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 DECEMBER 31, 2001.**

or

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

Commission File Number: 000-24786

Aspen Technology, Inc.

(Exact name of registrant as specified in its charter)

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

Ten Canal Park, Cambridge, Massachusetts 02141

(Address of principal executive office and zip code)

(617) 949-1000

(Registrant's telephone number, including area code)

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

As of February 12, 2002, there were 31,792,616 shares of the Registrant's common stock (par value $.10 per share) outstanding.

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ASPEN TECHNOLOGY, INC.

QUARTERLY REPORT ON FORM 10-Q

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Item 1. ***Financial Statements***

ASPEN TECHNOLOGY, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS

	December 31, 2001	June 30, 2001
	(Unaudited and in thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 51,794	$ 36,633
Short-term investments	14,253	31,005
Accounts receivable, net	83,867	86,737
Unbilled services	27,909	29,652
Current portion of long-term installments receivable, net	25,127	31,094
Deferred tax asset	3,252	3,252
Prepaid expenses and other current assets	19,102	17,591
Total current assets	225,304	235,964
Long-term installments receivable, net	34,155	43,428
Property and leasehold improvements, at cost	118,931	112,935
Accumulated depreciation and amortization	(74,107)	(69,659)
	44,824	43,276
Computer software development costs, net	9,580	8,539
Other intangible assets, net	17,304	19,612
Goodwill, net	24,459	24,352
Deferred tax asset	15,731	15,686
Other assets	16,945	15,737
	$388,302	$406,594
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current portion of long-term debt	$ 2,373	$ 2,539
Accounts payable and accrued expenses	47,920	62,959
Unearned revenue	18,980	18,711
Deferred revenue	30,582	24,341
Total current liabilities	99,855	108,550
Long-term debt, less current maturities	4,810	1,899
5 1/4% Convertible subordinated debentures	86,250	86,250
Deferred revenue, less current portion	6,116	8,190
Other liabilities	635	635
Stockholders' Equity:		
Common stock	3,195	3,157
Additional paid-in capital	232,138	228,976
Accumulated deficit	(38,588)	(24,127)
Accumulated other comprehensive loss	(4,028)	(4,751)
Deferred compensation and notes receivable from stockholders	(1,579)	(1,683)
Treasury stock, at cost	(502)	(502)
Total stockholders' equity	190,636	201,070
	$388,302	$406,594

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

ASPEN TECHNOLOGY, INC.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

	Three Months Ended December 31,		Six Months Ended December 31,	
	2001	2000	2001	2000
	(Unaudited and in thousands, except per share data)			
Software licenses	$39,939	$40,630	$ 59,170	$ 73,212
Service and other	42,002	41,057	84,013	77,963
Total revenues	81,941	81,687	143,183	151,175
Cost of software licenses	3,054	2,999	5,499	5,564
Cost of service and other	25,206	24,544	50,398	46,864
Selling and marketing	28,451	27,704	55,075	52,422
Research and development	17,829	16,568	35,828	31,560
General and administrative	7,520	7,600	14,942	14,165
Restructuring charge	—	—	2,642	—
Charge for in-process research and development	—	2,615	—	7,615
Total costs and expenses	82,060	82,030	164,384	158,190
Loss from operations	(119)	(343)	(21,201)	(7,015)
Other income (expense), net	(171)	252	(355)	118
Write-off of investment	—	(5,000)	—	(5,000)
Interest income, net	144	1,328	897	2,869
Loss before benefit from income taxes	(146)	(3,763)	(20,659)	(9,028)
Benefit from income taxes	(44)	(1,128)	(6,198)	(2,708)
Net loss	$ (102)	$ (2,635)	$ (14,461)	$ (6,320)
Basic and diluted earnings (loss) per share	$ 0.00	$ (0.09)	$ (0.46)	$ (0.21)
Basic and diluted weighted average shares outstanding	31,748	29,747	31,740	29,493

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

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ASPEN TECHNOLOGY, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	Six Months Ended December 31, 2001	Six Months Ended December 31, 2000
	(Unaudited and in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
NET LOSS	$(14,461)	$ (6,320)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities (net of acquisition-related activity disclosed below):		
Depreciation and amortization	11,283	10,352
Charge for in-process research and development	—	7,615
Deferred income taxes	(45)	(1,382)
Decrease in accounts receivable	3,164	1,484
Decrease (increase) in unbilled services	2,057	(1,919)
Decrease (increase) in installments receivable	15,242	(2,396)
Increase in prepaid expenses and other current assets	(1,398)	(1,642)
Decrease in accounts payable and accrued expenses	(15,175)	(16,129)
Increase in unearned revenue	193	4,686
Increase (decrease) in deferred revenue	4,147	(5,233)
Net cash provided by (used in) operating activities	5,007	(10,884)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and leasehold improvements	(10,820)	(8,902)
Proceeds from sale of fixed assets	2,519	—
Sale of investment securities	16,646	16,546
Increase in other long-term assets	(1,199)	(3,574)
Write-off of investment	—	5,000
Increase in computer software development costs	(3,132)	(2,510)
Decrease in other long-term liabilities	—	(478)
Cash used in the purchase of business, net of cash acquired	—	(18,351)
Net cash generated by (used in) investing activities	4,014	(12,269)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock under employee stock purchase plans	3,052	2,118
Exercise of stock options	148	7,408
Proceeds from (payments of) long-term debt and capital lease obligations	2,723	(561)
Net cash provided by financing activities	5,923	8,965
EFFECTS OF EXCHANGE RATE CHANGES ON CASH	217	(174)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,161	(14,362)
CASH AND CASH EQUIVALENTS, beginning of period	36,633	49,371
CASH AND CASH EQUIVALENTS, end of period	$ 51,794	$ 35,009
During the six months ended December 31, 2000, the Company acquired certain companies in purchase transactions These acquisitions are summarized as follows:		
Fair value of assets acquired, excluding cash	$ —	$ 35,431
Payments in connection with the acquisitions, net of cash acquired	—	(18,351)
Liabilities assumed	$ —	$ 17,080

