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

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 [ ]

As of December 31, 1998, there were 24,732,422 shares of the Registrant's common stock (par value $.10 per share) outstanding.

ASPEN TECHNOLOGY, INC.

QUARTERLY REPORT ON FORM 10-Q

INDEX

		Page(s)
PART I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements:	
	Consolidated Condensed Balance Sheets as of December 31, 1998 and June 30, 1998	3
	Consolidated Condensed Statements of Operations for the Three and Six Month Periods Ended December 31, 1998 and 1997	4
	Consolidated Condensed Statements of Cash Flows for the Six Month Periods Ended December 31, 1998 and 1997	5
	Notes to Consolidated Condensed Financial Statements	6 - 9
Item 2.	Management's Discussion and Analysis of Results of Operations and Financial Condition	10 - 14
Item 3.	Quantitative and Qualitative Market Risk Disclosures	15 - 16
PART II.	OTHER INFORMATION	
Item 1.	Legal Proceedings	16 - 17
Item 2.	Changes in Securities and Use of Proceeds	17
Item 5.	Other Information	17
Item 6.	Exhibits and Reports on Form 8-K	17

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

	December 31, 1998	June 30, 1998
Current Assets:		
Cash and cash equivalents	$ 52,625	$ 78,694
Short-term investments	54,471	34,987
Accounts receivable, net	65,473	71,803
Unbilled services	18,526	18,077
Current portion of long-term installments receivable, net	24,292	23,643
Prepaid expenses and other current assets	14,097	10,831
Total current assets	229,484	238,035
Long-term installments receivable, net	35,902	36,203
Property and leasehold improvements, at cost	81,468	76,314
Accumulated depreciation	(39,610)	(33,578)
	41,858	42,736
Computer software development costs, net	5,851	5,696
Intangible assets, net	12,545	12,857
Other assets	7,060	7,355
	$ 332,700	$ 342,882
Current Liabilities:		
Current portion of long-term debt	$ 1,270	$ 2,187
Accounts payable and accrued expenses	31,891	38,545
Unearned revenue	7,595	6,008
Deferred revenue	19,312	17,888
Deferred income taxes	541	541
Total current liabilities	60,609	65,169
Long-term debt, less current maturities	3,947	4,385
5 1/4% Convertible subordinated debentures	86,250	86,250
Deferred revenue, less current portion	13,100	15,074
Other liabilities	718	914
Deferred income taxes	6,076	6,074
Stockholders' Equity:		
Common stock	2,495	2,473
Additional paid-in capital	151,655	148,342
Retained earnings	8,599	14,922
Accumulated other comprehensive income (loss)	(247)	(219)
Treasury stock, at cost	(502)	(502)
Total Stockholders' Equity	162,000	165,016
	$ 332,700	$ 342,882

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,	
	1998	1997	1998	1997
Software licenses	$ 28,673	$ 32,465	$ 44,677	$ 56,853
Maintenance and other services	32,982	27,738	63,687	52,803
Total revenues	61,655	60,203	108,364	109,656
Cost of software licenses	1,943	1,752	3,610	3,424
Cost of maintenance and other services	21,040	16,356	41,013	31,068
Selling and marketing	21,609	17,621	40,754	32,807
Research and development	11,937	10,358	23,541	20,521
General and administrative	5,625	4,839	11,100	9,341
One-time acquisition costs	--	--	--	509
Total costs and expenses	62,154	50,926	120,018	97,670
Income (loss) from operations	(499)	9,277	(11,654)	11,986
Other income (expense), net	28	(91)	246	(158)
Interest income, net	1,212	1,347	2,364	2,800
Income (loss) before provision for (benefit from) income taxes	741	10,533	(9,044)	14,628
Provision for (benefit from) income taxes	260	3,791	(3,165)	5,251
Net income (loss)	$ 481	$ 6,742	$ (5,879)	$ 9,377
Diluted earnings (loss) per share	$ 0.02	$ 0.28	$ (0.24)	$ 0.39
Weighted average shares outstanding-diluted	25,191	24,380	24,708	23,994
Basic earnings (loss) per share	$ 0.02	$ 0.29	$ (0.24)	$ 0.41
Weighted average shares outstanding-basic	24,707	23,115	24,708	22,726

