value is recognized currently through earnings regardless of whether the instrument is designated as a hedge. The gains and losses resulting from the impact of currency rate movements on forward currency exchange contracts are recognized in other comprehensive income for this portion of the hedge. During the three and nine months ended March 31, 2005 and 2004, net loss deferred in other comprehensive income was not material.

The following table provides information about the Company's foreign currency derivative financial instruments outstanding as of March 31, 2005. The information is provided in U.S. dollar amounts (in thousands), 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 (in thousands):

	Notional Amount	Estimated Fair Value*	Average Contract Rate
Euro	$ 15,979	$ 16,808	0.80
Japanese Yen	4,152	4,179	106.69
Canadian Dollar	2,989	3,283	1.32
British Pound Sterling	2,544	2,624	0.55
Swiss Franc	985	1,010	1.22
	$ 26,649	$ 27,904	

* The estimated fair value is based on the estimated amount at which the contracts could be settled based on the spot rates as of March 31, 2005. 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.

4. Stock-Based Compensation Plans

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. The Company accounts for stock-based compensation for employees under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and has elected the disclosure-only alternative under SFAS No. 123, as amended by SFAS No. 148. For pro forma disclosures, the estimated fair value of the options is amortized over the vesting period, typically four years, and the estimated fair value of the stock purchases under the Employee Stock Purchase Plan is recorded during the six-month purchase period.

Had compensation cost for the Company's stock plans been determined based on the fair value at the grant dates, as prescribed in SFAS No. 123, the Company's net income (loss) attributable to common shareholders, and net income (loss) attributable to common shareholders per share would have been as follows (in thousands, except per share data):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2005	2004	2005	2004
Net income (loss) attributable to common shareholders (in thousands)—				
As reported	$ (13,693)	$ 3,236	$ (54,002)	$ 11,948
Less: Stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	3,238	1,136	5,966	12,571
Add: Stock-based compensation expense included in reported net income	—	—	537	—
Pro forma	$ (16,931)	$ (2,100)	$ (59,431)	$ (623)
Net income (loss) per share applicable to common shareholders-Basic				
As reported	$ (0.32)	$ 0.08	$ (1.28)	$ 0.30
Pro forma	$ (0.40)	$ 0.05	$ (1.41)	$ (0.02)
Net income (loss) per share applicable to common shareholders-Diluted				
As reported	$ (0. 32)	$ 0.06	$ (1.28)	$ 0.25
Pro forma	$ (0.40)	$ 0.04	$ (1.41)	$ (0.01)

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2005	2004	2005	2004
Risk free interest rates	4.17%	3.27%	3.49-4.17%	3.27-3.37%
Expected dividend yield	None	None	None	None
Expected life	5 Years	5 Years	5 Years	5 Years
Expected volatility	100%	99%	100%	99%—125%

The weighted average fair value per option using the assumptions above was $4.37, $6.84, $4.35, and $2.81 for the three months ended March 31, 2005 and 2004 and the nine months ended March 31, 2005 and 2004, respectively.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123R, Share-Based Payment (“SFAS No. 123R”). This Statement is a revision of SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. SFAS No. 123R must be adopted by the Company on July 1, 2005. Assuming the continuation of current programs, the Company’s preliminary estimate is that additional stock compensation expense for fiscal 2006 will be in the range of $4 million to $5 million.

5. Net Income (Loss) Per Common Share

Basic earnings per share was determined by dividing net income (loss) attributable to common shareholders by the weighted average common shares outstanding during the period. Diluted earnings per share was determined by dividing net income (loss) attributable to common shareholders by diluted weighted average shares outstanding. Diluted weighted average shares reflects the dilutive effect, if any, of potential common shares. To the extent their effect is dilutive, potential common shares include common stock options, restricted stock 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 weighted average shares outstanding and basic and diluted net income (loss) applicable to common shareholders per share were as follows (in thousands, except per share data):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2005	2004	2005	2004
Net income (loss) applicable to common shareholders	$ (13,693)	$ 3,236	$ (54,002)	$ 11,948
Basic weighted average common shares outstanding	42,639	41,049	42,193	40,326
Common stock equivalents	—	10,858	—	7,949
Diluted weighted average shares outstanding	42,639	51,907	42,193	48,275
Basic net income (loss) per share applicable to common shareholders	$ (0.32)	$ 0.08	$ (1.28)	$ 0.30
Diluted net income (loss) per share applicable to common shareholders	$ (0.32)	$ 0.06	$ (1.28)	$ 0.25

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2005	2004	2005	2004
Convertible preferred stock	36,336	36,336	36,336	36,336
Options and warrants	20,579	4,962	20,579	5,947
Convertible debt	1,071	1,167	1,071	1,167
Preferred stock dividend, to be settled in common stock	2,928	—	2,928	—
Total	60,914	42,465	60,914	43,450

6. 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. The components of comprehensive income (loss) for the three and nine months ended March 31, 2005 and 2004 were as follows (in thousands):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2005	2004	2005	2004
Net income (loss)	$ (10,063)	$ 6,636	$ (43,255)	$ 14,848
Foreign currency adjustment	(13)	(479)	(95)	3,112
Comprehensive income (loss)	$ (10,076)	$ 6,157	$ (43,350)	$ 17,960

7. Restructuring Charges and FTC Legal Costs

Restructuring charges and Federal Trade Commission, or FTC, legal costs consisted of the following (in thousands):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2005	2004	2005	2004
Restructuring charges	$ (97)	$ —	$ 21,789	$ —
FTC legal costs	—	2,000	(159)	2,000
	$ (97)	$ 2,000	$ 21,630	$ 2,000

During the three months ended September 30, 2004, the Company recorded $21.7 million in restructuring charges. Of this amount $14.4 million relates to headcount reductions and facility consolidations associated with the June 2004 restructuring plan that did not qualify for accrual at June 30, 2004. The remaining $7.3 million related to an extension of a prior restructuring plan which was initiated in October 2002. During the three months ended December 31, 2004, the Company recorded another $0.2 million in restructuring charges related to accretion of the discounted restructuring accrual. During the three months ended March 31, 2005, the Company recorded a $0.1 million reduction in restructuring accruals related to adjusting sub-lease assumptions based on the execution of actual sub-lease agreements, offset by accretion of the discounted restructuring accrual.

See Note 8(a) to the consolidated condensed financial statements for a description of the FTC complaint against the Company.

(a) Q4 FY04 and Q1 FY05

In June 2004, the Company initiated a plan to reduce its operating expenses in order to better align its operating cost structure with the current economic environment and to improve its operating margins. The plan to reduce operating expenses resulted in the consolidation of facilities, headcount reductions, and the termination of operating contracts, which occurred over several months. These actions resulted in the recording of restructuring charges of $23.8 million in the fourth quarter of fiscal 2004.

During the three months ended September 30, 2004, the Company recorded a $14.4 million charge related to headcount reductions and facility consolidations associated with the June 2004 restructuring plan that did not qualify for accrual at June 30, 2004. During the three months ended December 31, 2004, the Company recorded another $0.2 million in restructuring charges related to accretion of the discounted restructuring accrual. During the three months ended March 31, 2005, the Company recorded another $0.1 million in restructuring charges related to accretion of the discounted restructuring accrual, and a $0.1 million reduction in accrual related to revised sub-lease assumptions.

As of March 31, 2005, there was $10.4 million remaining in accrued expenses relating to the remaining severance obligations and lease payments. During the nine months ended March 31, 2005, the following activity was recorded (in thousands):

	Closure/ Consolidation of Facilities and Contract exit costs	Employee Severance, Benefits, and Related Costs	Impairment of Assets	Total
Accrued expenses, June 30, 2004	$ 12,049	$ 911	$ —	$ 12,960
Restructuring charge	9,132	4,349	968	14,449
Impairment of assets	—	—	(968)	(968)
Payments	(10,588)	(2,717)	—	(13,305)
Accrued expenses, September 30, 2004	10,593	2,543	—	13,136
Payments	(530)	(1,414)	—	(1,944)
Restructuring charge—Accretion	216	3	—	219
Accrued expenses, December 31, 2004	10,279	1,132	—	11,411
Payments	(837)	(261)	—	(1,098)
Change in estimate—revised sub-lease assumptions	(79)	—	—	(79)
Restructuring charge—Accretion	125	—	—	125
Accrued expenses, March 31, 2005	$ 9,488	$ 871	$ —	$ 10,359
Expected final payment date	September 2112	June 2005		

The components of the additional restructuring activities completed in fiscal 2005 are as follows:

Closure/consolidation of facilities: Approximately $9.1 million of the restructuring charge relates to the closing of facilities and other lease related costs. These cost did not qualify for accrual as of June 30, 2004. The facility leases had remaining terms ranging from several months to seven years. The amount accrued is an estimate of the remaining obligation under the lease, reduced by expected income from the sub-lease of the underlying properties.

Employee severance, benefits and related costs: Approximately $4.4 million of the restructuring charge relates to the reduction in headcount. Approximately 112 employees, or 7% of the workforce, were eliminated under the restructuring plan implemented by management. These 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 and Europe. All business units were affected, including services, sales and marketing, research and development, and general and administrative.

Impairment of assets: Approximately $1.0 million of the restructuring charge relates to charges associated with the impairment of fixed assets associated with the closed and consolidated facilities. These assets were reviewed for impairment in accordance with SFAS No. 144, and were considered to be impaired because their carrying values were in excess of their fair values.

(b) 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 in response to general economic uncertainties. In addition, the Company 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 economic conditions. The plan to reduce operating expenses resulted in headcount reductions, consolidation of facilities and discontinuation of development and support for certain non-critical products. These actions resulted in an aggregate restructuring charge of $28.1 million. During fiscal 2004, 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 obligations. In September 2004, the Company recorded a $7.3 million increase to the accrual due to a change in the estimate of the facility vacancy term, extending to the term of the lease. In March 2005, the Company recorded a $0.1 million decrease to the accrual due to a change in the estimate of remaining disposition costs.

As of March 31, 2005, there was $12.5 million remaining in accrued expenses and other liabilities relating to the remaining severance obligations, lease payments and disposition costs. During the nine months ended March 31, 2005, the following activity was recorded (in thousands):

	Closure/ Consolidation of Facilities	Employee Severance, Benefits, and Related Costs	Impairment of Assets and Disposition Costs	Total
Accrued expenses, June 30, 2004	$ 6,725	$ 292	$ 676	$ 7,693
Restructuring charge—Revised plan	7,303	—	(38)	7,265
Payments	(565)	—	(138)	(703)
Accrued expenses, September 30, 2004	13,463	292	500	14,255
Payments	(619)	(39)	(50)	(708)
Accrued expenses December 31, 2004	12,844	253	450	13,547
Payments	(730)	—	(175)	(905)
Change in estimate—revised assumptions	—	—	(143)	(143)
Accrued expenses March 31, 2005	$ 12,114	$ 253	$ 132	$ 12,499
Expected final payment date	February 2111	April 2005	April 2005	

(c) Q4 FY02

In the fourth quarter of fiscal 2002, the Company initiated a plan to reduce its operating expenses and to restructure operations around its two primary product lines, engineering software and manufacturing/supply chain software. The Company reduced worldwide headcount by approximately 10% or 200 employees, closed-down and consolidated facilities, and disposed of certain assets, resulting in an aggregate restructuring charge of $14.4 million.

As of March 31, 2005, there was $0.9 million remaining in accrued expenses and other liabilities relating to the remaining severance obligations and lease payments. During the nine months ended March 31, 2005, the following activity was recorded (in thousands):

	Closure/ Consolidation of Facilities	Employee Severance, Benefits, and Related Costs	Total
Accrued expenses, June 30, 2004	$ 1,683	$ 308	$ 1,991
Payments	(298)	(82)	(380)
Accrued expenses, September 30, 2004	1,385	226	1,611
Payments	(382)	(97)	(479)
Accrued expenses, December 31, 2004	1,003	129	1,132
Payments	(108)	(88)	(196)
Accrued expenses, March 31, 2005	$ 895	$ 41	$ 936
Expected final payment date	December 2010	April 2005	

(d) Q4 FY99

In the fourth quarter of fiscal 1999, the Company undertook certain actions to restructure its business. The restructuring resulted from a lower than expected level of license revenues which adversely affected fiscal year 1999 operating results. The license revenue shortfall resulted primarily from delayed decision making driven by economic difficulties among customers in certain of the Company's core vertical markets. The restructuring plan resulted in a pre-tax restructuring charge totaling $17.9 million. In September 2004, the Company recorded an adjustment to the restructuring accrual due to revisions in sub-lease assumptions.

As of December 31, 2004, there was no remaining balance in accrued expenses relating to the restructuring. During the six months ended December 31, 2004, the following activity was recorded (in thousands):

	Closure/ Consolidation of Facilities
Accrued expenses, June 30, 2004	$ 90
Change in estimate—revised sub-lease assumptions	(47)
Sublease receipts, net of lease payments	2
Accrued expenses, September 30, 2004	45
Sub-lease receipts, net of lease payments	(45)
Accrued expenses, December 31, 2004	$ —

8. 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 in the three months ended September 30, 2004.

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 payment will be released to the Company in June 2005 (less 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.

(c) Litigation

U.S. Attorney's Office Investigation

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

Class Action Suits

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

Derivative Action

On December 1, 2004, a purported derivative action was filed in the United States District Court of Massachusetts, captioned Caviness v. Evans, et. al., Civil Action No. 04-12524 (D. Mass.) (the "Derivative Action"). The complaint, as subsequently amended, alleges, among other things, that the former and current director and officer defendants caused the Company to issue false and misleading financial statements, and brings derivative claims for the following: (1) breach of fiduciary duty for insider trading; (2) breach of fiduciary duty; (3) abuse of control; (4) gross mismanagement; (5) waste of corporate assets; (6) unjust enrichment. The Company has moved to dismiss the complaint pursuant to Fed. R. Civ. P. 23.1 for failure to make a demand on the board of directors of the Company and for failing to allege particularized facts showing why plaintiff's failure to make a demand should be excused. On April 12, 2005 the Company received a letter dated March 22, 2005 alleging that the officers and directors of AspenTech failed to disclose and misrepresented that the Company inappropriately recognized revenues in the 2000-2002 fiscal years, and that the Company should commence suit for relief equivalent to that sought in the Derivative Action, including requiring certain present and former officers of the Company to return remuneration paid to them while in breach of their fiduciary duties to the Company. 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.

9. Preferred Stock Financing

In August 2003, the Company issued and sold 300,300 shares of Series D-1 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 and incurred issuance costs of $10.7 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-I and B-II convertible preferred stock. 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 Series B Preferred holders, for new warrants to purchase 791,044 shares of common stock at an exercise price of $4.08.

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

Each share of Series D Preferred initially is convertible into 100 shares of common stock, and in the aggregate, the Series D Preferred are convertible into 36,336,400 shares of common stock.

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2005	2004	2005	2004
Accrual of dividend on Series D preferred stock	$ (2,699)	$ (2,493)	$ (7,939)	$ (6,147)
Accretion of discount on Series D preferred stock	(931)	(907)	(2,808)	(2,266)
Accrual of dividend on Series B preferred stock	—	—	—	(296)
Accretion of discount on Series B preferred stock	—	—	—	(643)
Gain on retirement of Series B preferred stock	—	—	—	6,452
Total	$ (3,630)	$ (3,400)	$ (10,747)	$ (2,900)

10. Segment Information

SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information,” establishes standards for reporting information about operating segments in companies’ financial statements. 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 lines 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 accounting policies of the line of business operating segments are the same as those described in the Company’s Amendment No. 1 to Annual Report on Form 10-K for the fiscal year ended June 30, 2004. 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
Three Months Ended March 31, 2005—				
Revenues from external customers	$ 31,097	$ 14,723	$ 18,398	$ 64,218
Controllable expenses	15,508	11,887	4,303	31,698
Controllable margin(1)	$ 15,589	$ 2,836	$ 14,095	$ 32,520
Three Months Ended March 31, 2004—				
Revenues from external customers	$ 36,636	$ 25,219	$ 19,720	$ 81,575
Controllable expenses	15,762	17,346	3,752	36,860
Controllable margin(1)	$ 20,874	$ 7,873	$ 15,968	$ 44,715
Nine Months Ended March 31, 2005—				
Revenues from external customers	$ 93,102	$ 49,477	$ 56,534	$ 199,113
Controllable expenses	46,998	41,436	12,099	100,533
Controllable margin(1)	$ 46,104	$ 8,041	$ 44,435	$ 98,580
Nine Months Ended March 31, 2004—				
Revenues from external customers	$ 113,636	$ 72,074	$ 58,016	$ 243,726
Controllable expenses	49,098	50,176	10,678	109,952
Controllable margin(1)	$ 64,538	$ 21,898	$ 47,338	$ 133,774

(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 (in thousands):

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004	Nine Months Ended March 31, 2005	Nine Months Ended March 31, 2004
Total controllable margin for reportable segments	$ 32,520	$ 44,715	$ 98,580	$ 133,774
Selling and marketing	(20,731)	(21,198)	(59,405)	(63,379)
General and administrative and overhead	(21,277)	(17,421)	(62,667)	(53,669)
Restructuring and Other charges	97	—	(21,630)	(2,000)
Interest and other income and expense, net	461	881	2,087	2,552
Income (loss) before provision for income taxes and equity in earnings from joint ventures	$ (8,930)	$ 6,977	$ (43,035)	$ 17,278

11. Recent Accounting Pronouncements

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123R, Share-Based Payment (“SFAS No. 123R”). This Statement is a revision of SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. SFAS No. 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. The Statement requires entities to recognize stock compensation expense for awards of equity instruments to employees based on the grant-date fair value of those awards (with limited exceptions). SFAS No. 123R is effective for the Company's first annual reporting period that begins after June 15, 2005. The Company expects to adopt SFAS No. 123R using the Statement’s modified prospective application method. Adoption of SFAS No. 123R is expected to increase stock compensation expense. Assuming the continuation of current programs, the Company’s preliminary estimate is that additional stock compensation expense for fiscal 2006 will be in the range of $4 million to $5 million. In addition, SFAS No. 123R requires that the excess tax benefits related to stock compensation be reported as a financing cash inflow rather than as a reduction of taxes paid in cash from operations.

12. Restatement of Consolidated Condensed Financial Statements

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

In addition, the Company determined that its previous accounting for tax withholdings involving transactions in Japan required restatement, that the timing of certain reductions in software license revenues should be restated, and that equity in earnings from joint ventures and loss (gain) on sales and disposals of assets should be reclassified. The restatement also includes

the recording of previously identified errors that were previously not recorded because in each case and in aggregate the Company believed the amount of any such error was not material to the Company’s consolidated condensed financial statements.

As a result of the foregoing, the Company has restated its financial statements for the three and nine months ended March 31, 2004. The foregoing restatement adjustments did not affect the Company’s reported cash, cash equivalents and short-term investments balance during these reported periods.

Revenue and Expense Adjustments

Set forth below, are the adjustments to the Company’s previously issued statements of operations for the three and nine months ended March 31, 2004.

Software license revenue

	Three Months Ended March 31, 2004	Nine Months Ended March 31, 2004
	(In thousands)	
License revenue, as previously reported	$ 35,914	$ 108,736
Revenue restatement adjustments:		
Arrangements outside of contractual terms	495	2,486
Sell-through basis of revenue recognition	(91)	873
Revenue recognition timing adjustments	(109)	702
Foreign withholding taxes	427	839
Total revenue restatement adjustments	722	4,900
License revenue, as restated	$ 36,636	$ 113,636

Arrangements outside of contractual terms—Through the course of the audit committee investigation, instances of unauthorized side arrangements with customers were identified. Generally, these side arrangements were executed contemporaneously with the software license transaction and provided customers with various rights that were not considered in the original revenue recognition assessment. The consideration provided to customers included terms such as (i) rights to terminate the arrangement; (ii) variable pricing; (iii) rights to unspecified future products; and (iv) commitments made by the Company to provide consideration in the future. Had these elements to the arrangements been taken into consideration or known at the time the transactions were recorded, a portion or all of the revenue would have been deferred until the contingencies had lapsed, the additional products were provided, or other consideration was provided by the Company. Accordingly, the Company has restated revenue on these transactions for the three and nine months ended March 31, 2004 to properly reflect all elements of the transactions.

Restatement to sell-through basis of revenue recognition—The Company sells certain of its products through distributors and other resellers. Previously, business arrangements with the Company's distributors and resellers were believed to require payment within a customary collection period and provide no return rights. Accordingly, revenue was recognized upon shipment, on a sell-in or upfront basis, given that management believed all other criteria of SOP No. 97-2 had been met. The Company has determined that sales pertaining to distributors or resellers did not meet the criteria of SOP No. 97-2, that required the vendor's obligation to the buyer to be complete and the fees to be fixed or determinable at the time of product shipment. The Company had provided concessions to various distributors and resellers, including return rights outside the contractual terms, and in some instances facilitated the resale of the Company's software by its distributors. In addition, in some instances, distributors and resellers were not obligated to pay for delivered software licenses until they had been sold through to an end user. Accordingly, the Company has adjusted revenue on all distributor and reseller transactions for the three and nine months ended March 31, 2004 to reflect the sell-through or consignment basis of revenue recognition.