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

ASPEN TECHNOLOGY, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

December 31, 2001
(Unaudited)

1. Interim Condensed and Consolidated Financial Statements

In the opinion of management, the accompanying unaudited interim consolidated financial statements have been prepared in conformity with generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for reporting on Form 10-Q. Accordingly, certain information and footnote disclosures required for complete financial statements are not included herein. 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, 2001, which are contained in the Annual Report on 10-K of Aspen Technology, Inc. (Company), as previously filed with the SEC. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the financial position, results of operations, and cash flows at the dates and for the periods presented have been included. The consolidated balance sheet presented as of June 30, 2001 has been derived from the consolidated financial statements that have been audited by the Company's independent public accountants. The results of operations for the three-month and six-month periods ended December 31, 2001 are not necessarily indicative of the results to be expected for the full year.

2. Accounting Policies

(a) Revenue Recognition

Effective July 1, 1998, the Company adopted Statement of Position (SOP) No. 97-2, "Software Revenue Recognition," as amended and interpreted. License revenue, including license renewals, consists primarily of revenue earned under fixed-term and perpetual software license agreements and is generally recognized upon shipment of the software if collection of the resulting receivable is probable, the fee is fixed or determinable, and vendor-specific objective evidence (VSOE) exists for all undelivered elements. The Company determines VSOE based upon the price charged when the same element is sold separately. Maintenance and support VSOE represents a consistent percentage of the license fees charged to customers. Consulting services VSOE represents standard rates, which the Company charges its customer when they sell their consulting services separately. For an element not yet being sold separately, VSOE represents the price established by management having the relevant authority when it is probably that the price, once established, will not change before the separate introduction of the element into the marketplace. Revenue under license agreements, which may include several different software products and services sold together, are allocated to each element based on the residual method in accordance with SOP 98-9, "Software Revenue Recognition, with Respect to Certain Transactions." Under the residual method, the fair market value of the undelivered elements is deferred and subsequently recognized when earned. The Company has established sufficient VSOE for professional services, training and maintenance and support services. Accordingly, software license revenue is recognized under the residual method in arrangements in which software is licensed with professional services, training and maintenance and support services. The Company uses installment contracts as a standard business practice and has a history of successfully collecting under the original payment terms without making concessions on payments, products or services.

Maintenance and support services are recognized ratably over the life of the maintenance and support contract period. Maintenance and support services include only unspecified rights to product upgrades and enhancements. These services are typically sold for a one-year term and are sold either as part of a multiple element arrangement with software licenses or are sold independently at time of renewal. The Company does not provide specified upgrades to its customers in connection with the licensing of its software products.

Service revenues from fixed-price contracts are recognized using the percentage-of-completion method, measured by the percentage of costs (primarily labor) incurred to date as compared to the estimated total costs (primarily labor) for each contract. When a loss is anticipated on a contract, the full amount thereof is

ASPEN TECHNOLOGY, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

provided currently. Service revenues from time and expense contracts and consulting and training revenue are recognized as the related services are performed. Services that have been performed but for which billings have not been made are recorded as unbilled services, and billings that have been recorded before the services have been performed are recorded as unearned revenue in the accompanying consolidated balance sheets.

Installments receivable represent the present value of future payments related to the financing of noncancelable term and perpetual license agreements that provide for payment in installments over a one- to five-year period. A portion of each installment agreement is recognized as interest income in the accompanying consolidated condensed statements of operations. The interest rate utilized for the three and six-month periods ended December 31, 2001 were 7.0% and 7.0% to 8.0%, respectively. In the three and six-month periods ended December 31, 2000, the rate utilized was 9.0%. At December 31, 2001, the Company had installments receivable of approximately $8.9 million denominated in foreign currencies. The December 2001 foreign installments receivable mature through April 2006 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.

In December 1999, the SEC issued Staff Accounting Bulletin (SAB) No. 101, “Revenue Recognition in Financial Statements.” SAB 101 provides guidance on the recognition, disclosure and presentation of revenue in financial statements. The adoption of SAB 101 by the Company in the fourth quarter of the fiscal year ended June 30, 2001 did not have a material impact on the Company’s financial position, results of operations, or cash flows.

(b) Computer Software Development Costs

Certain computer software development costs are capitalized in the accompanying consolidated condensed balance sheets. Capitalization of computer software development costs begins upon the establishment of technological feasibility. In accordance with Statement of Financial Accounting Standards (SFAS) No. 86, “Accounting for the Costs of Computer Software to be Sold, Leased, or otherwise Marketed”, the Company defines the establishment of technological feasibility as the development of a working model. Amortization of capitalized computer software development costs is provided on a product-by-product basis using the straight line method, beginning upon commercial release of the product, and continuing over the remaining estimated economic life of the product, not to exceed three years. Total amortization expense charged to operations in the three and six month periods ending December 31, 2001 were $1.1 and $2.1 million, respectively, as compared to the three and six-month periods ended December 31, 2000, which were $1.1 and $1.9 million, respectively.

