SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) of the Securities Exchange Act of 1934 for the Quarter ended December 31, 2000.

or

[ ] 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	04-2739697
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(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 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:

[X] Yes [ ] No

As of December 31, 2000, there were 29,821,197 shares of the Registrant's common stock (par value $.10 per share) outstanding.

ASPEN TECHNOLOGY, INC.

QUARTERLY REPORT ON FORM 10-Q

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ASPEN TECHNOLOGY, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS
(UNAUDITED AND IN THOUSANDS)

	DECEMBER 31, 2000	JUNE 30, 2000
Current Assets:		
Cash and cash equivalents	$ 35,009	$ 49,371
Short-term investments	48,151	64,161
Accounts receivable, net	82,168	81,781
Unbilled services	24,864	21,894
Current portion of long-term installments receivable, net	29,566	24,873
Deferred tax asset	3,300	3,300
Prepaid expenses and other current assets	18,388	16,175
Total current assets	241,446	261,555
Long-term installments receivable, net	38,729	28,301
Property and leasehold improvements, at cost	104,619	92,343
Accumulated depreciation and amortization	(62,234)	(56,250)
	42,385	36,093
Computer software development costs, net	7,654	7,026
Intangible assets, net	29,289	8,856
Deferred tax asset	4,147	10,130
Other assets	11,661	12,984
	$375,311	$364,945
Current Liabilities:		
Current portion of long-term debt	$ 2,733	$ 1,327
Accounts payable and accrued expenses	41,126	53,392
Unearned revenue	19,207	13,903
Deferred revenue	23,599	23,553
Total current liabilities	86,665	92,175
Long-term debt, less current maturities	2,239	1,923
5 1/4% Convertible subordinated debentures	86,250	86,250
Deferred revenue, less current portion	13,199	14,374
Other liabilities	832	1,025
Stockholders' Equity:		
Common stock	3,002	2,906
Additional paid-in capital	196,324	173,591
Accumulated deficit	(10,072)	(3,752)
Accumulated other comprehensive loss	(2,626)	(3,045)
Treasury stock, at cost	(502)	(502)
Total stockholders' equity	186,126	169,198
	$375,311	$364,945

ASPEN TECHNOLOGY, INC.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED AND IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED DECEMBER 31,		SIX MONTHS ENDED DECEMBER 31,	
	2000	1999	2000	1999
Software licenses	$40,630	$29,318	$ 73,212	$ 50,825
Service and other	41,057	33,166	77,963	65,011
Total revenues	81,687	62,484	151,175	115,836
Cost of software licenses	2,999	2,187	5,564	4,263
Cost of service and other	24,544	20,805	46,864	40,943
Selling and marketing	27,704	20,820	52,422	40,148
Research and development	16,568	11,774	31,560	23,496
General and administrative	7,600	5,748	14,165	11,316
Charge for in-process research and development	2,615	--	7,615	--
Total costs and expenses	82,030	61,334	158,190	120,166
Income (loss) from operations	(343)	1,150	(7,015)	(4,330)
Other income (expense), net	252	(51)	118	(1)
Write-off of investment	(5,000)	--	(5,000)	--
Interest income, net	1,328	1,015	2,869	1,996
Income (loss) before provision for (benefit from) income taxes	(3,763)	2,114	(9,028)	(2,335)
Provision for (benefit from) income taxes	(1,128)	785	(2,708)	(594)
Net income (loss)	$(2,635)	$ 1,329	$ (6,320)	$ (1,741)
Diluted earnings (loss) per share	$ (0.09)	$ 0.04	$ (0.21)	$ (0.06)
Weighted average shares outstanding -- diluted	29,747	29,774	29,493	27,863
Basic earnings (loss) per share	$ (0.09)	$ 0.05	$ (0.21)	$ (0.06)
Weighted average shares outstanding -- basic	29,747	27,925	29,493	27,863

ASPEN TECHNOLOGY, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED AND IN THOUSANDS)

	SIX MONTHS ENDED DECEMBER 31,	
	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
NET LOSS	$ (6,320)	$(1,741)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities (net of acquisition-related activity disclosed below):		
Depreciation and amortization	10,352	8,300
Charge for in-process research and development	7,615	--
Deferred income taxes	(1,382)	--
Decrease (increase) in accounts receivable	1,484	(4,861)
Increase in unbilled services	(1,919)	(1,718)
(Increase) decrease in installments receivable	(2,396)	9,179
Increase in prepaid expenses and other current assets	(1,642)	(1,850)
Decrease in accounts payable and accrued expenses	(16,129)	(3,208)
Increase in unearned revenue	4,686	2,699
Decrease in deferred revenue	(5,233)	(2,766)
Net cash (used in) provided by operating activities	(10,884)	4,034
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and leasehold improvements	(8,902)	(2,798)
Sale of investment securities	16,546	3,319
(Increase) decrease in other long-term assets	(3,574)	163
Write-off of investment	5,000	--
Increase in computer software development costs	(2,510)	(1,684)
Decrease in other long-term liabilities	(478)	(112)
Cash used in the purchase of business, net of cash acquired	(18,351)	--
Net cash used in investing activities	(12,269)	(1,112)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock under employee stock purchase plans	2,118	1,998
Exercise of stock options	7,408	1,126
Payments of long-term debt and capital lease obligations	(561)	(1,917)
Net cash provided by financing activities	8,965	1,207
EFFECTS OF EXCHANGE RATE CHANGES ON CASH	(174)	45
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(14,362)	4,174
CASH AND CASH EQUIVALENTS, beginning of period	49,371	34,039
CASH AND CASH EQUIVALENTS, end of period	$ 35,009	$38,213
During the six months ended December 31, 2000, the Company acquired certain companies in purchase transactions, as described in Note 4. These acquisitions are summarized as follows:		
Fair value of assets acquired, excluding cash	$ 35,431	
Payments in connection with the acquisitions, net of cash acquired	(18,351)	
Liabilities assumed	$ 17,080	

ASPEN TECHNOLOGY, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
DECEMBER 31, 2000
(UNAUDITED)

1. BASIS OF PRESENTATION

In the opinion of management, the accompanying consolidated condensed financial statements have been prepared in conformity with generally accepted accounting principles and include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation. The results of operations for the three and six month periods ended December 31, 2000 are not necessarily indicative of the results to be expected for the full year. It is suggested that these interim consolidated condensed financial statements be read in conjunction with the audited consolidated financial statements for the year ended June 30, 2000, which are contained in the Company's Form 10-K, as previously filed with the Securities and Exchange Commission.