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

Foreign withholding taxes—Software license and maintenance revenues earned from customers in Japan which were previously recorded net of the 10% Japanese withholding taxes are being restated for the three and nine months ended March 31, 2004 to record the gross amount of the revenue and the related 10% income tax expense. Additionally, as part of a change in the

Japan-US tax treaty, a Japanese withholding tax law was repealed effective July 1, 2004 and provided approximately $1.5 million of income tax relief to the Company. The $1.5 million in tax relief associated with the tax law change is being restated to reduce income tax expense by $1.5 million as of the enactment date of the tax law change which occurred in the quarter ended March 31, 2004.

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

The following table presents the impact of the financial statement adjustments on the Company's previously reported consolidated condensed statements of operations for the three and nine months ended March 31, 2004 (in thousands, except per share data).

Consolidated Condensed Statements of Operations

	Three Months Ended March 31, 2004		Nine Months Ended March 31, 2004	
	As Previously Reported	**As Restated**	**As Previously Reported**	**As Restated**
Software licenses	$ 35,914	$ 36,636	$ 108,736	$ 113,636
Service and other	44,785	44,939	129,397	130,090
Total revenues	80,699	81,575	238,133	243,726
Cost of software licenses	3,854	3,854	11,786	11,786
Cost of service and other	25,345	25,345	74,223	73,973
Amortization of technology related intangibles	1,806	1,806	5,480	5,480
Total Cost of Revenues	31,005	31,005	91,489	91,239
Gross Profit	49,694	50,570	146,644	152,487
Operating Costs:				
Selling and marketing	23,818	23,841	71,281	71,449
Research and development	14,234	14,234	44,534	44,534
General and administrative	6,292	6,399	19,525	19,878
Restructuring charges and FTC legal costs	—	—	2,000	2,000
Gain on sales of assets	—	(206)	—	(885)
Total Operating Costs	44,344	44,268	137,340	136,976
Income from operations	5,350	6,302	9,304	15,511
Other income (expense), net	462	256	757	(189)
Interest income, net	460	419	2,077	1,956
Income before provision for income taxes and equity in earnings from joint ventures	6,272	6,977	12,138	17,278
Provision for income taxes	(1,352)	(341)	(2,855)	(2,330)
Equity in earnings from joint ventures	—	—	—	(100)
Net income	4,920	6,636	9,283	14,848

Accretion of preferred stock discount and dividend	(3,400)	(3,400)	(2,900)	(2,900)
Net income applicable to common shareholders	$ 1,520	$ 3,236	$ 6,383	$ 11,948
Basic net income per share applicable to common shareholders	$ 0.04	$ 0.08	$ 0.16	$ 0.30
Diluted net income per share applicable to common shareholders	$ 0.03	$ 0.06	$ 0.13	$ 0.25
Weighted average shares outstanding—Basic	41,049	41,049	40,326	40,326
Weighted average shares outstanding—Diluted	51,907	51,907	48,275	48,275

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

THE FOLLOWING DISCUSSION AND ANALYSIS OF OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS SHOULD BE READ IN CONJUNCTION WITH OUR CONSOLIDATED FINANCIAL STATEMENTS AND THE RELATED NOTES APPEARING ELSEWHERE IN THIS QUARTERLY REPORT ON FORM 10-Q AND IN AMENDMENT NO. 1 ON FORM 10-K/A TO OUR ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED JUNE 30, 2004. THIS DISCUSSION AND ANALYSIS CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS, UNCERTAINTIES AND ASSUMPTIONS. OUR ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THESE FORWARD-LOOKING STATEMENTS AS A RESULT OF A NUMBER OF FACTORS, INCLUDING THOSE SET FORTH UNDER "FACTORS THAT MAY AFFECT OUR OPERATING RESULTS AND STOCK PRICE" AND ELSEWHERE IN THIS QUARTERLY REPORT.

The following discussion and analysis gives effect to the restatement discussed in Note 12 to the Consolidated Condensed Financial Statements.

Overview

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

Divestitures

In June 2002, we received a letter from the FTC notifying us that it had commenced an investigation of the competitive effects of the Hyprotech acquisition. On August 7, 2003, the FTC announced that it had authorized its staff to file a civil administrative complaint alleging that our acquisition of Hyprotech was anti-competitive in violation of Section 5 of the Federal Trade Commission Act and Section 7 of the Clayton Act. The FTC staff filed its complaint the same day. On December 21, 2004, the Federal Trade Commission approved a consent decree with us, which consent decree constitutes a complete and final settlement of the FTC's complaint against us relating to our acquisition of Hyprotech in May 2002. The FTC's approval also constitutes approval of the transactions contemplated by the purchase and sale agreement that we and our 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, as well as the transactions contemplated by the purchase and sale agreement that we entered into with Bentley Systems Incorporated.

The sale of the AXSYS product line to Bentley Systems Incorporated was completed on July 21, 2004. We do not retain any rights to the AXSYS product line, and, through July 20, 2006, we are prohibited from soliciting business to replace AXSYS licenses held by certain customers, although we may accept Zyqad orders from such customers so long as we do not violate our non-solicitation obligations.

The sale of our operator training business and ownership of rights to the intellectual property to the Hyprotech engineering products to Honeywell were completed on December 23, 2004. Under the terms of the transactions with Honeywell we retain a perpetual, worldwide, royalty-free license to the entire Hyprotech engineering software product line and have the right to continue to develop and sell the Hyprotech engineering products, other than AXSYS, which was sold to Bentley Systems; we agreed not to compete in the operator training business for three years; we retain our customer licenses for HYSYS and related products; we entered into a two-year support agreement to provide Honeywell with source code to new releases of the Hyprotech products provided to customers under standard software maintenance services agreements; we agreed to a cash payment of approximately $6.0 million from Honeywell to us, $1.2 million of which will be released to us in six months from the closing less any adjustments for uncollected billed accounts receivable and unbilled accounts receivable; and we transferred and Honeywell assumed, as of the closing date, approximately $4 million in accounts receivable relating to the operator training business.

Significant Events—Three Months Ended March 31, 2005

On March 15, 2005 we announced completion of our audit committee investigation and the filing of our restated annual report on Form 10-K/A for the fiscal year ended June 30, 2004, and the filing of our quarterly reports on Form 10-Q for the quarters ended September 30, 2004 and December 31, 2004.

Significant Events—Three Months Ended December 31, 2004

On November 24, 2004, our board of directors accepted the resignation of Mr. David L. McQuillin, our former president and chief executive officer. On December 9, 2004, we entered into an employment agreement with Mr. Mark Fusco, pursuant to which Mr. Fusco agreed to serve as our president and chief executive officer, effective January 3, 2005.

On December 21, 2004, the Federal Trade Commission approved our proposed consent decree, which constituted a complete and final settlement of the FTC's complaint against us relating to our acquisition of Hyprotech in May 2002. The FTC's approval also constitutes approval of the transactions contemplated by the purchase and sale agreement that we and our 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.

On December 23, 2004, we and our subsidiaries completed the transactions with Honeywell contemplated by this purchase agreement, which relates to the sale of our 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:

- we retain a perpetual, worldwide, royalty-free license to the entire Hyprotech engineering software product line and have the right to continue to develop and sell the Hyprotech engineering products, other than AXSYS which was sold to Bentley Systems;
- we retain our customer licenses for HYSYS and related products;
- our Aspen RefSYS and Aspen Oil & Gas solutions were not transferred as part of the transactions;
- we agreed to a cash payment of approximately $6.0 million from Honeywell in consideration of the transfer of our operator training services business, our covenant not-to-compete in the operator training business for three years, and the transfer of ownership of the intellectual property of our Hyprotech engineering products, $1.2 million of which payment will be released to us in June 2005 (less any adjustments for uncollected billed accounts receivable and unbilled accounts receivable);
- we transferred and Honeywell assumed, as of the closing date, approximately $4 million in accounts receivable relating to the operator training business; and
- we have entered into a two-year support agreement with Honeywell under which we agreed to provide Honeywell with source code to new releases of the Hyprotech products provided to customers under standard software maintenance services agreements.

The Honeywell transaction resulted in a deferred gain of $0.2 million, which 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.

Significant Events—Three Months Ended September 30, 2004

During the three months ended September 30, 2004, we recorded $21.7 million in restructuring charges. 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, as well as $7.3 million in revisions to prior restructuring accruals, offset in part by a $0.2 million adjustment related to accretion of the discounted restructuring accrual.

On July 21, 2004, we completed the sale of the AXSYS product line to Bentley Systems as set forth in the FTC consent decree. We did not retain any rights to the AXSYS product line, and, through July 20, 2006, are prohibited from soliciting business to replace AXSYS licenses held by certain customers, although we may accept Zyqad orders from such customers so long as we do not violate our non-solicitation obligations. We recorded a gain of $0.3 million in the accompanying consolidated condensed statement of operations for the three months ended September 30, 2004 associated with the sale of this product line.

Summary of Restructuring Accruals

Fiscal 2004 and Fiscal 2005

In June 2004, we initiated a plan to reduce our operating expenses in order to better align our operating cost structure with the current economic environment and to improve our operating margins. The plan to reduce operating expenses resulted in the consolidation of facilities, headcount reductions, and the termination of operating contracts. These actions resulted in an aggregate restructuring charge of $23.8 million, recorded in the fourth quarter of fiscal 2004. During the three months ended September 30, 2004, 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, during the three months ended December 31, 2004 we recorded another $0.2 million in restructuring charges related to accretion of the discounted restructuring accrual. During the three months ended March 31, 2005, we recorded another $0.1 million in restructuring charges related to accretion of the discounted restructuring accrual, and a $0.1 million reduction in accrual related to revised sub-lease assumptions

As of March 31, 2005, there was $10.4 million remaining in accrued expenses relating to the remaining severance obligations and lease payments. During the nine months ended March 31, 2005, the following activity was recorded (in thousands):

	Closure/ Consolidation of Facilities and Contract exit costs	Employee Severance, Benefits, and Related Costs	Impairment of Assets	Total
Accrued expenses, June 30, 2004	$ 12,049	$ 911	$ —	$ 12,960
Restructuring charge	9,132	4,349	968	14,449
Impairment of assets	—	—	(968)	(968)
Payments	(10,588)	(2,717)	—	(13,305)
Accrued expenses, September 30, 2004	10,593	2,543	—	13,136
Payments	(530)	(1,414)	—	(1,944)
Restructuring charge—Accretion	216	3	—	219
Accrued expenses, December 31, 2004	10,279	1,132	—	11,411
Payments	(837)	(261)	—	(1,098)
Change in estimate—revised sub-lease assumptions	(79)	—	—	(79)
Restructuring charge—Accretion	125	—	—	125

Accrued expenses, March 31, 2005	$ 9,488	$ 871	$ —	$ 10,359
Expected final payment date	September 2112	June 2005		

Fiscal 2003

In October 2002, we initiated a plan to further reduce operating expenses in response to first quarter revenue results that were below expectations and in response to general economic uncertainties. In addition, we revised revenue expectations for the remainder of the fiscal year and beyond, primarily related to the manufacturing/supply chain product line, which has been affected the most by the current economic conditions. The plan to reduce operating expenses resulted in headcount reductions, consolidation of facilities, and discontinuation of development and support for certain non-critical products. These actions resulted in an aggregate restructuring charge of $28.1 million. During fiscal 2004, we recorded a $4.9 millon decrease to the accrual related to revised assumptions associated with lease exit costs, particularly the buyout of a remaining lease obligation, and severance obligations. In September 2004, we recorded a $7.3 million increase to the accrual due to a change in the estimate of the facility vacancy term, extending to the term of the lease. In March 2005, we recorded a $0.1 million decrease to the accrual due to a change in the estimate of remaining disposition costs.

As of March 31, 2005, there was $12.5 million remaining in accrued expenses and other liabilities relating to the remaining severance obligations, lease payments and disposition costs. During the nine months ended March 31, 2005, the following activity was recorded (in thousands):

	Closure/ Consolidation of Facilities	Employee Severance, Benefits, and Related Costs	Impairment of Assets and Disposition Costs	Total
Accrued expenses, June 30, 2004	$ 6,725	$ 292	$ 676	$ 7,693
Restructuring charge—Revised plan	7,303	—	(38)	7,265
Payments	(565)	—	(138)	(703)
Accrued expenses, September 30, 2004	13,463	292	500	14,255
Payments	(619)	(39)	(50)	(708)
Accrued expenses December 31, 2004	12,844	253	450	13,547
Payments	(730)	—	(175)	(905)
Change in estimate—revised assumptions	—	—	(143)	(143)
Accrued expenses March 31, 2005	$ 12,114	$ 253	$ 132	$ 12,499
Expected final payment date	February 2111	April 2005	April 2005	

Fiscal 2002

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 $14.4 million.

As of March 31, 2005, there was $0.9 million remaining in accrued expenses and other liabilities relating to the remaining severance obligations and lease payments. During the nine months ended March 31, 2005, the following activity was recorded (in thousands):

	Closure/ Consolidation of Facilities	Employee Severance, Benefits, and Related Costs	Total
Accrued expenses, June 30, 2004	$ 1,683	$ 308	$ 1,991
Payments	(298)	(82)	(380)
Accrued expenses, September 30, 2004	1,385	226	1,611
Payments	(382)	(97)	(479)
Accrued expenses, December 31, 2004	1,003	129	1,132
Payments	(108)	(88)	(196)
Accrued expenses, March 31, 2005	$ 895	$ 41	$ 936
Expected final payment date	December 2010	April 2005	

Fiscal 1999

In the fourth quarter of fiscal 1999, we undertook certain actions to restructure our business. The restructuring resulted from a lower than expected level of license revenues which adversely affected fiscal 1999 operating results. The license revenue shortfall resulted primarily from delayed decision making driven by economic difficulties among customers in certain of our core vertical markets. The restructuring plan resulted in a pre-tax restructuring charge totaling $17.9 million. In September 2004, we recorded an adjustment to the restructuring accrual due to revisions in sub-lease assumptions.

As of December 31, 2004, there was no remaining balance in accrued expenses relating to the restructuring. During the six months ended December 31, 2004, the following activity was recorded (in thousands):

	Closure/ Consolidation of Facilities
Accrued expenses, June 30, 2004	$ 90
Change in estimate—revised sub-lease assumptions	(47)
Sublease receipts, net of lease payments	2
Accrued expenses, September 30, 2004	45
Sublease receipts, net of lease payments	(45)
Accrued expenses, December 31, 2004	$ —

Critical Accounting Estimates and Judgments

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

- Revenue recognition for both software licenses and fixed-fee consulting services,
- Impairment of long-lived assets, goodwill and intangible assets,
- Accrual of legal fees associated with outstanding litigation,
- Accounting for income taxes, and
- Allowance for doubtful accounts.

Revenue Recognition—Software Licenses

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

- persuasive evidence of an arrangement between ourselves and a third party exists;
- delivery of our product has occurred;
- the sales price for the product is fixed or determinable; and
- collection of the sales price is probable.

Our management uses its judgment concerning the satisfaction of these criteria, particularly the criteria relating to the determination of whether the fee is fixed and determinable and the criteria relating to the collectibility of the receivables, particularly the installments receivable, relating to such sales. In addition, our management uses its judgment in applying these two criteria 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 if 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—Consulting Services

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

Impairment of Long-lived Assets, Goodwill and Intangible Assets

In accordance with Statement of Financial Accounting Standards, or SFAS, No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” we review the carrying value of long-lived assets when circumstances dictate that they should be

reevaluated, based upon the expected future operating cash flows of our business. These future cash flow estimates are based on historical results, adjusted to reflect our best estimate of future markets and operating conditions, and are continuously reviewed based on actual operating trends. Historically, actual results have occasionally differed from our estimated future cash flow estimates. In the future, actual results may differ materially from these estimates, and accordingly cause a full impairment of our long-lived assets.

In accordance with SFAS No. 142, “Goodwill and Other Intangible Assets,” we conduct at least an annual assessment on January 1st of the carrying value of our goodwill assets. We obtain a third-party valuation of the reporting units associated with the goodwill assets, which is based on either estimates of future income from the reporting units or estimates of the market value of the units, based on comparable recent transactions. These estimates of future income are based upon historical results, adjusted to reflect our best estimate of future markets and operating conditions, and are continuously reviewed based on actual operating trends. Historically, actual results have occasionally differed from our estimated future cash flow estimates. In the future, actual results may differ materially from these estimates. In addition, the relevancy of recent transactions used to establish market value for our reporting units is based on management’s judgment.

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 $65.8 million as of March 31, 2005.

Accrual of Legal Fees Associated with Outstanding Litigation

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

Accounting for Income Taxes

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

Significant management judgment is required in determining our deferred tax assets and liabilities and any valuation allowance recorded against these amounts. The valuation allowance is based on our estimates of taxable income by jurisdiction in which we operate and the period over which our deferred tax assets will be recoverable. In the event that actual results differ from these estimates or we adjust these estimates in future periods we may need to establish an additional valuation allowance which could result in a tax provision equal to the carrying value of our deferred tax assets.

Allowance for Doubtful Accounts

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

Results of Operations

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2005	2004	2005	2004
Revenues:				
Software licenses	48.4%	44.9%	46.8%	46.6%
Service and other	51.6	55.1	53.2	53.4
Total revenues	100.0	100.0	100.0	100.0
Cost of revenues:				
Cost of software licenses	6.3	4.7	6.4	4.8
Cost of service and other	29.9	31.1	31.8	30.4
Amortization of technology related intangible assets	2.8	2.2	2.7	2.2
Total cost of revenues	39.0	38.0	40.8	37.4
Gross profit	61.0	62.0	59.2	62.6
Operating costs:				
Selling and marketing	37.8	29.2	35.2	29.3
Research and development	18.0	17.4	17.7	18.3
General and administrative	19.8	7.8	18.0	8.2
Restructuring charges and FTC legal costs	(0.2)	0.0	10.9	0.8
Gain on sales and disposals of assets	0.1	(0.3)	(0.1)	(0.4)
Total operating costs	75.7	54.3	81.6	56.2
Income (loss) from operations	(14.6)	7.7	(22.5)	6.4
Interest income	2.6	2.1	2.5	2.3
Interest expense	(1.8)	(1.5)	(1.6)	(1.5)
Other income (expense), net	0.0	0.3	0.0	(0.1)
Income (loss) before provision for income taxes and equity in earnings from joint ventures	(13.9)%	8.6%	(21.6)%	7.1%

Comparison of the Three and Nine Months Ended March 31, 2005 and 2004

Total Revenues

Revenues are derived from software licenses, consulting services and maintenance and training. Total revenues for the three months ended March 31, 2005 decreased 21.3% to $64.2 million from $81.6 million in the three months ended March 31, 2004. Total revenues for the nine months ended March 31, 2005 decreased 18.3% to $199.1 million from $243.7 million in the nine months ended March 31, 2004. Total revenues from customers outside the United States were $40.0 million and $121.5 million, or 62.0% and 61.1% of total revenues for the three and nine months ended March 31, 2005, respectively, as compared to $48.8 million and $132.3 million, or 59.8% and 54.3% of total revenues for the three and nine months ended March 31, 2004, respectively. The geographical mix of revenues can vary from period to period. Explanations of the revenue by component are described below.

Software License Revenues

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. Software license revenues represented 48.4% of total revenues for the three months ended March 31, 2005, as compared to 44.9% in the three months ended March 31, 2004. Revenues from software licenses for the three months ended March 31, 2005 decreased 15.1% to $31.1 million from $36.6 million in the three months ended March 31, 2004.

Software license revenues represented 46.8% of total revenues for the nine months ended March 31, 2005, as compared to 46.6% in the nine months ended March 31, 2004. Revenues from software licenses for the nine months ended March 31, 2005 decreased 18.1% to $93.1 million from $113.6 million in the nine months ended March 31, 2004.

We believe that the decreases in the three and nine months ended March 31, 2005 were 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. For the nine months ended March 31, 2005 and 2004, approximately 70% and 30% of our license revenue was derived from products in the engineering product line and manufacturing/supply chain product line, respectively.

Service and Other Revenues

Revenues from service and other consist of consulting services, post-contract support on software licenses, training and sales of documentation. Revenues from service and other for the three months ended March 31, 2005 decreased 26.3% to $33.1 million from $44.9 million in the three months ended March 31, 2004. Revenues from service and other for the nine months ended March 31, 2005 decreased 18.5% to $106.0 million from $130.1 million in the nine months ended March 31, 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.

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 the three months ended March 31, 2005 increased 4.7% to $4.0 million from $3.9 million in the three months ended March 31, 2004. Cost of software licenses for the nine months ended March 31, 2004 increased 7.8% to $12.7 million from $11.8 million in the nine months ended March 31, 2004. Cost of software licenses as a percentage of revenues from software licenses was 13.0% and 13.6% for the three and nine months ended March 31, 2005, respectively, as compared to 10.5% and 10.4% for the three and nine months ended March 31, 2004, respectively.

The cost increase for both the three and nine months ended was primarily due to an increase in amortization of computer software development costs of $0.2 and $0.8 million for the three and nine months ended March 31, 2005, respectively. This increased amortization related to several significant product releases, including AspenOne in December 2004.

