

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarter ended September 30, 1998.

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 (I.R.S. Employer Identification No.)  
incorporation or organization)

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

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

Indicate by check mark whether the registrant: (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:

Yes X No  
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As of September 30, 1998, there were 24,665,779 shares of the Registrant's common stock (par value \$.10 per share) outstanding.

ASPEN TECHNOLOGY, INC.  
QUARTERLY REPORT ON FORM 10-Q

INDEX

PART I.	FINANCIAL INFORMATION	PAGE
Item 1.	Financial Statements:	
	Consolidated Condensed Balance Sheets as of September 30, 1998 and June 30, 1998	3
	Consolidated Condensed Statements of Operations for the Three Month Periods Ended September 30, 1998 and 1997	4
	Consolidated Condensed Statements of Cash Flows for the Three Month Periods Ended September 30, 1998 and 1997	5
	Notes to Consolidated Condensed Financial Statements	6 - 10
Item 2.	Management's Discussion and Analysis of Results of Operations and Financial Condition	10 - 15
Item 3.	Quantitative And Qualitative Market Risk Disclosures	15
PART II.	OTHER INFORMATION	
Item 1.	Legal Proceedings	15 - 16
Item 2.	Changes in Securities and Use of Proceeds	16
Item 5.	Other Information	16
Item 6.	Exhibits and Reports on Form 8-K	16

ASPEN TECHNOLOGY, INC.  
CONSOLIDATED CONDENSED BALANCE SHEET  
(IN THOUSANDS)  
UNAUDITED

	September 30, 1998	June 30, 1998
	-----	-----
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 68,667	\$ 78,694
Short-term investments	38,721	34,987
Accounts receivable, net	53,951	71,803
Unbilled services	21,399	18,077
Current portion of long-term installments receivable, net	28,352	23,643
Prepaid expenses and other current assets	12,452	10,831
	-----	-----
Total current assets	223,542	238,035
Long-term installments receivable, net	37,149	36,203
Property and leasehold improvements, at cost	78,991	76,314
Accumulated depreciation	(36,652)	(33,578)
	-----	-----
	42,339	42,736
Computer software development costs, net	5,742	5,696
Intangible assets, net	13,390	12,857
Other assets	7,210	7,355
	-----	-----
	\$ 329,372	\$ 342,882
	=====	=====
<b>Current Liabilities:</b>		
Current portion of long-term debt	\$ 1,878	\$ 2,187
Accounts payable and accrued expenses	27,441	38,545
Unearned revenue	8,103	6,008
Deferred revenue	17,729	17,888
Deferred income taxes	541	541
	-----	-----
Total current liabilities	55,692	65,169
Long-term debt, less current maturities	4,455	4,385
5 1/4% Convertible subordinated debentures	86,250	86,250
Deferred revenue, less current portion	13,846	15,074
Other liabilities	845	914
Deferred income taxes	6,074	6,074
Stockholders' Equity:		
Common stock	2,488	2,473
Additional paid-in capital	151,185	148,342
Retained earnings	8,562	14,922
Accumulated other comprehensive income (loss)	477	(219)
Treasury stock, at cost	(502)	(502)
	-----	-----
Total Stockholders' Equity	162,210	165,016
	-----	-----
	\$ 329,372	\$ 342,882
	=====	=====

ASPEN TECHNOLOGY, INC.  
 CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS  
 (In thousands, except per share data)  
 (unaudited)

	Three Months Ended September 30,	
	1998	1997
Revenues:		
Software licenses	\$ 16,004	\$ 24,388
Maintenance and other services	30,705	25,065
	-----	-----
Total revenues	46,709	49,453
	-----	-----
Expenses:		
Cost of software licenses	1,667	1,672
Cost of maintenance and other services	19,973	14,712
Selling and marketing	19,145	15,186
Research and development	11,604	10,163
General and administrative	5,475	4,502
One-time acquisition costs	--	509
	-----	-----
Total costs and expenses	57,864	46,744
	-----	-----
Income (loss) from operations	(11,155)	2,709
Other income (expense), net	218	(67)
Interest income, net	1,152	1,453
	-----	-----
Income (loss) before provision for income taxes	(9,785)	4,095
Provision (benefit from) for income taxes	(3,425)	1,460
	-----	-----
Net income (loss)	\$ (6,360)	\$ 2,635
	=====	=====
Diluted earnings (loss) per share	\$ (0.26)	\$ 0.11
	=====	=====
Weighted average shares outstanding-diluted	24,618	23,619
	=====	=====
Basic earnings (loss) per share	\$ (0.26)	\$ 0.12
	=====	=====
Weighted average shares outstanding-basic	24,618	22,335
	=====	=====