2. ACCOUNTING POLICIES

(a) Revenue Recognition

Effective July 1, 1998, the Company adopted Statement of Position (SOP) No. 97-2, "Software Revenue Recognition." SOP 97-2 was issued by the American Institute of Certified Public Accountants in October 1997 in order to provide guidance on applying generally accepted accounting principles in recognizing revenue on software transactions. The adoption of SOP 97-2 did not have a material impact on the Company's financial position, results of operations or cash flows. License revenue, including license renewals, consists principally of revenue earned under fixed-term and perpetual software license agreements and is generally recognized upon shipment of the software if collection of the resulting receivable is probable, the fee is fixed or determinable, and vendor-specific objective evidence exists for all undelivered elements to allow allocation of the total fee to all delivered and undelivered elements of the arrangement. Revenues under such arrangements, which may include several different software products and services sold together, are allocated to each element based on the residual method in accordance with SOP 98-9, "Software Revenue Recognition, with Respect to Certain Transactions." Under the residual method, the fair value of the undelivered elements is deferred and subsequently recognized when earned. The Company has established sufficient vendor specific objective evidence for professional services, training and maintenance and support services. Accordingly, software license revenue is recognized under the residual method in arrangements in which software is licensed with professional services, training and maintenance and support services. The Company uses installment contracts as a standard business practice and has a history of successfully collecting under the original payment terms without making concessions on payments, products or services.

Service revenues from fixed-price contracts are recognized using the percentage-of-completion method, measured by the percentage of costs (primarily labor) incurred to date as compared to the estimated total costs (primarily labor) for each contract. When a loss is anticipated on a contract, the full amount thereof is provided currently. Service revenues from time and expense contracts and consulting and training revenue are recognized as the related services are performed. Services that have been performed but for which billings have not been made are recorded as unbilled services, and billings that have been recorded before the services have been performed are recorded as unearned revenue in the accompanying consolidated balance sheets.

Installments receivable represent the present value of future payments related to the financing of noncancelable term 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 rate utilized for both the three and six month periods ended December 31, 2000 was 9.0%. In the three and six month periods ended December 31, 1999, the rates utilized were 9.0% and 8.5% to 9.0%, respectively. At December 31, 2000, the Company had installments receivable of approximately $9.0 million denominated in foreign currencies. The December 2000 foreign installments receivable mature through May 2005 and have been hedged with specific foreign currency

ASPEN TECHNOLOGY, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS -- (CONTINUED)

contracts. There have been no material gains or losses recorded relating to hedge contracts for the periods presented. The Company does not use derivative financial instruments for speculative or trading purposes.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements." SAB 101 provides guidance on the recognition, disclosure and presentation of revenue in financial statements. SAB 101, as amended by SAB 101A and SAB 101B, is required to be implemented no later than the fourth fiscal quarter of fiscal years beginning after December 15, 1999. The Company does not expect that any impact of adoption will be material.

(b) Computer Software Development Costs

Certain computer software development costs are capitalized in the accompanying consolidated condensed balance sheets. Capitalization of computer software development costs begins upon the establishment of technological feasibility. Amortization of capitalized computer software development costs is included in cost of revenues and is provided on a product-by-product basis using the straight-line method, beginning upon commercial release of the product and continuing over the remaining estimated economic life of the product, not to exceed three years. Total amortization expense charged to operations in the three and six month periods ending December 31, 2000 were $1.1 and $1.9 million, respectively, as compared to the three and six month periods ended December 31, 1999, which were $0.7 and $1.5 million, respectively.

(c) Net Income (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share reflect the dilution of potentially dilutive securities, primarily stock options, based on the treasury stock method.

The following dilutive effect of 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 DECEMBER 31,		SIX MONTHS ENDED DECEMBER 31,	
	2000	1999	2000	1999
Options and Warrants	2,956	--	3,268	902
Convertible Debt	410	410	821	821
Total	3,366	410	4,089	1,723

(d) Investments

Securities purchased to be held for indefinite periods of time, and not intended at the time of purchase to be held until maturity, are classified as available-for-sale securities. Securities classified as available-for-sale are required to be recorded at market value in the financial statements. Unrealized gains and losses have been accounted for as a separate component of stockholders' equity and accumulated other comprehensive loss. Realized investment gains and losses were not material in the three and six month periods ending December 31, 2000 and 1999. Investments held as of December 31, 2000 consist of $39.2 million in U.S. Corporate Bonds, $3.0 million in U.S. Government Bonds and $6.0 million in Certificates of Deposit. The Company does not use derivative financial instruments in its investment portfolio.

(e) Derivative Instruments and Hedging

Effective July 1, 2000, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 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 recorded at 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. The adoption of SFAS No. 133 resulted in an immaterial cumulative effect on income and other comprehensive income for the Company.

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 assets that are denominated in currencies other than the U.S. dollar, primarily the Japanese Yen and certain European currencies. 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 December 31, 2000, the Company had effectively hedged $7.8 million of installments receivable denominated in foreign currency. The Company does not hold or transact in financial instruments for purposes other than risk management.

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 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. A small portion of the forward foreign currency exchange contract is designated to hedge the future interest income of the related receivables. 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.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS -- (CONTINUED)

The following table provides information about the Company's foreign currency derivative financial instruments outstanding as of December 31, 2000. The information is provided in U.S. dollar amounts, as presented in the Company's consolidated condensed financial statements. The table presents the notional amount (at contract exchange rates) and the weighted average contractual foreign currency rates (in thousands, except average contract rates):

	NOTIONAL AMOUNT	AVERAGE CONTRACT RATE
British Pound Sterling	$3,594	1.50
Japanese Yen	2,264	108.39
Swiss Franc	857	1.61
French Franc	697	6.93
German Deutsche Mark	321	2.06
Netherlands Guilder	28	2.40
	$7,761	
Estimated fair value	$7,576*	

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* The estimated fair value is based on the estimated amount at which the contracts could be settled based on the spot rates as of December 31, 2000. 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.

3. SALE OF INSTALLMENTS RECEIVABLE

The Company sold, with limited recourse, certain of its installment contracts to two financial institutions for approximately $13.3 and $24.7 million during the three and six month periods ended December 31, 2000. The financial institutions have partial recourse to the Company only upon non-payment by the customer under the installments receivable. The amount of recourse is determined pursuant to the provisions of the Company's contracts with the financial institutions and varies depending upon whether the customers under the installment contracts are foreign or domestic entities. Collections of these receivables reduce the Company's recourse obligations, as defined.

At December 31, 2000, the balance of the uncollected principal portion of all contracts sold was $101.9 million. The Company's potential recourse obligation related to these contracts is approximately $5.3 million. In addition, the Company is obligated to pay additional costs to the financial institutions in the event of default by the customer.