(c) Net Income (Loss) Per Share

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

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2001	2000	2001	2000
Options and Warrants	1,648	2,956	1,907	3,268
Convertible Debt	1,628	1,628	1,628	1,628
Total	3,276	4,584	3,535	4,896

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(d) Investments

Securities purchased to be held for indefinite periods of time, and not intended at the time of purchase to be held until maturity, are classified as available-for-sale securities. Securities classified as available-for-sale are required to be recorded at market value in the financial statements. Unrealized gains and losses have been accounted for as a separate component of stockholders' equity and accumulated other comprehensive loss. Realized investment gains and losses were not material in the three and six-month periods ending December 31, 2001 and 2000. Investments held as of December 31, 2001 consist of $14.3 million in U.S. Corporate Bonds. The Company does not use derivative financial instruments in its investment portfolio.

(e) Derivative Instruments and Hedging

Effective July 1, 2000, the Company adopted SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires that all derivatives, including foreign currency exchange contracts, be recognized on the balance sheet at fair value. Derivatives that are not hedges must be recorded at fair value through earnings. If a derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative are either offset against the change in fair value of assets, liabilities or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is to be immediately recognized in earnings. The adoption of SFAS No. 133 resulted in an immaterial cumulative effect on income and other comprehensive income for the Company.

Forward foreign exchange contracts are used primarily by the Company to hedge certain balance sheet exposures resulting from changes in foreign currency exchange rates. Such exposures primarily result from portions of the Company's assets that are denominated in currencies other than the U.S. dollar, primarily the Japanese Yen and certain European currencies. These foreign exchange contracts are entered into to hedge recorded installments receivable made in the normal course of business, and accordingly, are not speculative in nature. As part of its overall strategy to manage the level of exposure to the risk of foreign currency exchange rate fluctuations, the Company hedges the majority of its installments receivable denominated in foreign currencies. At December 31, 2001, the Company had effectively hedged $8.7 million of installments receivable denominated in foreign currency. The Company does not hold or transact in financial instruments for purposes other than risk management.

The Company records its foreign currency exchange contracts at fair value in its consolidated balance sheet and the related gains or losses on these hedge contracts are recognized in earnings. Gains and losses resulting from the impact of currency exchange rate movements on forward foreign exchange contracts are designated to offset certain accounts receivable and are recognized as other income or expense in the period in which the exchange rates change and offset the foreign currency losses and gains on the underlying exposures being hedged. A small portion of the forward foreign currency exchange contract is designated to hedge the future interest income of the related receivables. The gains and losses resulting from the impact of currency rate movements on forward currency exchange contracts are recognized in other comprehensive income for this portion of the hedge.

ASPEN TECHNOLOGY, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

The following table provides information about the Company's foreign currency derivative financial instruments outstanding as of December 31, 2001. The information is provided in U.S. dollar amounts, as presented in the Company's consolidated condensed financial statements. The table presents the notional amount (at contract exchange rates) and the weighted average contractual foreign currency rates (in thousands, except average contract rates):

	Notional Amount	Average Contract Rate
Japanese Yen	$4,662	112.69
British Pound Sterling	2,673	1.48
Swiss Franc	611	1.64
Euro	437	0.89
French Franc	346	7.13
Netherlands Guilder	14	2.39
	$8,743	
Estimated fair value	$8,072*	

* The estimated fair value is based on the estimated amount at which the contracts could be settled based on the spot rates as of December 31, 2001. The market risk associated with these instruments resulting from currency exchange rate movements is expected to offset the market risk of the underlying installments being hedged. The credit risk is that the Company's banking counterparties may be unable to meet the terms of the agreements. The Company minimizes such risk by limiting its counterparties to major financial institutions. In addition, the potential risk of loss with any one party resulting from this type of credit risk is monitored. Management does not expect any loss as a result of default by other parties. However, there can be no assurances that the Company will be able to mitigate market and credit risks described above.

3. Sale of Installments Receivable

The Company sold, with limited recourse, certain of its installment contracts to two financial institutions for approximately $13.0 and $21.0 million, respectively, during the three and six-month periods ended December 31, 2001. The financial institutions have partial recourse to the Company only upon non-payment by the customer under the installments receivable. The amount of recourse is determined pursuant to the provisions of the Company's contracts with the financial institutions and varies depending upon whether the customers under the installment contracts are foreign or domestic entities. Collections of these receivables reduce the Company's recourse obligations, as defined.

At December 31, 2001, the balance of the uncollected principal portion of all contracts sold was $109.8 million. The Company's potential recourse obligation related to these contracts is approximately $8.4 million. In addition, the Company is obligated to pay additional costs to the financial institutions in the event of default by the customer.

4. Intangible Assets and Goodwill

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, "Business Combinations." SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. This statement is effective for all business combinations initiated after June 30, 2001.

In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." This statement supercedes Accounting Principles Board Opinion No. 17, "Intangible Assets," and applies to goodwill and intangible assets acquired after June 30, 2001, as well as goodwill and intangible assets previously acquired. Under this statement goodwill as well as certain other intangible assets, determined to have an infinite life, will

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no longer be amortized, instead these assets will be reviewed for impairment on a periodic basis. Early adoption of this statement is permitted for non-calendar year companies whereby the entity's fiscal year begins after March 15, 2001 and its first interim period financial statements have not been issued. Pursuant to this statement, the Company elected early adoption during the first fiscal quarter ended September 30, 2001. The goodwill associated with past acquisitions is no longer subject to amortization over its estimated useful life. Such goodwill will be subject to an annual assessment for impairment by applying a fair-value based test. In the second quarter of fiscal 2002 goodwill was tested for impairment for each reporting unit of the entity comparing the fair value with carrying value. The test determined no impairment of goodwill as fair value exceeded carrying value for each reporting entity.