	Three Months Ended September 30,	
	1998	1997
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
NET INCOME (LOSS)	\$ (6,360)	\$ 2,635
Adjustments to reconcile net income (loss) to net cash provided by operating activities (net of acquisition-related activity disclosed below):		
Depreciation and amortization	4,488	2,926
Deferred income taxes	--	1,327
Decrease in accounts receivable	17,852	743
(Increase) in unbilled services	(3,294)	(1,023)
(Increase) in installments receivable	(5,655)	(2,142)
(Increase) in prepaid expenses and other current assets	(1,621)	(1,021)
(Decrease) in accounts payable and accrued expenses	(11,154)	(3,003)
Increase in unearned revenue	2,055	575
Increase (decrease) in deferred revenue	(1,387)	40
	-----	-----
Net cash provided by (used in) operating activities	(5,076)	1,057
	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and leasehold improvements	(2,666)	(4,448)
Purchase of investment securities	(3,412)	(1,425)
(Increase) decrease in other long-term assets	145	(99)
(Increase) in computer software development costs	(742)	(901)
Increase (Decrease) in other long-term liabilities	(69)	28
Cash used in the purchase of business, net of cash acquired	(1,200)	(591)
	-----	-----
Net cash used in investing activities	(7,944)	(7,436)
	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Issuance of common stock under employee stock purchase plans	2,076	--
Exercise of stock options	782	887
Proceeds from (payments of) long-term debt and capital lease obligations	(239)	774
	-----	-----
Net cash provided by financing activities	2,619	1,661
	-----	-----
EFFECTS OF EXCHANGE RATE CHANGES ON CASH	374	(160)
	-----	-----
(DECREASE) IN CASH AND CASH EQUIVALENTS	(10,027)	(4,878)
CASH AND CASH EQUIVALENTS, beginning of period	78,694	18,284
	-----	-----
CASH AND CASH EQUIVALENTS, end of period	\$ 68,667	\$ 13,406
	=====	=====
During the three months ended September 30, 1998, the Company acquired a company in a purchase transaction described in Note 4. This acquisition is summarized as follows-		
Fair value of assets acquired, excluding cash	\$ 1,290	
Issuance of common stock related to acquisitions	--	
Payments in connection with the acquisitions, net of cash acquired	(1,200)	
	-----	
Liabilities assumed	\$ 90	
	=====	
During the three months ended September 30, 1997, the Company acquired certain companies in poolings-of-interests transactions. These acquisitions are summarized as follows-		
Book value of assets acquired, excluding cash		
Liabilities assumed		\$ 5,136
Book value of equity		(1,419)

Liabilities and stockholders' equity

-----  
\$ 3,717  
=====

ASPEN TECHNOLOGY, INC.  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
SEPTEMBER 30, 1998  
(UNAUDITED)

1. BASIS OF PRESENTATION

In the opinion of management, the accompanying consolidated condensed financial statements have been prepared in conformity with generally accepted accounting principles and include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation. The results of operations for the three month period ended September 30, 1998 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, 1998, which are contained in the Company's Form 10-K, as previously filed with the Securities and Exchange Commission.

2. ACCOUNTING POLICIES

(a) Revenue Recognition

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

Service revenues from fixed-price contracts are recognized on the percentage-of-completion method, measured by the percentage of costs (primarily labor) incurred to date as compared to the estimated total costs (primarily labor) for each contract. When a loss is anticipated on a contract, the full amount thereof is provided currently. Service revenues from time-and expense contracts and consulting and training revenue are recognized as the related services are performed.

Services that have been performed but for which billings have not been made are recorded as unbilled services, and billings that have been recorded before the services have been performed are recorded as unearned revenue in the accompanying consolidated balance sheets.

Installments receivable represent the present value of future payments related to the financing of noncancelable term license agreements that provide for payment in installments over a one- to five-year period. A portion of the revenue from each installment agreement is recognized as interest income in the accompanying consolidated condensed statements of income. The interest rate in effect for the three months ended September 30, 1997 and September 30, 1998 was 8.5%. At September 30, 1998, the Company had long term installments receivable of approximately \$6.6 million denominated in foreign currencies. The September 1998 installments receivable mature through January 2004 and have been hedged with specific foreign currency 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.

(b) Computer Software Development Costs

In compliance with Statement of Financial Accounting Standards (SFAS) No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed", certain computer software development costs are capitalized in the accompanying consolidated condensed balance sheets. Capitalization of computer software development costs begins upon the establishment of technological feasibility and ends upon market introduction. Amortization of capitalized computer software development costs is included in cost of revenues and is provided on a product-by-product basis at the greater of the amount computed using (a) the ratio of current gross revenues for a product to the total of current and anticipated future gross revenues or (b) the straight-line method over the remaining estimated economic life of the product, not to exceed three years. Total amortization expense charged to operations in the three month period ended September 30, 1998 was approximately \$.7 million as compared to \$.2 million for the three month period ended September 30, 1997.

In March 1998, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). SOP 98-1 requires computer software costs associated with internal use software to be expensed as incurred until certain capitalization criteria are met. The Company adopted SOP 98-1 as of July 1, 1998. Adoption of this Statement did not have a material impact on the Company's consolidated financial position or results of operations

(c) Net Income (Loss) Per Share



The Company adopted SFAS No. 128, "Earnings per Share," during the quarter ending December 31, 1997. In accordance with SFAS No. 128, 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.

Basic and diluted weighted average shares outstanding as required by SFAS No. 128 are as follows (in thousands):

	Three Months Ended September 30,	
	1998	1997
Basic weighted average shares outstanding	24,618	22,335
Weighted average common equivalent shares	--	1,284
Diluted weighted average shares outstanding	24,618	23,619

As of September 30, 1998, 1,226,692 stock options and warrants were not included in diluted weighted average shares outstanding as the effect would have been anti-dilutive.

(d) Investments

The Company accounts for its investments in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities". Under SFAS No. 115, securities purchased to be held for indefinite periods of time, and not intended at the time of purchase to be held until maturity, are classified as available-for-sale securities. Securities classified as available-for-sale are required to be recorded at market value in the financial statements. Unrealized gains and losses have been accounted for as a separate component of stockholders' equity. Investments held as of September 30, 1998 consist \$31.6 million in U.S. Corporate Bonds and \$7.1 million in U.S. Government Bonds. The Company does not use derivative financial instruments in its investment portfolio.