4. ACQUISITIONS

(a) Q1 FY01 Acquisition

On August 29, 2000, the Company acquired ICARUS Corporation and ICARUS Services Limited (together, ICARUS), a market leader in providing software that is used by process manufacturing industries to estimate plant capital costs and evaluate project economics. The Company acquired 100% of the outstanding shares and options to purchase shares of ICARUS for a purchase price of approximately $24.9 million, consisting of $12.4 million in shares of the Company's stock, $10.4 million in cash and $2.1 million in

ASPEN TECHNOLOGY, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS -- (CONTINUED)

promissory notes. This acquisition was accounted for as a purchase, and accordingly, the results of operations from the date of acquisition are included in the Company's consolidated statements of operations commencing as of the acquisition date. Allocation of the purchase price for this acquisition was based on an estimate of the fair value of the net assets acquired and is subject to adjustment based on the finalization of the purchase price allocation. The fair market value of assets acquired and liabilities assumed was based on independent appraisal. The portion of the purchase price allocated to in-process research and development represents projects that had not yet reached technological feasibility and had no alternative future use. Pro forma information related to this acquisition is not presented as it is not material. The purchase price was allocated to the fair market value of assets acquired and liabilities assumed, as follows (in thousands):

DESCRIPTION	AMOUNT	LIFE
Purchased in-process research and development	$ 5,000	--
Acquired technology	9,590	6 years
Goodwill	5,103	6 years
Other intangibles	401	2 years
	20,094	
Net book value of tangible assets acquired, less liabilities assumed	7,557	
	27,651	
Less -- Deferred taxes	2,701	
	$24,950	

(b) Q2 FY01 Acquisitions

In the second quarter of fiscal 2001, the Company acquired Broner Systems (Broner) and significantly all assets of e-Chemicals, Inc. (e-Chemicals). These acquisitions were accounted for as purchase transactions, and accordingly, the results of operations from the dates of acquisition are included in the Company's consolidated condensed statements of operations commencing as of the acquisition dates. Total purchase price for these acquisitions was approximately $10.4 million, consisting of $9.5 million in cash and $0.9 million in shares of the Company stock, plus approximately $0.5 million in acquisition related costs. Broner specializes in advanced planning and scheduling software specifically designed for the metals industry and e-Chemicals is one of the pioneers of the Internet-based trading for the chemicals industry.

Allocation of the purchase prices for these acquisitions were based on estimates of the fair value of the net assets acquired and are subject to adjustment based on the finalization of the purchase price allocations. The fair market value of assets acquired and liabilities assumed was based on independent appraisals. The portion of the purchase prices allocated to in-process research and development represents projects that had not yet reached technological feasibility and had no alternative future use. Pro forma information related to

ASPEN TECHNOLOGY, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS -- (CONTINUED)

these acquisitions is not presented as it is not material. The purchase prices were allocated to the fair market value of assets acquired and liabilities assumed, as follows (in thousands):

DESCRIPTION	AMOUNT	LIFE
Purchased in-process research and development	$ 2,615	--
Acquired technology	4,400	3-5 years
Goodwill	2,322	7 years
Other intangibles	780	3 years
	10,117	
Net book value of tangible assets acquired, less liabilities assumed	2,213	
	12,330	
Less -- Deferred taxes	1,434	
	$10,896	

5. 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 six months ended December 31, 2000 and 1999 are as follows (in thousands):

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	2000	1999	2000	1999
Net income (loss)	$(2,635)	$1,329	$(6,320)	$(1,741)
Unrealized gain (loss) on investments	206	(162)	536	(180)
Foreign currency adjustment	394	(431)	(138)	295
Foreign currency exchange contract hedge	(7)	--	21	--
Comprehensive income (loss)	$(2,042)	$ 736	$(5,901)	$(1,626)

6. RESTRUCTURING AND OTHER CHARGES

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 our core vertical markets. The restructuring plan resulted in a pre-tax restructuring charge totaling $17.9 million. The following discusses the components of the restructuring and other charges.

Close-down/consolidation of facilities: Approximately $10.2 million of the restructuring charge relates to the termination of facility leases and other lease-related costs. The facility leases had remaining terms ranging from one month to six years. The amount accrued reflects the Company's best estimate of actual costs to buy out the leases in certain cases or the net cost to sublease the properties in other cases. Included in this amount is the write off of certain assets, primarily building and leasehold improvements and adjustments to certain obligations that relate to the closing of facilities.

Employee severance, benefits and related costs: Approximately $4.3 million of the restructuring charge relates to the reduction in workforce.

ASPEN TECHNOLOGY, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS -- (CONTINUED)

As of December 31, 2000, there was approximately $2.8 million remaining in the accrued expenses relating to the restructuring. Substantially all of this amount relates to the close-down/consolidation of facilities.

7. SEGMENT INFORMATION

SFAS No. 131 established standards for reporting information about operating segments in the Company's 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 Form 10-K for the fiscal year ended June 30, 2000. 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 December 31, 2000 --				
Revenues from unaffiliated customers	$40,630	$26,612	$14,445	$ 81,687
Controllable expenses	14,409	17,758	3,713	35,880
Controllable margin(1)	$26,221	$ 8,854	$10,732	$ 45,807
Three Months Ended December 31, 1999 --				
Revenues from unaffiliated customers	$29,318	$22,100	$11,066	$ 62,484
Controllable expenses	11,723	15,639	2,544	29,906
Controllable margin(1)	$17,595	$ 6,461	$ 8,522	$ 32,578
Six Months Ended December 31, 2000 --				
Revenues from unaffiliated customers	$73,212	$51,019	$26,944	$151,175
Controllable expenses	25,974	35,161	6,979	68,114
Controllable margin(1)	$47,238	$15,858	$19,965	$ 83,061
Six Months Ended December 31, 1999 --				
Revenues from unaffiliated customers	$50,825	$43,136	$21,875	$115,836
Controllable expenses	23,713	30,813	4,742	59,268
Controllable margin(1)	$27,112	$12,323	$17,133	$ 56,568

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(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.

ASPEN TECHNOLOGY, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS -- (CONTINUED)

Profit Reconciliation (in thousands):

	THREE MONTHS ENDING DECEMBER 31,		SIX MONTHS ENDING DECEMBER 31,	
	2000	1999	2000	1999
Total controllable margin for reportable segments	$ 45,807	$ 32,578	$ 83,061	$ 56,568
Selling and marketing	(23,469)	(16,440)	(44,393)	(30,971)
Research and development	(2,961)	--	(4,585)	(75)
General and administrative and overhead	(17,105)	(14,988)	(33,483)	(29,852)
Charge for in-process research and development	(2,615)	--	(7,615)	--
Write-off of investment	(5,000)	--	(5,000)	--
Interest and other income and expense, net	1,580	964	2,987	1,995
Loss before benefit from income taxes	$ (3,763)	$ 2,114	$ (9,028)	$ (2,335)

8. INVESTMENTS

In March 2000, the Company and e-Chemicals entered into a Stock Purchase Agreement whereby the Company acquired 833,333 shares of e-Chemicals non-voting Series E Preferred Stock for $6.00 per share. This investment entitled the Company to a minority interest in e-Chemicals and was accounted for using the cost method. During the second quarter of fiscal 2001, the Company deemed this investment in the stock of e-Chemicals to be worthless and, as a result, this investment was written off. This write-off is included in the accompanying consolidated condensed statement of operations for the three and six months ended December 31, 2000. As discussed in Note 4(b), the Company acquired significantly all assets of e-Chemicals. This purchase of assets allows the Company to embed the technology developed by e-Chemicals for on-line sales and procurement into its Aspen Marketplace solution.