(a) Acquired other intangible assets subject to future amortization at December 31, 2001 consisted of the following (in thousands):

Asset Class	Gross Carrying Amount	Accumulated Amortization
Existing technology	$27,999	$11,086
Uncompleted contracts	936	936
Trade name	766	460
Patent	99	41
Financing costs	67	40
Total	$29,867	$12,563

Aggregate amortization expense for amortized other intangible assets for the three months and six-months ended December 31, 2001 was $1.2 and $2.5 million, respectively.

(b) Goodwill

The changes in the carrying amount by reporting unit for the six months ended December 31, 2001 were as follows (in thousands):

	Reporting Unit			
	License	Consulting Services	Maintenance and Training	Total
Carrying amount as of June 30, 2001	$21,078	$944	$2,330	$24,352
Effect of change in rates used for translation	92	4	11	107
Carrying amount as of December 31, 2001	$21,170	$948	$2,341	$24,459

In the three months ended December 31, 2000, the Company amortized $0.6 million related to goodwill. Excluding this amortization the reported loss, net of taxes, would have been reduced by $0.4 million. The reported basic and diluted loss per share would have otherwise been $(0.08). For the six months ended December 31, 2000, the Company amortized $0.9 million related to goodwill. Excluding this amortization the reported loss, net of taxes, would have been reduced by $0.6 million. The reported basic and diluted loss per share would have otherwise been $(0.19).

5. Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The components of compre-

ASPEN TECHNOLOGY, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

hensive income (loss) for the three and six-months ended December 31, 2001 and 2000 are as follows (in thousands):

	Three Months Ended		Six Months Ended	
	2001	2000	2001	2000
Net loss	$(102)	$(2,635)	$(14,461)	$(6,320)
Unrealized gain (loss) on investments	(175)	206	(106)	536
Foreign currency adjustment	(613)	387	829	(117)
Comprehensive loss	$(890)	$(2,042)	$(13,738)	$(5,901)

6. Restructuring and Other Charges

During the first quarter of fiscal 2002, in light of further economic uncertainties, Company management made a decision to adjust its business plan by further reducing spending. This change in business plan consisted of a reduction in worldwide headcount of approximately 5% of the workforce and a reduction of certain future discretionary expenses. As a result of these measures, the Company recorded a restructuring charge of $2.6 million, primarily for severance, for the quarter ending September 30, 2001. As of December 31, 2001, there was approximately $0.2 million remaining in the accrued expenses relating to the remaining severance due under the restructuring.

In the third quarter of fiscal 2001, the revenues realized by the Company were reduced from the Company’s expectations as customer delayed spending in the widespread slowdown in information technology spending and the deferral of late-quarter purchasing decisions. The Company reduced its revenue expectations for the fourth quarter and for the fiscal year 2002 until revenue visibility and predictability improve. Based on these reduced revenue expectations, Company management evaluated the business plan and made significant changes, resulting in a restructuring plan for the Company’s operations. This restructuring plan included a reduction in headcount, a substantial decrease in discretionary spending and a sharpening of the Company’s e-business focus to emphasize its marketplace solutions. The restructuring plan resulted in a pretax charge totaling $7.0 million. As of December 31, 2001, there was approximately $2.7 million remaining in the accrued expenses relating to the restructuring. This amount primarily relates to the close-down and consolidation of facilities.

In the fourth quarter of fiscal 1999, the Company undertook certain actions to restructure its business. The restructuring resulted from a lower than expected level of license revenues which adversely affected fiscal year 1999 operating results. The license revenue shortfall resulted primarily from delayed decision making driven by economic difficulties among customers in certain of the Company’s core vertical markets. The restructuring plan resulted in a pre-tax restructuring charge totaling $17.9 million. As of December 31, 2001, there was approximately $1.2 million remaining in the accrued expenses relating to the restructuring. This amount primarily relates to the close-down and consolidation of facilities.

7. Segment Information

SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information”, established standards for reporting information about operating segments in the Company’s financial statements. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company’s chief operating decision maker is the Chief Executive Officer of the Company.

The Company is organized geographically and by line of business. The Company has three major lines of business operating segments: license, consulting services and maintenance and training. The Company also evaluates certain subsets of business segments by vertical industries as well as by product categories. While the Executive Management Committee evaluates results in a number of different ways, the line of business management structure is the primary basis for which it assesses financial performance and allocates resources.

ASPEN TECHNOLOGY, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

The accounting policies of the line of business operating segments are the same as those described in the Company's Form 10-K for the fiscal year ended June 30, 2001. The Company does not track assets or capital expenditures by operating segments. Consequently, it is not practical to show assets, capital expenditures, depreciation or amortization by operating segments. The following table presents a summary of operating segments (in thousands):

	License	Consulting Services	Maintenance and Training	Total
Three Months Ended December 31, 2001 —				
Revenues from unaffiliated customers	$39,939	$27,195	$14,807	$ 81,941
Controllable expenses	14,562	17,563	2,873	34,998
Controllable margin(1)	$25,377	$ 9,632	$11,934	$ 46,943
Three Months Ended December 31, 2000 —				
Revenues from unaffiliated customers	$40,630	$26,612	$14,445	$ 81,687
Controllable expenses	14,409	17,758	3,713	35,880
Controllable margin(1)	$26,221	$ 8,854	$10,732	$ 45,807
Six Months Ended December 31, 2001 —				
Revenues from unaffiliated customers	$59,170	$54,686	$29,327	$143,183
Controllable expenses	29,426	34,755	5,729	69,910
Controllable margin(1)	$29,744	$19,931	$23,598	$ 73,273
Six Months Ended December 31, 2000 —				
Revenues from unaffiliated customers	$73,212	$51,019	$26,944	$151,175
Controllable expenses	25,974	35,161	6,979	68,114
Controllable margin(1)	$47,238	$15,858	$19,965	$ 83,061

(1) The controllable margins reported reflect only the expenses of the line of business and do not represent the actual margins for each operating segment since they do not contain an allocation for selling and marketing, general and administrative, development and other corporate expenses incurred in support of the line of business.