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

	Six Months Ended December 31, 1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
NET INCOME (LOSS)	$ (5,879)	$ 9,377
Adjustments to reconcile net income (loss) to net cash provided by operating activities (net of acquisition-related activity disclosed below):		
Depreciation and amortization	8,905	5,939
Deferred income taxes	2	2,260
Decrease (increase) in accounts receivable	6,330	(10,356)
(Increase)decrease in unbilled services	(421)	1,543
(Increase) in installments receivable	(348)	(3,809)
(Increase) in prepaid expenses and other current assets	(3,266)	(883)
(Decrease) in accounts payable and accrued expenses	(6,704)	(3,717)
Increase in unearned revenue	1,547	862
(Decrease) increase in deferred revenue	(551)	3,245
Net cash provided by (used in) operating activities	(385)	4,461
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and leasehold improvements	(5,143)	(8,517)
(Purchase) sale of investment securities	(19,464)	1,164
(Increase) decrease in other long-term assets	295	(299)
(Increase) in computer software development costs	(1,482)	(1,905)
Increase (Decrease) in other long-term liabilities	(196)	5
Cash used in the purchase of business, net of cash acquired	(1,200)	(591)
Net cash used in investing activities	(27,190)	(10,143)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock under employee stock purchase plans	2,076	1,830
Issuance of common stock under employee stock ownership plan	--	478
Exercise of stock options	832	1,698
Payments of long-term debt and capital lease obligations	(1,355)	(798)
Net cash provided by financing activities	1,553	3,208
EFFECTS OF EXCHANGE RATE CHANGES ON CASH	(47)	(22)
(DECREASE) IN CASH AND CASH EQUIVALENTS	(26,069)	(2,496)
CASH AND CASH EQUIVALENTS, beginning of period	78,694	18,284
CASH AND CASH EQUIVALENTS, end of period	$ 52,625	$ 15,788

During the six months ended December 31, 1998, the Company acquired a company in a purchase transaction described in Note 4 This acquisition is summarized as follows-

	1998	1997
Fair value of assets acquired, excluding cash	$ 1,290	$ --
Payments in connection with the acquisitions, net of cash acquired	(1,200)	--
Liabilities assumed	$ 90	$ --

During the six months ended December 31, 1997, the Company acquired certain companies in poolings-of-interests transactions These acquisitions are summarized as follows-

	1997
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
December 31, 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 and six month periods ended December 31, 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 non-cancelable 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 collectability risk associated with its product sales. The Company recognizes revenue from post-contract customer support ratably over the period of the post-contract 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. Service 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 non-cancelable 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 over the installment period. The interest rate in effect for the three and six months ended December 31, 1997 and 1998 was 8.5%. At December 31, 1998, the Company had long-term installments receivable of approximately $6.8 million denominated in foreign currencies. These foreign installments receivable will mature through March 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 and six month period ended December 31, 1998 was approximately $0.6 and $1.3 million, respectively, as compared to the three and six month period ended December 31, 1997, which was $0.3 and $0.4 million, respectively.

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 December 31,		Six Month Ended December 31,	
	1998	1997	1998	1997
Weighted average shares outstanding - basic	24,707	23,115	24,708	22,726
Weighted average common equivalent shares	484	1,265	--	1,268
Diluted weighted average shares outstanding - diluted	25,191	24,380	24,708	23,994

There were 855,693 stock options and warrants not included in diluted weighted average shares outstanding for the six month period ended December 31, 1998, 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 comprehensive income. Short-term investments held as of December 31, 1998 consist of $47.5 million in U.S. Corporate Bonds $7.0 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, some of its installment contracts to financial institutions for approximately $13.7 and $15.5 million during the three and six month periods ended December 31, 1998, respectively. The financial institutions have partial recourse to the Company only upon non-payment by the customer under certain installments receivables. 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, 1998, the balance of the uncollected principal portion of all contracts sold was $91.4 million. The Company's potential recourse obligation related to these contracts is approximately $4.5 million. In addition, the Company is obligated to pay additional costs to the financial institutions in the event of default by the customer.