In December 2000, the Company made a $3.0 million investment in e-Catalysts, Inc. (e-Catalysts), a neutral marketplace for all trading partners in the catalyst industry including raw material suppliers, manufacturers, service providers and end users. This investment entitles the Company to a 33% interest in e-Catalysts and will be accounted for using the equity method. The Company believes that all transactions with e-Catalysts are rendered at arm's length.

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 OUR ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED JUNE 30, 2000. 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 FUTURE RESULTS AND THE TRADING PRICE OF OUR COMMON STOCK" AND ELSEWHERE IN THIS QUARTERLY REPORT.

RESULTS OF OPERATIONS: COMPARISON OF THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2000 AND 1999

We acquired e-Chemicals and Broner Systems in the second quarter of fiscal 2001, ICARUS in the first quarter of fiscal 2001 and M2R in the fourth quarter of fiscal 2000. All of these acquisitions were accounted for as purchase transactions. We have subsequently taken steps to integrate the operations and reorganize our operations and our new subsidiaries. As a result of these acquisitions and our investment in PetroVantage, our operating results for the three and six month periods ended December 31, 2000 and 1999 are not completely comparable.

Total Revenues

Revenues are derived from software licenses and maintenance and other services. Total revenues for the three months ended December 31, 2000 were $81.7 million, an increase of 30.7% from $62.5 million in the comparable period of fiscal 2000. Total revenues for the six months ended December 31, 2000 were $151.2 million, an increase of 30.5% from $115.8 million in the comparable period of fiscal 2000.

Total revenues from customers outside the United States were $42.5 and $71.2 million, or 52.0% and 47.1%, of total revenues for the three and six months ended December 31, 2000, respectively. The non-US revenues for the comparable periods in fiscal 2000 were $30.0 and $52.9 million, or 48.0% and 45.7%, of total revenues. The geographical mix of license revenues can vary from quarter to quarter; however, for fiscal 2001, the overall mix of revenues from customers outside the United States is expected to be relatively consistent with the prior year.

Software License Revenues

Software license revenues represented 49.7% of total revenues for the three months ended December 31, 2000, as compared to 46.9% in the comparable period of fiscal 2000. Revenues from software licenses for the three months ended December 31, 2000 were $40.6 million, an increase of 38.6% from $29.3 million in the comparable period of fiscal 2000. Software license revenues represented 48.4% of total revenues for the six months ended December 31, 2000, as compared to 43.9% in the comparable period of fiscal 2000. Revenues from software licenses for the six months ended December 31, 2000 were $73.2 million, an increase of 44.0% from $50.8 million in the comparable period of fiscal 2000. These percentage increases were primarily attributable to an increased penetration in the market as well as increased sales of our eSupply Chain suite of products and license revenues derived from our acquisitions discussed above.

Service and Other Revenues

Revenues from service and other consist of consulting services, support and maintenance on software licenses and training. Revenues from service and other for the three months ended December 31, 2000 were $41.1 million, an increase of 23.8% from $33.2 million in the comparable period in fiscal 2000. Revenues from service and other for the six months ended December 31, 2000 were $78.0 million, an increase of 19.9% from $65.0 million in the comparable period in fiscal 2000. These increases reflect an improvement in our support

and maintenance business resulting from last year's license growth, as well as improvements in the pricing and productivity of our supply chain services businesses.

Cost of Software Licenses

Cost of software licenses consists of royalties, amortization of previously capitalized software costs, costs related to the delivery of software (including disk duplication and third party software costs), printing of manuals and packaging. Cost of software licenses for the three and six months ended December 31, 2000 were $3.0 and $5.6 million, respectively, an increase of 37.1% and 30.5% from $2.2 and $4.3 million in the comparable periods of fiscal 2000. Cost of software licenses as a percentage of revenues from software licenses was 7.4% and 7.6% for the three and six months ended December 31, 2000, respectively, as compared to 7.5% and 8.4% for the three and six months ended December 31, 1999, respectively. The percentage decreases were due primarily to the higher revenue bases, as well as variable royalties expensed as a result of the mix of the software license revenues.

Cost of Service and Other

Cost of service and other consists of the cost of execution of application consulting services, technical support expenses, the cost of training services and the cost of manuals sold separately. Cost of service and other for the three and six months ended December 31, 2000 was $24.5 and $46.9 million, respectively, an increase of 18.0% and 14.5% from $20.8 and $40.9 million in the comparable periods in fiscal year 2000. Cost of service and other as a percentage of service and other revenues was 59.8% and 60.1% in the three and six months ended December 31, 2000, respectively, and 62.7% and 63.0% in the comparable periods of fiscal year 2000. These percentage decreases were primarily a result of increased revenue per hour and improved utilization rates of billable engineers in the three and six months ended December 31, 2000, as well as software maintenance revenues which increased at a rate higher than the costs required to support the higher revenue bases.

Selling and Marketing Expenses

Selling and marketing expenses for the three and six months ended December 31, 2000 were $27.7 and $52.4 million, respectively, an increase of 33.1% and 30.6% from $20.8 and $40.1 million in the comparable periods in fiscal year 2000. As a percentage of total revenues, selling and marketing expenses were 33.9% and 34.7% for the three and six months ended December 31, 2000, respectively, as compared to 33.3% and 34.7% for the comparable periods in fiscal 2000. The dollar increases were attributable to expense bases that were increased to support higher license revenue levels. We continue to selectively invest in sales personnel and regional sales offices to improve our geographic proximity to our customers, to maximize the penetration of existing accounts and to add new customers. The increase in costs also was attributable to our continued investment in developing our partnership channels and relationships and the addition of costs relating to M2R, ICARUS, Broner and e-Chemicals.