Profit Reconciliation (in thousands):

	Three Months Ending December 31,		Six Months Ending December 31,	
	2001	2000	2001	2000
Total controllable margin for reportable segments	$ 46,943	$ 45,807	$ 73,273	$ 83,061
Selling and marketing	(21,741)	(23,469)	(42,210)	(44,393)
Research and development	(5,242)	(2,961)	(10,281)	(4,585)
General and administrative and overhead	(20,079)	(17,105)	(39,341)	(33,483)
Restructuring	—	—	(2,642)	—
Charge for in-process research and development	—	(2,615)	—	(7,615)
Write-off of investment	—	(5,000)	—	(5,000)
Interest and other income and expense, net	(27)	1,580	542	2,987
Loss before benefit from income taxes	$ (146)	$ (3,763)	$(20,659)	$ (9,028)

ASPEN TECHNOLOGY, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

8. Subsequent Events

(a) Series B-1 convertible preferred stock

On February 6, 2002, the Company sold 30,000 shares of Series B-1 convertible preferred stock (Series B-1 Preferred), together with five-year warrants to purchase 365,854 shares of common stock at an initial exercise price of $23.99 per share, to three institutional investors for an aggregate purchase price of $30,000,000. The Company received an estimated $28.3 million in net cash proceeds after closing costs. The purchasers may be required to purchase, and the Company may be required to sell, shares of Series B-2 convertible preferred stock, together with additional warrants, on or about February 28, 2002 for an aggregate purchase price of $20.0 million, except in the circumstances provided in the securities purchase agreement entered into in connection with the placement of the Series B-1 Preferred and warrants.

The Series B-1 Preferred accrues dividends at an annual rate of 4% that is payable quarterly, commencing June 30, 2002, in either cash or common stock, at the Company's option.

Each share of Series B-1 Preferred is convertible into a number of shares of common stock equal to its stated value (initially $1,000 per share) by a conversion price of $19.97. As a result, the shares of Series B-1 Preferred initially are convertible into an aggregate of approximately 1,502,254 shares of common stock. If the Company issues additional shares of common stock, or instruments convertible or exchangeable for common stock, at an effective net price less than the lesser of (a) $17.75 and (b) the then-applicable conversion price, the conversion price will be reduced to equal that effective net price. These adjustments do not apply to the issuance of common stock or such instruments in specified firm commitment underwritten public offerings, strategic arrangements, mergers or acquisitions, and grants and purchases of securities pursuant to equity incentive plans. In addition, the conversion price of the Series B-1 Preferred is subject to equitable adjustment in the event of stock splits, stock dividends, distributions, subdivisions or combinations affecting common stock.

The Company may require holders to convert their shares of Series B-1 Preferred into common stock if the closing price of the common stock has exceeded 135% of the conversion price for 25 consecutive trading days at any time after the effective date of a registration statement covering the common stock issuable upon conversion.

The Series B-1 Preferred is subject to mandatory redemption on February 7, 2009. From August 6, 2003 until February 6, 2004, holders may require that the Company redeem up to a total of 15,000 shares of Series B-1 Preferred if the average closing price of the common stock for the 20 consecutive trading days immediately preceding August 6, 2003 or any date thereafter is below the then-applicable conversion price. Beginning on February 6, 2004, holders may require that the Company redeem any or all of their shares of Series B-1 Preferred. Any such redemption must be made in cash or stock, at the Company's option (subject to the satisfaction of specified conditions set forth in the Company's charter), at a price equal to the stated value plus accrued but unpaid dividends. In addition, in the event of a specified change of control, a holder may require that the Company redeem shares of Series B-1 Preferred in cash at a price equal to 115% of the stated value, plus accrued but unpaid dividends. In such an event, a holder alternatively may elect to convert shares of Series B-1 Preferred into the consideration that the holder would have received had the holder converted the shares of Series B-1 Preferred into common stock immediately before the change of control event.

(b) Accenture

On February 12, 2002 the Company entered into a strategic alliance with Accenture focused on creating solutions for manufacturing and supply chain execution by chemical and petroleum manufacturers. The Company received a nonexclusive perpetual license to certain intellectual property owned by Accenture as well as professional development services relating to the existing intellectual property.

The Company will work closely with Accenture to jointly market and promote the developed solutions in the chemicals and petroleum markets and Accenture will become a strategic implementation partner for these solutions.

As part of the alliance arrangements, the Company agreed to issue shares of common stock to Accenture in up to three installments:

- On or before June 9, 2002, the Company will issue to Accenture a number of shares of common stock equal to $18.5 million divided by the average closing price of the common stock on the ten trading days ending one day before the date of issuance.

- On August 30, 2002, the Company will issue to Accenture a number of shares of common stock equal to $11.1 million divided by the average closing price of the common stock on the ten trading days ending one day before the date of issuance.

- If Accenture completes specified development work, the Company will, on or about July 31, 2003, issue to Accenture a number of shares of common stock of up to $7.4 million divided by the average closing price of the common stock on the ten trading days ending one day before the date of issuance. Additionally, in consideration for the development work, beginning July 1, 2002, the Company will pay Accenture a royalty on sales of the software relating to the alliance arrangement over a four-year period.