4. ACQUISITIONS

(a) 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 intangible assets, based on their fair values.

5. COMPREHENSIVE INCOME

The Company adopted SFAS No. 130, Reporting Comprehensive Income, effective July 1, 1998. SFAS No. 130 requires that items defined as other comprehensive income, such as foreign currency translation adjustments and unrealized gains and losses on investments, 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 December 31, 1998 and 1997 are as follows (in thousands):

	Three months ended December 31,		Six months ended December 31,	
	1998	1997	1998	1997
Comprehensive income (loss):				
Net income (loss)	$ 481	$ 6,742	($5,879)	$ 9,377
Unrealized gain (loss) on investments	(302)	(84)	20	(68)
Foreign currency adjustment	(422)	137	(48)	(23)
Comprehensive income (loss):	($243)	$ 6,795	($5,907)	$ 9,286

6. 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 2.62 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: Comparison of Three and Six Months Ending December 31, 1998 and 1997

TOTAL REVENUES

Revenues are derived from software licenses and maintenance and other services. Total revenues for the three months ended December 31, 1998 were $61.7 million, an increase of $1.5 million, or 2.4%, from $60.2 million in the comparable period of fiscal 1998. Total revenues for the six months ended December 31, 1998 were $108.4 million, a decrease of $1.3 million, or 1.2%, from $109.7 million in the comparable period of fiscal 1998.

Total revenues from customers outside the United States were $32.6 and $56.7 million, or 52.8% and 52.3%, of total revenues for the three and six months ended December 31, 1998, respectively. The non-U.S. revenues for the comparable periods in fiscal 1998 were $28.5 and $50.1 million, or 47.3% and 45.7%, of total revenues. 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.

SOFTWARE LICENSES

Revenues from software licenses for the three months ended December 31, 1998 were $28.7 million, a decrease of $3.8 million, or 11.7%, from $32.5 million in fiscal 1998. Software license revenue represented 46.5% of total revenue for the three months ended December 31, 1998, as compared to 53.9% in fiscal 1998. Revenues from software licenses for the six months ended December 31, 1998 were $44.7 million, a decrease of $12.2 million, or 21.4%, from $56.9 million in the comparable period of fiscal 1998. Software license revenue represented 41.2% of total revenue for the six months ended December 31, 1998, as compared to 51.8% in fiscal 1998. The decline in software license revenues was mainly attributable to global economic conditions.

MAINTENANCE AND OTHER SERVICES

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 December 31, 1998 were $33.0 million, an increase of $5.3 million, or 18.9%, from $27.7 million in the comparable period in fiscal 1998. Revenues from maintenance and other services for the six months ended December 31, 1998 were $63.7 million, an increase of $10.9 million, or 20.6%, from $52.8 million in the comparable period in fiscal 1998. The increases in both periods reflect a continued focus during fiscal 1999 on providing high value-added consulting and training services to existing customers.

COST OF SOFTWARE LICENSES

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. These costs, for the three and six months periods ended December 31, 1998 were $1.9 and $3.6 million, or 3.2% and 3.3%, respectively, of total revenues. This compares to $1.8 and $3.4 million, or 2.9% and 3.1%, respectively, of total revenues in the comparable period of fiscal 1998. Cost of software licenses as a percentage of revenues from software licenses were 6.8% and 8.1%

for the three and months periods ended December 31, 1998. This is compared to 5.4% and 6.0% for the three and six months periods ended December 31, 1997, respectively. The increase in these costs as a percentage of software license revenue in fiscal 1999 compared to fiscal 1998 is due to incremental amortization of computer software development costs and the spreading of this cost over a smaller revenue base.

COSTS OF MAINTENANCE AND OTHER SERVICES

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. These costs for the three and six months ended December 31, 1998 were $21.0 and $41.0 million, or 34.1% and 37.8%, of total revenues, respectively. During the comparable period in fiscal year 1998, these costs were $16.4 and $31.1 million, or 27.2% and 28.3%, of total revenues, respectively. Costs of maintenance and other services as a percentage of their revenue were 63.8% and 64.4% in the three and six months ended December 31, 1998. The same percentages in the comparable periods of fiscal year 1998 were 59.0% and 58.8%, respectively. These percentage increases reflect investments in personnel and related support, which were made to improve the execution of the services projects.