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 the three months ended March 31, 2005 decreased 24.2% to $19.2 million from $25.3 million in the three months ended March 31, 2004. Cost of service and other for the nine months ended March 31, 2005 decreased 14.5% to $63.2 million from $74.0 million in the nine months ended March 31, 2004. Cost of service and other as a percentage of service and other revenues was 58.0% and 59.7% in the three and nine months ended March 31, 2005, respectively, as compared to 56.4% and 56.9% in the three and nine months ended March 31, 2004, respectively.

The decrease in cost for the three months was primarily due to decreased payroll costs of $3.4 million related to reductions in headcount, as well as a decrease in reimbursable expenses of $2.0 million. The decrease in cost for the nine months was attributable to decreased payroll costs of $6.0 million and decreased facility costs of $2.9 million related to the closing of facilities under our restructuring plans, as well as a decrease in reimbursable expenses of $3.4 million, offset in part by an increase in billable consulting fees of $0.3 million.

Amortization of Technology Related Intangibles

Amortization of technology related intangibles for the three months ended March 31, 2005 and 2004 was $1.8 million and $1.9 million, respectively, and for the nine months ended March 31, 2005 and 2004 was $5.3 million and $5.5 million, respectively. As a percentage of total revenues, amortization of technology related intangibles was 2.8% and 2.7% for the three and nine months ended March 31, 2005, respectively, as compared to 2.2% for the three and nine months ended March 31, 2004.

Selling and Marketing Expenses

Selling and marketing expenses for the three months ended March 31, 2005 increased 1.9% to $24.3 million from $23.8 million in the three months ended March 31, 2004. Selling and marketing expenses for the nine months ended March 31, 2005 decreased 1.9% to $70.1 million from $71.4 million in the nine months ended March 31, 2004. As a percentage of total revenues, selling and marketing expenses were 37.8% and 35.2% for the three and nine months ended March 31, 2005, respectively, as compared to 29.2% and 29.3% for the three and nine months ended March 31, 2004, respectively.

The increase in cost for the three months ended was attributable to increased expenses of $0.8 million from Aspenworld, our bi-annual user conference last held in October 2004, offset in part by a decrease in payroll costs of $0.4 million. The decrease in cost for the nine months ended was primarily due to a decrease in payroll costs of $3.1 million offset in part by an increase in Aspenworld expenses of $1.8 million.

Research and Development Expenses

Research and development expenses consist of personnel and outside consultancy costs required to conduct our product development efforts. Research and development expenses during the three months ended March 31, 2005 decreased 18.8% to $11.6 million from $14.2 million in the three months ended March 31, 2004. Research and development expenses during the nine months ended March 31, 2005 decreased 20.7% to $35.3 million from $44.5 million in the nine months ended March 31, 2004. As a percentage of revenues, research and development costs were 18.0% and 17.7% for the three and nine months ended March 31, 2005, respectively, as compared to 17.4% and 18.3% for the three and nine months ended March 31, 2004, respectively.

The decrease in costs for the three months ended March 31, 2005 was primarily attributable to a $1.3 million decrease in salary and benefit costs and a $0.2 million decrease in facility costs, both associated with reductions in headcount and facility closures under our June 2004 restructuring plan, as well as a $0.9 million increase in capitalized software development costs. The decrease in costs for the nine months ended March 31, 2005 was attributable to a $3.7 million decrease in salary and benefit costs and a $1.8 million decrease in facility costs, as well as a $1.7 million decrease in consulting fees, a $0.5 million decrease in travel and entertainment costs and a $1.5 million increase in capitalized software development costs.

We capitalized software development costs that amounted to 20.7% and 18.2% of our total research and development costs during the three and nine months ended March 31, 2005, respectively, as compared to 12.8% and 11.2% during the three and nine months ended March 31, 2004, respectively. These increases are due to a reduction in general research and development costs, while efforts dedicated to software development projects that qualify for capitalization has remained steady.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries of administrative, executive, financial and legal personnel, outside professional fees, and amortization of other intangible assets. General and administrative expenses for the three months ended March 31, 2005 increased 99.2% to $12.7 million from $6.4 million for the three months ended March 31. 2004. General and administrative expenses for the nine months ended March 31, 2005 increased 80.4% to $35.9 million from $19.9 million for the nine months ended March 31, 2004. The increase for the three months was attributable primarily to $4.0 million in costs related to the audit committee investigation described in Note 12 to the consolidated condensed financial statements, $0.3 million in consulting fees related to Sarbanes-Oxley — specifically our Section 404 efforts, $0.5 million in other litigation defense costs, and $0.6 million in bad debt expense. The increase for the nine months was primarily due to $7.1 million in costs related to the audit committee investigation as well as $3.8 million in litigation defense and settlement costs related to KBC.

Interest Income

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

We sell a portion of the installment contracts to unrelated financial institutions. The interest earned by us on the installment contract portfolio in any one year is the result of the implicit interest rate established by us on installment contracts and the size of the contract portfolio. Interest income was $1.7 million and $4.9 million for the three and nine months ended March 31, 2005, respectively, as compared to $1.7 million and $5.7 million for the three and nine months ended March 31, 2004, respectively. This decrease for the nine month periods primarily was due to the aggressive collection of receivables and the increased sale of receivables, resulting in a decrease in the installments receivable balance.

Interest Expense

Interest expense is generated from interest charged on our convertible debentures, notes payable and capital lease obligations. Interest expense was $1.2 million and $3.1 million for the three and nine months ended March 31, 2005, as compared to $1.3 million and $3.8 million for the three and nine months ended March 31, 2004, respectively. This decrease in interest expense resulted from the elimination of a portion of the interest bearing debt, due to the repurchase and retirement of a portion of our convertible debentures.

Tax Rate

The tax provision recorded during the three and nine months ended March 31, 2005 primarily related to income in foreign locations. We did not record a domestic income tax benefit for the three and nine months ended March 31, 2005, as we provided a full valuation against the domestic tax net operating loss carryforwards that were generated during the periods. Additionally, as part of a change in the Japan-US tax treaty, a Japanese withholding tax law was repealed effective July 1, 2004 and provided approximately $1.5 million of income tax relief to us as of the enactment date of the tax law change which occurred in the quarter ended March 31, 2004.

Liquidity and Capital Resources

During the nine months ended March 31, 2005, operating activities used $30.8 million of cash primarily due to the operating loss and payments made related to restructuring activities. Investing activities used $11.5 million of cash primarily as a result of the purchase of property and equipment and the capitalization of computer software development costs. Financing activities provided $3.5 million of cash primarily due to the issuance of shares under our employee stock purchase plan and due to the exercise of stock options.

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 receivables to third parties.

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

We have had arrangements to sell installments receivable to three financial institutions, General Electric Capital Corporation, Fleet Business Credit Corporation and Silicon Valley Bank. We sold certain installment contracts for aggregate proceeds of approximately $15.8 million and $66.7 million during the three and nine months ended March 31, 2005, respectively, and $18.1 million and $69.9 million during the three and nine months ended March 31, 2004, respectively. As of March 31, 2005, there was approximately $65 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 March 31, 2005, we had a partial recourse obligation that was within the range of $0.7 million to $2.9 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 (5.75% at March 31, 2005). We need to maintain a $4.0 million compensating cash balance with the bank, or we will 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 March 31, 2005, there were $8.5 million in letters of credit outstanding under the line of credit, and there was $12.4 million available for future borrowing. On April 1, 2005, we executed an amendment to the Loan Arrangement that extended the term of the agreement to July 15, 2006 and adjusted the terms of certain financial covenants. As of March 31, 2005, we were in default of the tangible net worth covenant. On May 9, 2005, we executed an amendment to the Loan Arrangement that adjusted the terms of the financial covenants and cured the default as of March 31, 2005.

As of March 31, 2005, we had outstanding $56.7 million in aggregate principal amount of our 5 ¼% convertible subordinated debentures. These convertible debentures mature on June 15, 2005. We believe that an increase in the sale of our installments receivable contracts to financial institutions or investment firms during the fourth quarter of our fiscal year 2005, our current cash balances, and availability under our line of credit will be sufficient to meet our obligation to repay the convertible debentures, including the interest accrued thereon, at maturity. However, if these funding sources prove insufficient, we may be required to raise additional capital or incur additional debt in order to meet our repayment obligations. There can be no assurance that we will be able to do so on terms and conditions that are favorable to us, or at all.

As of March 31, 2005, we had cash and cash-equivalents totaling $69.1 million. Our commitments as of March 31, 2005 consisted primarily of the maturity of the convertible debentures on June 15, 2005, capital lease obligations, and leases on our headquarters and other facilities. Other than these, there were no other commitments for capital or other expenditures. Our obligations related to these items at March 31, 2005 are as follows (in thousands):

	2005	2006	2007	2008	2009	Thereafter	Total
Operating leases	$ 3,186	$ 10,489	$ 9,561	$ 8,186	$ 7,597	$ 25,273	$ 64,292
Capital leases and debt obligations	463	963	224	183	181	401	2,415
Maturity of convertible debentures	56,745	—	—	—	—	—	56,745
Total commitments	$ 60,394	$ 11,452	$ 9,785	$ 8,369	$ 7,778	$ 25,674	$ 123,452

We believe that the sales of installment contracts, including anticipated increased sales of installment contracts during the quarter ending June 30, 2005 as described above, our current cash balances, and availability under our line of credit will be sufficient to meet our working capital and capital expenditure requirements for at least the next 12 months. However, we may need to obtain additional financing, if we are unable to sell installment contracts as described above, if our current plans and projections prove to be inaccurate or if our expected cash flows are insufficient to fund our operations because of lower-than-expected revenues, unanticipated expenses or other unforeseen difficulties. In addition, we may seek to take advantage of favorable market conditions by raising additional funds from time to time through public or private security offerings, debt financings, strategic alliances or other financing sources. Our ability to obtain additional financing will depend on a number of factors, including market conditions, our operating performance, the restrictions imposed by our current inability to use a "short form" registration statement on Form S-3, the outcome of the putative class action lawsuits pending against us, 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.

Factors that may affect our operating results and stock price

INVESTING IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD CAREFULLY CONSIDER THE RISKS AND UNCERTAINTIES DESCRIBED BELOW BEFORE PURCHASING OUR COMMON STOCK. THE RISKS AND UNCERTAINTIES DESCRIBED BELOW ARE NOT THE ONLY ONES FACING OUR COMPANY. ADDITIONAL RISKS AND UNCERTAINTIES MAY ALSO IMPAIR OUR BUSINESS OPERATIONS. IF ANY OF THE FOLLOWING RISKS ACTUALLY OCCUR, OUR BUSINESS, FINANCIAL CONDITION OR RESULTS OF OPERATIONS WOULD LIKELY SUFFER. IN THAT CASE, THE TRADING PRICE OF OUR COMMON STOCK COULD FALL, AND YOU MAY LOSE ALL OR PART OF THE MONEY YOU PAID TO BUY OUR COMMON STOCK.

Risks Related to Recent Accounting Investigations and Reviews

We have identified a material weakness in our internal controls with respect to software license revenue recognition that, if not remedied effectively, could result in material misstatements in our financial statements in future periods and our stock price could fall.

In October 2004, the audit committee of our board of directors began an investigation into the accounting treatment of a number of transactions we entered into with alliance partners and other customers during our fiscal years ended June 30, 2000 through 2002. Based on a report by the audit committee to our board in connection with the investigations and on a report by Deloitte & Touche LLP, our independent registered public accounting firm, to the audit committee in connection with the preparation of the restated financial statements included in an amendment to our Annual Report on Form 10-K/A filed with the SEC on March 15, 2005, we concluded that as of December 31, 2004, and again as of March 31, 2005, a material weakness existed in the design and operation of our internal controls over financial reporting with respect to software license revenue recognition. A material weakness is defined by the Public Company Accounting Oversight Board (United States) as 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. A significant deficiency is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a misstatement of the financial statements that is more than inconsequential will not be prevented or detected. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

Our management concluded that the following factors contributed significantly to the material weakness with respect to our software license revenue recognition controls:

(a) need for improved and redundant procedures and cross-checks to reasonably assure the identification of arrangements including both software license and services components;

(b) need for improved and redundant procedures and cross-checks to reasonably assure the detection and prevention of unauthorized arrangements with customers entered into contemporaneously with software license agreements;

(c) inadequate systems to track sales by resellers of software licenses to end-users;

(d) lack of a sufficient number of qualified finance personnel to review and provide guidance on revenue recognition for complex software license transactions; and

(e) need for the establishment of a routine process to assess the creditworthiness of new or existing customers.

Based on the reports of the audit committee and our independent registered public accounting firm, we are implementing a number of policies and procedures designed to address the material weaknesses and reportable conditions described above. We believe these initiatives, which we expect to complete by June 30, 2005, will address the material weakness in our internal controls with respect to software license revenue recognition. If these remedial initiatives are insufficient to address this material weakness, however, our financial statements may contain material misstatements, we may fail to meet our future reporting obligations on a timely basis, we may be subject to class action litigation, and our common stock may be delisted from the Nasdaq National Market. 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 weakness identified or that any additional material weaknesses will not arise in the future due to a failure to implement and maintain

adequate internal controls 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 reporting.

Our assessment of the effectiveness of our internal controls over financial reporting as required by Section 404 of the Sarbanes-Oxley Act may identify additional material weaknesses, which, if not remediated effectively, could result in material misstatements in our financial statements in future periods.

Pursuant to rules promulgated by the SEC under Section 404 of the Sarbanes-Oxley Act, we are required to include in our future Form 10-K filings, beginning with our Form 10-K for our fiscal year ending June 30, 2005, a report by our management on our internal control over financial reporting, along with a report by our independent auditors attesting as to management's internal control report and attesting to internal controls over financial reporting. We have undertaken a program, deploying internal and external resources, to document, test and assess the effectiveness of our internal control over financial reporting, but there can be no assurance that we will complete our documentation, testing and assessment by the filing date for our annual report on Form 10-K for fiscal year 2005. We are focusing our efforts on those control processes that are most significant to our business and financial reporting. There can be no assurance, however, that there will be sufficient time and resources available before the filing date for this Form 10-K for our independent auditors and us to complete the assessment and testing of all of our key business processes, consistent with the Committee of Sponsoring Organization Standards. We are subject to the internal control report rules for the first time in fiscal 2005 and, therefore, have no experience predicting the time required to comply with their requirements. Our internal controls assessment may identify material weaknesses in addition to the ones we have previously disclosed. Consequently, our financial statements may contain material misstatements, we may fail to meet our future reporting obligations on a timely basis, we may be subject to class action litigation, and our common stock may be delisted. In addition, our work may result in an attestation with an adverse, or a disclaimer of an, opinion from our independent auditors as to the adequacy of our internal control over financial reporting. Each of these consequences of our Section 404 assessment may have an adverse effect on investor perceptions of our company and cause a decline in the market price of our common stock.

We face risks related to securities litigation and investigations that could have a material adverse effect on our business, financial condition and results of operations.

Following the announcement in October 2004 of the investigation by the audit committee of our board of directors into the accounting treatment of certain software license transactions in prior fiscal years, we and certain of our former officers and directors were named as defendants in securities class action lawsuits filed in Massachusetts federal district court, alleging violations of the Exchange Act and claiming we made material misstatements concerning our financial condition. In addition, a derivative lawsuit alleging breaches of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment, was also filed in Massachusetts federal district court. Defending against existing and potential litigation relating to the restatement of our consolidated financial statements will likely require significant attention and resources of management. Regardless of the outcome, such litigation and investigation will result in significant legal expenses and may cause our customers, employees and investors to lose confidence in our company.

On October 29, 2004, we announced that we 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. We are cooperating fully with the subpoena requests and in the investigation by the U.S. Attorney's Office. However, we may in the future become the subject of investigation by other regulatory agencies such as the SEC.

We may be required to indemnify our current and former directors and officers who are named as defendants in some of these lawsuits, and such indemnification commitments may be costly. Our director and officer liability insurance policies provide only limited liability protection relating to the securities class action and derivative lawsuits against us and certain of our officers and directors and may not cover director and officer indemnification. If these policies do not adequately cover expenses and certain liabilities relating to these lawsuits, or if we are unable to achieve a favorable settlement of these lawsuits, our financial condition could be materially harmed. Increased premiums could materially harm our financial results in future periods. The inability to obtain this coverage due to prohibitively expensive premiums would make it more difficult to retain and attract officers and directors and expose us to potentially self-funding any potential future liabilities ordinarily mitigated by director and officer liability insurance.

If we are not current in our SEC filings, we will face several adverse consequences.

If we are unable to remain current in our financial filings, investors in our securities will not have information regarding our business and financial condition with which to make decisions regarding investment in our securities. In addition, we will not be able to have a registration statement under the Securities Act of 1933, covering a public offering of securities, declared effective by the SEC, and we will not be able to make offerings pursuant to existing registration statements or pursuant to certain "private placement" rules of the SEC under Regulation D to any purchasers not qualifying as "accredited investors." We also will not be eligible to use a "short form" registration statement on Form S-3 for a period of 12 months, beginning on March 15, 2005 (the time we became current with our filings). These restrictions may impair our ability to raise funds should we desire to do so and may adversely affect our financial condition.

Our common stock may be delisted from the Nasdaq National Market and transferred to the National Quotation Service Bureau, or "Pink Sheets," which may, among other things, reduce the price of our common stock and the levels of liquidity available to our stockholders.

Nasdaq has notified us that we must timely file, without regard to any applicable 12b-25 extension period, all periodic reports with the SEC and Nasdaq for all reporting periods ending on or before January 31, 2006. If we fail to keep current in our SEC filings or to comply with Nasdaq's continued listing requirements, our common stock may be delisted from the Nasdaq National Market and subsequently would trade on the Pink Sheets. The trading of our common stock on the Pink Sheets may reduce the price of our common stock and the levels of liquidity available to our stockholders. In addition, the trading of our common stock on the Pink Sheets would materially adversely affect our access to the capital markets, and the limited liquidity and potentially reduced price of our common stock could materially adversely affect our ability to raise capital through alternative financing sources on terms acceptable to us or at all. Stocks that trade on the Pink Sheets are no longer eligible for margin loans, and a company trading on the Pink Sheets cannot avail itself of federal preemption of state securities or "blue sky" laws, which adds substantial compliance costs to securities issuances, including pursuant to employee option plans, stock purchase plans and private or public offerings of securities. If we are delisted in the future from the Nasdaq National Market and transferred to the Pink Sheets, there may also be other negative implications, including the potential loss of confidence by suppliers, customers and employees, the loss of institutional investor interest in our company.

Risks Related to Our Business

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

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

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

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

- demand for our products and services;
- our customers' purchasing patterns;

- the length of our sales cycle;
- changes in the mix of our license revenues and service revenues;
- the timing of introductions of new solutions and enhancements by us and our competitors;

- seasonal weakness in the first quarter of each fiscal year (which for us is the quarter ended September 30), primarily caused by a slowdown in business in some of our international markets;
- the timing of our investments in new product development;
- the mix of domestic and international sales;
- changes in our operating expenses; and
- fluctuating economic conditions, particularly as they affect companies in the oil and gas, chemicals, petrochemicals and petroleum industries.

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

Since our expense levels are based in part on anticipated revenues, we may be unable to adjust our spending quickly enough to compensate for any revenue shortfall and any revenue shortfall would likely have a disproportionately adverse effect on our operating results. We expect that the factors listed above will continue to affect our operating results for the foreseeable future. Because of the factors listed above, we believe that period-to-period comparisons of our operating results are not necessarily meaningful and should not be relied upon as indications of future performance.

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

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

We derive a majority of our total revenues from companies in the oil and gas, chemicals, petrochemicals and petroleum industries. Accordingly, our future success depends upon the continued demand for manufacturing optimization software and services by companies in these process manufacturing industries. The oil and gas, chemicals, petrochemicals and petroleum industries are highly cyclical and highly reactive to the price of oil, as well as general economic conditions. In the past, worldwide economic downturns and pricing pressures experienced by oil and gas, chemical, petrochemical and petroleum companies have led to consolidations and reorganizations. These downturns, pricing pressures and restructurings have caused delays and reductions in capital and operating expenditures by many of these companies. These delays and reductions have reduced demand for products and services like ours. A recurrence of these industry patterns, as well as general domestic and foreign economic conditions and other factors that reduce spending by companies in these industries, could harm our operating results in the future.

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

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

For example, we recognize software license revenue in accordance with SOP 97-2, *Software Revenue Recognition,* as amended by SOP 98-9, *Software Revenue Recognition with Respect to Certain Transactions*. The AICPA and the SEC continue to issue interpretations and guidance for applying the relevant accounting standards to a wide range of sales contract terms and business arrangements that are prevalent in software licensing arrangements.