In contemplation of the Company's issuance of these shares of common stock, Accenture and Aspen entered into a registration rights agreement, under which the Company agreed to register the common stock for sale by Accenture under the Securities Act of 1933 and a stockholder agreement relating to, among other things, the voting and transfer of those shares.

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

THE FOLLOWING DISCUSSION AND ANALYSIS OF OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS SHOULD BE READ IN CONJUNCTION WITH OUR CONSOLIDATED FINANCIAL STATEMENTS AND THE RELATED NOTES APPEARING ELSEWHERE IN THIS QUARTERLY REPORT ON FORM 10-Q AND IN OUR ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED JUNE 30, 2001. THIS DISCUSSION AND ANALYSIS CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS, UNCERTAINTIES AND ASSUMPTIONS. OUR ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THESE FORWARD-LOOKING STATEMENTS AS A RESULT OF A NUMBER OF FACTORS, INCLUDING THOSE SET FORTH UNDER "FACTORS THAT MAY AFFECT FUTURE RESULTS AND THE TRADING PRICE OF OUR COMMON STOCK" AND ELSEWHERE IN THIS QUARTERLY REPORT.

Results of Operations: ***Comparison of the Three and Six Months Ended December 31, 2001 and 2000***

We adopted SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets" in the first quarter of fiscal 2002. SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS No. 142, companies will no longer amortize goodwill and certain other intangible assets with indefinite lives, but will instead assess for impairment using a fair-market-based test, on at least an annual basis. In the second quarter of fiscal 2002 goodwill was tested for impairment for each reporting unit of the entity comparing the fair value with carrying value. The test determined no impairment of goodwill as fair value exceeded carrying value for each reporting entity.

In light of further economic uncertainties, management made a decision to adjust the business plan by further reducing worldwide headcount by approximately 5% and recorded a restructuring charge of $2.6 million for the quarter ending September 30, 2001.

Total Revenues

Revenues are derived from software licenses and maintenance and other services. Total revenues for the three months ended December 31, 2001 were $81.9 million, an increase of 0.3% from $81.7 million in the comparable period of fiscal 2001. Total revenues for the six months ended December 31, 2001 were $143.2 million, a decrease of 5.3% from $151.2 million in the comparable period of fiscal 2001.

Total revenues from customers outside the United States were $29.7 and $60.9 million, or 36.2% and 42.6%, of total revenues for the three and six months ended December 31, 2001, respectively. The non-US revenues for the comparable periods in fiscal 2001 were $42.5 and $71.2 million, or 52.0% and 47.1%, of total revenues. The geographical mix of license revenues can vary from quarter to quarter; however, for fiscal 2002, the overall mix of revenues from customers outside the United States is expected to be relatively consistent with the prior year.

Software License Revenues

Software license revenues represented 48.7% of total revenues for the three months ended December 31, 2001, as compared to 49.7% in the comparable period of fiscal 2001. Revenues from software licenses for the three months ended December 31, 2001 were $39.9 million, a decrease of 1.7% from $40.6 million in the comparable period of fiscal 2001. The second quarter of fiscal 2002 reflected a significant software license investment by The Dow Chemical Company in order to expand its use of our integrated manufacturing solution, Plantelligence, to increase the efficiency and profitability of its manufacturing operations.

Software license revenues represented 41.3% of total revenues for the six months ended December 31, 2001, as compared to 48.4% in the comparable period of fiscal 2001. Revenues from software licenses for the six months ended December 31, 2001 were $59.2 million, a decrease of 19.2% from $73.2 million in the comparable period of fiscal 2001. This decrease was due to continued weakness in the economy as compared to the prior years first quarter, combined with the impact of the terrorist attacks on the United States on

September 11, 2001 that negatively affected the close rate of software deals at the end of the first quarter fiscal 2002.

Service and Other Revenues

Revenues from service and other consist of consulting services, post contract support on software licenses, training and sales of documentation. Revenues from service and other for the three months ended December 31, 2001 were $42.0 million, an increase of 2.3% from $41.1 million in the comparable period in fiscal 2001**.** Revenues from service and other for the six months ended December 31, 2001 were $84.0 million, an increase of 7.8% from $78.0 million in the comparable period in fiscal 2001. These increases reflected an improvement in our support and maintenance business resulting from the higher level of license revenues in late fiscal 2000 and early fiscal 2001 as compared to the comparable prior periods, as well as additional revenue-generating employees hired to support the expanding consulting services business.

Cost of Software Licenses

Cost of software licenses consists of royalties, amortization of previously capitalized software costs, cost related to the delivery of software (including disk duplication and third party software costs), printing of manuals and packaging. Cost of software licenses for the three and six months ended December 31, 2001 was $3.0 and $5.5 million, respectively, an increase of 1.8% and a decrease of 1.2% from $3.0 and $5.6 million in the comparable periods of fiscal 2001. Cost of software licenses as a percentage of revenues from software licenses was 7.6% and 9.3% for the three and six months ended December 31, 2001, respectively, as compared to 7.4% and 7.6% for the three and six months ended December 31, 2000, respectively. The percentage increase was due primarily to certain fixed costs spread over the lower license revenue for the six months ended December 31, 2001 compared to the same period of fiscal 2001.

Cost of Service and Other

Cost of service and other consists of the cost of execution of application consulting services, technical support expenses, the cost of training services and the cost of manuals sold separately. Cost of service and other for the three and six months ended December 31, 2001 was $25.2 and $50.4 million, respectively, an increase of 2.7% and 7.5% from $24.5 and $46.9 million in the comparable periods in fiscal year 2001. Cost of service and other as a percentage of service and other revenues was 60.0% for both the three and six months ended December 31, 2001, respectively, and 59.8% and 60.1% in the comparable periods of fiscal year 2001. The percentage increases of the total costs were in direct proportion to the revenue increases for the three and six months ending December 31, 2001.