SELLING AND MARKETING EXPENSES

Selling and marketing expenses for the three and six months periods ended December 31, 1998 were $21.6 and $40.8 million, an increase of 22.6% and 24.2%, respectively, from $17.6 and $32.8 million in the comparable periods in fiscal year 1998. As a percentage of revenues, selling and marketing expenses were 35.0% and 37.6%, for the three and six months periods ended December 31, 1998, respectively. These same percentages were 29.3% and 29.9% 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 related to the decline in software licenses revenues identified above.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses consist primarily of personnel and outside consultancy costs required to conduct the Company's product development efforts. Capitalized software development costs are amortized over three years and expensed as costs of license. Research and development expenses during the three and six months periods ended December 31, 1998 were $11.9 and $23.5 million, respectively, an increase of $1.5 and $3.0 million, or 15.2% and 14.7%, respectively, from $10.4 and $20.5 million in the comparable periods of fiscal 1998. As a percentage of revenues, research and development costs were 19.4% and 21.7% for the three and six months periods ended December 31, 1998, respectively. The percentages for the same period in fiscal 1998 were 17.2% and 18.7%, respectively. The increase in costs, and as a percentage of revenue, 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 5.9% and 6.0% of its total research and development costs during the three and six months periods ended December 31, 1998, respectively. In the comparable periods of fiscal year 1998, the Company capitalized 8.8% and 8.5%.

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 for the three and six months periods ended December 31, 1998 were $5.6 and $11.1 million, an increase of $0.8 and $1.8 million, or 16.2% and 18.8%, respectively, from the comparable period of fiscal 1998. The increase reflects the growth in the scale and scope of the Company's operations, particularly the investments made in improving its information systems.

INTEREST INCOME

Interest income is generated from the license of software pursuant to installment contracts 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 and $5.1 million for the three and six months ended December 31, 1998 as compared to $1.4 and $2.9 million for the corresponding 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 and six months periods ended December 30, 1997.

INTEREST EXPENSE

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 and six months ended December 31, 1998 was $1.3 and $2.7 million compared to $0.1 and $0.1 million in the same periods 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 comparable periods ended December 31, 1997.

TAX RATE

The effective tax rate for the three and six months periods ended December 31, 1998 was approximately 35% of pretax income (loss). The tax rate for the comparable periods of fiscal year 1998 was slightly higher and was approximately 36%.

LIQUIDITY AND CAPITAL RESOURCES

During the six months ended December 31, 1998, the Company's cash and cash equivalents balance decreased by $26.1 million, most of which was invested in short-term securities. Operations used $0.4 million of cash during this period, primarily related to the net loss from the first 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 six months ended December 31, 1998, installment contracts increased slightly to $60.2 million, net of $15.5 million of installment contracts sold to GECC and SBCC. The Company's arrangements with the two financial institutions provide for the sale of installment contracts up to certain limits and with certain recourse obligations. At December 31, 1998, the balance of the uncollected principal portion of the contracts sold to these two financial institutions was $91.4 million, for which the

Company has a partial recourse obligation of approximately $4.5 million. The availability under these arrangements will increase as the financial institutions receive payment on installment contracts previously sold.

The Company maintains a $30.0 million bank line of credit, expiring December 31, 2000, 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 (7.75% at December 31, 1998) plus a specified margin or, at the Company's option, a rate equal to a defined LIBOR (5.06% at December 31, 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. At December 31, 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. 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 web-site, 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 web-site.

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 captions "Notes to Consolidated Condensed Financial Statements," 2. (a) and (d), and below under the captions "Investment Portfolio" and "Foreign Exchange Hedging".