Research and Development Expenses

Research and development expenses consist primarily of personnel and outside consultancy costs required to conduct our product development efforts. Capitalized research and development costs are amortized over the estimated remaining economic life of the relevant product, not to exceed three years. Research and development expenses during the three and six months ended December 31, 2000 were $16.6 and $31.6 million, respectively, an increase of 40.7% and 34.3%, respectively, from $11.8 and $23.5 million in the comparable periods of fiscal 2000. As a percentage of revenues, research and development costs were 20.3% and 20.9% for the three and six months ended December 31, 2000, respectively, as compared to 18.8% and 20.3% for the same periods in fiscal 2000. The increase in costs was attributable to the roll out of our new net market solutions, the addition of costs relating to the acquisitions of ICARUS, Broner and e-Chemicals, and other internet initiatives including the majority of the $2.7 million of costs invested in PetroVantage in the six months ended December 31, 2000. We capitalized 7.2% and 7.4% of our total research and development costs

during the three and six months ended December 31, 2000, respectively, as compared to 7.9% and 6.6% in the comparable periods of fiscal year 2000.

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 certain intangibles. General and administrative expenses were $7.6 and $14.2 million for the three and six months ended December 31, 2000, respectively, and $5.7 and $11.3 million for the comparable periods in fiscal 2000. These increases were due to the amortization of intangibles related to the M2R, ICARUS and Broner acquisitions, the addition of costs relating to the M2R, ICARUS and Broner acquisitions, and the additional personnel hired to support our growth. Amortization of intangible assets, including goodwill, was $1.7 and $2.6 million in the three and six months ended December 31, 2000, respectively, as compared to $0.6 and $1.2 million in the comparable periods in fiscal 2000. Amortization of goodwill was $0.6 and $0.9 million in the three and six months ended December 31, 2000, respectively, as compared to $0.1 and $0.3 million in the comparable periods in fiscal 2000.

Charge for In-Process Research and Development

In connection with the acquisitions of ICARUS, Broner and e-Chemicals in the first two quarters of fiscal 2001, approximately $7.6 million of the purchase prices were allocated to in-process research and development projects based upon independent appraisals. These allocations represented the estimated fair value based on risk-adjusted cash flows related to the incomplete research and development projects. At the date of acquisitions, the development of these projects had not yet reached technological feasibility, and the research and development in progress had no alternative future uses. Accordingly, these costs were expensed as of the acquisition dates.

At the acquisition date, ICARUS was conducting design, development, engineering and testing activities associated with the completion of its next-generation product. This project involved developing a framework that will unify ICARUS' cost engine technology and user modules into one seamless architecture. At the acquisition date, the technologies under development ranged from 15 to 80 percent complete based on engineering man-month data and technological progress. Anticipated completion dates ranged from 5 to 12 months at an estimated cost of $0.5 million.

At the acquisition date, Broner was conducting design, development, engineering and testing activities associated with the completion of several new additions to their product suite. The addition of these modules will broaden Broner's product offerings to customers. At the acquisition date, the technologies under development ranged from 70 to 80 percent complete based on engineering man-month data and technological progress. Anticipated completion dates ranged from 4 to 6 months at an estimated cost of $0.4 million.

At the acquisition date, e-Chemicals was conducting design, development, engineering and testing activities associated with the completion of its next-generation e-commerce solution. The effort entailed redirecting e-Chemicals technology and productizing certain offerings to attract a broader base of customers. At the acquisition date, the technologies under development ranged from 60 to 80 percent complete based on engineering man-month data and technological progress. Anticipated completion dates ranged from 2 to 4 months at an estimated cost of $1.1 million.

In making each of these purchase price allocations, we considered present value calculations of income, an analysis of project accomplishments and remaining outstanding items, an assessment of overall contributions, as well as project risks. The values assigned to purchased in-process technology was determined by estimating the costs to develop the acquired technologies into commercially viable products, estimating the resulting net cash flows from the projects, and discounting the net cash flows to their present values. The revenue projections used to value the in-process research and development was based on estimates of relevant market sizes and growth factors, expected trends in technology, and the nature and expected timing of new product introductions by us and our competitors. The resulting net cash flows from such projects are based on estimates of cost of sales, operating expenses, and income taxes from such projects. The rates utilized to

discount the net cash flows to their present value were based on estimated cost of capital calculations. Due to the nature of the forecast and the risks associated with the projected growth and profitability of the developmental projects, a discount rate of 25 percent was considered appropriate for the in-process research and development.

Interest Income

Interest income is generated from the investment of excess cash in short-term and long-term investments and from the license of software pursuant to installment contracts for engineering suite software. Under these installment contracts, we offer customers the option to make annual payments for its term licenses instead of a single license fee payment at the beginning of the license term. Historically, a substantial majority of the engineering suite customers have elected to license our products through installment contracts. Included in the annual payments is an implicit interest charge based upon the interest rate established us at the time of the license. As we sell more perpetual licenses for eSupply Chain and Plantelligence Solutions, these new sales are being paid for in forms that are not installment contracts. If the mix of sales moves away from installment contracts, the 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 period is the result of the implicit interest established by us on installment contracts and the size of the contract portfolio. Interest income was $2.7 and $5.5 million for the three and six months ended December 31, 2000, respectively, and $2.4 and $4.8 million for the comparable periods in fiscal 2000. These increases were attributable to increases in our installment contract portfolio, particularly the addition of installments receivable from our acquisition of ICARUS.

Write-off of Investment

In March 2000, we acquired 833,333 shares of e-Chemicals non-voting Series E Preferred Stock for $6.00 per share. This investment entitled us to a minority interest in e-Chemicals and was accounted for using the cost method. During the second quarter of fiscal 2001, we deemed our investment in the stock of e-Chemicals to be worthless and this investment of $5.0 million was written off. In December 2000, we acquired significantly all assets of e-Chemicals. This purchase of assets allows us to embed the technology developed by e-Chemicals for on-line sales and procurement into our Aspen Marketplace solution.

Interest Expense

Interest expense is generated from interest charged on our 5 1/4% convertible debentures, bank line of credit, notes payable and capital lease obligations. Interest expense was $1.3 and $2.6 million for the three and six months ended December 31, 2000, respectively, and $1.4 and $2.8 million for the comparable periods in fiscal 2000.

Tax Rate

The effective tax rate for the three and six months ended December 31, 2000 was approximately 30.0% of pretax income (loss). The effective tax rate for the three and six months ended December 31, 1999 was 34.0%, however the amounts recorded in our financial statements, 37.1% and 25.4% for the three and six months ended December 31, 1999, respectively, reflects the impact of certain events within the Petrolsoft historic financial statements, which were combined into our financial statements under the accounting for that pooling of interests transaction. This percentage decrease from the normalized 34.0% to the 30.0% rate was primarily due to the generation and utilization of tax credits, including foreign tax credits.