3. SALE OF INSTALLMENTS RECEIVABLE

The Company sold, with limited recourse, certain of its installment contracts to a financial institutions for approximately \$1.8 million during the three month period ended September 30, 1998. The financial institutions have partial recourse to the Company only upon non-payment by the customer under the installments receivable. The amount of recourse is determined pursuant to the provisions of the Company's contracts with the

financial institutions and varies depending upon whether the customers under the installment contracts are foreign or domestic entities. Collections of these receivables reduce the Company's recourse obligations, as defined.

At September 30, 1998, the balance of the uncollected principal portion of all contracts sold was \$83.6 million. The Company's potential recourse obligation related to these contracts is approximately \$4.6 million. In addition, the Company is obligated to pay additional costs to the financial institutions in the event of default by the customer.

#### 4. ACQUISITION

##### (a) OPTPEMS Business of Callidus Technologies, Inc.

On September 14, 1998 the Company paid \$1.2 million in cash for certain assets and personnel of Callidus Technologies, Inc., a consulting firm that specializes in the modeling of predictive emissions monitoring. This acquisition has been accounted for as a purchase transaction. The purchase price has been allocated to various assets, primarily goodwill (intangible assets), based on their fair values.

#### 5. COMPREHENSIVE INCOME

The Company adopted Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income ("SFAS No. 130"), effective July 1, 1998. SFAS No. 130 requires that items defined as other comprehensive income, such as foreign currency translation adjustments, be separately classified in the financial statements and that the accumulated balance of other comprehensive income be reported separately from retained earnings and additional paid-in capital in the equity section of the balance sheet. The components of comprehensive income for the three months ended September 30, 1998 and 1997 are as follows (in thousands):

	Three months ended September 30,	
	----- 1998 -----	1997 -----
Comprehensive income (loss):		
Net income (loss)	\$(6,360)	\$ 2,635
Other comprehensive income (loss):		
Unrealized gain on investments	322	17
Foreign currency adjustment	374	(159)
	-----	-----
Comprehensive income (loss)	\$(5,664)	\$ 2,493
	=====	=====

## 5. REPRICING OF EMPLOYEE STOCK OPTIONS

On November 11, 1998 the Company's Board of Directors approved the repricing of certain employee stock options with an exercise price in excess of the fair market value of the Company's common stock. The exercise price for 2.79 million shares of employee stock options was reset to \$14.125, the closing market price on November 11, 1998. All such options were adjusted by resetting vesting back one year. Stock options held by executive officers and directors were not eligible for such repricing.

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

### RESULTS OF OPERATIONS

Revenues are derived from software licenses and maintenance and other services. Total revenues for the three months ended September 30, 1998 were \$46.7, a decrease of 5.5% from \$49.5 million in the comparable period of fiscal 1998. Software license revenue represented 34.3% of total revenue for the three months ended September 30, 1998, as compared to 49.3% in the comparable period of fiscal 1998. Revenues from software licenses for the three months ended September 30, 1998 were \$16.0 million, a decrease of 34.4% from \$24.4 million in the comparable periods of fiscal 1998. The decline in software license revenues was attributable to a delay in finalizing several large software licenses transactions, mostly due to global economic conditions.

Total revenues from customers outside the United States were \$24.1 million or 51.7% of total revenues for the three months ended September 30, 1998, as compared to \$21.6 million or 43.7% of total revenues for the comparable period in fiscal 1998. The geographical mix of license revenues can vary from quarter to quarter; however, for fiscal 1999, the overall mix of revenues from customers outside the United States is expected to be relatively consistent with the prior year.

Revenues from maintenance and other services consist of consulting services, post contract support on software licenses, training and sales of documentation. Revenues from maintenance and other services for the three months ended September 30, 1998 were \$30.7 million, an increase of 22.5% from \$25.1 million in the comparable period in fiscal 1998. This increase reflects a continued focus during fiscal 1999 on providing high value-added consulting and training services to existing customers.

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

Cost of software licenses consist of royalties, amortization of previously capitalized software costs, costs related to the delivery of software (including disk duplication and third party software costs), printing of manuals and packaging. Cost of software licenses for the three months ended September 30, 1998 was \$1.7 million, approximately the same as the comparable period of fiscal 1998. Cost of software licenses as a percentage of revenues from software licenses were 10.4% for the three months ended September 30, 1998 as compared to 6.9% for the three months ended September 30, 1997. The increase in this cost as a percentage of software license revenue is due to incremental amortization of computer software development costs and the spreading of the total costs over a smaller revenue base.

Costs of maintenance and other services 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. Costs of maintenance and other services for the three months ended September 30, 1998 were \$20.0 million, an increase of 35.8% from \$14.7 million in the comparable period in fiscal year 1998. Costs of maintenance and other services as a percentage of their revenue was 65.0% in the three months ended September 30, 1998 and 58.7% in the comparable period of fiscal year 1998. This percentage increase reflected investments in personnel and related support which were made to improve the execution of the services projects.