Certain factors have in the past and may in the future cause us to defer recognition for license fees beyond delivery, such as the inclusion of material non-standard terms in our licensing agreements. Because of these factors and other specific

requirements under accounting principles generally accepted in the United States for software revenue recognition, we must have very precise terms in our software arrangements in order to recognize revenue when we initially deliver software or perform services. Negotiation of mutually acceptable terms and conditions can extend our sales cycle, and we may accept terms and conditions that do not permit revenue recognition at the time of delivery.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123R, Share-Based Payment, or SFAS No. 123R. SFAS No. 123R is a revision of SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. SFAS No. 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123R requires entities to recognize stock compensation expense for awards of equity instruments to employees based on the grant-date fair value of those awards (with limited exceptions). SFAS No. 123R is effective for our first annual reporting period that begins after June 15, 2005. We expect to adopt SFAS No. 123R using the Statement's modified prospective application method. Adoption of SFAS No. 123R is expected to increase stock compensation expense. Assuming the continuation of current programs, our preliminary estimate is that additional stock compensation expense for fiscal 2006 will be in the range of $4 million to $5 million. In addition, SFAS No. 123R requires that the excess tax benefits related to stock compensation be reported as a financing cash inflow rather than as a reduction of taxes paid in cash from operations.

We face increased competition as a result of the sale of our operator training business and Hyprotech intellectual property to Honeywell International and the settlement of the KBC proceedings, in addition to competition we have faced in the past, and if we do not compete successfully, we may lose market share.

As a result of the consent decree we entered into with the FTC and the related transactions with Honeywell and Bentley Systems described in "Item 2.—Management's Discussion and Analysis of Financial Condition and Results of Operations," we transferred our AXSYS product line, our operator training business, and rights to the intellectual property of the Hyprotech product line. The ability of Honeywell International to compete against our Hyprotech engineering product, the loss of our and operator training business, the ability of Bentley Systems to compete against our Zyqad product line, and the increased costs of our support obligations to Honeywell under the two year support agreement may have a material adverse effect on our operations. The Hyprotech engineering products are material to our current business and strategy, and any decrease in our revenues from these products may have a material adverse impact on our results of operations. Because Honeywell may license the Hyprotech engineering products on more favorable terms than we may offer, sell the Hyprotech engineering products to companies that are customers of both Honeywell and us, and bundle the Hyprotech engineering products with its other products for the process industries, Honeywell may harm our ability to compete in the marketplace, including our ability to negotiate license renewals with our current customers.

In addition, as part of our settlement with KBC Advanced Technologies, we agreed to recognize KBC's right to develop, market and license HYSYS.Refinery, KBC's refinery-wide simulation product which competes with our refinery-wide simulation product, Aspen RefSYS. As a result of this settlement, increased competition from KBC may harm our market share and our revenues.

In addition, our markets in general are highly competitive. Our engineering software competes with products of other businesses such as Simulation Sciences (a division of Invensys), Chemstations, Bentley Systems, ABB, MDC Technology, Aveva Group (formerly Cadcentre), WinSim (formerly ChemShare) and Process Systems Enterprise. Our manufacturing/supply chain software competes with products of companies such as Honeywell, Invensys, ABB, Rockwell, i2 Technologies, Manugistics and components of SAP's supply chain offering. As we expand our engineering solutions into the collaborative process lifecycle management market and the EOM market, we may face competition from companies that we have not typically competed against in the past or competition from companies in areas where we have not competed in the past, such as Agile, Parametric Technology, SAP, Honeywell, ABB, Invensys, Siemens and EDS. We also face competition in all areas of our business from large companies in the process industries that have internally developed their own proprietary software solutions.

Many of our competitors have greater financial, marketing and other resources than we have. In addition, many of our competitors have established, and may in the future continue to establish, cooperative relationships with third parties to improve their product offerings and to increase the availability of their products to the marketplace. In addition, competitors may make strategic acquisitions to increase their ability to gain market share or improve the quality or marketability of their products. These cooperative relationships and strategic acquisitions could reduce our market share, require us to lower our prices, or both. Increased competition may result in price reductions, reduced profitability and loss of market share. We cannot assure you that we will be able to compete successfully against existing or future competitors.

If economic conditions and the markets for our products do not continue to improve, sales of our product lines, particularly our manufacturing and supply chain product suites, will be adversely affected.

Adverse changes in the economy and global economic and political uncertainty have previously caused delays and reductions in information technology spending by our customers and a consequent deterioration of the markets for our products and services, particularly our manufacturing/supply chain product suites. If adverse economic conditions worsen or do not continue to improve, we will experience further reductions, delays, and postponements of customer purchases that will negatively impact our revenue and operating results. If economic and political conditions and the market for our products do not continue to improve and our revenues decline, our business could be harmed, and we may not be able to further reduce our costs to align them with these decreased revenues.

If we do not continue to make the technological advances required by the marketplace, our business could be seriously harmed.

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

Under our business plan, we are investing significantly in the development of new business process products that are intended to anticipate and meet the emerging needs of our target market. We are focusing significantly on development of these new products, which means we will not invest as substantially in the continued enhancement of our current products. We cannot assure you that our new product development will result in products that will meet market needs and achieve significant market acceptance.

If we are unable to successfully market our products to senior executives of potential customers, our revenue growth may be limited.

With the development of our integrated manufacturing/supply chain solutions and our EOM solutions, we frequently must focus on selling the strategic value of our technology to the highest executive levels of customer organizations, typically the chief executive officer, chief financial officer or chief information officer. If we are not successful at selling and marketing to senior executives, our revenue growth and operating results could be materially and adversely affected.

If we are unable to develop or maintain relationships with strategic partners, our revenue growth may be harmed.

An element of our growth strategy is to strategically partner with a few select third-party implementation partners that market and integrate our products. If our current partners terminate their existing relationships with us, or if we do not adequately train a sufficient number of systems integrator partners, or if potential partners focus their efforts on integrating or co-selling competing products to the process industries, our future revenue growth could be limited and our operating results could be materially and adversely affected. If our partners fail to implement our solutions for our customers properly, the reputations of our products and services and our company could be harmed and we might be subject to claims by our customers. We intend to continue to establish business relationships with technology companies to accelerate the development and marketing of our products and services. To the extent that we are unsuccessful in maintaining our existing relationships and developing new relationships, our revenue growth may be materially and adversely affected.

We may suffer losses on fixed-price engagements.

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

increase, which could cause the impact of an unprofitable fixed-price engagement to have a more pronounced impact on our operating results.

Our business may suffer if we fail to address the challenges associated with international operations.

We derived approximately one-half of our total revenues from customers outside the United States in each of the fiscal years ended June 30, 2002, 2003 and 2004. We anticipate that revenues from customers outside the United States will continue to account for a significant portion of our total revenues for the foreseeable future. Our operations outside the United States are subject to additional risks, including:

- unexpected changes in regulatory requirements, exchange rates, tariffs and other barriers;
- political and economic instability;
- less effective protection of intellectual property;
- difficulties in managing distributors and representatives;
- difficulties in staffing and managing foreign subsidiary operations;
- difficulties and delays in translating products and product documentation into foreign languages;
- difficulties and delays in negotiating software licenses compliant with accounting revenue recognition requirements in the United States;
- difficulties in collecting trade accounts receivable in other countries; and
- potentially adverse tax consequences.

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

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

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

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

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

We cannot be certain that our software and services do not infringe issued patents, copyrights, trademarks or other intellectual property rights of third parties. Litigation regarding intellectual property rights is common in the software industry, and we may be subject to legal proceedings and claims from time to time, including claims of alleged infringement of intellectual property rights of third parties by us or our licensees concerning their use of our software products and integration technologies and services. Although we believe that our intellectual property rights are sufficient to allow us to market our software without incurring liability to third parties, third parties may bring claims of infringement against us. Because our software is integrated with our customers' networks and business processes, as well as other software applications, third parties may bring claims of infringement against us, as well as our customers and other software suppliers, if the cause of the alleged infringement cannot easily be determined. Such claims may be with or without merit. Claims of alleged infringement may have a material adverse effect on our business and may discourage potential customers from doing business with us on acceptable terms, if at all. Defending against claims of infringement may be time-consuming and may result in substantial costs and diversion of resources, including our management's attention to our business. Furthermore, a party making an infringement claim could secure a judgment that requires us to pay substantial damages. A judgment could also include an injunction or other court order that could prevent us from selling our software or require that we re-engineer some or all of our products. Claims of intellectual property infringement also might require us to enter costly royalty or license agreements. We may be unable, however, to obtain royalty or license agreements on terms acceptable to us or at all. Our business, operating results and financial condition could be harmed significantly if any of these events occurred, and the price of our common stock could be adversely affected. Furthermore, former employers of our current and future employees may assert that our employees have improperly disclosed confidential or proprietary information to us. In addition, we have agreed, and may agree in the future, to indemnify certain of our customers against claims that our software infringes upon the intellectual property rights of others. We could incur substantial costs in defending ourselves and our customers against infringement claims. In the event of a claim of infringement, we, as well as our customers, may be required to obtain one or more licenses from third parties, which may not be available on acceptable terms, if at all. Defense of any lawsuit or failure to obtain any such required licenses could harm our business, operating results and financial condition and the price of our common stock. In addition, although we carry general liability insurance, our current insurance coverage may not apply to, and likely would not protect us from, all liability that may be imposed under these types of claims.

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

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

Our software is complex and may contain undetected errors.

Like many other complex software products, our software has on occasion contained undetected errors or "bugs." Because new releases of our software products are initially installed only by a selected group of customers, any errors or "bugs" in those new releases may not be detected for a number of months after the delivery of the software. These errors could result in loss of customers, harm to our reputation, adverse publicity, loss of revenues, delay in market acceptance, diversion of development resources, increased insurance costs or claims against us by customers.

We may be subject to significant expenses and damages because of liability claims.

The sale and implementation of certain of our software products and services, particularly in the areas of advanced process control and optimization, may entail the risk of product liability claims. Our software products and services are often integrated with our customers' networks and software applications and are used in the design, operation and management of manufacturing processes at large facilities, often for mission critical applications. Any errors, defects, performance problems or other failure of our software could result in significant claims against us for damages or for violations of environmental, safety and other laws and regulations. In addition, the failure of our software to perform to customer expectations could give rise to warranty claims. Our agreements with our customers generally contain provisions designed to limit our exposure to potential product liability claims. It is possible, however, that the limitation of liability provisions in our agreements may not be effective

as a result of federal, state or local laws or ordinances or unfavorable judicial decisions. A substantial product liability claim against us could materially and adversely harm our operating results and financial condition. Even if our software is not at fault, a product liability claim brought against us could be time consuming, costly to defend and harmful to our operations. In addition, although we carry general liability insurance, our current insurance coverage may be insufficient to protect us from all liability that may be imposed under these types of claims.

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

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

If we are not successful in attracting and retaining management team members and other highly qualified individuals in our industry, we may not be able to successfully implement our business strategy.

Our ability to establish and maintain a position of technology leadership in the highly competitive software market depends in large part upon our ability to attract and retain highly qualified managerial, sales and technical personnel. We have recently had a number of changes in our senior management. We announced the resignation of our senior vice president of global sales in August 2004 and the resignation of our president and chief executive officer in

November 2004, and we also announced the retirement from our board of directors of Lawrence B. Evans, our founder who was serving as chairman of our board, in January 2005. Mark Fusco, who became our president and chief executive officer on January 3, 2005, had been serving as a member of our board of directors for one year and has not previously served as the chief executive officer of a publicly traded company. In addition, several of our executive officers have not entered into an employment agreements with us. In the future, we may experience the departure of senior executives due to competition for talent from start-ups and other companies. Our future success depends on a continued, successful management transition and will also depend on our continuing to attract, retain and motivate highly skilled employees. Competition for employees in our industry is intense. We may be unable to retain our key employees or attract, assimilate or retain other highly qualified employees in the future. We have from time to time in the past experienced, and we expect to continue to experience in the future, difficulty in hiring and retaining highly skilled employees with appropriate qualifications.

Our common stock may experience substantial price and volume fluctuations.

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

In the past, following periods of volatility in the market price of a public company's securities, securities class action litigation has often been instituted against companies. We currently have two putative class action lawsuits pending against us in U.S. District Court, District of Massachusetts. This type of litigation could result in substantial costs and a diversion of management's attention and resources.

Our common stockholders may experience further dilution as a result of provisions contained in our outstanding Series D convertible preferred stock and warrants.

The terms of our outstanding securities may result in substantial dilution to existing common stockholders. In August 2003, we issued 300,300 shares of Series D-1 convertible preferred stock, or Series D-1 preferred, and delivered cash and 63,064 shares of Series D-2 convertible preferred stock, or Series D-2 preferred, in consideration for the surrender of all of our outstanding Series B-I and B-II convertible preferred stock, or Series B preferred. Each share of our Series D-1 preferred and Series D-2 preferred, which we refer to collectively as Series D preferred, is currently convertible, at the holder's option, into 100 shares of our common stock and may be converted into additional shares of our common stock upon certain events as a result of

antidilution provisions in our charter. In addition, we issued warrants to purchase up to 7,267,286 shares of common stock, which we refer to as the WD warrants, and exchanged existing warrants to purchase 791,044 shares of common stock for warrants to purchase 791,044 shares of common stock, which we refer to as the WB warrants. The WD warrants and WB warrants are currently exercisable for an aggregate of 8,058,330 shares of our common stock and may be converted into additional shares upon certain events as a result of antidilution provisions in the warrants. The Series D preferred, together with the WD warrants and WB warrants, were issued to several investment partnerships managed by Advent International Corporation and to holders of our Series B preferred. We refer to these transactions as the Series D financing.

In addition to the Series D preferred and the WD and WB warrants, we currently have additional warrants outstanding that are exercisable to purchase 1,023,474 shares of common stock at an exercise price of $9.76 per share and 9,720 shares of common stock at an exercise price of $120.98. Our common stockholders would be subject to substantial dilution if the Series D preferred is converted into common stock or if our outstanding warrants are exercised for common stock.

Each share of Series D preferred is entitled to a cumulative dividend of 8.0% of the stated value per share of such Series D preferred per year, payable at the discretion of the board of directors or upon conversion of the Series D preferred to common stock or redemption of the Series D preferred. Accumulated dividends, when and if declared by our board, could be paid in cash or, subject to specified conditions, common stock. If we elect to pay dividends in shares of common stock, we will issue a number of shares of common stock equal to the quotient obtained by dividing the dividend payment by the volume weighted average of the sale prices of the common stock on the Nasdaq National Market for 20 consecutive trading days, ending on the fourth trading day prior to the required dividend payment date.

We are obligated to register for public sale shares of common stock issuable pursuant to our outstanding Series D preferred and warrants, and sales of those shares may result in a decrease in the price of our common stock.

We have granted rights to require that we register under the Securities Act the shares of common stock issuable upon the conversion of, or as dividends on, the Series D preferred and upon the exercise of either the WB warrants or WD warrants:

- *Series D-1 preferred.* The holders of the Series D-1 preferred have the right to demand that we file on their behalf up to four registration statements covering shares of common stock issuable upon (a) conversion of the Series D-1 preferred and (b) exercise of the WD warrants issued to the holders of the Series D-1 preferred.

- *Series D-2 preferred.* We previously filed a registration statement that covers all of the shares of common stock issuable upon (a) conversion of the Series D-2 preferred and (b) exercise of the WB and WD warrants issued to the initial holders of the Series D-2 preferred.

In addition, to the extent we elect to pay dividends on the Series D preferred in shares of our common stock, we are required to register such shares. Any sale of common stock into the public market by the holders of the Series D preferred pursuant to a registration statement could cause a decline in the trading price of our common stock.

Our repayment obligations under our convertible debentures could have a material adverse effect on our financial condition.

As of May 1, 2005, we had outstanding $56,745,000 in aggregate principal amount of our 5 $^{1}/_{4}$% convertible subordinated debentures that will mature on June 15, 2005. We will be required to dedicate a substantial portion of our cash flows from operations, including from an anticipated increase in the sale of our installments receivable contracts during the fourth quarter of our fiscal year 2005, to repay the principal of and interest on the outstanding convertible debentures. Our repayment of the convertible debentures will reduce the cash we have available to fund operations, research and product development, capital expenditures and other general corporate purposes. If there is insufficient interest from third parties in purchasing our installments receivable contracts, our ability to generate the cash required to meet our obligations under the convertible debentures may be impaired. If we cannot generate sufficient cash to meet these obligations through the sales of our installments receivable contracts, we may be required to incur additional indebtedness or raise additional capital.

We may need to raise capital in the future and may not be able to secure adequate funds on terms acceptable to us or at all.

We expect that our current cash balances, cash-equivalents, short-term investments, proceeds from the anticipated increased sale of installment contracts, funds available under our bank line of credit, and cash flows from operations will be sufficient to meet our working capital and capital expenditure requirements for at least the next twelve months. We may need to obtain additional financing thereafter or earlier, however, if our current plans and projections prove to be inaccurate or our expected cash flows prove to be

insufficient to fund our operations because of lower-than-expected revenues, fewer sales of installment contracts, unanticipated expenses, including those related to the class action lawsuits or their outcome or settlement, or other unforeseen difficulties.

Our sales of receivables are an important part of our cash management program. Historically, we have had arrangements to sell long-term contracts to two financial institutions, General Electric Capital Corporation and Fleet Business Credit Corporation, and in December 2003 we entered into a third such arrangement with Silicon Valley Bank. These contracts represent amounts due over the life of existing term licenses. During the nine months ended March 31, 2005, our installments receivable balance decreased to $86.2 million at March 31, 2005 from $90.8 million at June 30, 2004. Under the three arrangements, we sold installments receivable of $66.7 million during the nine months ended March 31, 2005. Our ability to continue these arrangements or replace them with similar arrangements is important to maintain adequate funding.

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. In addition, the uncertain outcome of the class action lawsuits impairs our ability to obtain additional financing. Until these lawsuits are resolved, or if any resolution is materially adverse to us, we expect our ability to obtain additional financing will be substantially impaired. 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.

The holders of our Series D preferred and WB and WD warrants own a substantial portion of our capital stock that may afford them significant influence over our affairs.

As of March 31, 2005, the Series D preferred (as converted to common stock) represented 41.6% of our outstanding common stock and the WB and WD warrants were exercisable for a number of shares representing 9.2% of our outstanding common stock (ignoring certain limitations on the ability to convert such shares or exercise such warrants). As a result, the holders of the Series D preferred and the WB and WD warrants, if acting together, would have the ability to delay or prevent a change in control of our company that may be favored by other stockholders and otherwise exercise significant influence over all corporate actions requiring stockholder approval, irrespective of how our other stockholders may vote, including:

- any amendment of our certificate of incorporation or bylaws;
- the approval of some mergers and other significant corporate transactions, including a sale of substantially all of our assets; or
- the defeat of any non-negotiated takeover attempt that might otherwise benefit the public stockholders.

In addition, the holders of the Series D-1 preferred have elected three of our non-employee board members. Accordingly, the holders of our Series D-1 preferred may be able to exert substantial influence over matters submitted for board approval.

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

Section 203 of the Delaware General Corporation Law and our charter and by-laws contain provisions that might enable our management to resist a takeover of our company. These provisions could have the effect of delaying, deferring, or preventing a change in control of our company or a change in our management that stockholders may consider favorable or beneficial. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors and take other corporate actions. These provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock.

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

Information relating to quantitative and qualitative disclosure about market risk is set forth in note 3 of the Notes to Consolidated Condensed Financial Statements and below under the caption “Foreign Exchange Hedging.”

Investment Portfolio

We do not use derivative financial instruments in our investment portfolio. We place our investments in instruments that meet high credit quality standards, as specified in our investment policy guidelines; the policy also limits the amount of credit exposure to any one issuer and the types of instruments approved for investment. We do not expect any material loss with respect to our investment portfolio. The following table provides information about our investment portfolio. For investment securities, the table presents principal cash flows and related weighted average interest rates by expected maturity dates.

Principal (Notional) Amounts by Expected Maturity in U.S. Dollars:

	Fair Value at March 31, 2005	Maturing in FY 2005
Cash Equivalents (in thousands)	$ 69,127	$ 69,127
Weighted Average Interest Rate	2.26%	2.26%

Impact of Foreign Currency Rate Changes

During the first nine months of fiscal 2005, the U.S. dollar generally remained stable as compared to the Asia/Pacific, European and Canadian currencies. The translation of our intercompany receivables and foreign entities assets and liabilities did not have a material impact on our consolidated results. Foreign exchange forward contracts are only purchased to hedge certain customer accounts and installment receivable amounts denominated in a foreign currency.

Foreign Exchange Hedging

We enter into foreign exchange forward contracts to reduce our exposure to currency fluctuations on customer accounts receivables denominated in foreign currency. The objective of these contracts is to neutralize the impact of foreign currency exchange rate movements on our operating results. We do not use derivative financial instruments for speculative or trading purposes. We had $26.6 million of foreign exchange forward contracts denominated in British, Japanese, Swiss, Euro and Canadian currencies, which represented underlying customer accounts receivable transactions at March 31, 2005. At March 31, 2005 and 2004, the foreign exchange forward contracts and the related installments receivable denominated in foreign currency are revalued based on the current market exchange rates. Resulting gains and losses are included in earnings or deferred as a component of other comprehensive income. These deferred gains and losses are recognized in income in the period in which the underlying anticipated transaction occurs. Gains and losses related to these instruments for the three and nine months ended March 31, 2005 and 2004 were not material to our financial position. We do not anticipate any material adverse effect on our consolidated financial position, results of operations, or cash flows resulting from the use of these instruments. However, we cannot assure you that these strategies will be effective or that transaction losses can be minimized or forecasted accurately.