LIQUIDITY AND CAPITAL RESOURCES

During the six months ended December 31, 2000, our cash and cash equivalents balance decreased by $14.4 million. This decrease was attributable primarily to the investments we made in the acquisitions of ICARUS, Broner and e-Chemicals. Additionally we expended cash for an investment in e-Catalysts and we continued our funding into our wholly owned subsidiary, PetroVantage. Operations used approximately $10.9

million of cash during the six months ended December 31, 2000, primarily as a result of the decrease in accounts payable, accrued expenses, deferred revenue and the increase in installments receivable offset by the increase in unearned revenue and the charge for in-process research and development.

We have arrangements to sell long-term contracts to two financial institutions, General Electric Capital Corporation and Fleet Business Credit Corporation. During the six months ended December 31, 2000, installment contracts increased to $68.3 million, net of $24.7 million of installment contracts sold to the two financial institutions. Our arrangements with these two financial institutions provide for the sale of installment contracts up to certain limits and with certain recourse obligations. At December 31, 2000, the balance of the uncollected principal portion of the contracts sold to these two financial institutions was $101.9 million, for which we have a partial recourse obligation of approximately $5.3 million. The availability under these arrangements will increase as the financial institutions receive payment on installment contracts previously sold.

We maintain a $30.0 million unsecured bank line of credit, expiring October 26, 2003, that provides for borrowings of specified percentages of eligible accounts receivable and eligible current installment contracts. Advances under the line of credit bear interest at a rate equal to the bank's prime rate (9.50% at December 29, 2000) or, at our option, a rate equal to a defined LIBOR (6.00% at December 29, 2000) plus a specified margin. The line of credit agreement requires us to provide the bank with certain periodic financial reports and to comply with certain financial tests, including maintenance of minimum levels of consolidated net worth and of the ratio of cash and cash equivalents, accounts receivable and current portion of our long term installments receivable to current liabilities. At December 31, 2000, there were no outstanding borrowings under the line of credit.

In June 1998, we sold $86.3 million of 5 1/4% convertible subordinated debentures. The debentures are convertible into shares of our common stock at any time prior to June 15, 2005, unless previously redeemed or repurchased, at a conversion price of $52.97 per share, subject to adjustment in certain events. Interest on the debentures is payable on June 15 and December 15 of each year. The debentures are redeemable in whole or part at our option at any time on or after June 15, 2001 at various redemption prices expressed as a percentage of principal plus accrued interest through the date of redemption.

In the event of a change of control, as defined, each holder of the debentures may require us to repurchase those debentures, in whole or in part, for cash or, at our option, for common stock (valued at 95% of the average last reported sale prices for the 5 trading days immediately preceding the repurchase date) at a price of 100% of principal amount plus accrued interest to the repurchase date. The debentures are unsecured obligations and are subordinated in right of payment to all existing and future senior debt, as defined.

As of December 31, 2000, we had cash and cash-equivalents totaling $35.0 million, as well as short-term investments totaling $48.2 million. Our commitments as of December 31, 2000 consisted primarily of leases on our headquarters and other facilities. There were no other material commitments for capital or other expenditures. We believe our current cash balances, availability of sales of our installment contracts, availability under our bank line of credit and cash flows from our operations will be sufficient to meet our working capital and capital expenditure requirements for at least the next twelve months.

FACTORS THAT MAY AFFECT FUTURE RESULTS AND THE TRADING PRICE OF OUR COMMON STOCK

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.

OUR LENGTHY SALES CYCLE MAKES IT DIFFICULT TO PREDICT QUARTERLY REVENUE LEVELS AND OPERATING RESULTS.

Because license 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 software revenues is difficult to predict, and the delay of an order could cause our quarterly revenues to fall substantially below expectations. Moreover, to the extent that we succeed in shifting customer purchases away from individual software solutions 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. We have limited experience in forecasting the timing of sales of our integrated suites of software and services. 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:

- 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, primarily caused by a slowdown in business in some of our international markets;

- the timing of our investments in new product development;

- changes in our operating expenses; and

- fluctuating economic conditions, particularly as they affect companies in the 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 public expectations for that quarter.

Since our expense levels are based in part on anticipated revenues, we may be unable to adjust 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 these factors will continue to affect our operating results for the foreseeable future. Because of the foregoing factors, 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.

As a result of lower-than-anticipated license revenues in our fiscal quarters ended December 31, 1998 and March 31, 1999, our operating results for each of those quarters were below the expectations of public market analysts and many investors. In each case, the market price of our common stock declined substantially upon the announcement of our operating results. 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.

BECAUSE WE DERIVE A MAJORITY OF OUR TOTAL REVENUES FROM CUSTOMERS IN THE CYCLICAL CHEMICALS, PETROCHEMICALS AND PETROLEUM INDUSTRIES, OUR OPERATING RESULTS MAY SUFFER IF THESE INDUSTRIES EXPERIENCE AN ECONOMIC DOWNTURN.

We derive a majority of our total revenues from companies in the 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 chemicals, petrochemicals and petroleum industries are highly cyclical. In the past, worldwide economic downturns and pricing pressures experienced by 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.

IF WE DO NOT HIRE AND RETAIN HIGHLY QUALIFIED EMPLOYEES, WE MAY BE UNABLE TO EXECUTE OUR BUSINESS PLAN SUCCESSFULLY.

Our success depends, in large part, on our ability to attract, hire, train and retain highly qualified employees, particularly project engineers, supply chain and eBusiness experts, sales and marketing personnel and operations research experts. For project engineers and other process manufacturing experts, we primarily hire individuals who have obtained a doctoral or master's degree in chemical engineering or a related discipline or who have significant relevant industry experience. As a result, the pool of qualified potential employees is relatively small, and we face significant competition for these employees, from not only our direct competitors but also our customers, academic institutions and other enterprises. In addition, the pool of individuals with supply chain and eBusiness expertise is very limited, and competition for these individuals is intense. We have limited experience in hiring and retaining employees in this area. Our failure to recruit and retain the highly qualified employees who are integral to our services, product development and sales and marketing efforts may limit the rate at which we generate sales and develop new products and product enhancements, which could hurt our operating results. Moreover, intense competition for these employees may result in significant increases in our labor costs, which would impact our operating results.

WE WILL LOSE VALUABLE STRATEGIC LEADERSHIP AND OUR CUSTOMER RELATIONSHIPS MAY BE HARMED IF WE LOSE THE SERVICES OF OUR CHIEF EXECUTIVE OFFICER OR OTHER KEY PERSONNEL.

Our future success depends to a significant extent on Lawrence B. Evans, our principal founder, Chairman and Chief Executive Officer, our other executive officers and a number of key engineering, technical, managerial and marketing personnel. The loss of the services of any of these individuals or groups of individuals could harm our business. None of our executive officers has entered into an employment agreement with us.

IF WE DO NOT COMPETE SUCCESSFULLY, WE MAY LOSE MARKET SHARE.