Selling and marketing expenses for the three months ended September 30, 1998 were \$19.1 million, an increase of 26.1% from \$15.2 million in the comparable period in fiscal year 1998. As a percentage of revenues, selling and marketing expenses were 41.0% for the three months ended September 30, 1998, as compared to 30.7% for the comparable period in fiscal 1998. The Company has continued to invest in sales personnel and regional sales offices to improve the Company's geographic proximity to its customers, to maximize the penetration of existing accounts and to add new customers. The increase in the percentage of selling and marketing expenses, on a comparative period basis, is also ascribed to the decline in total revenues identified above.

Research and development expenses consist primarily of personnel and outside consultancy costs required to conduct the Company's product development efforts. Capitalized research and development costs are amortized over three years. Research and development expenses during the three months ended September 30, 1998 were \$11.6 million, an increase of 14.2% from \$10.2 million in the comparable periods of fiscal 1998. As a percentage of revenues, research and development costs were 24.8% for the three months ended September 30, 1998, as compared to 20.6% for the same period in fiscal 1998. The increase in costs of 14.2% reflects continued investment in the development of the Company's core modeling products and a common software architecture encompassing the Company's expanded family of software products. The Company capitalized 6.0% of its total research and development costs during the three months ended September 30, 1998 as compared to 8.1% in the comparable period of fiscal year 1998.

General and administrative expenses consist primarily of salaries of administrative, executive, financial and legal personnel, outside professional fees, and amortization of certain intangibles. General and administrative expenses for the three months ended September 30, 1998 were \$5.5

million, an increase of 21.6% from \$4.5 million in the comparable period of fiscal 1998. The increase reflects the growth in the scale and scope of the Company's operations.

Interest income is generated from the license of software pursuant to installment contracts for off-line modeling software and the investment of excess cash in short-term and long-term investments. Under these installment contracts, the Company offers customers the option to make annual payments for its term licenses instead of a single license fee payment at the beginning of the license term. A substantial majority of the off-line modeling customers elect to license these products through installment contracts. The Company believes this election is made principally because the customers prefer to pay for the Company's off-line modeling products out of their operating budgets, rather than out of their capital budgets. Included in the annual payments is an implicit interest charge based upon the interest rate established by the Company at the time of the license. The Company sells a portion of the installment contracts to unrelated financial institutions. The interest earned by the Company on the installment contract portfolio in any period is the result of the implicit interest established by the Company on installment contracts and the size of the contract portfolio. Interest income was \$2.5 million for the three months ended September 30, 1998 as compared to \$1.4 million for the comparable periods in fiscal 1998. The increase reflects the interest income generated from excess cash from the Company's 5 1/4% convertible debentures, which was not issued and outstanding in the comparable three month period ended September 30, 1997.

Interest expense is generated from interest charged on the Company's 5 1/4% convertible debentures, bank line of credit, notes payable and capital lease obligations. Interest expense for the three months ended September 30, 1998 was \$1.4 million as compared to \$0.07 million in the comparable period of fiscal 1998. The increase is primarily related to the interest expense on the Company's 5 1/4% convertible debentures, which did not exist in the period ended September 30, 1997.

The effective tax rate remained approximately the same for the three months ended September 30, 1998, 35.0% of pretax income, versus 35.7% for the comparable period of fiscal year 1998.

#### LIQUIDITY AND CAPITAL RESOURCES

During the three months ended September 30, 1998, the Company's cash and cash equivalents balance decreased by \$10.0 million. Operations used \$5.0 million of cash during this period, primarily related to the net loss for the current fiscal quarter.

In recent years, the Company has had arrangements to sell long-term contracts to two financial institutions, General Electric Capital Corporation ("GECC") and Sanwa Business Credit Corporation ("SBCC"). During the three months ended September 30, 1998, installment contracts increased to \$65.5 million, net of \$1.8 million of installment contracts sold to GECC and SBCC. The Company's arrangements with the two financial institutions provide for the sale of installment contracts up to certain limits and with certain recourse obligations. At September 30, 1998, the balance of the uncollected principal portion of the contracts sold to these two

financial institutions was \$83.6 million, for which the Company has a partial recourse obligation of approximately \$4.6 million. The availability under these arrangements will increase as the financial institutions receive payment on installment contracts previously sold.

The Company maintains a \$30.0 million bank line of credit, expiring December 31, 1998, that provides for borrowings of specified percentages of eligible accounts receivable and eligible current installment contracts. Advances under the line of credit bear interest at a rate equal to the bank's prime rate (8.25% at September 30, 1998) plus a specified margin or, at the Company's option, a rate equal to a defined LIBOR (5.31% at September 30, 1998) plus a specified margin. The line of credit agreement requires the Company to provide the bank with certain periodic financial reports and to comply with certain financial tests, including maintenance of minimum levels of consolidated net income before taxes and of the ratio of current assets to current liabilities. The Company is in the process of renewing this line of credit. At September 30, 1998, there were no outstanding borrowings under the line of credit.

In June 1998, the Company sold \$86.3 million of 5 1/4% Convertible subordinated debentures (the Debentures). The Debentures are convertible into shares of the Company's common stock at any time prior to June 15, 2005, unless previously redeemed or repurchased, at a conversion price of \$52.97 per share, subject to adjustment in certain events. Interest on the Debentures is payable on June 15 and December 15 of each year, commencing December 15, 1998. The Debentures are redeemable in whole or part at the option of the Company 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 the Company to repurchase its Debentures, in whole or in part, for cash or, at the Company's option, for common stock (valued at 95% of the average last reported sale prices for the 5 trading days immediately preceding the repurchase date) at a repurchase price of 100% of the principal amount of the Debentures to be repurchased, plus accrued interest to the repurchase date. The Debentures are unsecured obligations subordinate in right of payment to all existing and future senior debt of the Company, as defined, and effectively subordinate in right of payment to all indebtedness and other liabilities of the Company's subsidiaries.