Selling and Marketing Expenses

Selling and marketing expenses for the three and six months ended December 31, 2001 were $28.5 and $55.1 million, respectively, an increase of 2.7% and 5.1% from $27.7 and $52.4 million in the comparable periods in fiscal year 2001. As a percentage of total revenues, selling and marketing expenses were 34.7% and 38.5% for the three and six months ended December 31, 2001, respectively, as compared to 33.9% and 34.7% for the comparable periods in fiscal 2001. The dollar increase was attributable to an expense base that increased to support an expected higher license revenue level. We continue to selectively invest in sales personnel and regional sales offices to improve our geographic proximity to our customers, to maximize the penetration of existing accounts and to add new customers. The increase in costs also was attributable to our continued investment in partnerships and initiatives to expand market awareness of our company and our products and services, as well as the roll out of certain e-business initiatives including PetroVantage.

Research and Development Expenses

Research and development expenses consist primarily of personnel and outside consultancy costs required to conduct our product development efforts. Capitalized research and development costs are amortized over the estimated remaining economic life of the relevant product, not to exceed three years. Research and development expenses during the three and six months ended December 31, 2001 were $17.8 and $35.8 million, respectively, an increase of 7.2% and 13.3%, respectively, from $16.6 and $31.6 million in the comparable periods of fiscal 2001. As a percentage of revenues, research and development costs were 21.8%

and 25.0% for the three and six months ended December 31, 2001, respectively, as compared to 20.3% and 20.9% for the same periods in fiscal 2001. The increase in costs was attributable to the continued rollout of our asset optimization and value chain solutions, including the additional costs related to the acquisitions we made in fiscal 2001, and other e-business technologies, including PetroVantage. We capitalized 8.0% and 7.9% of our total research and development costs during the three and six months ended December 31, 2001, respectively, as compared to 7.2% and 7.4% in the comparable periods of fiscal year 2001.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries of administrative, executive, financial and legal personnel, outside professional fees, and amortization of certain intangibles. General and administrative expenses were $7.5 and $14.9 million for the three and six months ended December 31, 2001, respectively, and $7.6 and $14.2 million for the comparable periods in fiscal 2001. This increase was attributable primarily to a higher level of amortization relating to other intangible assets arising from our acquisitions in fiscal 2001, offset in part by the discontinued amortization of goodwill in fiscal 2001. In addition to this net change of amortization, general and administrative expenses increased due to a higher level of personnel employed to support our expected growth.

Restructuring Charges

During August 2001, in light of further economic uncertainties, management made a decision to adjust the business plan by further reducing spending. This change in business plan consisted of a reduction in worldwide headcount of approximately 5% of the workforce and a reduction of certain future discretionary expenses. As a result of these measures, we recorded a restructuring charge of $2.6 million, primarily for severance, for the quarter ending September 30, 2001.

Interest Income

Interest income was generated from the investment of excess cash in short-term and long-term investments and from the license of software pursuant to installment contracts for engineering suite software. Under these installment contracts, we offer customers the option to make annual payments for its term licenses instead of a single license fee payment at the beginning of the license term. Historically, a substantial majority of the engineering suite customers have elected to license our products through installment contracts. Included in the annual payments is an implicit interest charge based upon the interest rate established us at the time of the license. As we sell more perpetual licenses for eSupply Chain and Plantelligence Solutions, these new sales are being paid for in forms that are not installment contracts. If the mix of sales moves away from installment contracts, the interest income in future periods will be reduced. We sell a portion of the installment contracts to unrelated financial institutions. The interest earned by us on the installment contract portfolio in any period is the result of the implicit interest established by us on installment contracts and the size of the contract portfolio. Interest income was $1.5 and $3.6 million for the three and six months ended December 31, 2001, respectively, and $2.7 and $5.5 million for the comparable periods in fiscal 2001. This decrease was attributable to the overall decline in available short-term and long-term investments, plus the decline in interest rates.

Interest Expense

Interest expense was generated from interest charged on our 5 1/4% convertible debentures, bank line of credit, notes payable and capital lease obligations. Interest expense was $1.4 and $2.7 million for the three and six months ended December 31, 2001, respectively, and $1.3 and $2.6 million for the comparable periods in fiscal 2001.

Tax Rate

The effective tax rate for the three and six months ended December 31, 2001 and 2000 was approximately 30.0% of pretax loss.

Liquidity and Capital Resources

During the six months ended December 31, 2001, our cash and cash equivalents balance increased by $15.2 million. This increase is attributed to operations providing $5.0 million due primarily to the decrease in accounts receivable and installments receivable, plus the increase in deferred revenue, offset by the $14.5 million net loss. Net cash generated from investing activities was approximately $4.0 million due to the sale of investment securities of $16.6 million offset by $10.8 million used for capital purchases. Net cash provided by financing activities increased $5.9 million due primarily to a $5.2 million equipment and software lease line established in the second quarter of fiscal 2002 offset by $2.1 million used to pay-off a note in connection with the Icarus acquisition.

We have arrangements to sell long-term contracts to two financial institutions, General Electric Capital Corporation and Fleet Business Credit Corporation. During the six months ended December 31, 2001, installment contracts decreased to $59.3 million, net of $21.0 million of installment contracts sold to the two financial institutions. Our arrangements with these two financial institutions provide for the sale of installment contracts up to certain limits and with certain recourse obligations. At December 31, 2001, the balance of the uncollected principal portion of the contracts sold to these two financial institutions was $109.8 million, for which we have a partial recourse obligation of approximately $8.4 million. The availability under these arrangements will increase as the financial institutions receive payment on installment contracts previously sold.