We face three primary sources of competition:

- commercial vendors of software products targeting one or more process manufacturing functions in the areas of engineering, manufacturing and supply chain, such as Hyprotech, a division of AEA Technology, i2 Technologies, SAP and Simulation Sciences, a division of Invensys;

- vendors of hardware that offer software solutions in order to add value to their proprietary distributed control systems, such as Honeywell and Invensys, and vendors of ERP systems, such as Oracle, PeopleSoft and SAP; and

- large companies in the process industries that have developed their own proprietary software solutions.

Some of our current competitors have significantly greater financial, marketing and other resources than we have. In addition, many of our current 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. The entry of new competitors or alliances into our market could reduce our market share, require us to lower our prices, or both. Many of these factors are outside our control, and we may not be able to maintain or enhance our competitive position against current and future competitors.

IF WE ARE UNABLE TO DEVELOP RELATIONSHIPS WITH SYSTEMS INTEGRATORS AND OTHER STRATEGIC PARTNERS, OUR REVENUE GROWTH MAY BE HARMED.

One element of our growth strategy is to increase the number of third-party implementation partners who market and integrate our products. 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 harmed. If our partners fail to implement our solutions for our customers properly, the reputations of our solutions 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, such as Extricity Software, and new eBusiness entities, such as e-Catalyst, to accelerate the development and marketing of our eBusiness solutions. To the extent that we are unsuccessful in maintaining our existing relationships and developing new relationships, our revenue growth may be harmed.

IF WE FAIL TO ANTICIPATE AND RESPOND TO CHANGES IN THE MARKET FOR EBUSINESS SOLUTIONS FOR PROCESS MANUFACTURERS, WHICH IS AT A VERY EARLY STAGE, OUR FUTURE REVENUE GROWTH MAY BE LIMITED.

The use of eBusiness solutions by process manufacturers is at a very early stage and historically, the process industries have not been early adopters of new business technologies. Because this market is new, it is difficult to predict its potential size or growth rate. In addition, the market for eBusiness software and services for process manufacturing optimization is characterized by rapidly changing technology and customer needs. Our future success depends on our ability to enhance our current eBusiness offerings, to anticipate trends in the process industries regarding use of the Internet, and to develop in a timely and cost-effective manner new software and services that respond to evolving customer needs, emerging Internet technologies and standards, and competitive software and service offerings. We have invested, and intend to continue to invest from time to time, in eBusiness entities, such as e-Catalysts and Extricity Software, to accelerate the development and marketing of our eBusiness solution. If any of these eBusiness entities are not successful, our investment may be lost or substantially reduced in value.

IF WE FAIL TO INTEGRATE THE OPERATIONS OF THE COMPANIES WE ACQUIRE, WE MAY NOT REALIZE THE ANTICIPATED BENEFITS AND OUR OPERATING COSTS COULD INCREASE.

We intend to continue to pursue strategic acquisitions that will provide us with complementary products, services and technologies and with additional personnel. The identification and pursuit of these acquisition opportunities and the integration of acquired personnel, products, technologies and businesses require a significant amount of management time and skill. There can be no assurance that we will identify suitable acquisition candidates, consummate any acquisition on acceptable terms or successfully integrate any acquired business into our operations. Additionally, in light of the consolidation trend in our industry, we expect to face competition for acquisition opportunities, which may substantially increase the cost of any potential acquisition.

We have experienced in the past, and may experience again in the future, problems integrating the operations of a newly acquired company with our own operations. Acquisitions also expose us to potential risks, including diversion of management's attention, failure to retain key acquired personnel, assumption of legal or other liabilities and contingencies, and the amortization of goodwill and other acquired intangible assets. Moreover, customer dissatisfaction with, or problems caused by, the performance of any acquired products or technologies could hurt our reputation.

We may issue additional equity securities or incur long-term indebtedness to finance future acquisitions. The issuance of equity securities could result in dilution to existing stockholders, while the use of cash reserves or significant debt financing could reduce our liquidity and weaken our financial condition.

WE MAY LOSE ALL OR PART OF OUR INVESTMENT IN PETROVANTAGE IF PETROVANTAGE IS UNABLE TO DEVELOP AN INDEPENDENT, SELF-SUSTAINING DIGITAL MARKETPLACE.

On September 14, 2000, we announced that we had formed PetroVantage, Inc. to develop and operate a digital, Internet-based marketplace for crude oil, intermediates and refined petroleum products. We have committed to invest $10 million in PetroVantage and may invest additional amounts in the future. We may lose all or a portion of our investment in PetroVantage if PetroVantage's digital marketplace does not gain market acceptance, is unable to achieve profitability or positive cash flow, or otherwise fails to meet our expectations.

The operation of a digital marketplace differs significantly from the operation of our traditional business, and PetroVantage has no operating history that can be used to evaluate its business and future prospects. The creation and maintenance of a digital marketplace for bulk commodities such as petroleum is a new, rapidly evolving and intensely competitive business. Barriers to entry are relatively low as potential competitors are able to launch new competing sites at relatively low costs using commercially-available software.

PetroVantage faces significant risks and uncertainties relating to its ability to implement its new and unproven business model. These risks include the following:

- PetroVantage may be unable to attract commodity traders, brokers, petroleum companies, logistics providers, and other parties to use PetroVantage as their platform for carrying out activities related to the trading of crude oil and other petroleum products. These individuals and companies may be committed to other digital marketplaces or projects to build digital marketplaces, may be unconvinced of the value of participating in a digital marketplace, or may be concerned that a digital marketplace could reduce their competitiveness or profits.

- We intend that PetroVantage be operated and perceived as an independent entity separate from our core business. We believe that PetroVantage's independence is critical to its success because potential users, some of which may compete with our company, will be less likely to utilize the marketplace if they perceive that we rather than PetroVantage are operating the marketplace. We may be unable to attract outside investors as part of our strategy to make PetroVantage a neutral digital marketplace that is not controlled by a technology or petroleum company.

- PetroVantage's business model relies on its ability to provide users of the PetroVantage digital marketplace with a superior trading experience and to maintain sufficient transaction volume to attract buyers and sellers to the PetroVantage marketplace. The effective promotion and positioning of PetroVantage will depend heavily upon PetroVantage's efforts to provide users with high quality and efficient service to help them carry out transactions. To accomplish this goal, PetroVantage will invest heavily in site development, technology and operating infrastructure development. We cannot be certain that PetroVantage will be able to develop, license or acquire, and then integrate, those technologies, if at all, without delays or inefficiencies.

- PetroVantage's business model relies heavily on the value provided users of the digital marketplace by decision support software applications and collaboration among trading partners. To accomplish this PetroVantage will need to design a compelling workflow for petroleum trading, develop or modify our decision support software to be useable over the internet, and provide data and information from petroleum companies and others. We cannot be certain that the workflow design will meet the needs of traders or be favored by traders, brokers and other companies; that the decision support software will work well over the internet, or that we will be able to establish arrangements for sharing information or carrying out transactions with brokers, petroleum companies, shipping companies or individuals or companies who participate in the petroleum market.