#### YEAR 2000 COMPLIANCE

##### INTRODUCTION

Management has initiated a Company-wide program to prepare the Company's computer systems and applications as well as the Company's product offerings for the year 2000. The Company has formed a Year 2000 Steering Committee comprised of representatives from the different divisions of the Company, including product development staff and internal systems staff. The Steering Committee is responsible for defining Year 2000 compliance standards for the entire Company, identifying Year 2000 requirements for each area of the Company's business and internal requirements, assessing current compliance and compliance efforts, and generally providing direction and management of the Company's

Year 2000 efforts. The Company's Year 2000 efforts are focused on the compliance of its product and service offerings to customers and on internal business-critical items. Hardware, software, systems, technologies and applications are considered "business-critical" if a failure would either have a material adverse impact on the Company's business, financial condition or results of operations or involve a safety risk to employees or customers.

#### STATE OF READINESS

The Company has tested and determined that over 90% of its standard products are compliant and has established a website which lists the status of the substantial majority of products. The Company is also working on the work processes of its service groups to incorporate Y2K compliance tests or procedures in carrying out service projects and is in the process of determining the readiness of its internal systems which are business-critical.

#### INTERNAL SYSTEMS

The Company has reviewed certain internal systems and future system plans to assess Year 2000 compliance. The Company expects that its internal system development plans will address the Year 2000 issue and will correct any existing non-compliant systems without the need to accelerate the overall information systems implementation plans. If there are unidentified dependencies on internal systems to operate the business, or if any required modifications are not completed on a timely basis or are more costly to implement than currently anticipated, the Company's business, financial condition or results of operations could be materially adversely affected.

#### TESTING

The Company has developed a testing and compliance program to ascertain whether and to what extent the Company may need to update its software products to become year 2000 compliant. The results of this testing program are available on the Company's public website.

The Company is also developing a plan to test any internal systems which have not been certified as Year 2000 compliant or which have been determined to be business-critical as described

above. The experience of the Company in developing its internal product testing program will be used in the development of any testing program for internal systems.

#### COSTS TO ADDRESS YEAR 2000 COMPLIANCE

The Company expects to incur internal staff costs as well as consulting and other expenses related to system enhancements for the year 2000. The Company believes the total costs to be incurred for all year 2000 related projects will not have a material impact on the future results from operations; however, the Company is assessing such costs on an on-going basis in order to adjust spending plans as necessary.

#### CONTINGENCY PLANNING AND RISKS

The Company has risks both that its products and services fail to be compliant with certain Y2K functionality and that its business operations would be interrupted or affected by the failure of other products or services to be Y2K compliant.

The external risks are difficult to determine due to the general uncertainty inherent from the Company's dependence upon the Y2K compliance of third party software operating systems and applications with which the Company's software operates, and third-party suppliers, vendors and customers with whom the Company does business. The Company is unable to determine at this time its most reasonably likely worst case scenario. While costs related to the lack of Y2K compliance of third parties, business interruptions, litigation and other liabilities related to Y2K issues could materially and adversely affect the Company's business, results of operations and financial condition, the Company expects its Y2K compliance efforts to reduce significantly the Company's level of uncertainty about the impact of Y2K issues affecting both its products and services and internal systems.

#### 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) and (d)).

#### PART II. OTHER INFORMATION



## Item 1. Legal Proceedings

The Company is a party to lawsuits in the normal course of its business. The Company believes that it has meritorious defenses in all lawsuits in which the Company or its subsidiaries is a defendant. The Company notes that (i) securities litigation in particular, can be expensive and disruptive to normal business operations and (ii) the results of complex legal proceedings can be very difficult to predict.

On October 5, 1998, a purported class action lawsuit was filed in the United States District Court for the District of Massachusetts against the Company and certain of its officers and directors, on behalf of purchasers of the Company's common stock between April 28, 1998 and October 2, 1998 (the "Van Ormer Complaint"). The lawsuit seeks an unspecified amount of damages and claims violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, alleging that the defendants issued a series of materially false and misleading statements concerning the Company's financial condition, its operations and integration of several acquisitions. On October 26 a second purported class action lawsuit was filed in the United States District Court for the District of Massachusetts against the Company and certain of its officers and directors, on behalf of purchasers of the Company's common stock between April 28, 1998 and October 2, 1998 which was verbatim identical to the Van Ormer Complaint except only for the plaintiff's name. The Company believes it has meritorious legal defenses to the lawsuits and intends to defend vigorously against these actions. The Company is currently unable, however, to determine whether resolution of these matters will have a material adverse impact on the Company's financial position or results of operations, or reasonably estimate the amount of the loss, if any, that may result from resolution of these matters.

## Item 2. Changes in Securities and use of Proceeds

None

## Item 5. Other Information

None

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

## (a) Exhibits

10.35 Change in Control Agreement between the Company and Lisa W. Zappala dated November 3, 1998.

## (b) Reports on Form 8-K

Current Reports on Form 8-K dated July 28, 1998, October 6, 1998, and October 7, 1998 and Current Report on Form 8-KA dated September 17, 1998.

## (c) Other Exhibits: Financial Data Schedule

SIGNATURE

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

ASPEN TECHNOLOGY, INC.