INVESTMENT PORTFOLIO

The Company does not use derivative financial instruments in its investment portfolio. The company places its investments in instruments that meet high credit quality standards, as specified in the Company's investment policy guidelines; the policy also limits the amount of credit exposure to any one issuer and the types of instruments approved for investment. The Company does not expect any material loss with respect to its investment portfolio. The following table provides information about the Company's 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
(in 000s, except interest rates)

	Fair Value at 12/31/98	FY1999	FY2000	FY2001	FY2002	FY2003 & Thereafter
Cash Equivalents	$37,218	$37,218				
Weighted Average Interest Rate	5.14%	5.14%	-	-	-	-
Investments	$54,536	$3,496	$27,025	$10,235	$9,765	$4,015
Weighted Average Interest Rate	6.19%	5.99%	6.08%	6.22%	6.53%	6.26%
Total Portfolio	$91,754	$40,714	$27,025	$10,235	$9,765	$4,015
Weighted Average Interest Rate	5.77%	5.21%	6.08%	6.22%	6.53%	6.26%

IMPACT OF FOREIGN CURRENCY RATE CHANGES

During the first six months of fiscal 1999, most currencies in Europe and Asia/Pacific fluctuated but ended the period relatively strengthened against the U.S. dollar. However, the translation of the parent Company's intercompany receivables and foreign entities assets and liabilities did not have a material impact on the consolidated results of the Company. Foreign exchange forward contracts are only purchased to hedge certain customer accounts receivable amounts denominated in a foreign currency.

FOREIGN EXCHANGE HEDGING

The company enters into foreign exchange forward contracts to reduce its exposure to currency fluctuations on customer accounts receivables amounts denominated in foreign currency. The objective of these contracts is to neutralize the impact of foreign currency exchange rate movements on the Company's operating results. The Company does not use derivative financial instruments for speculative or trading purposes. The Company had $6.8 million of foreign exchange forward contracts denominated in British, French, Japanese, Swiss, German, Belgium and Netherlands currencies which represented underlying customer accounts receivable transactions at the end of the second quarter of fiscal 1999. The gains and losses on these contracts are included in earnings when the underlying foreign currency denominated transaction is recognized. Gains and loss related to these instruments for the second quarter and the first six months of fiscal 1999 were not material to the Company. Looking forward, the Company does not anticipate any material adverse effect on its consolidated financial

position, results of operations, or cash flows resulting from the use of these instruments. However, there can be no assurance that these strategies will be effective or that transaction losses can be minimized or forecasted accurately.

The following table provides information about the Company's foreign exchange forward contracts at the end of the second quarter of fiscal 1999. 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 1999.

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

Currency	Average Contract Rate	Forward Amount in U.S. Dollars (in thousands)	Contract Origination Date	Contract Maturity Date
Belgian Franc	32.88	95	Various: Feb 98 - Jul 98	Various: Jan 99 - Jan 00
British Pound Sterling	1.57	1,536	Various: Jun 97 - Oct 98	Various: Jan 99 - Aug 00
French Franc	5.33	184	Various: Jan 98 - Jul 98	Various: Jan 99 - Dec 01
German Deutsche Mark	1.59	1,337	Various: Apr 97 - Dec 98	Various: Jan 99 - Jan 01
Japanese Yen	117.1	3,534	Various: Jan 97 - Dec 98	Various: Jan 99 - Jul 01
Netherlands Guilder	1.79	35	Various: Apr 97 - Jan 98	Various: Jan 99 - Apr 99
Swiss Franc	1.41	64	Various: Mar 98	Various: Feb 99 - Feb 01
Total		6,785		

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 Sections10 (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 "Clancey Complaint"). On November 20, 1998 a

third purported class action lawsuit was filed in the same court against the same defendants which was verbatim identical to the Van Ormer and Clancey Complaints except only for the plaintiff's name, the expansion of the class action period from January 27, 1998 to October 2, 1998, and the addition of references to statements made between January 27, 1998 and April 28, 1998 (the "Marucci Complaint"). On January 27, 1999, in response to a motion to dismiss filed by the Company, the plaintiffs consolidated the three complaints and filed a Consolidated Amended Class Action Complaint. 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

10.36 Employment Agreement between Chesapeake Decision Sciences, Inc., a wholly-owned subsidiary of the Company, and Thomas E. Baker dated January 20, 1999.