The following table provides information about our foreign exchange forward contracts at March 31, 2005. The table presents the value of the contracts in U.S. dollars at the contract exchange rate as of the contract maturity date. The average contract rate approximates the weighted average contractual foreign currency exchange rate and the forward position in U.S. dollars approximates the fair value of the contract at March 31, 2005.

Forward Contracts to Sell Foreign Currencies for U.S. Dollars Related to Customer Installments Receivable:

Currency	Average Contract Rate	Forward Amount in U.S. Dollars (in thousands)	Contract Origination Date	Contract Maturity Date
Euro	0.80	$ 15,979	Various: Apr 04—Mar 05	Various: Apr 05—Feb 06
Japanese Yen	106.69	4,152	Various: Apr 02—Feb 05	Various: Apr 05— Feb 06
Canadian Dollar	1.32	2,989	Various: Apr 04— Mar 05	Various: Apr 05— Feb 06
British Pound Sterling	0.55	2,544	Various: Apr 04—Mar 05	Various: Apr 05— Feb 06
Swiss Franc	1.22	985	Various: Jul 04— Feb 05	Various: Apr 05—Jul 05
Total		$ 26,649		

Item 4. ***Controls and Procedures***

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act) as of March 31, 2005.

As part of this evaluation, our management considered a report provided under interim standards established by the Public Company Accounting Oversight Board, or PCAOB, regarding certain elements of our system of internal controls made in September 2004 to our board's audit committee by our independent registered public accounting firm, Deloitte & Touche LLP, of a "material weakness" with respect to our controls and procedures involving accounting for taxes. Deloitte & Touche LLP noted errors in (a) our computations of the provision for sales taxes, (b) our computations of the domestic and foreign provision for income taxes, and (c) our computation and classification of deferred income taxes. Deloitte & Touche LLP also noted a "reportable condition" with respect to our property record-keeping processes that did not constitute a material weakness. This material weakness and reportable condition were previously disclosed in our Annual Report on Form 10-K as originally filed with the SEC on September 13, 2004. Reportable conditions under the PCAOB interim standards involve matters relating to significant deficiencies in the design or operation of the Company's internal control over financial reporting that could adversely affect the Company's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A material weakness under the PCAOB interim standards is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

In February 2005, as part of its previously described accounting investigation, the audit committee made a report to our board relating to certain accounting and internal controls issues. In March 2005, in connection with its review of the restated financial statements included in Amendment No. 1 on Form 10-K/A to our annual report on Form 10-K for the fiscal year ended June 30, 2004, Deloitte & Touche LLP made a report (again under the interim standards of the PCAOB regarding certain elements of our system of internal controls) to the audit committee of (1) a "material weakness" with respect to our software license revenue recognition controls and (2) a "reportable condition" with respect to our processes for recording restructuring accruals that did not constitute a material weakness. Our management concluded that the following factors contributed significantly to the material weakness with respect to our software license revenue recognition controls:

(a) need for improved and redundant procedures and cross-checks to reasonably assure the identification of arrangements including both software license and services components;
(b) need for improved and redundant procedures and cross-checks to reasonably assure the detection and prevention of unauthorized arrangements with customers entered into contemporaneously with software license agreements;

(c) inadequate systems to track sales by resellers of software licenses to end-users;
(d) lack of a sufficient number of qualified finance personnel to review and provide guidance on revenue recognition for complex software license transactions; and
(e) need for the establishment of a routine process to assess the creditworthiness of new or existing customers.

In designing and evaluating our disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and our management necessarily applied its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on their evaluation, our chief executive officer and chief financial officer concluded that, as a result of the material weaknesses in our internal controls over financial reporting described above, our disclosure controls and procedures were not effective as of March 31, 2005.

Based on the recommendations made by the audit committee to our board and by Deloitte & Touche LLP in its reports to the audit committee, we have undertaken a number of initiatives to address the material weaknesses and reportable conditions described above. As of March 31, 2005, we have completed the following actions:

- We have hired a director of internal audit and an internal auditor.
- We have hired a director of tax.
- We have assigned additional resources to revenue recognition processes.
- We have obtained quarterly certifications from all of our sales personnel to assist in detecting issues that may impact revenue recognition and the accuracy of our financial statements.

- We have established a cross-functional group to manage and monitor software license arrangements that also involve consulting services in order to assess the revenue recognition implications.
- We have purchased a fixed asset accounting and tracking system.

In addition, subsequent to March 31, 2005, we have completed the following actions:

- We have formulated checklists to define revenue recognition criteria and to document related transactional information.
- We have established processes to assess the creditworthiness of customers on a periodic basis and to ensure that such assessments are documented and reviewed before entering into agreements with customers containing extended payment terms.
- We have implemented our new fixed asset accounting and tracking system.

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

- We are implementing processes and documentation procedures to effectively track sales by our resellers to end users.
- We are in the process of hiring additional revenue recognition accounting personnel.
- We are providing clearer designation and allocation of responsibilities and supervision within our finance department.
- We are initiating additional training of our sales organization regarding revenue recognition rules and best practices.
- We are initiating additional training of all our employees on the standards and expectations set forth in our Code of Conduct and Business Ethics.
- We are in the process of completing a full physical inventory of all property and equipment.

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

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

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

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

U.S. Attorney's Office Investigation

On October 29, 2004, we announced that we 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 we were party during the 2000 to 2002 time frame, associated documents dating from January 1, 1999, and additional materials. We are cooperating fully with the subpoena requests and the investigation by the U.S. Attorney's Office.

Class Action Suits

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

Derivative Action

On December 1, 2004, a purported derivative action was filed in the United States District Court of Massachusetts, captioned Caviness v. Evans, et. al., Civil Action No. 04-12524 (D. Mass.) (the "Derivative Action"). The complaint, as subsequently amended, alleges, among other things, that our former and current director and officer defendants caused us to issue false and misleading financial statements, and brings derivative claims for the following: (1) breach of fiduciary duty for insider trading; (2) breach of fiduciary duty; (3) abuse of control; (4) gross mismanagement; (5) waste of corporate assets; (6) unjust enrichment. We have moved to dismiss the complaint pursuant to Fed. R. Civ. P. 23.1 for failure to make a demand on our board and for failing to allege particularized facts showing why plaintiff's failure to make a demand should be excused. On April 12, 2005 we received a letter dated March 22, 2005 alleging that our officers and directors failed to disclose and misrepresented that we inappropriately recognized revenues in the 2000-2002 fiscal years, and that we should commence suit for relief equivalent to that sought in the Derivative Action, including requiring certain of our present and former officers to return remuneration paid to them while in breach of their fiduciary duties. We are currently unable to determine whether resolution of these matters will have a material adverse impact on our 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 our financial position or results of operations.

Item 6. ***Exhibits and Reports on Form 8-K***

(a) ***Exhibits***

Exhibit Number	Description
10.1	Fifth Amendment to Non-Recourse Receivables Purchase Agreement, dated as of March 31, 2005, by and between Silicon Valley Bank and Aspen Technology, Inc.
10.2+	Fourth Loan Modification Agreement, dated April 1, 2005 by and among Silicon Valley Bank, Aspen Technology, Inc. and AspenTech, Inc.
10.3	Third Loan Modification Agreement, dated as of April 1, 2005, by and among Silicon Valley Bank, Aspen Technology, Inc. and AspenTech, Inc.
10.4	Borrower Agreement, dated April 1, 2005, by and among Silicon Valley Bank, Aspen Technology, Inc. and AspenTech, Inc. in favor of the Export-Import Bank of the United States.
10.5	Promissory Note, dated April 1, 2005, by Aspen Technology, Inc. and AspenTech, Inc. in favor of Silicon Valley Bank.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\+ Confidential treatment requested with respect to certain portions, which portions are omitted and filed separately with the Commission.

(b)

Reports on Form 8-K

On January 14, 2005, we filed a current report on Form 8-K reporting under Item 3.01 that we had received a letter from the Nasdaq Stock Market informing us that the Nasdaq Listing Qualifications Panel granted our request for continued listing of our common stock on the Nasdaq National Market, subject to specified conditions.

On January 19, 2005, we filed a current report on Form 8-K reporting under Items 1.01 and 5.02 that we had entered into an amendment to our employment and transition agreement with Lawrence B. Evans, pursuant to which Mr. Evans retired as our chairman of the board and a Class I director and agreed to continue to be employed by us on a part-time basis, effective January 13, 2005.

On February 2, 2005, we filed a current report on Form 8-K reporting under Item 1.01 that we, together with our subsidiary AspenTech, Inc., entered into amendments to our loan and security agreement and our Export-Import Bank loan and security agreement, each dated as of January 30, 2003, with Silicon Valley Bank, and obtained certain waivers from Silicon Valley Bank relating to these loan agreements.

On February 4, 2005, we filed a current report on Form 8-K reporting under Item 2.02 that we had issued a press release updating the previously announced investigation by the audit committee of our board of directors.

On March 15, 2005, we filed a current report on Form 8-K reporting under Item 2.02 that we had issued a press release announcing the completion of the previously announced investigation by the audit committee of our board of directors and the restatement of our financial statements for our fiscal years ended June 30, 2000 through 2004 and that we also had issued a press release announcing our financial results for our fiscal quarters ended September 30, 2004 and December 31, 2004, the first two quarters of our fiscal year ending June 30, 2005.

On March 28, 2005, we filed a current report on Form 8-K for the purpose of reporting under Item 7.01 that we had updated and revised our previously announced "non-GAAP" financial results for each quarter of our fiscal years ended June 30, 2003 and 2004 and for each of our fiscal years ended June 30, 2003 and 2004 to reflect the effects of our previously announced financial restatement.

SIGNATURES

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

ASPEN TECHNOLOGY, INC.

Date: May 10, 2005

By: /s/ Mark Fusco
Mark Fusco
President and Chief Executive Officer

Date: May 10, 2005

By: /s/ Charles F. Kane
Charles F. Kane
Senior Vice President and Chief Financial Officer

EXHIBITS INDEX

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10.4	Borrower Agreement, dated April 1, 2005, by and among Silicon Valley Bank, Aspen Technology, Inc. and AspenTech, Inc. in favor of the Export-Import Bank of the United States.
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\+ Confidential treatment requested with respect to certain portions, which portions are omitted and filed separately with the Commission.

Exhibit 10.1

FIFTH AMENDMENT TO NON-RECOURSE RECEIVABLES PURCHASE AGREEMENT

This Fifth Amendment to Non-Recourse Receivables Purchase Agreement (this "Amendment") is entered into as of April 1, 2005, by and between **SILICON VALLEY BANK**, a California-chartered bank, with its principal place of business at 3003 Tasman Drive, Santa Clara, California 95054 and with a loan production office located at One Newton Executive Park, Suite 200, 2221 Washington Street, Newton, Massachusetts 02462 ("Buyer") and **ASPEN TECHNOLOGY, INC.**, a Delaware corporation with offices at Ten Canal Park, Cambridge, Massachusetts 02141 ("Seller").

1. DESCRIPTION OF EXISTING AGREEMENT. Reference is made to a certain Non-Recourse Receivables Purchase Agreement by and between Buyer and Seller dated as of December 31, 2003, as amended by a certain First Amendment to Non-Recourse Receivables Purchase Agreement dated June 30, 3004, as further amended by a certain Second Amendment to Non-Recourse Receivables Purchase Agreement dated September 30, 2004, as further amended by a certain Third Amendment to Non-Recourse Receivables Purchase Agreement dated December 31, 2004, and as further amended by a certain Fourth Amendment to Non-Recourse Receivables Purchase Agreement dated March 8, 2005 (as further amended from time to time, the "Purchase Agreement"). Capitalized terms used but not otherwise defined herein shall have the same meaning as in the Purchase Agreement.

2. DESCRIPTION OF CHANGE IN TERMS.

Modification to Purchase Agreement. The Purchase Agreement shall be amended by deleting Section 2.1 thereof and inserting in lieu thereof the following Section 2.1:

"2.1 **Sale and Purchase.** Subject to the terms and conditions of this Agreement, with respect to each Purchase, effective on each applicable Purchase Date, Seller agrees to sell to Buyer and Buyer agrees to buy from Seller all right, title, and interest (but none of the obligations with respect to) of the Seller to the payment of all sums owing or to be owing from the Account Debtors under each Purchased Receivable to the extent of the Purchased Receivable Amount for such Purchased Receivable.

Each purchase and sale hereunder shall be in the sole discretion of Buyer and Seller. In any event, Buyer will not (i) purchase any Receivables in excess of an aggregate outstanding amount exceeding Forty-One Million Dollars ($41,000,000.00), or (ii) purchase any Receivables under this Agreement after July 15, 2006. The purchase of each Purchased Receivable may be evidenced by an assignment or bill of sale in a form acceptable to Buyer."

3. FEES. Seller shall pay to Buyer a modification fee of $132,395.00, which fee shall be due on the date hereof and shall be deemed fully earned as of the date hereof. Seller shall also reimburse Buyer for all legal fees and expenses incurred in connection with this Amendment.

4. CONSISTENT CHANGES. The Purchase Agreement is hereby amended wherever necessary to reflect the changes described above.

5. RATIFICATION OF DOCUMENTS. Seller hereby ratifies, confirms, and reaffirms all terms and conditions of the Purchase Agreement.

6. CONTINUING VALIDITY. Seller understands and agrees that in modifying the Purchase Agreement, Buyer is relying upon Seller's representations, warranties, and agreements, as set forth in the Purchase Agreement. Except as expressly modified pursuant to this Amendment, the terms of the Purchase Agreement remain unchanged and in full force and effect. Buyer's agreement to modifications to the Purchase Agreement pursuant to this Amendment in no way shall obligate Buyer to make any future modifications to the Purchase Agreement.

7. NO DEFENSES OF SELLER. Seller hereby acknowledges and agrees that Seller has no offsets, defenses, claims, or counterclaims against Buyer with respect to the Purchase Agreement or otherwise, and that if

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Seller now has, or ever did have, any offsets, defenses, claims, or counterclaims against Buyer, whether known or unknown, at law or in equity, all of them are hereby expressly WAIVED and Seller hereby RELEASES Buyer from any liability thereunder.

8. COUNTERSIGNATURE. This Amendment shall become effective only when it shall have been executed by Seller and Buyer.

This Amendment is executed as a sealed instrument under the laws of the Commonwealth of Massachusetts as of the date first written above.

SELLER:	**BUYER:**
ASPEN TECHNOLOGY, INC.	**SILICON VALLEY BANK**
By: /s/ Leo S. Vannoni	By: /s/ John Atanasoff
Name: Leo S. Vannoni	Name: John Atanasoff
Title: Treasurer	Title: Relationship Manager

Exhibit 10.2

Confidential Materials omitted and filed separately with the
Securities and Exchange Commission. Asterisks denote omissions.

FOURTH LOAN MODIFICATION AGREEMENT

This Fourth Loan Modification Agreement (this “Loan Modification Agreement’) is entered into as of April 1, 2005, by and among (i) **SILICON VALLEY BANK**, a California chartered bank, with its principal place of business at 3003 Tasman Drive, Santa Clara, California 95054 and with a loan production office located at One Newton Executive Park, Suite 200, 2221 Washington Street, Newton, Massachusetts 02462 (“Bank”) and (ii) **ASPEN TECHNOLOGY, INC.**, a Delaware corporation with offices at Ten Canal Park, Cambridge, Massachusetts 02141 and **ASPENTECH, INC.**, a Texas corporation with offices at Ten Canal Park, Cambridge, Massachusetts 02141 (jointly and severally, individually and collectively, “Borrower”)

1. DESCRIPTION OF EXISTING INDEBTEDNESS AND OBLIGATIONS. Among other indebtedness and obligations which may be owing by Borrower to Bank, Borrower is indebted to Bank pursuant to a loan arrangement dated as of January 30, 2003, evidenced by, among other documents, a certain Loan and Security Agreement dated as of January 30, 2003 between Borrower and Bank, as amended by a certain letter agreement dated February 14, 2003, a certain First Loan Modification Agreement dated June 27, 2003, a certain Second Loan Modification Agreement dated September 10, 2004, and a certain Third Loan Modification Agreement dated January 28, 2005 (as amended, the “Loan Agreement”). Capitalized terms used but not otherwise defined herein shall have the same meaning as in the Loan Agreement.

2. DESCRIPTION OF COLLATERAL. Repayment of the Obligations is secured by the Collateral as described in the Loan Agreement (together with any other collateral security granted to Bank, the “Security Documents”).

Hereinafter, the Security Documents, together with all other documents evidencing or securing the Obligations including the Export-Import Bank Loan and Security Agreement dated as of January 30, 2003, as amended, shall be referred to as the “Existing Loan Documents”.

3. DESCRIPTION OF CHANGE IN TERMS.

<u>Modifications to Loan Agreement</u>.

(i) The Loan Agreement shall be amended by deleting the following text appearing as Section 2.2 thereof:

“**2.2. Release of Certain Collateral**. Provided no Default then exists, Silicon agrees to enter into an amendment to this Agreement in form and substance reasonably satisfactory to Silicon and Borrower (the

“Amendment”) to modify the Collateral to a first priority security interest only on Borrower’s Payment Intangibles, Receivables and proceeds thereof, upon Borrower’s achievement of net income in excess of $2,500,000 per quarter for two (2) consecutive quarters. Any such modification of the Collateral shall only be effective upon execution of the Amendment by Silicon and Borrower.”

and inserting in lieu thereof the following:

“**2.2. Release of Certain Collateral**. Intentionally omitted.”

(ii) The Loan Agreement shall be amended by deleting the following text appearing in the definition of “Eligible Receivables” set forth in Section 8 of the Loan Agreement:

“(ii) the Receivable must not be due under a fulfillment or requirements contract with the Account Debtor or represent Deferred Revenue (provided, however, Deferred Revenue offsets will not be deemed ineligible (if otherwise eligible hereunder) as long as Borrower maintains, at all times, unrestricted cash and/or cash equivalents at Silicon of at least $50,000,000.00),”

and inserting in lieu thereof the following:

“(ii) the Receivable must not be due under a fulfillment or requirements contract with the Account Debtor or represent Deferred Revenue (provided, however, Deferred Revenue offsets will not be deemed ineligible (if otherwise eligible hereunder) as long as Borrower maintains, at all times, unrestricted cash and/or cash equivalents at Silicon of at least $25,000,000.00),”

(iii) The Loan Agreement shall be amended by deleting the following text appearing in the definition of “Permitted Liens” set forth in Section 8 of the Loan Agreement:

“(xiii) liens of The Royal Bank of Scotland and/or National Westminster Bank or other reputable, comparable financial institution (collectively, “Nat West”) in specific cash (or cash equivalents) pledged to Nat West to secure Borrower’s obligations pursuant to that certain guaranty of certain letters of credit issued on behalf of AspenTech UK Limited in an amount not to exceed UK£1,300,000.00 (the “Nat West Debt”);”

and inserting in lieu thereof the following:

“(xiii) liens of The Royal Bank of Scotland and/or National Westminster Bank or other reputable, comparable financial institution (collectively, “Nat West”) in specific cash (or cash equivalents) pledged to Nat West to secure Borrower's obligations pursuant to that certain guaranty of certain letters of credit issued on behalf of AspenTech UK Limited in an amount not to exceed GBP £2,000,000.00 (the "Nat West Debt");"

(iv) The Loan Agreement shall be amended by deleting the following text appearing in Section 4 of the Schedule to the Loan Agreement:

"MATURITY DATE

(Section 6.1): April 1, 2005"

and inserting in lieu thereof the following:

"MATURITY DATE

(Section 6.1): July 15, 2006"

(v) The Loan Agreement shall be amended by deleting Section 5(a) of the Schedule thereto in their entirety and inserting in lieu thereof the following:

"a. Minimum Tangible Net Worth:

Borrower shall at all times maintain, to be tested monthly, as of the last day of each month, a Tangible Net Worth of not less than the sum of (i) plus (ii) below:

(i)

(a) from March 1, 2005 through and including March 31, 2005 - $55,000,000;

(b) from April 1, 2005 through and including April 30, 2005 - $43,000,000;

(c) from May 1, 2005 through and including May 31, 2005 - - $31,000,000;

(d) from June 1, 2005 through and including June 30, 2005 - $55,000,000;

(e) from July 1, 2005 through and including July 31, 2005 - $43,000,000;

(f) from August 1, 2005 through and including August 31, 2005 - $31,000,000;

(g) from September 1, 2005 through and including September 30, 2005 - $60,000,000;

(h) from October 1, 2005 through and including October 31, 2005 - $50,000,000;

(i) from November 1, 2005 through and including November 30, 2005 - $40,000,000;

(j) from December 1, 2005 through and including December 31, 2005 - $70,000,000;

(k) from January 1, 2006 through and including January 31, 2006 - $60,000,000;

(l) from February 1, 2006 through and including February 28, 2006 - $50,000,000;

(m) from March 1, 2006 through and including March 31, 2006 - $75,000,000;

(n) from April 1, 2006 through and including April 30, 2006 - $65,000,000;

(o) from May 1, 2006 through and including May 31, 2006 - $55,000,000; and

(p) from June 1, 2006 through and including June 30, 2006 - $80,000,000.