Date: November 13, 1998

By: /s/ Lisa W. Zappala

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Lisa W. Zappala  
Senior Vice President  
Chief Financial Officer

CHANGE IN CONTROL AGREEMENT  
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AGREEMENT dated as of November 3, 1998 by and between Aspen Technology, Inc., a Delaware corporation (the "Company"), and Lisa Zappala (the "Executive").

WHEREAS, the Company considers it essential to the best interests of its stockholders to foster the continuous employment of key management personnel; and

WHEREAS, the Company has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company's management, including the Executive, to their assigned duties with the Company without distraction in the face of potentially disturbing circumstances arising from the possibility of a Change in Control (as defined herein);

NOW THEREFORE, in consideration of the premises and the mutual covenants herein contained, and for other valuable consideration, the Company and the Executive hereby agree as follows:

1. DEFINED TERMS. The definitions of capitalized terms used in this Agreement are provided in the last section hereof.

2. TERM OF AGREEMENT. This Agreement shall commence on the date hereof and shall continue in effect through June 30, 2002. Thereafter, this Agreement shall be automatically renewed for successive one year terms unless the Company sends written notice of termination to the Executive at least 60 days before the expiration date of this Agreement, which termination will be effective at that expiration date. If a Change in Control shall have occurred during the term of this Agreement, however, this Agreement shall continue in effect for a period of three years beyond the last day of the month in which the Change in Control occurred. Notwithstanding the foregoing provisions of this Section 2, this Agreement shall terminate, unless earlier terminated in accordance with this Agreement, (i) one year after the Executive is notified in accordance with Section 9 hereof that the Compensation Committee, upon recommendation of the Company's chief executive officer, has voted to terminate this Agreement or (ii) if earlier, immediately after the Executive is notified in accordance with Section 9 hereof that the Compensation Committee has determined that the Executive's level of responsibility (other than reporting responsibility) has substantially changed from the Executive's current level of responsibility,

in either case only if the notification occurs prior to a Potential Change in Control that results in a Change in Control.

### 3. PAYMENTS AFTER CHANGE IN CONTROL.

3.1 If the Executive's employment shall be terminated for any reason following a Change in Control and during the term of this Agreement, the Company shall pay the Executive's full salary to the Executive through the Date of Termination at the rate in effect at the time the Notice of Termination is given, together with all compensation and benefits payable to the Executive through the Date of Termination under the terms of any compensation or benefit plan, program or arrangement maintained by the Company during such period.

3.2 Subject to Section 3.3, the Company shall pay to the Executive the payments described in this Section 3.2 (the "Severance Payments") upon the termination of the Executive's employment following a Change in Control and during the term of this Agreement, in addition to the payments and benefits described in Section 3.1, unless such termination is (i) by the Company for Cause, (ii) by reason of death, (iii) by the Executive without Good Reason, or (iv) after the Executive shall have attained age 70. In lieu of any further salary payments to the Executive for periods subsequent to the Date of Termination and in lieu of any severance benefits otherwise payable to the Executive under any then existing broad-based employee severance plan, the Company shall pay to the Executive a lump sum severance payment, in cash, equal to three times the sum of (x) the higher of the Executive's annual base salary in effect immediately prior to the occurrence of the event or circumstance upon which the Notice of Termination is based or in effect immediately prior to the Change in Control and (y) the higher of the average of the annual bonuses paid to the Executive for the three years (or the number of years employed, if less) immediately preceding the occurrence of the event or circumstance upon which the Notice of Termination is based or the Change in Control. In lieu of any further life, disability, accident and health insurance benefits otherwise due to the Executive, the Company shall pay to the Executive a lump sum amount, in cash, equal to the cost to the Company (as determined by the Company in good faith with reference to its most recent actual experience) of providing such benefits, to the extent that the Executive is eligible to receive such benefits immediately prior to the Notice of Termination, for a period of three years commencing on the Date of Termination.

3.3 The payments provided for in Section 3.2 shall be made not later than the fifth day following the Date of Termination.

3.4 The Company also shall pay to the Executive all legal fees and expenses incurred by the Executive in seeking to obtain or enforce any benefit or right provided by this Agreement, payable within five business days after delivery of the Executive's written requests for payment accompanied with such evidence of fees and expenses incurred as the Company reasonably may require.

#### 4. CERTAIN ADDITIONAL PAYMENTS BY THE COMPANY.

4.1 Notwithstanding any other provisions of this Agreement, in the event that any payment or benefit received or to be received by the Executive in connection with a Change in Control or the termination of the Executive's employment (all such payments and benefits, including the Severance Payments, the "Total Payments") is determined to be subject (in whole or part) to the Excise Tax, then the Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including without limitation any income taxes and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount equal to the Total Payments. Notwithstanding the foregoing provisions of this Section 4.1, if it shall be determined that the Executive is entitled to a Gross-Up Payment, but that the Total Payments do not exceed 110% of the greatest amount (the "Reduced Amount") that could be paid to the Executive such that the receipt thereof would not give rise to any Excise Tax, then no Gross-Up Payment shall be made to the Executive and the Total Payments shall be reduced to the Reduced Amount.

4.2 All determinations required to be made under this Section 4, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by the Company's accountants or such other certified public accounting firm reasonably acceptable to the Company as may be designated by the Executive (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and the Executive.