(b) Reports on Form 8-K
None.

(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: February 16, 1999 by: /s/ Lisa W. Zappala

Lisa W. Zappala
Senior Vice President
Chief Financial Officer

EXHIBIT 10.36

THOMAS E. BAKER
EMPLOYMENT AGREEMENT

AGREEMENT dated January 20, 1999 between Chesapeake Decision Sciences, Inc., ("Chesapeake") a wholly-owned subsidiary of Aspen Technology, Inc., a Delaware corporation located at 10 Canal Park, Cambridge, Massachusetts, 02141 (the "Company"), and Thomas E. Baker, an individual residing at 25 Water Street, Lebanon, NJ 08833, (the "Employee").

1. EMPLOYMENT. The Company agrees to employ the Employee in the Chesapeake business carried on by the Company or in some other mutually agreeable capacity, from the date of this Agreement and hereafter for a period of eight years on the basis that the Employee shall work half-time for the first five years, and thereafter as agreed to by the Employee. Such period of time may be reduced by a month for every two month equivalent the Employee, as agreed to between the Employee and the Company, does not provide services during the first five years; provided that the Company provide Employee written notice 30 days prior to any reduction of such period. The Employee shall take a senior role in the development and management of the Company's supply chain technology as well as a senior role in the development of certain of the Company's other technology initiatives. The Employee shall report directly to the President of the Company. The Employee agrees, while employed hereunder, to perform his duties faithfully and to the best of his ability. The Employee shall be employed at the Company's offices in New Jersey, and his principal duties shall be performed primarily in New Jersey, except for business trips reasonable in number and duration required in furtherance of the Company's business.

2. TERM. The employment of the Employee hereunder shall begin on the date of this Agreement and shall continue until reduced or terminated in accordance with Sections 1 or 5 (the "Term").

3. COMPENSATION.

   a) As compensation for the Employee's services during the Term, the Company shall pay the Employee an annual base salary, initially at the rate of $ 363,000 per year.

   b) The Employee shall be covered by the bonus plan currently maintained by the Company for its similarly-situated employees.

4. EMPLOYEE BENEFITS. The Employee shall be entitled to participate in all "employee pension benefit plans," all "employee welfare benefit plans" (each as defined in the Employee Retirement Income Security Act of 1974) and all pay practices and other compensation arrangements maintained by the Company (collectively, "Benefits"), on the same basis as similarly situated employees of the Company. The Company shall reimburse the Employee from time to time for the reasonable expenses incurred by the Employee in connection with the performance of his obligations hereunder, in accordance with the Company's policies on expense reimbursement. In addition and in consideration of the covenant not-to-compete under Paragraph 7, the key-man life insurance policy on the Employee held by Chesapeake shall be used by the Company to fund a split dollar insurance program and/or a deferred compensation plan for Employee on terms approved by the Employee. In addition, the Company shall pay the

annual cost of insurance relating to the split dollar insurance program during the term of this Agreement in an amount not to exceed $2,000.00 per annum.

5. TERMINATION DATE; CONSEQUENCES FOR COMPENSATION AND BENEFITS

a) DEFINITION OF TERMINATION DATE. The first to occur of the following events shall be the "Termination Date":

i) The date on which the Employee becomes entitled to receive long-term or short-term disability payments by reason of total and permanent disability;

ii) The Employee's death;

iii) Voluntary resignation;

iv) Discharge of the Employee by the Company after one of the following events shall have occurred, which event shall be specified to the Employee by the Company at the time of discharge: material willful misconduct in the discharge of his duties, conviction of the Employee or the entry of a plea of guilty or nolo contendere by the Employee to any crime involving moral turpitude, or any material breach under paragraph 7, 8, 9 or 10 of this Agreement by the Employee which is not cured within 30 days after written notice from the Board of Directors of the Company to the Employee setting forth the nature of the breach ("Discharge for Cause");

b) CONSEQUENCES FOR COMPENSATION AND BENEFITS. On Termination as a result of a voluntary resignation or Discharge for Cause, the Company shall pay base salary to the Employee through the Termination Date, and shall pay to the Employee all Benefits accrued through the Termination Date, payable in accordance with the respective terms of the plans, practices and arrangements under which the Benefits were accrued, but shall pay no cash bonus for the fiscal year in which the Termination Date occurs. On a Termination due to the Employee's death or disability, the Company shall continue to pay, at its option, base salary or a lump sum equivalent to Employee or his estate. The Company will obtain adequate disability and life insurance to secure such payments and will provide Employee evidence of such coverage during the term of this Agreement.