(ii) 75% of all consideration received after March 1, 2005 from proceeds from the issuance of any equity securities of the Borrower (other than (i) the issuance of stock options, restricted stock or other stock-based awards under the Borrower's director or employee stock incentive plans, or (ii) stock purchases under the Borrower's employee stock purchase plan)."

(vi) The Loan Agreement shall be amended by deleting the following text appearing in Section 5(c) of the Schedule thereto:

"**c. Adjusted Quick Ratio:**

Borrower shall maintain, at all times, to be tested monthly, an Adjusted Quick Ratio of at least (a) 1.25 to 1.00 as of the last day of each January, February, April, May, July, August, October and November during the term of this Agreement, and (b) 1.50 to 1.00 as of the last day of each March, June, September and December during the term of this Agreement."

and inserting in lieu thereof the following:

"**c. Adjusted Quick Ratio:**

Borrower shall maintain, at all times, to be tested monthly, an Adjusted Quick Ratio of at least:

(a) from March 1, 2005 through and including May 31, 2005 - 1.5 to 1.0;

(b) from June 1, 2005 through and including June 30, 2005 - 1.4 to 1.0;

(c) from July 1, 2005 through and including July 31, 2005 - 1.2 to 1.0;

(d) from August 1, 2005 through and including August 31, 2005 - 1.0 to 1.0;

(e) from September 1, 2005 through and including September 30, 2005 - 1.4 to 1.0;

(f) from October 1, 2005 through and including October 31, 2005 - 1.2 to 1.0;

(g) from November 1, 2005 through and including November 30, 2005 - 1.0 to 1.0;

(h) from December 1, 2005 through and including December 31, 2005 - 1.5 to 1.0

(i) from January 1, 2006 through and including January 31, 2006 - 1.2 to 1.0;

(j) from February 1, 2006 through and including February 28, 2006 - 1.1 to 1.0;

(k) from March 1, 2006 through and including March 31, 2006 - 1.5 to 1.0;

(l) from April 1, 2006 through and including April 30, 2006 - 1.2 to 1.0;

(m) from May 1, 2006 through and including May 31, 2006 - 1.1 to 1.0; and

(n) from June 1, 2006 through and including June 30, 2006 - 1.5 to 1.0."

(vii) The Loan Agreement shall be amended (a) by deleting the following text appearing in Section 5 of the Schedule thereto:

" "Quick Assets" is, on any date, the Borrower's consolidated, unrestricted cash, cash equivalents, net billed accounts receivable (plus the current portion of long-term installment receivables, net of unamortized discounts) and investments with maturities of fewer than 12 months determined according to GAAP."

and inserting in lieu thereof the following:

" "Quick Assets" is, on any date, the Borrower's consolidated, unrestricted cash, cash equivalents, net billed accounts receivable and investments with maturities of fewer than 12 months determined according to GAAP."

(b) by deleting the following text appearing in the definition of "Tangible Net Worth":

"(B) there shall be excluded from liabilities: all indebtedness which is subordinated to the Obligations under a subordination agreement in form specified by Silicon or by language in the instrument evidencing the indebtedness which is acceptable to Silicon in its discretion."

(viii) The Loan Agreement shall be amended by deleting the following text appearing in Section 8 of the Schedule thereto:

" e. up to UK£1,300,000.00 at Nat West to secure the Nat West Debt."

and inserting in lieu thereof the following:

" e. up to GBP £2,000,000.00 at Nat West to secure the Nat West Debt."

(ix) The Loan Agreement shall be amended by deleting Exhibit B thereto and inserting in lieu thereof Exhibit A hereto.

4. CONSENT TO PAYMENT OF SUBORDINATED DEBT.

(a) Notwithstanding the terms of the Existing Loan Documents to the contrary, including, without limitation, Section 5.5 of the Loan Agreement, Borrower may not redeem, retire, purchase or otherwise acquire, directly or indirectly, any of Borrower's stock, and/or any of Borrower's 5 1/4% Convertible Subordinated Debentures or other subordinated debt instruments; provided, however, Borrower may redeem, retire, purchase or acquire, directly or indirectly, any of Borrower's 5 1/4% Convertible Subordinated Debentures pursuant to the terms of the Indenture, provided that at the time of each such payment, redemption, retirement, acquisition or purchase there is then no Default continuing, or would be continuing after giving effect to such payment, redemption, retirement, acquisition or purchase and the aggregate of all such repurchases on or after April 1, 2005 do not exceed $20,000,000.

(b) Notwithstanding the terms of the Existing Loan Documents to the contrary and in addition to the foregoing, Bank hereby consents to Borrower's proposed repayment on or before June 15, 2005 of Borrower's 5 1/4% Convertible Subordinated Debentures, provided that, at the time of such payment: (i) no Borrower is then in Default or would be in Default after giving effect to such payment, (ii) Borrower will be in pro-forma compliance with each of the financial covenants set forth in Section 5 of the Schedule to the Loan Agreement after giving effect to the making of such payment, (iii) such payment does not exceed $56,745,000 (plus accrued interest, but less any payments made pursuant to subsection (a) above), and (iv) Borrower delivers to Bank a written notice at least two (2) business days prior to making such payment, which notice contains the appropriate reports and calculation evidencing Borrower's pro-forma compliance with each of the financial covenants set forth in Section 5 of the Schedule to the Loan Agreement after giving effect to the making of such payment.

5. CONSENT TO [**]. Bank hereby agrees that [**] as a result of [**] in accordance with [**] provided that [**] would be [**].

6. WAIVER. Bank hereby waives Borrower's existing defaults under the Existing Loan Documents by virtue of Borrower's failure to comply with Section 3.7 of the Loan Agreement solely with respect to the delivery of Borrower's restated financial statements as described on Exhibit A hereto [**] (the "Disclosures"). Bank's waiver of Borrower's compliance with said affirmative covenants shall apply only to the foregoing delivery of the restated financial statements and the foregoing specific failure to timely provide to Bank the Disclosures and shall be limited solely to the delivery of the restated financial statements and Borrower's failure to timely disclose, rather than any implied waiver or consent with respect to the substance or materiality of the restated financial statements or Disclosures. Nothing herein shall be deemed a waiver of any other Event of Default that may arise as a result of the matters contained in such restated financial statements or Disclosures, now or in the future. In addition, Bank hereby waives Borrower's existing default under the Existing Loan Documents by virtue of Borrower's permitting to exist liens in an amount up to GBP £2,000,000.00 at Nat West to secure the Nat West Debt.

7. FEES. Borrower shall pay to Bank a modification fee of $156,000.00 which fee shall be due on the date hereof and shall be deemed fully earned as of the date hereof. The Borrower shall also reimburse Bank for all legal fees and expenses incurred in connection with this amendment to the Existing Loan Documents.

8. RATIFICATION OF NEGATIVE PLEDGE. Borrower hereby ratifies, confirms and reaffirms, all and singular, the terms and conditions of a certain Negative Pledge Agreements each dated as of January 30, 2003 between Borrower and Bank, and

acknowledges, confirms and agrees that said Negative Pledge Agreement shall remain in full force and effect.

9. RATIFICATION OF PERFECTION CERTIFICATES. Borrower hereby ratifies, confirms and reaffirms, all and singular, the terms and disclosures contained in certain Perfection Certificates each dated as of January 30, 2003, as amended and affected by Schedule 1 hereto and Exhibit A hereto and acknowledges, confirms and agrees the disclosures and information therein has not changed as of the date hereof, except as set forth on Schedule 1 annexed hereto.

10. CONSISTENT CHANGES. The Existing Loan Documents are hereby amended wherever necessary to reflect the changes described above.

11. RATIFICATION OF LOAN DOCUMENTS. Borrower hereby ratifies, confirms, and reaffirms all terms and conditions of all security or other collateral granted to the Bank, and confirms that the indebtedness secured thereby includes, without limitation, the Obligations.

12. NO DEFENSES OF BORROWER. Borrower hereby acknowledges and agrees that Borrower has no offsets, defenses, claims, or counterclaims against Bank with respect to the Obligations, or otherwise, and that if Borrower now has, or ever did have, any offsets, defenses, claims, or counterclaims against Bank, whether known or unknown, at law or in equity, all of them are hereby expressly WAIVED and Borrower hereby RELEASES Bank from any liability thereunder.

13. CONTINUING VALIDITY. Borrower understands and agrees that in modifying the existing Obligations, Bank is relying upon Borrower's representations, warranties, and agreements, as set forth in the Existing Loan Documents. Except as expressly modified pursuant to this Loan Modification Agreement, the terms of the Existing Loan Documents remain unchanged and in full force and effect. Bank's agreement to modifications to the existing Obligations pursuant to this Loan Modification Agreement in no way shall obligate Bank to make any future modifications to the Obligations. Nothing in this Loan Modification Agreement shall constitute a satisfaction of the Obligations. It is the intention of Bank and Borrower to retain as liable parties all makers of Existing Loan Documents, unless the party is expressly released by Bank in writing.

14. COUNTERSIGNATURE. This Loan Modification Agreement shall become effective only when it shall have been executed by Borrower and Bank.

[Remainder of page intentionally left blank.]

This Loan Modification Agreement is executed as a sealed instrument under the laws of the Commonwealth of Massachusetts as of the date first written above.

BORROWER:

ASPEN TECHNOLOGY, INC.

By: /s/ Leo S. Vannoni
Name: Leo S. Vannoni
Title: VP and Treasurer

ASPENTECH, INC.

By: /s/ Charles F. Kane
Name: Charles F. Kane
Title: Treasurer

BANK:

SILICON VALLEY BANK

By: /s/ John Atanasoff
Name: John Atanasoff
Title: Senior Relationship Manager

The undersigned, ASPENTECH SECURITIES CORP., a Massachusetts corporation, ratifies, confirms and reaffirms, all and singular, the terms and conditions of a certain Unlimited Guaranty dated January 30, 2003 (the “Guaranty”) and a certain Security Agreement dated as of January 30, 2003 (the “Security Agreement”) and acknowledges, confirms and agrees that the Guaranty and Security Agreement shall remain in full force and effect and shall in no way be limited by the execution of this Loan Modification Agreement, or any other documents, instruments and/or agreements executed and/or delivered in connection herewith.

ASPENTECH SECURITIES CORP

By: /s/ Charles F. Kane
Name: Charles F. Kane
Title: Treasurer

EXHIBIT 10.3

THIRD LOAN MODIFICATION AGREEMENT - EXIM

This Third Loan Modification Agreement - Exim (this "Loan Modification Agreement') is entered into as of April 1, 2005, by and among (i) **SILICON VALLEY BANK**, a California chartered bank, with its principal place of business at 3003 Tasman Drive, Santa Clara, California 95054 and with a loan production office located at One Newton Executive Park, Suite 200, 2221 Washington Street, Newton, Massachusetts 02462 ("Bank") and (ii) **ASPEN TECHNOLOGY, INC.**, a Delaware corporation with offices at Ten Canal Park, Cambridge, Massachusetts 02141 and **ASPENTECH, INC.**, a Texas corporation with offices at Ten Canal Park, Cambridge, Massachusetts 02141 (jointly and severally, individually and collectively, "Borrower")

1. DESCRIPTION OF EXISTING INDEBTEDNESS AND OBLIGATIONS. Among other indebtedness and obligations which may be owing by Borrower to Bank, Borrower is indebted to Bank pursuant to a loan arrangement dated as of January 30, 2003, evidenced by, among other documents, a certain Export-Import Bank Loan and Security Agreement dated as of January 30, 2003 between Borrower and Bank, as amended from time to time (as amended, the "Loan Agreement"). Capitalized terms used but not otherwise defined herein shall have the same meaning as in the Loan Agreement.

2. DESCRIPTION OF COLLATERAL. Repayment of the Obligations is secured by the Collateral as described in the Loan Agreement (together with any other collateral security granted to Bank, the "Security Documents").

Hereinafter, the Security Documents, together with all other documents evidencing or securing the Obligations shall be referred to as the "Existing Loan Documents".

3. DESCRIPTION OF CHANGE IN TERMS.

<u>Modification to Loan Agreement</u>.

(a) The Loan Agreement shall be amended by deleting the following text appearing in Section 13.1 of the Loan Agreement:

" "Exim Maturity Date" is April 1, 2005."

and inserting in lieu thereof the following:

" "Exim Maturity Date" is July 15, 2006."

(b) The Loan Agreement shall be amended by deleting the following text appearing in the definition of "Eligible Account" set forth in Section 13.1 of the Loan Agreement:

" (y) Accounts due under a fulfillment or requirements contract with the Account Debtor or represent Deferred Revenue (provided, however, Deferred Revenue offsets will not be deemed ineligible (if otherwise eligible hereunder) as long as Borrower maintains, at all times, an Adjusted Quick Ratio of at least 1.25 to 1.0);

and inserting in lieu thereof the following:

" (y) Accounts due under a fulfillment or requirements contract with the Account Debtor or represent Deferred Revenue (provided, however, Deferred Revenue offsets will not be deemed ineligible (if otherwise eligible hereunder) as long as Borrower maintains, at all times, unrestricted cash and/or cash equivalents at Bank of at least $25,000,000.00),"

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4. FEES. Borrower shall reimburse Bank for all legal fees and expenses incurred in connection with this amendment to the Existing Loan Documents.

5. RATIFICATION OF NEGATIVE PLEDGE. Borrower hereby ratifies, confirms and reaffirms, all and singular, the terms and conditions of a certain Negative Pledge Agreements each dated as of January 30, 2003 between Borrower and Bank, and acknowledges, confirms and agrees that said Negative Pledge Agreement shall remain in full force and effect.

6. CONSISTENT CHANGES. The Existing Loan Documents are hereby amended wherever necessary to reflect the changes described above.

7. RATIFICATION OF LOAN DOCUMENTS. Borrower hereby ratifies, confirms, and reaffirms all terms and conditions of all security or other collateral granted to the Bank, and confirms that the indebtedness secured thereby includes, without limitation, the Obligations.

8. NO DEFENSES OF BORROWER. Borrower hereby acknowledges and agrees that Borrower has no offsets, defenses, claims, or counterclaims against Bank with respect to the Obligations, or otherwise, and that if Borrower now has, or ever did have, any offsets, defenses, claims, or counterclaims against Bank, whether known or unknown, at law or in equity, all of them are hereby expressly WAIVED and Borrower hereby RELEASES Bank from any liability thereunder.

9. CONTINUING VALIDITY. Borrower understands and agrees that in modifying the existing Obligations, Bank is relying upon Borrower's representations, warranties, and agreements, as set forth in the Existing Loan Documents. Except as expressly modified pursuant to this Loan Modification Agreement, the terms of the Existing Loan Documents remain unchanged and in full force and effect. Bank's agreement to modifications to the existing Obligations pursuant to this Loan Modification Agreement in no way shall obligate Bank to make any future modifications to the Obligations. Nothing in this Loan Modification Agreement shall constitute a satisfaction of the Obligations. It is the intention of Bank and Borrower to retain as liable parties all makers of Existing Loan Documents, unless the party is expressly released by Bank in writing.

10. COUNTERSIGNATURE. This Loan Modification Agreement shall become effective only when it shall have been executed by Borrower and Bank.

[Remainder of page intentionally left blank.]

This Loan Modification Agreement is executed as a sealed instrument under the laws of the Commonwealth of Massachusetts as of the date first written above.

BORROWER:

ASPEN TECHNOLOGY, INC.

By: /s/ Leo S. Vannoni
Name: Leo S. Vannoni
Title: VP and Treasurer

ASPENTECH, INC.

By: /s/ Charles F. Kane
Name: Charles F. Kane
Title: Treasurer

BANK:

SILICON VALLEY BANK

By: /s/ John Atanasoff
Name: John Atanasoff
Title: Senior Relationship Manager

The undersigned, ASPENTECH SECURITIES CORP., a Massachusetts corporation, ratifies, confirms and reaffirms, all and singular, the terms and conditions of a certain Unlimited Guaranty dated January 30, 2003 (the "Guaranty") and a certain Security Agreement dated as of January 30, 2003 (the "Security Agreement") and acknowledges, confirms and agrees that the Guaranty and Security Agreement shall remain in full force and effect and shall in no way be limited by the execution of this Loan Modification Agreement, or any other documents, instruments and/or agreements executed and/or delivered in connection herewith.

ASPENTECH SECURITIES CORP

By: /s/ Charles F. Kane
Name: Charles F. Kane
Title: Treasurer

EXPORT-IMPORT BANK OF THE UNITED STATES
WORKING CAPITAL GUARANTEE PROGRAM

Borrower Agreement

THIS BORROWER AGREEMENT (this “Agreement”) is made and entered into by the entities identified as Borrower on the signature page hereof (collectively, “Borrower”) in favor of the Export-Import Bank of the United States (“Ex-Im Bank”) and the institution identified as Lender on the signature page hereof (“Lender”).

RECITALS

Borrower has requested that Lender establish a Loan Facility in favor of Borrower for the purposes of providing Borrower with pre-export working capital to finance the manufacture, production or purchase and subsequent export sale of Items.

It is a condition to the establishment of such Loan Facility that Ex-Im Bank guarantee the payment of ninety percent (90%) of certain credit accommodations subject to the terms and conditions of a Master Guarantee Agreement, the Loan Authorization Agreement, and to the extent applicable, the Delegated Authority Letter Agreement.

Borrower is executing this Agreement for the benefit of Lender and Ex-Im Bank in consideration for and as a condition to Lender’s establishing the Loan Facility and Ex-Im Bank’s agreement to guarantee such Loan Facility pursuant to the Master Guarantee Agreement.

NOW, THEREFORE, Borrower hereby agrees as follows:

1 **DEFINITIONS**

1.1 Definition of Terms. As used in this Agreement, including the Recitals to this Agreement and the Loan Authorization Agreement, the following terms shall have the following meanings:

“Accounts Receivable” shall mean all of Borrower’s now owned or hereafter acquired (a) ”accounts” (as such term is defined in the UCC), other receivables, book debts and other forms of obligations, whether arising out of goods sold or services rendered or from any other transaction; (b) rights in, to and under all purchase orders or receipts for goods or services; (c) rights to any goods represented or purported to be represented by any of the foregoing (including unpaid sellers’ rights of rescission, replevin, reclamation and stoppage in transit and rights to returned, reclaimed or repossessed goods); (d) moneys due or to become due to such Borrower under all purchase orders and contracts for the sale of goods or the performance of services or both by Borrower (whether or not yet earned by performance on the part of Borrower), including

the proceeds of the foregoing; (e) any notes, drafts, letters of credit, insurance proceeds or other instruments, documents and writings evidencing or supporting the foregoing; and (f) all collateral security and guarantees of any kind given by any other Person with respect to any of the foregoing.

“Advance Rate” shall mean the rate specified in Section 5(C) of the Loan Authorization Agreement for each category of Collateral.

“Business Day” shall mean any day on which the Federal Reserve Bank of New York is open for business.

“Buyer” shall mean a Person that has entered into one or more Export Orders with Borrower.

“Collateral” shall mean all property and interest in property in or upon which Lender has been granted a Lien as security for the payment of all the Loan Facility Obligations including the Collateral identified in Section 6 of the Loan Authorization Agreement and all products and proceeds (cash and non-cash) thereof.

“Commercial Letters of Credit” shall mean those letters of credit subject to the UCP payable in Dollars and issued or caused to be issued by Lender on behalf of Borrower under a Loan Facility for the benefit of a supplier(s) of Borrower in connection with Borrower’s purchase of goods or services from the supplier in support of the export of the Items.

“Country Limitation Schedule” shall mean the schedule published from time to time by Ex-Im Bank and provided to Borrower by Lender which sets forth on a country by country basis whether and under what conditions Ex-Im Bank will provide coverage for the financing of export transactions to countries listed therein.

“Credit Accommodation Amount” shall mean, the sum of (a) the aggregate outstanding amount of Disbursements and (b) the aggregate outstanding face amount of Letter of Credit Obligations.

“Credit Accommodations” shall mean, collectively, Disbursements and Letter of Credit Obligations.

“Debarment Regulations” shall mean, collectively, (a) the Governmentwide Debarment and Suspension (Nonprocurement) regulations (Common Rule), 53 Fed. Reg. 19204 (May 26, 1988), (b) Subpart 9.4 (Debarment, Suspension, and Ineligibility) of the Federal Acquisition Regulations, 48 C.F.R. 9.400-9.409 and (c) the revised Governmentwide Debarment and Suspension (Nonprocurement) regulations (Common Rule), 60 Fed. Reg. 33037 (June 26, 1995).

“Delegated Authority Letter Agreement” shall mean the Delegated Authority Letter Agreement, if any, between Ex-Im Bank and Lender.

“Disbursement” shall mean, collectively, (a) an advance of a working capital loan from Lender to Borrower under the Loan Facility, and (b) an advance to fund a drawing under a Letter of Credit issued or caused to be issued by Lender for the account of Borrower under the Loan Facility.

“Dollars” or “$” shall mean the lawful currency of the United States.

“Effective Date” shall mean the date on which (a) the Loan Documents are executed by Lender and Borrower or the date, if later, on which agreements are executed by Lender and Borrower adding the Loan Facility to an existing working capital loan arrangement between Lender and Borrower and (b) all of the conditions to the making of the initial Credit Accommodations under the Loan Documents or any amendments thereto have been satisfied.