#### 5. TERMINATION PROCEDURES.

5.1 NOTICE OF TERMINATION. After a Change in Control and during the term of this Agreement, any purported termination of the Executive's employment (other than by reason of death) shall be communicated by written Notice of Termination from one party hereto to the other party hereto in accordance with Section 8. Further, a Notice of Termination for Cause is required to include a copy of a resolution duly adopted by the

affirmative vote of not less than three-quarters of the entire membership of the Board at a meeting of the Board which was called and held for the purpose of considering such termination (after reasonable notice to the Executive and an opportunity for the Executive, together with the Executive's counsel, to be heard before the Board) finding that, in the good faith opinion of the Board, the Executive was guilty of conduct set forth in the definition of Cause.

5.2 DATE OF TERMINATION. "Date of Termination", with respect to any purported termination of the Executive's employment after a Change in Control and during the term of this Agreement, shall mean the date specified in the Notice of Termination (which, in the case of a termination by the Company otherwise than for Cause, shall not be less than thirty days and, in the case of a termination by the Executive, shall not be less than fifteen days nor more than sixty days, respectively, from the date such Notice of Termination is given).

6. NO MITIGATION. If the Executive's employment by the Company is terminated during the term of this Agreement, the Executive is not required to seek other employment or to attempt in any way to reduce any amounts payable to the Executive by the Company pursuant to Section 3. Further, the amount of any payment or benefit provided for in Section 3 shall not be reduced by any compensation earned by the Executive as the result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by the Executive to the Company, or otherwise.

7. EXECUTIVE'S COVENANTS. The Executive agrees that, subject to the terms and conditions of this Agreement, in the event of a Potential Change in Control during the term of this Agreement, the Executive will remain in the employ of the Company until the earliest of (i) a date which is six months from the date of such Potential Change of Control, (ii) the date of a Change in Control, (iii) the date of termination by the Executive of the Executive's employment for Good Reason (determined by treating the Potential Change in Control as a Change in Control in applying the definition of Good Reason), by reason of death or Retirement; or (iv) the termination by the Company of the Executive's employment for any reason.

8. SUCCESSORS; BINDING AGREEMENT.

8.1 In addition to any obligations imposed by law upon any successor to the Company, the Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the

Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such assumption and agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle the Executive to compensation from the Company in the same amount and on the same terms as the Executive would be entitled to hereunder if the Executive were to terminate the Executive's employment for Good Reason after a Change in Control, except that, for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination.

8.2 This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives. If the Executive shall die while any amount would still be payable to the Executive hereunder (other than amounts which, by their terms, terminate upon the death of the Executive) if the Executive had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the Executive's representatives.

9. NOTICES. For the purpose of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States certified or registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth below, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon actual receipt:

To the Company:  
Aspen Technology, Inc.  
Ten Canal Park  
Cambridge, MA 02141

Attention: General Counsel

To the Executive:  
Lisa Zappala  
379 Charles River Street  
Needham, MA 02192

10. MISCELLANEOUS. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or

discharge is agreed to in writing and signed by the Executive and such officer as may be specifically designated by the Board. Except as expressly provided herein, no waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the Commonwealth of Massachusetts, and this Agreement shall be an instrument under seal. All references to sections of the Exchange Act or the Code shall be deemed also to refer to any successor provisions to such sections. Any payments provided for hereunder shall be paid net of any applicable withholding required under federal, state or local law and any additional withholding to which the Executive has agreed.

11. SETTLEMENT OF DISPUTES; ARBITRATION. All claims by the Executive for benefits under this Agreement shall be directed to and determined by the Board and shall be in writing. Any denial by the Board of a claim for benefits under this Agreement shall be delivered to the Executive in writing and shall set forth the specific reasons for the denial and the specific provisions of this Agreement relied upon. Any further dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in Boston, Massachusetts, in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction. The Executive shall, however, be entitled to seek specific performance of the Executive's right to be paid until the Date of Termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

12. DEFINITIONS. For purposes of this Agreement, the following terms shall have the-meanings indicated below:

"Beneficial owner" shall have the meaning defined in Rule 13d-3 under the Exchange Act.

"Board" shall mean the Board of Directors of the Company.

"Cause" for termination by the Company of the Executive's employment, after any Change in Control, shall mean (i) the willful and continued failure by the Executive to



substantially perform the Executive's duties with the Company (other than any such failure resulting from the Executive's incapacity due to physical or mental illness or any such actual or anticipated failure after the issuance of a Notice of Termination for Good Reason by the Executive) after a written demand for substantial performance is delivered to the Executive by the Board, which demand specifically identifies the manner in which the Board believes that the Executive has not substantially performed the Executive's duties, or (ii) the willful engaging by the Executive in gross misconduct which is demonstrably and materially injurious to the Company or any of its subsidiaries, monetarily or otherwise. No act, or failure to act, on the Executive's part shall be deemed "willful" unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that the Executive's act, or failure to act, was in the best interest of the Company.