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. We bear the risk of cost overruns and inflation in connection with fixed-price engagements, 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 have derived approximately 50% of our total revenues from customers outside the United States in each of the past three fiscal years. 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;

- 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; 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 United States patents for the expert guidance system in our proprietary graphical user interface, the simulation and optimization methods in our optimization software, a process flow diagram generator in our planning and scheduling software, and a process simulation apparatus in our polymers software. We have registered or have applied to register certain 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 certain 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 laws of certain 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. The laws of many countries in which we license our products protect trademarks solely on the basis of registration. 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.

WE MAY HAVE TO DEFEND AGAINST INTELLECTUAL PROPERTY INFRINGEMENT CLAIMS, WHICH COULD BE EXPENSIVE AND, IF WE ARE NOT SUCCESSFUL, COULD DISRUPT OUR BUSINESS.

Third parties may assert patent, trademark, copyright and other intellectual property rights to technologies that are important to us. In such an event, we may be required to incur significant costs in litigating a resolution to the asserted claims. The outcome of any litigation could require us to pay damages or obtain a license to a third party's proprietary rights in order to continue licensing our products as currently offered. If such a license is required, it might not be available on terms acceptable to us, if at all.

OUR INABILITY TO MANAGE OUR GROWTH MAY HARM OUR OPERATING RESULTS.

We have experienced substantial growth in recent years in the number of our employees, the scope of our operating and financial systems, and the geographic area of our operations. Our operations have expanded significantly through both internal growth and acquisitions. Our growth has placed, and is expected to continue to place, a significant strain on our management and our operating and financial systems. To manage our growth effectively, we must continue to expand our management team, attract, motivate and retain employees, and implement and improve our operating and financial systems. Our current management systems may not be adequate and we may not be able to manage any future growth successfully.

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 used in the design, operation and management of manufacturing processes at large facilities, and any failure of our software could result in significant claims against us for damages or for violations of environmental, safety and other laws and regulations. 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 harm our operating results and financial condition.

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 companies securities, securities class action litigation has often been instituted against companies. Such litigation could result in substantial costs and a diversion of management's attention and resources.

ITEM 3. QUANTITATIVE AND QUALITATIVE MARKET RISK DISCLOSURES

Information relating to quantitative and qualitative disclosure about market risk is set forth under the caption "Notes to Consolidated Condensed Financial Statements," (2. (a), (d) and (e)) and below under the captions "Investment Portfolio" and "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 12/31/00	FY2001	FY2002	FY2003	FY2004	FY2005 & THEREAFTER
Cash Equivalents..........	$ 7,537	$ 7,537	--	--	--	--
Weighted Average Interest Rate....................	1.74%	1.74%	--	--	--	--
Investments...............	$48,151	$17,492	$15,055	$6,381	$3,023	$6,200
Weighted Average Interest Rate....................	6.49%	6.60%	6.22%	6.51%	6.36%	6.88%
Total Portfolio...........	$55,688	$25,029	$15,055	$6,381	$3,023	$6,200
Weighted Average Interest Rate....................	5.85%	5.13%	6.22%	6.51%	6.36%	6.88%

Impact of Foreign Currency Rate Changes

During the first six months of fiscal 2001, the U.S. dollar strengthened against most currencies in Europe and Asia/Pacific. The translation of the parent company's 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 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 $7.8 million of foreign exchange forward contracts denominated in British, French, Japanese, Swiss, German and Netherlands currencies which represented underlying customer accounts receivable transactions at the end of the second quarter of fiscal 2001. We adopted SFAS 133 in the first quarter of fiscal 2001. As a result, at each balance sheet date, 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 loss related to these instruments for the first and second quarters of fiscal 2001 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 can not 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 the end of the second quarter of fiscal 2001. 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 the end of the second quarter of fiscal 2001.

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
British Pound Sterling...........	1.50	$3,594	Various: Jul 99-Nov 00	Various: Jan 01-Dec 02
Japanese Yen.........	108.39	2,264	Various: Mar 98-Dec 00	Various: Feb 01-Aug 02
Swiss Franc..........	1.61	857	Various: Jan 99-Nov 00	Various: Jan 01-Feb 02
French Franc.........	6.93	697	Various: Jan 99-Nov 00	Various: Jan 01-Dec 02
German Deutsche Mark...............	2.06	321	Various: Oct 98-Oct 00	Various: Jan 01-Oct 01
Netherland Guilder...	2.40	28	Various: Oct 00	Various: Aug 01-Aug 02
Total.......		$7,761		

PART II.

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not a party to any pending material proceedings. We may be a party to lawsuits in the normal course of our business. We note that securities litigation, in particular can be expensive and disruptive to our normal business operations and the outcome of complex legal proceedings can be very difficult to predict.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

On October 25, 2000, we acquired Broner Systems, a provider of advanced planning and scheduling software specifically designed for the metals industry. In this acquisition, we issued 22,884 shares of common stock, valued on the date of acquisition at $37.875 per share or $866,731.50.

ITEM 5. OTHER INFORMATION

Joe Boston, one of the founders of the Company, has announced his resignation as President and his transition to a part-time role as Senior Advisor to the Company. Mr. Boston will continue his work in fostering a technical environment at the Company and will continue to serve as a mentor to the Company's Senior Technology Fellows. Mr. Boston will also continue to serve as a Director of the Company. Larry Evans, Chairman and CEO, has been elected by the Board of Directors to assume the role of President.

David Mushin, Executive Vice President, has also announced his resignation effective February 28, 2001. Mr. Mushin has spent ten years with AspenTech in a variety of executive management roles. Mr. Mushin will continue working with the Company as a key consultant and advisor. Current members of senior management will assume Mr. Mushin's responsibilities on an interim basis.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

3.1(1)	Certificate of Incorporation of Aspen Technology, Inc.
3.2(1)	By-Laws of Aspen Technology, Inc.
10.3(2)	Credit Agreement between Fleet National Bank and Aspen Technology, Inc. dated October 27, 2000.

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(1) Previously filed as an exhibit to the Current Report on Form 8-K of Aspen Technology, Inc. dated March 12, 1998 (filed on March 27, 1998) and incorporated herein by reference.

(2) Previously filed as an exhibit to the Form 10-Q for the quarter ended September 30, 2000 (filed on November 14, 2000) and incorporated herein by reference.

(b) Reports on Form 8-K

None

SIGNATURE

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

ASPEN TECHNOLOGY, INC.

By: /s/ LISA W. ZAPPALA

Lisa W. Zappala
Senior Vice President and Chief Financial Officer

Date: February 14, 2001