6. LIQUIDATED DAMAGES; NO DUTY TO MITIGATE DAMAGES. The amounts payable pursuant to Section 5(b) shall be deemed liquidated damages for the early termination of this Agreement and shall be paid to the Employee regardless of any income the Employee may receive from any other employer, and the Employee shall have no duty of any kind to seek employment from any other employer until the Termination Date.

7. AGREEMENT NOT TO COMPETE. The Employee agrees that, while serving as an Employee of the Company, he will not serve as an employee or director of any business entity other than the Company and its affiliates, but may serve as a director of a reasonable number of not-for-profit corporations and may devote a reasonable amount of time to charitable and community service. In consideration of the payments and agreements hereunder, for one year following any Termination Date, the Employee shall not engage, directly or indirectly, in any business competitive with the Company's business in the area of supply chain planning and scheduling software, consulting services and support. The Employee may hold stock or a limited

partnership interest of 5% or less in any publicly traded entity without violating this Agreement.

8. AGREEMENT NOT TO SOLICIT. In consideration of the payments and agreements hereunder and under the Agreement and Plan of Reorganization, for the greater of two years after the date of this Agreement or one year following any Termination Date, the Employee shall not solicit any employee of the Company or an affiliate to leave such employment to provide services to the Employee or any other business entity, whether or not the Employee is employed by such entity, or the Employee has a material financial interest therein. Soliciting a former employee of the Company or an affiliate to provide such services shall not be a violation of this Agreement.

9. CONFIDENTIAL INFORMATION: NON-DISCLOSURE. Employee acknowledges that the business of Company, and their affiliates is highly competitive and that Company has provided and will provide Employee with access to Confidential Information relating to the business of Company and their affiliates. "Confidential Information" means and includes Company's confidential and/or proprietary information and/or trade secrets that have been developed or used and/or will be developed and that cannot be obtained readily by third parties from outside sources. Confidential Information includes, by way of example and without limitation, the following: information regarding customers, employees, contractors, and the industry not generally known to the public; strategies, methods, books, records, and documents; technical information concerning products, equipment, services, and processes; procurement procedures and pricing techniques; the names of and other information concerning customers, investors, and business affiliates (such as contact name, service provided, pricing for that customer, amount of services used, credit and financial data, and/or other information relating to Company's relationship with that customer); pricing strategies; plans and strategies for expansion or acquisitions; budgets; customer lists; electronic databases; models; specifications; computer programs; internal business records; contracts benefiting or obligation Company; bids or proposals submitted to any third party; technologies and methods; training methods and training processes; organizational structure; salaries of personnel; payment amounts or rates paid to consultants or other service providers; and other such confidential or proprietary information. Employee acknowledges that this Confidential Information constitutes a valuable, special, and unique asset used by Company, or their affiliates in their business to obtain a competitive advantage over their competitors. Employee further acknowledges that protection of such Confidential Information against unauthorized disclosure and use is of critical importance to Company, and their affiliates in maintaining their competitive position.

Employee also will have access to, or knowledge of, Confidential Information of third parties, such as actual and potential customers, suppliers, partners, joint venturers, investors, financing sources and the like, of Company, and their affiliates.

Employee agrees that Employee will not, at any time during or after Employee's employment with Company, make any unauthorized disclosure of any Confidential Information of Company or their affiliates, or make any use thereof, except in the carrying out of his or her employment responsibilities hereunder, except that following termination of his employment Employee shall have the right, on prior consent of the Company which consent shall not be unreasonably withheld, to use MIMI software and ancillary software and information in non-commercial projects (including the application of MIMI's optimization and simulation technology to the AmericaOne challenge yacht's design process for which permission is hereby expressly granted) that do not compete with the Company's business. Employee also agrees to preserve and protect

the confidentiality of third party Confidential Information to the same extent, and on the same basis, as Company's Confidential Information.