A "Change in Control" shall be deemed to have occurred if the conditions set forth in any one of the following paragraphs shall have been satisfied:

(a) Continuing Directors constitute two-thirds or less of the membership of the Board, whether as the result of a proxy contest or for any other reason or reasons; or

(b) Any Person is or becomes the Beneficial owner, directly or indirectly, of securities of the Company representing twenty-five percent or more of the combined voting power of the Company's then outstanding voting securities; or

(c) There is a change in control of the Company of a nature that would be required to be reported on Form 8-K or item 6(e) of Schedule 14A of Regulation 14A or any similar item, schedule or form under the Exchange Act, as in effect at the time of the change, whether or not the Company is then subject to such reporting requirement, including without limitation any merger or consolidation of the Company with any other corporation, other than (i) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving or parent entity) fifty-one percent or more of the combined voting power of the voting securities (entitled to vote generally for the

election of directors) of the Company or such surviving or parent entity outstanding immediately after such merger or consolidation and which would result in those persons who are Continuing Directors immediately prior to such merger or consolidation constituting more than two-thirds of the membership of the Board or the board of such surviving or parent entity immediately after, or subsequently at any time as contemplated by or as a result of, such merger or consolidation or (ii) a merger or consolidation effected to implement a recapitalization of the company (or similar transaction) in which no Person acquired twenty-five percent or more of the combined voting power of the Company's then outstanding securities; or

(d) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets (or any transaction having a similar effect).

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

"Company" shall mean Aspen Technology, Inc. and any successor to its business and/or assets which assumes or agrees to perform this Agreement, by operation of law or otherwise.

"Compensation Committee" shall mean the Compensation and Nominating Committee of the Board.

"Continuing Director" shall mean any director (i) who has continuously been a member of the Board since not later than the date of a Potential Change in Control or (ii) who is a successor of a director described in clause (i), if such successor (and any intervening successor) shall have been recommended or elected to succeed a Continuing Director by a majority of the then Continuing Directors.

"Date of Termination" shall have the meaning stated in Section 5.2 hereof.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended from time to time.

"Excise Tax" shall mean the tax imposed by Section 4999 of the Code.

"Executive" shall mean the individual named in the first paragraph of this Agreement.

"Good Reason" for termination by the Executive of the Executive's employment shall mean the occurrence (without the Executive's express written consent) of any one of the following acts or failures to act by the Company unless, in the case of any act or failure to act described in paragraph (a), (e), (f) or (g) below, such act or failure to act is corrected prior to the Date of Termination specified in the Notice of Termination given in respect thereof or, in the case of paragraph (c) below, such act is not objected to in writing by the Executive within four months after notification by the Company to the Executive of the Company's intention to take the action contemplated by such paragraph (c):

(a) the assignment to the Executive of any duties inconsistent with the Executive's status as a senior executive officer of the Company or a meaningful alteration, adverse to the Executive, in the nature or status of the Executive's responsibilities (other than reporting responsibilities) from those in effect immediately prior to the Change in Control;

(b) a reduction by the Company in the Executive's annual base salary as in effect on the date hereof or as the same may be increased from time to time except for across-the-board salary reductions similarly affecting all senior executives of the Company and all senior executives of any Person in control of the Company;

(c) the Company's requiring the Executive to be based anywhere other than the Boston Metropolitan Area (or, if different, the metropolitan area in which the Company's principal executive offices are located immediately prior to the Change in Control) except for required travel on the Company business to an extent substantially consistent with the Executive's present business travel obligations;

(d) the failure by the Company, without the Executive's consent, to pay to the Executive any portion of the Executive's current compensation, or to pay to the Executive any portion of an installment of deferred compensation under any deferred compensation program of the Company, within fourteen days of the date such compensation is due;

(e) the failure by the Company to continue in effect any compensation plan in which the Executive participates

immediately prior to the Change in Control which is material to the Executive's total compensation, or the failure by the Company to continue the Executive's participation therein on a basis not materially less favorable, both in terms of the amount of benefits provided and the level of the Executive's participation relative to other participants, as existed at the time of the Change in Control;

(f) the failure by the Company to continue to provide the Executive with benefits substantially similar to those enjoyed by the Executive under any of the Company's pension, life insurance, medical, health and accident, or disability plans in which the Executive was participating at the time of the Change in Control, the taking of any action by the Company which would directly or indirectly materially reduce any of such benefits or deprive the Executive of any material fringe benefit enjoyed by the Executive at the time of the Change in Control, or the failure by the Company to provide the Executive with the number of paid vacation days to which the Executive is entitled on the basis of years of service with the Company in accordance with the Company's normal vacation policy in effect at the time of the Change in Control; or

(g) any purported termination of the Executive's employment which is not effected pursuant to a Notice of Termination satisfying the requirements of Section 5.1.

"Notice of Termination" shall have the meaning stated in Section 5.1.

"Person" shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof; however, a Person shall not include (i) the Company or any of its subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its subsidiaries, (iii) an underwriter temporarily holding securities pursuant to a registered offering of such securities in accordance with an agreement with the Company, or (iv) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company.

"Potential Change in Control" shall be deemed to have occurred if the conditions set forth in any one of the following paragraphs shall have been satisfied:

(a) the Company enters into an agreement, the consummation of which would result in the occurrence of a Change in Control;

(b) the Company or any Person publicly announces an intention to take or to consider taking actions which, if consummated, would constitute a Change in Control;

(c) any Person becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing fifteen percent or more of the combined voting power of the Company's then outstanding securities (entitled to vote generally for the election of directors); or

(d) the Board adopts a resolution to the effect that, for purposes of this Agreement, a Potential Change in Control has occurred.

"Severance Payments" shall mean those payments described in Section 3.2 hereof.

"Total Payments" shall mean those payments described in Section 4 hereof.

IN WITNESS WHEREOF, the Company and the Executive have executed and delivered this Agreement on the date first written above.

ASPEN TECHNOLOGY, INC.

By:

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Lisa Zappala

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U.S. DOLLARS

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