“Eligible Export-Related Accounts Receivable” shall mean an Export-Related Account Receivable which is acceptable to Lender and which is deemed to be eligible pursuant to the Loan Documents, but in no event shall Eligible Export-Related Accounts Receivable include any Account Receivable:

(a) that does not arise from the sale of Items in the ordinary course of Borrower’s business;

(b) that is not subject to a valid, perfected first priority Lien in favor of Lender;

(c) as to which any covenant, representation or warranty contained in the Loan Documents with respect to such Account Receivable has been breached;

(d) that is not owned by Borrower or is subject to any right, claim or interest of another Person other than the Lien in favor of Lender;

(e) with respect to which an invoice has not been sent;

(f) that arises from the sale of defense articles or defense services;

(g) that is due and payable from a Buyer located in a country with which Ex-Im Bank is prohibited from doing business as designated in the Country Limitation Schedule;

(h) that does not comply with the requirements of the Country Limitation Schedule;

(i) that is due and payable more than one hundred eighty (180) days from the date of the invoice;

(j) that is not paid within sixty (60) calendar days from its original due date, unless it is insured through Ex-Im Bank export credit insurance for comprehensive commercial

and political risk, or through Ex-Im Bank approved private insurers for comparable coverage, in which case it is not paid within ninety (90) calendar days from its due date;

(k) that arises from a sale of goods to or performance of services for an employee of Borrower, a stockholder of Borrower, a subsidiary of Borrower, a Person with a controlling interest in Borrower or a Person which shares common controlling ownership with Borrower;

(l) that is backed by a letter of credit unless the Items covered by the subject letter of credit have been shipped;

(m) that Lender or Ex-Im Bank, in its reasonable judgment, deems uncollectible for any reason;

(n) that is due and payable in a currency other than Dollars, except as may be approved in writing by Ex-Im Bank;

(o) that is due and payable from a military Buyer, except as may be approved in writing by Ex-Im Bank;

(p) that does not comply with the terms of sale set forth in Section 7 of the Loan Authorization Agreement;

(q) that is due and payable from a Buyer who (i) applies for, suffers, or consents to the appointment of, or the taking of possession by, a receiver, custodian, trustee or liquidator of itself or of all or a substantial part of its property or calls a meeting of its creditors, (ii) admits in writing its inability, or is generally unable, to pay its debts as they become due or ceases operations of its present business, (iii) makes a general assignment for the benefit of creditors, (iv) commences a voluntary case under any state or federal bankruptcy laws (as now or hereafter in effect), (v) is adjudicated as bankrupt or insolvent, (vi) files a petition seeking to take advantage of any other law providing for the relief of debtors, (vii) acquiesces to, or fails to have dismissed, any petition which is filed against it in any involuntary case under such bankruptcy laws, or (viii) takes any action for the purpose of effecting any of the foregoing;

(r) that arises from a bill-and-hold, guaranteed sale, sale-and-return, sale on approval, consignment or any other repurchase or return basis or is evidenced by chattel paper;

(s) for which the Items giving rise to such Account Receivable have not been shipped and delivered to and accepted by the Buyer or the services giving rise to such Account Receivable have not been performed by Borrower and accepted by the Buyer or the Account Receivable otherwise does not represent a final sale;

(t) that is subject to any offset, deduction, defense, dispute, or counterclaim or the Buyer is also a creditor or supplier of Borrower or the Account Receivable is contingent in any respect or for any reason;

(u) for which Borrower has made any agreement with the Buyer for any deduction therefrom, except for discounts or allowances made in the ordinary course of business for prompt payment, all of which discounts or allowances are reflected in the calculation of the face value of each respective invoice related thereto; or

(v) for which any of the Items giving rise to such Account Receivable have been returned, rejected or repossessed.

"Eligible Export-Related Inventory" shall mean Export-Related Inventory which is acceptable to Lender and which is deemed to be eligible pursuant to the Loan Documents, but in no event shall Eligible Export-Related Inventory include any Inventory:

(a) that is not subject to a valid, perfected first priority Lien in favor of Lender;

(b) that is located at an address that has not been disclosed to Lender in writing;

(c) that is placed by Borrower on consignment or held by Borrower on consignment from another Person;

(d) that is in the possession of a processor or bailee, or located on premises leased or subleased to Borrower, or on premises subject to a mortgage in favor of a Person other than Lender, unless such processor or bailee or mortgagee or the lessor or sublessor of such premises, as the case may be, has executed and delivered all documentation which Lender shall require to evidence the subordination or other limitation or extinguishment of such Person's rights with respect to such Inventory and Lender's right to gain access thereto;

(e) that is produced in violation of the Fair Labor Standards Act or subject to the "hot goods" provisions contained in 29 US.C.§215 or any successor statute or section;

(f) as to which any covenant, representation or warranty with respect to such Inventory contained in the Loan Documents has been breached;

(g) that is not located in the United States;

(h) that is demonstration Inventory;

(i) that consists of proprietary software (i.e. software designed solely for Borrower's internal use and not intended for resale);

(j) that is damaged, obsolete, returned, defective, recalled or unfit for further processing;

(k) that has been previously exported from the United States;

(l) that constitutes defense articles or defense services;

(m) that is to be incorporated into Items destined for shipment to a country as to which Ex-Im Bank is prohibited from doing business as designated in the Country Limitation Schedule;

(n) that is to be incorporated into Items destined for shipment to a Buyer located in a country in which Ex-Im Bank coverage is not available for commercial reasons as designated in the Country Limitation Schedule, unless and only to the extent that such Items are to be sold to such country on terms of a letter of credit confirmed by a bank acceptable to Ex-Im Bank; or

(o) that is to be incorporated into Items whose sale would result in an Account Receivable which would not be an Eligible Export-Related Account Receivable.

"Eligible Person" shall mean a sole proprietorship, partnership, limited liability partnership, corporation or limited liability company which (a) is domiciled, organized, or formed, as the case may be, in the United States; (b) is in good standing in the state of its formation or otherwise authorized to conduct business in the United States; (c) is not currently suspended or debarred from doing business with the United States government or any instrumentality, division, agency or department thereof; (d) exports or plans to export Items; (e) operates and has operated as a going concern for at least one (1) year; (f) has a positive tangible net worth determined in accordance with GAAP; and (g) has revenue generating operations relating to its core business activities for at least one year.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974 and the rules and regulations promulgated thereunder.

"Export Order" shall mean a written export order or contract for the purchase by the Buyer from Borrower of any of the Items.

"Export-Related Accounts Receivable" shall mean those Accounts Receivable arising from the sale of Items which are due and payable to Borrower in the United States.

"Export-Related Accounts Receivable Value" shall mean, at the date of determination thereof, the aggregate face amount of Eligible Export-Related Accounts Receivable less taxes, discounts, credits, allowances and Retainages, except to the extent otherwise permitted by Ex-Im Bank in writing.

"Export-Related Borrowing Base" shall mean, at the date of determination thereof, the sum of (a) the Export-Related Inventory Value multiplied by the Advance Rate applicable to Export-Related Inventory set forth in Section 5(C)(1) of the Loan Authorization Agreement, (b) the Export-Related Accounts Receivable Value multiplied by the Advance Rate applicable to Export-Related Accounts Receivable set forth in Section 5(C)(2) of the Loan Authorization Agreement, (c) if permitted by Ex-Im Bank in writing, the Retainage Value multiplied by the

Retainage Advance Rate set forth in Section 5(C)(3) of the Loan Authorization Agreement and (d) the Other Assets Value multiplied by the Advance Rate applicable to Other Assets set forth in Section 5(C)(4) of the Loan Authorization Agreement.

"Export-Related Borrowing Base Certificate" shall mean a certificate in the form provided or approved by Lender, executed by Borrower and delivered to Lender pursuant to the Loan Documents detailing the Export-Related Borrowing Base supporting the Credit Accommodations which reflects, to the extent included in the Export-Related Borrowing Base, Export-Related Accounts Receivable, Eligible Export-Related Accounts Receivable, Export-Related Inventory and Eligible Export-Related Inventory balances that have been reconciled with Borrower's general ledger, Accounts Receivable aging report and Inventory schedule.

"Export-Related General Intangibles" shall mean those General Intangibles necessary or desirable to or for the disposition of Export-Related Inventory.

"Export-Related Inventory" shall mean the Inventory of Borrower located in the United States that has been purchased, manufactured or otherwise acquired by Borrower for resale pursuant to Export Orders.

"Export-Related Inventory Value" shall mean, at the date of determination thereof, the lower of cost or market value of Eligible Export-Related Inventory of Borrower as determined in accordance with GAAP.

"Final Disbursement Date" shall mean, unless subject to an extension of such date agreed to by Ex-Im Bank, the last date on which Lender may make a Disbursement set forth in Section 10 of the Loan Authorization Agreement or, if such date is not a Business Day, the next succeeding Business Day; provided, however, to the extent that Lender has not received cash collateral or an indemnity with respect to Letter of Credit Obligations outstanding on the Final Disbursement Date, the Final Disbursement Date with respect to an advance to fund a drawing under a Letter of Credit shall be no later than thirty (30) Business Days after the expiry date of the Letter of Credit related thereto.

"GAAP" shall mean the generally accepted accounting principles issued by the American Institute of Certified Public Accountants as in effect from time to time.

"General Intangibles" shall mean all intellectual property and other "general intangibles" (as such term is defined in the UCC) necessary or desirable to or for the disposition of Inventory.

"Guarantor" shall mean each Person, if any, identified in Section 3 of the Loan Authorization Agreement who shall guarantee (jointly and severally if more than one) the payment and performance of all or a portion of the Loan Facility Obligations.

"Guaranty Agreement" shall mean a valid and enforceable agreement of guaranty executed by each Guarantor in favor of Lender.

"Inventory" shall mean all "inventory" (as such term is defined in the UCC), now or hereafter owned or acquired by Borrower, wherever located, including all inventory, merchandise, goods and other personal property which are held by or on behalf of Borrower for sale or lease or are furnished or are to be furnished under a contract of service or which constitute raw materials, work in process or materials used or consumed or to be used or consumed in Borrower's business or in the processing, production, packaging, promotion, delivery or shipping of the same, including other supplies.

"ISP" shall mean the International Standby Practices-ISP98, International Chamber of Commerce Publication No. 590 and any amendments and revisions thereof.

"Issuing Bank" shall mean the bank that issues a Letter of Credit, which bank is Lender itself or a bank that Lender has caused to issue a Letter of Credit by way of guarantee.

"Items" shall mean the finished goods or services which are intended for export from the United States, as specified in Section 4(A) of the Loan Authorization Agreement.

"Letter of Credit" shall mean a Commercial Letter of Credit or a Standby Letter of Credit.

"Letter of Credit Obligations" shall mean all outstanding obligations incurred by Lender, whether direct or indirect, contingent or otherwise, due or not due, in connection with the issuance or guarantee by Lender or the Issuing Bank of Letters of Credit.

"Lien" shall mean any mortgage, security deed or deed of trust, pledge, hypothecation, assignment, deposit arrangement, lien, charge, claim, security interest, security title, easement or encumbrance, or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including any lease or title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of, or agreement to give, any financing statement perfecting a security interest under the UCC or comparable law of any jurisdiction) by which property is encumbered or otherwise charged.

"Loan Agreement" shall mean a valid and enforceable agreement between Lender and Borrower setting forth the terms and conditions of the Loan Facility.

"Loan Authorization Agreement" shall mean the Loan Authorization Agreement entered into between Lender and Ex-Im Bank or the Loan Authorization Notice setting forth certain terms and conditions of the Loan Facility, a copy of which is attached hereto as Annex A.

"Loan Authorization Notice" shall mean the Loan Authorization Notice executed by Lender and delivered to Ex-Im Bank in accordance with the Delegated Authority Letter Agreement setting forth the terms and conditions of each Loan Facility.

“Loan Documents” shall mean the Loan Authorization Agreement, the Loan Agreement, this Agreement, each promissory note (if applicable), each Guaranty Agreement, and all other

instruments, agreements and documents now or hereafter executed by Borrower or any Guarantor evidencing, securing, guaranteeing or otherwise relating to the Loan Facility or any Credit Accommodations made thereunder.

“Loan Facility” shall mean the Revolving Loan Facility, the Transaction Specific Loan Facility or the Transaction Specific Revolving Loan Facility established by Lender in favor of Borrower under the Loan Documents.

“Loan Facility Obligations” shall mean all loans, advances, debts, expenses, fees, liabilities, and obligations for the performance of covenants, tasks or duties or for payment of monetary amounts (whether or not such performance is then required or contingent, or amounts are liquidated or determinable) owing by Borrower to Lender, of any kind or nature, present or future, arising in connection with the Loan Facility.

“Loan Facility Term” shall mean the number of months from the Effective Date to the Final Disbursement Date as originally set forth in the Loan Authorization Agreement.

“Master Guarantee Agreement” shall mean the Master Guarantee Agreement between Ex-Im Bank and Lender, as amended, modified, supplemented and restated from time to time.

“Material Adverse Effect” shall mean a material adverse effect on (a) the business, assets, operations, prospects or financial or other condition of Borrower or any Guarantor, (b) Borrower’s ability to pay or perform the Loan Facility Obligations in accordance with the terms thereof, (c) the Collateral or Lender’s Liens on the Collateral or the priority of such Lien or (d) Lender’s rights and remedies under the Loan Documents.

“Maximum Amount” shall mean the maximum principal balance of Credit Accommodations that may be outstanding at any time under the Loan Facility specified in Section 5(A) of the Loan Authorization Agreement.

“Other Assets” shall mean the Collateral, if any, described in Section 5(C)(4) of the Loan Authorization Agreement.

“Other Assets Value” shall mean, at the date of determination thereof, the value of the Other Assets as determined in accordance with GAAP.

“Permitted Liens” shall mean (a) Liens for taxes, assessments or other governmental charges or levies not delinquent, or, being contested in good faith and by appropriate proceedings and with respect to which proper reserves have been taken by Borrower; provided, that, the Lien shall have no effect on the priority of the Liens in favor of Lender or the value of the assets in which Lender has such a Lien and a stay of enforcement of any such Lien shall be in effect; (b) deposits or pledges securing obligations under worker’s compensation, unemployment insurance, social security or public liability laws or similar legislation; (c) deposits or pledges securing bids, tenders, contracts (other than contracts for the payment of money), leases, statutory obligations, surety and appeal bonds and other obligations of like nature arising in the ordinary course of

Borrower’s business; (d) judgment Liens that have been stayed or bonded; (e) mechanics’, workers’, materialmen’s or other like Liens arising in the ordinary course of Borrower’s business with respect to obligations which are not due; (f) Liens placed upon fixed assets hereafter acquired to secure a portion of the purchase price thereof, provided, that, any such Lien shall not encumber any other property of Borrower; (g) security interests being terminated concurrently with the execution of the Loan Documents; (h) Liens in favor of Lender securing the Loan Facility Obligations; and (i) Liens disclosed in Section 6(D) of the Loan Authorization Agreement.

“Person” shall mean any individual, sole proprietorship, partnership, limited liability partnership, joint venture, trust, unincorporated organization, association, corporation, limited liability company, institution, public benefit corporation, entity or government (whether national, federal, provincial, state, county, city, municipal or otherwise, including any instrumentality, division, agency, body or department thereof), and shall include such Person’s successors and assigns.

“Principals” shall mean any officer, director, owner, partner, key employee, or other Person with primary management or supervisory responsibilities with respect to Borrower or any other Person (whether or not an employee) who has critical influence on or substantive control over the transactions covered by this Agreement.

“Retainage” shall mean that portion of the purchase price of an Export Order that a Buyer is not obligated to pay until the end of a specified period of time following the satisfactory performance under such Export Order.

“Retainage Accounts Receivable” shall mean those portions of Eligible Export-Related Accounts Receivable arising out of a Retainage.

“Retainage Advance Rate” shall mean the percentage rate specified in Section 5(C)(3) of the Loan Authorization Agreement as the Advance Rate for the Retainage Accounts Receivable of Borrower.

“Retainage Value” shall mean, at the date of determination thereof, the aggregate face amount of Retainage Accounts Receivable, less taxes, discounts, credits and allowances, except to the extent otherwise permitted by Ex-Im Bank in writing.

“Revolving Loan Facility” shall mean the credit facility or portion thereof established by Lender in favor of Borrower for the purpose of providing pre-export working capital in the form of loans and/or Letters of Credit to finance the manufacture, production or purchase and subsequent export sale of Items pursuant to Loan Documents under which Credit Accommodations may be made and repaid on a continuous basis based solely on the Export-Related Borrowing Base during the term of such credit facility.

“Special Conditions” shall mean those conditions, if any, set forth in Section 13 of the Loan Authorization Agreement.

“Specific Export Orders” shall mean those Export Orders specified in Section 5(D) of the Loan Authorization Agreement.

“Standby Letter of Credit” shall mean those letters of credit subject to the ISP or UCP issued or caused to be issued by Lender for Borrower’s account that can be drawn upon by a Buyer only if Borrower fails to perform all of its obligations with respect to an Export Order.

“Transaction Specific Loan Facility” shall mean a credit facility or a portion thereof established by Lender in favor of Borrower for the purpose of providing pre-export working capital in the form of loans and/or Letters of Credit to finance the manufacture, production or purchase and subsequent export sale of Items pursuant to Loan Documents under which Credit Accommodations are made based solely on the Export-Related Borrowing Base relating to Specific Export Orders and once such Credit Accommodations are repaid they may not be reborrowed.

“Transaction Specific Revolving Loan Facility” shall mean a Revolving Credit Facility established to provide financing of Specific Export Orders.

“UCC” shall mean the Uniform Commercial Code as the same may be in effect from time to time in the jurisdiction in which Borrower or Collateral is located.

“UCP” shall mean the Uniform Customs and Practice for Documentary Credits (1993 Revision), International Chamber of Commerce Publication No. 500 and any amendments and revisions thereof.

“U.S.” or “United States” shall mean the United States of America and its territorial possessions.

“U.S. Content” shall mean with respect to any Item all the labor, materials and services which are of U.S. origin or manufacture, and which are incorporated into an Item in the United States.

“Warranty” shall mean Borrower’s guarantee to Buyer that the Items will function as intended during the warranty period set forth in the applicable Export Order.

“Warranty Letter of Credit” shall mean a Standby Letter of Credit which is issued or caused to be issued by Lender to support the obligations of Borrower with respect to a Warranty or a Standby Letter of Credit which by its terms becomes a Warranty Letter of Credit.

1.2 Rules of Construction. For purposes of this Agreement, the following additional rules of construction shall apply, unless specifically indicated to the contrary: (a) wherever from the context it appears appropriate, each term stated in either the singular or plural shall include the singular and the plural, and pronouns stated in the masculine, feminine or neuter gender shall include the masculine, the feminine and the neuter; (b) the term “or” is not exclusive; (c) the term “including” (or any form thereof) shall not be limiting or exclusive; (d) all references to

statutes and related regulations shall include any amendments of same and any successor statutes and regulations; (e) the words “this Agreement”, “herein”, “hereof”, “hereunder” or other words of similar import refer to this Agreement as a whole including the schedules, exhibits, and annexes hereto as the same may be amended, modified or supplemented; (f) all references in this Agreement to sections, schedules, exhibits, and annexes shall refer to the corresponding sections, schedules, exhibits, and annexes of or to this Agreement; and (g) all references to any instruments or agreements, including references to any of the Loan Documents, or the Delegated Authority Letter Agreement shall include any and all modifications, amendments and supplements thereto and any and all extensions or renewals thereof to the extent permitted under this Agreement.

1.3 Incorporation of Recitals. The Recitals to this Agreement are incorporated into and shall constitute a part of this Agreement.

2 OBLIGATIONS OF BORROWER

Until payment in full of all Loan Facility Obligations and termination of the Loan Documents, Borrower agrees as follows:

2.1 Use of Credit Accommodations.

(a) Borrower shall use Credit Accommodations only for the purpose of enabling Borrower to finance the cost of manufacturing, producing, purchasing or selling the Items. Borrower may not use any of the Credit Accommodations for the purpose of: (i) servicing or repaying any of Borrower’s pre-existing or future indebtedness unrelated to the Loan Facility (unless approved by Ex-Im Bank in writing); (ii) acquiring fixed assets or capital goods for use in Borrower’s business; (iii) acquiring, equipping or renting commercial space outside of the United States; (iv) paying the salaries of non U.S. citizens or non-U.S. permanent residents who are located in offices outside of the United States; or (v) in connection with a Retainage or Warranty (unless approved by Ex-Im Bank in writing).

(b) In addition, no Credit Accommodation may be used to finance the manufacture, purchase or sale of any of the following:

(i) Items to be sold or resold to a Buyer located in a country as to which Ex-Im Bank is prohibited from doing business as designated in the Country Limitation Schedule;

(ii) that part of the cost of the Items which is not U.S. Content unless such part is not greater than fifty percent (50%) of the cost of the Items and is incorporated into the Items in the United States;

(iii) defense articles or defense services; or

(iv) without Ex-Im Bank's prior written consent, any Items to be used in the construction, alteration, operation or maintenance of nuclear power, enrichment, reprocessing, research or heavy water production facilities.