10. PROPRIETARY RIGHTS. All Proprietary Information in any form, whether patentable or copyrightable or not, which Employee generates either solely or jointly during Employee's employment by The Company (the "Developments") will be the sole and exclusive property of The Company (and in the case of copyrightable material, will be a "WORK MADE FOR HIRE" by the Employee for The Company). Employee will promptly and fully disclose all Developments to The Company and, if deemed necessary by The Company and at The Company's expense, will execute and deliver such instruments as The Company may request to protect its right, title, and interest in and to any of the Developments.

    a) RECORDS AND EQUIPMENT. Immediately upon the termination of Employee's employment, or otherwise on demand by the Company, Employee will deliver to the Company all Proprietary Information, including without limitation, papers, photographs, drawings, notes, plans, computer programs, tapes, listings, copies of correspondence, memoranda, reports, customer lists, addresses, computers and other materials or equipment made or compiled by Employee or made available to Employee during the course of employment. Employee may not retain any copies without the Company's express written permission.

    b) REPRESENTATION. The Employee understands that it is the Company's policy not to accept the confidential or proprietary information of third parties without appropriate permission. Consequently, the Employee represents and warrants that he has not brought with him, and will not disclose to the Company at any time, any confidential information belonging to a third party without such third party's express written permission. The Employee understands and agrees that breach of the foregoing representation and warranty is cause for discipline, up to and including termination of employment, but such termination would not be considered a "Discharge for Cause".

11. ARBITRATION. In the event that either party hereto has any claim hereunder, the party shall promptly notify the other party of such claim. If within 30 days of the receipt of such notice of claim, the parties cannot agree on a resolution of such claim, the parties agree to submit such dispute to binding arbitration to be held in Boston, Massachusetts under the rules of the American Arbitration Association. Three arbitrators shall conduct any such arbitration, one of whom shall be selected by the Employee, one of whom shall be selected by the Company and one of whom shall be selected by the arbitrators so selected. The expenses of any such arbitration shall be paid by the non-prevailing party, as determined by the final order of the arbitrators.

12. ENTIRE AGREEMENT; AMENDMENT. This Agreement constitutes the entire agreement of the parties and may be altered or amended or any provision hereof waived only by an agreement in writing signed by the party against whom enforcement of any alteration, amendment, or waiver is sought. No waiver by any party of any breach of this Agreement shall be considered as a waiver of any subsequent breach.

13. BINDING OBLIGATIONS. This Agreement shall be binding upon and inure to the benefit of the Company and their successors and assigns and the Employee and his personal representatives.

14. ASSIGNABILITY. Neither this Agreement nor any benefits payable to the Employee hereunder shall be assigned, pledged, anticipated, or otherwise alienated by the Employee, or subject to attachment or other legal process by any creditor of the Employee, and notwithstanding any attempted assignment, pledge, anticipation, alienation, attachment, or other legal process, any benefit payable to the Employee hereunder shall be paid only to the Employee or his estate. The Company may assign this Agreement to Chesapeake, provided that the Company shall remain as guarantor of all obligations and responsibilities of the Company hereunder.

15. GOVERNING LAW. This Agreement shall be governed by the laws of the Commonwealth of Massachusetts.

16. OTHER AGREEMENTS. The obligations and agreements contained herein are in addition to and do not supercede or replace any obligations, covenants, representations or warranties contained in the Agreement and Plan of Reorganization among the Company, Chesapeake and AT Acquisition, Inc., including without limitation all exhibits entered into therewith, and the Non-Competition Agreement between Employee, Chesapeake, and the Company.

IN WITNESS WHEREOF, the Company and the Employee have signed and sealed this Agreement as of the date first written above.

ASPEN TECHNOLOGY, INC.	Thomas E. Baker
By: --------------------------------	--------------------------------

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U.S. DOLLARS

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JUL-01-1998
DEC-31-1998
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