2.2 Loan Documents and Loan Authorization Agreement.

(a) Each Loan Document and this Agreement have been duly executed and delivered on behalf of Borrower, and each such Loan Document and this Agreement are and will continue to be a legal and valid obligation of Borrower, enforceable against it in accordance with its terms.

(b) Borrower shall comply with all of the terms and conditions of the Loan Documents, this Agreement and the Loan Authorization Agreement.

2.3 Export-Related Borrowing Base Certificates and Export Orders. In order to receive Credit Accommodations under the Loan Facility, Borrower shall have delivered to Lender an Export-Related Borrowing Base Certificate as frequently as required by Lender but at least within the past thirty (30) calendar days and a copy of the Export Order(s) (or, for Revolving Loan Facilities, if permitted by Lender, a written summary of the Export Orders) against which Borrower is requesting Credit Accommodations. If Lender permits summaries of Export Orders, Borrower shall also deliver promptly to Lender copies of any Export Orders requested by Lender. In addition, so long as there are any Credit Accommodations outstanding under the Loan Facility, Borrower shall deliver to Lender at least once each month no later than the twentieth (20^{th}) day of such month or more frequently as required by the Loan Documents, an Export-Related Borrowing Base Certificate.

2.4 Exclusions from the Export-Related Borrowing Base. In determining the Export-Related Borrowing Base, Borrower shall exclude therefrom Inventory which is not Eligible Export-Related Inventory and Accounts Receivable which are not Eligible Export-Related Accounts Receivable. Borrower shall promptly, but in any event within five (5) Business Days, notify Lender (a) if any then existing Export-Related Inventory no longer constitutes Eligible Export-Related Inventory or (b) of any event or circumstance which to Borrower's knowledge would cause Lender to consider any then existing Export-Related Accounts Receivable as no longer constituting an Eligible Export-Related Accounts Receivable.

2.5 Financial Statements. Borrower shall deliver to Lender the financial statements required to be delivered by Borrower in accordance with Section 11 of the Loan Authorization Agreement.

2.6 Schedules, Reports and Other Statements. Borrower shall submit to Lender in writing each month (a) an Inventory schedule for the preceding month and (b) an Accounts Receivable aging report for the preceding month detailing the terms of the amounts due from each Buyer. Borrower shall also furnish to Lender promptly upon request such information, reports, contracts, invoices and other data concerning the Collateral as Lender may from time to time specify.

2.7 Additional Security or Payment.

(a) Borrower shall at all times ensure that the Export-Related Borrowing Base equals or exceeds the Credit Accommodation Amount. If informed by Lender or if Borrower otherwise has actual knowledge that the Export-Related Borrowing Base is at any time less than the Credit Accommodation Amount, Borrower shall, within five (5) Business Days, either (i) furnish additional Collateral to Lender, in form and amount satisfactory to Lender and Ex-Im Bank or (ii) pay to Lender an amount equal to the difference between the Credit Accommodation Amount and the Export-Related Borrowing Base.

(b) For purposes of this Agreement, in determining the Export-Related Borrowing Base there shall be deducted from the Export-Related Borrowing Base (i) an amount equal to twenty-five percent (25%) of the outstanding face amount of Commercial Letters of Credit and Standby Letters of Credit and (ii) one hundred percent (100%) of the face amount of Warranty Letters of Credit less the amount of cash collateral held by Lender to secure Warranty Letters of Credit.

(c) Unless otherwise approved in writing by Ex-Im Bank, for Revolving Loan Facilities (other than Transaction Specific Revolving Loan Facilities), Borrower shall at all times ensure that the outstanding principal balance of the Credit Accommodations that is supported by Export-Related Inventory does not exceed sixty percent (60%) of the sum of the total outstanding principal balance of the Disbursements and the undrawn face amount of all outstanding Commercial Letters of Credit. If informed by Lender or if Borrower otherwise has actual knowledge that the outstanding principal balance of the Credit Accommodations that is supported by Inventory exceeds sixty percent (60%) of the sum of the total outstanding principal balance of the Disbursements and the undrawn face amount of all outstanding Commercial Letters of Credit, Borrower shall, within five (5) Business Days, either (i) furnish additional non-Inventory Collateral to Lender, in form and amount satisfactory to Lender and Ex-Im Bank, or (ii) pay down the applicable portion of the Credit Accommodations so that the above described ratio is not exceeded.

2.8 Continued Security Interest. Borrower shall not change (a) its name or identity in any manner, (b) the location of its principal place of business, (c) the location of any of the Collateral or (d) the location of any of the books or records related to the Collateral, in each instance without giving thirty (30) days prior written notice thereof to Lender and taking all actions deemed necessary or appropriate by Lender to continuously protect and perfect Lender's Liens upon the Collateral.

2.9 Inspection of Collateral. Borrower shall permit the representatives of Lender and Ex-Im Bank to make at any time during normal business hours inspections of the Collateral and of Borrower's facilities, activities, and books and records, and shall cause its officers and employees to give full cooperation and assistance in connection therewith.

2.10 General Intangibles. Borrower represents and warrants that it owns, or is licensed to use, all General Intangibles necessary to conduct its business as currently conducted except where the failure of Borrower to own or license such General Intangibles could not reasonably be expected to have a Material Adverse Effect.

2.11 Notice of Certain Events. Borrower shall promptly, but in any event within five (5) Business Days, notify Lender in writing of the occurrence of any of the following:

(a) Borrower or any Guarantor (i) applies for, consents to or suffers the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator or similar fiduciary of itself or of all or a substantial part of its property or calls a meeting of its creditors, (ii) admits in writing its inability, or is generally unable, to pay its debts as they become due or ceases operations of its present business, (iii) makes a general assignment for the benefit of creditors, (iv) commences a voluntary case under any state or federal bankruptcy laws (as now or hereafter in effect), (v) is adjudicated as bankrupt or insolvent, (vi) files a petition seeking to take advantage of any other law providing for the relief of debtors, (vii) acquiesces to, or fails to have dismissed within thirty (30) days, any petition filed against it in any involuntary case under such bankruptcy laws, or (vii) takes any action for the purpose of effecting any of the foregoing;

(b) any Lien in any of the Collateral, granted or intended by the Loan Documents to be granted to Lender, ceases to be a valid, enforceable, perfected, first priority Lien (or a lesser priority if expressly permitted pursuant to Section 6 of the Loan Authorization Agreement) subject only to Permitted Liens;

(c) the issuance of any levy, assessment, attachment, seizure or Lien, other than a Permitted Lien, against any of the Collateral which is not stayed or lifted within thirty (30) calendar days;

(d) any proceeding is commenced by or against Borrower or any Guarantor for the liquidation of its assets or dissolution;

(e) any litigation is filed against Borrower or any Guarantor which has had or could reasonably be expected to have a Material Adverse Effect and such litigation is not withdrawn or dismissed within thirty (30) calendar days of the filing thereof;

(f) any default or event of default under the Loan Documents;

(g) any failure to comply with any terms of the Loan Authorization Agreement;

(h) any material provision of any Loan Document or this Agreement for any reason ceases to be valid, binding and enforceable in accordance with its terms;

(i) any event which has had or could reasonably be expected to have a Material Adverse Effect; or

(j) the Credit Accommodation Amount exceeds the applicable Export-Related Borrowing Base.

2.12 Insurance. Borrower will at all times carry property, liability and other insurance, with insurers acceptable to Lender, in such form and amounts, and with such deductibles and other provisions, as Lender shall require, and Borrower will provide evidence of such insurance to Lender, so that Lender is satisfied that such insurance is, at all times, in full force and effect. Each property insurance policy shall name Lender as loss payee and shall contain a lender's loss payable endorsement in form acceptable to Lender and each liability insurance policy shall name Lender as an additional insured. All policies of insurance shall provide that they may not be cancelled or changed without at least ten (10) days' prior written notice to Lender and shall otherwise be in form and substance satisfactory to Lender. Borrower will promptly deliver to Lender copies of all reports made to insurance companies.

2.13 Taxes. Borrower has timely filed all tax returns and reports required by applicable law, has timely paid all applicable taxes, assessments, deposits and contributions owing by Borrower and will timely pay all such items in the future as they became due and payable. Borrower may, however, defer payment of any contested taxes; provided, that Borrower (a) in good faith contests Borrower's obligation to pay such taxes by appropriate proceedings promptly and diligently instituted and conducted; (b) notifies Lender in writing of the commencement of, and any material development in, the proceedings; (c) posts bonds or takes any other steps required to keep the contested taxes from becoming a Lien upon any of the Collateral; and (d) maintains adequate reserves therefor in conformity with GAAP.

2.14 Compliance with Laws. Borrower represents and warrants that it has complied in all material respects with all provisions of all applicable laws and regulations, including those relating to Borrower's ownership of real or personal property, the conduct and licensing of Borrower's business, the payment and withholding of taxes, ERISA and other employee matters, safety and environmental matters.

2.15 Negative Covenants. Without the prior written consent of Ex-Im Bank and Lender, Borrower shall not (a) merge, consolidate or otherwise combine with any other Person; (b) acquire all or substantially all of the assets or capital stock of any other Person; (c) sell, lease, transfer, convey, assign or otherwise dispose of any of its assets, except for the sale of Inventory in the ordinary course of business and the disposition of obsolete equipment in the ordinary course of business; (d) create any Lien on the Collateral except for Permitted Liens; (e) make any material changes in its organizational structure or identity; or (f) enter into any agreement to do any of the foregoing.

2.16 Reborrowings and Repayment Terms.

(a) If the Loan Facility is a Revolving Loan Facility, provided that Borrower is not in default under any of the Loan Documents, Borrower may borrow, repay and reborrow amounts under the Loan Facility until the close of business on the Final Disbursement Date. Unless the Revolving Loan Facility is renewed or extended by Lender with the consent of Ex-Im

Bank, Borrower shall pay in full the outstanding Loan Facility Obligations and all accrued and unpaid interest thereon no later than the first Business Day after the Final Disbursement Date.

(b) If the Loan Facility is a Transaction Specific Loan Facility, Borrower shall, within two (2) Business Days of the receipt thereof, pay to Lender (for application against the outstanding Loan Facility Obligations and accrued and unpaid interest thereon) all checks, drafts, cash and other remittances it may receive in payment or on account of the Export-Related Accounts Receivable or any other Collateral, in precisely the form received (except for the endorsement of Borrower where necessary). Pending such deposit, Borrower shall hold such amounts in trust for Lender separate and apart and shall not commingle any such items of payment with any of its other funds or property.

2.17 Cross Default. Borrower shall be deemed in default under the Loan Facility if Borrower fails to pay when due any amount payable to Lender under any loan or other credit accommodations to Borrower whether or not guaranteed by Ex-Im Bank.

2.18 Munitions List. If any of the Items are articles, services, or related technical data that are listed on the United States Munitions List (part 121 of title 22 of the Code of Federal Regulations), Borrower shall send a written notice promptly, but in any event within five (5) Business Days, of Borrower learning thereof to Lender describing the Items(s) and the corresponding invoice amount.

2.19 Suspension and Debarment, etc. On the date of this Agreement neither Borrower nor its Principals are (a) debarred, suspended, proposed for debarment with a final determination still pending, declared ineligible or voluntarily excluded (as such terms are defined under any of the Debarment Regulations referred to below) from participating in procurement or nonprocurement transactions with any United States federal government department or agency pursuant to any of the Debarment Regulations or (b) indicted, convicted or had a civil judgment rendered against Borrower or any of its Principals for any of the offenses listed in any of the Debarment Regulations. Unless authorized by Ex-Im Bank, Borrower will not knowingly enter into any transactions in connection with the Items with any person who is debarred, suspended, declared ineligible or voluntarily excluded from participation in procurement or nonprocurement transactions with any United States federal government department or agency pursuant to any of the Debarment Regulations. Borrower will provide immediate written notice to Lender if at any time it learns that the certification set forth in this Section 2.19 was erroneous when made or has become erroneous by reason of changed circumstances.

3 RIGHTS AND REMEDIES

3.1 Indemnification. Upon Ex-Im Bank's payment of a Claim to Lender in connection with the Loan Facility pursuant to the Master Guarantee Agreement, Ex-Im Bank may assume all rights and remedies of Lender under the Loan Documents and may enforce any such rights or remedies against Borrower, the Collateral and any Guarantors. Borrower shall hold Ex-Im Bank and Lender harmless from and indemnify them against any and all liabilities, damages, claims, costs and losses incurred or suffered by either of them resulting from (a) any

materially incorrect certification or statement knowingly made by Borrower or its agent to Ex-Im Bank or Lender in connection with the Loan Facility, this Agreement, the Loan Authorization Agreement or any other Loan Documents or (b) any material breach by Borrower of the terms and conditions of this Agreement, the Loan Authorization Agreement or any of the other Loan Documents. Borrower also acknowledges that any statement, certification or representation made by Borrower in connection with the Loan Facility is subject to the penalties provided in Article 18 U.S.C. Section 1001.

3.2 Liens. Borrower agrees that any and all Liens granted by it to Lender are also hereby granted to Ex-Im Bank to secure Borrower's obligation, however arising, to reimburse Ex-Im Bank for any payments made by Ex-Im Bank pursuant to the Master Guarantee Agreement. Lender is authorized to apply the proceeds of, and recoveries from, any property subject to such Liens to the satisfaction of Loan Facility Obligations in accordance with the terms of any agreement between Lender and Ex-Im Bank.

4 MISCELLANEOUS

4.1 Governing Law. This Agreement and the Loan Authorization Agreement and the obligations arising under this Agreement and the Loan Authorization Agreement shall be governed by, and construed in accordance with, the law of the state governing the Loan Documents.

4.2 Notification. All notices required by this Agreement shall be given in the manner and to the parties provided for in the Loan Agreement.

4.3 Partial Invalidity. If at any time any of the provisions of this Agreement becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither the legality, the validity nor the enforceability of the remaining provisions hereof shall in any way be affected or impaired.

4.4 Waiver of Jury Trial. BORROWER HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES ANY AND ALL RIGHTS IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY ACTION, SUIT, PROCEEDING OR OTHER LITIGATION BROUGHT TO RESOLVE ANY DISPUTE ARISING UNDER, ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT, THE LOAN AUTHORIZATION AGREEMENT, ANY LOAN DOCUMENT, OR ANY OTHER AGREEMENT, DOCUMENT OR INSTRUMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH OR THEREWITH OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN), OR ACTIONS OR OMISSIONS OF LENDER, EX-IM BANK, OR ANY OTHER PERSON, RELATING TO THIS AGREEMENT, THE LOAN AUTHORIZATION AGREEMENT OR ANY OTHER LOAN DOCUMENT.

IN WITNESS WHEREOF, Borrower has caused this Agreement to be duly executed as of the day of March, 2005.

ASPEN TECHNOLOGY, INC.

By: /s/ Leo S. Vannoni

(Signature)

Name: Leo S. Vannoni

(Print or Type)

Title: VP & Treasurer

(Print or Type)

ASPENTECH, INC.

By: /s/ Charles F. Kane

(Signature)

Name: Charles F. Kane

(Print or Type)

Title: Treasurer

(Print or Type)

ACKNOWLEDGED:

SILICON VALLEY BANK

By: /s/ John Atanasoff

(Signature)

Name: John Atanasoff

(Print or Type)

Title: Senior Relationship Manager

(Print or Type)

ANNEXES:

Annex A - Loan Authorization Agreement or Loan Authorization Notice

CONSENT OF GUARANTOR

Each of the undersigned as a Guarantor of the obligations of Borrower to the Lender executing the foregoing Agreement hereby agrees that the foregoing Agreement, each of their respective Guaranty Agreements and each other Loan Documents may be assigned to the Export-Import Bank of the United States.

ASPENTECH SECURITIES CORP.

By: /s/ Charles F. Kane

Name: Charles F. Kane
Title: Treasurer

Exhibit 10.5

PROMISSORY NOTE
(Exim)

$10,000,000.00 April 1, 2005

FOR VALUE RECEIVED, the undersigned (jointly and severally, individually and collectively, the “Borrower”), jointly and severally promises to pay to the order of Silicon Valley Bank (“Bank”), at such place as the holder hereof may designate, in lawful money of the United States of America, the aggregate unpaid principal amount of all advances (“Advances”) made by Bank to Borrower, up to a maximum principal amount of Ten Million Dollars ($10,000,000.00), plus interest on the aggregate unpaid principal amount of such Advances, at the rates and in accordance with the terms of the Export-Import Bank Loan and Security Agreement between Borrower and Bank dated as of January 30, 2003, as amended from time to time (the “Loan Agreement”) on the first calendar day of each month after an Advance has been made. The entire principal amount and all accrued interest shall be due and payable on July 15, 2006, or on such earlier date, as provided for in the Loan Agreement.

Borrower irrevocably waives the right to direct the application of any and all payments at any time hereafter received by Bank from or on behalf of Borrower, and Borrower irrevocably agrees that Bank shall have the continuing exclusive right to apply any and all such payments against the then due and owing obligations of Borrower as Bank may deem advisable. In the absence of a specific determination by Bank with respect thereto, all payments shall be applied in the following order: (a) then due and payable fees and expenses; (b) then due and payable interest payments and mandatory prepayments; and (c) then due and payable principal payments and optional prepayments.

Bank is hereby authorized by Borrower to endorse on Bank’s books and records each Advance made by Bank under this Note and the amount of each payment or prepayment of principal of each such Advance received by Bank; it being understood, however, that failure to make any such endorsement (or any errors in notation) shall not affect the obligations of Borrower with respect to Advances made hereunder, and payments of principal by Borrower shall be credited to Borrower notwithstanding the failure to make a notation (or any errors in notation) thereof on such books and records.

Borrower promises to pay Bank all reasonable costs and reasonable expenses including all reasonable attorneys’ fees, incurred in such collection or in any suit or action to collect this Note or in any appeal thereof, unless a final court of competent jurisdiction finds that the Bank acted with gross negligence or willful misconduct. Borrower waives presentment, demand, protest, notice of protest, notice of dishonor, notice of nonpayment, and any and all other notices and demands in connection with the delivery, acceptance, performance, default or enforcement of this Note, as well as any applicable statute of limitations. No delay by Bank in exercising any power or right hereunder shall operate as a waiver of any power or right. Time is of the essence as to all obligations hereunder.

This Note is issued pursuant to the Loan Agreement, which shall govern the rights and obligations of Borrower with respect to all obligations hereunder.

The law of the Commonwealth of Massachusetts shall apply to this Agreement. BORROWER AND BANK EACH ACCEPTS FOR ITSELF AND IN CONNECTION WITH ITS PROPERTIES, UNCONDITIONALLY, THE NON-EXCLUSIVE JURISDICTION OF ANY STATE OR FEDERAL COURT OF COMPETENT JURISDICTION IN THE COMMONWEALTH OF MASSACHUSETTS IN ANY ACTION, SUIT, OR PROCEEDING OF ANY KIND, AGAINST IT WHICH ARISES OUT OF OR BY REASON OF THIS NOTE OR THE LOAN AGREEMENT; PROVIDED, HOWEVER, THAT IF FOR ANY REASON BANK CANNOT AVAIL ITSELF OF THE COURTS OF THE COMMONWEALTH OF MASSACHUSETTS, BORROWER ACCEPTS JURISDICTION OF THE COURTS AND VENUE IN SANTA CLARA COUNTY, CALIFORNIA.

BORROWER WAIVES ITS RIGHT TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF ANY OF THE EXIM LOAN DOCUMENTS OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREIN, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS. BORROWER RECOGNIZES AND AGREES THAT THE FOREGOING WAIVER CONSTITUTES A MATERIAL INDUCEMENT FOR IT TO ENTER INTO THIS AGREEMENT. BORROWER REPRESENTS AND WARRANTS THAT IT HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL AND THAT IT KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL.

ASPEN TECHNOLOGY, INC.

By: /s/ Leo S. Vannoni
Name: Leo S. Vannoni
Title: Treasurer

ASPENTECH, INC.

By: /s/ Charles F. Kane
Name: Charles F. Kane
Title: Treasurer

EXHIBIT 31.1

CERTIFICATION PURSUANT TO RULE 13a-14(a) OR RULE 15d-14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Mark Fusco, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aspen Technology, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) [Not applicable]

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal controls over financial reporting.

/s/ Mark Fusco
Mark Fusco
President and Chief Executive Officer
(Principal Executive Officer)

Date: May 10, 2005

EXHIBIT 31.2

**CERTIFICATION PURSUANT TO RULE 13a-14(a) OR RULE 15d-14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Charles F. Kane, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aspen Technology, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) [Not applicable]

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting

/s/ Charles F. Kane
Charles F. Kane
Senior Vice President and
Chief Financial Officer
(Principal Financial Officer)

Date: May 10, 2005

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Aspen Technology, Inc. (the “Company”) for the period ended March 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Mark Fusco, President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 10, 2005

/s/ Mark Fusco
Mark Fusco
President and Chief Executive Officer

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Aspen Technology, Inc. (the "Company") for the period ended March 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Charles F. Kane, Senior Vice President and Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 10, 2005

/s/ Charles F. Kane
Charles F. Kane
Senior Vice President and Chief Financial Officer