We maintain a $30.0 million secured bank line of credit, expiring October 26, 2003. Advances under the line of credit bear interest at a rate equal to the bank's prime rate (4.75% at December 31, 2001) or, at our option, a rate equal to a defined LIBOR, plus a specified margin. The line of credit agreement requires us to provide the bank with certain periodic financial reports and to comply with certain financial tests, including maintenance of minimum levels of consolidated net worth and of the ratio of cash and cash equivalents, accounts receivable and current portion of our long term installments receivable to current liabilities. At December 31, 2001, there were no outstanding borrowings under the line of credit.

In June 1998, we sold $86.3 million of 5 1/4% convertible subordinated debentures. The debentures are convertible into shares of our common stock at any time prior to June 15, 2005, unless previously redeemed or repurchased, at a conversion price of $52.97 per share, subject to adjustment in certain events. Interest on the debentures is payable on June 15 and December 15 of each year. The debentures are redeemable in whole or part at our option at any time on or after June 15, 2001 at various redemption prices expressed as a percentage of principal plus accrued interest through the date of redemption. In the event of a change of control, as defined, each holder of the debentures may require us to repurchase those debentures, in whole or in part, for cash or, at our option, for common stock (valued at 95% of the average last reported sale prices for the 5 trading days immediately preceding the repurchase date) at a price of 100% of principal amount plus accrued interest to the repurchase date. The debentures are unsecured obligations and are subordinated in right of payment to all existing and future senior debt, as defined.

On February 6, 2002, we issued and sold 30,000 shares of Series B-1 convertible preferred stock, together with warrants to purchase 365,854 shares of common stock, for a purchase price of $30.0 million. Our net proceeds from this placement are estimated to be $28.3 million, after deducting the placement agent fee and our other expenses in connection with the placement. The Series B-1 preferred accrues dividends at an annual rate of 4% that is payable quarterly, commencing June 30, 2002, in either cash or common stock, at our option (subject to our satisfaction of specified conditions set forth in our charter). Each share of Series B-1 preferred is convertible into a number of shares of common stock equal to the stated value, which initially is $1,000, divided by a conversion price of $19.97, subject to antidilution and other adjustments. As a result, the shares of Series B-1 preferred initially are convertible into an aggregate of approximately 1,502,254 shares of common stock. The Series B-1 preferred is subject to mandatory redemption on February 7, 2009.

As of December 31, 2001, we had cash and cash-equivalents totaling $51.8 million, as well as short-term investments totaling $14.3 million. Our commitments as of December 31, 2001 consisted primarily of leases on our headquarters and other facilities. Our other remaining capital commitments includes a $0.5 million remaining capital commitment to Optimum Logistics and a $0.4 million commitment to a new joint venture in Japan.

We believe our current cash balances (including proceeds from the Series B-1 convertible preferred stock issuance), cash-equivalents, short-term investments, the availability of sales of our installment contracts, availability under our bank line of credit and cash flows from our operations will be sufficient to meet our working capital and capital expenditure requirements for at least the next twelve months. We may, however, seek to take advantage of favorable market conditions by raising additional funds from time to time through public or private security offerings, debt financings, strategic alliances or other financing sources.

Factors that may Affect Future Results and the Trading Price of Our Common Stock

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

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

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

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

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

- our customers' purchasing patterns;
- the length of our sales cycle;
- changes in the mix of our license revenues and service revenues;
- the timing of introductions of new solutions and enhancements by us and our competitors;
- seasonal weakness in the first quarter of each fiscal year, primarily caused by a slowdown in business in some of our international markets;
- the timing of our investments in new product development;
- changes in our operating expenses; and
- fluctuating economic conditions, particularly as they affect companies in the chemicals, petrochemicals and petroleum industries.

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

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

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

Because we derive a majority of our total revenues from customers in the cyclical chemicals, petrochemicals and petroleum industries, our operating results may suffer if these industries experience an economic downturn.

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

We will lose valuable strategic leadership and our customer relationships may be harmed if we lose the services of our chief executive officer or other key personnel.

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

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

With the introduction of the Aspen ProfitAdvantage solution, we are increasingly focused on selling the strategic value of our technology to the highest executive levels of customer organizations, typically the chief executive officer, chief financial officer or chief information officer. We have limited experience in selling and marketing at these levels. If we are not successful at selling and marketing to senior executives, our revenue growth and operating results could suffer.

If we do not compete successfully, we may lose market share.

Our markets are highly competitive. Our asset optimization software competes with products of businesses such as Hyprotech, a division of AEA Technology, and Simulation Sciences, a division of Invensys. Our value chain planning software competes with products of companies such as i2 Technologies, Manugistics and SAP. Our value chain execution competes with products of companies such as Honeywell's Hi-Spec division, Invensys and SAP. We also face competition in all three areas from large companies in the process industries that have developed their own proprietary software solutions.

Some of our current competitors have significantly greater financial, marketing and other resources than we have. In addition, many of our current competitors have established, and may in the future establish, cooperative relationships with third parties to improve their product offerings and to increase the availability of their products to the marketplace. The entry of new competitors or alliances into our market could reduce our market share, require us to lower our prices, or both. Many of these factors are outside our control, and we may not be able to maintain or enhance our competitive position against current and future competitors.

If we are unable to develop relationships with systems integrators and other strategic partners, our revenue growth may be harmed.

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

If we fail to integrate the operations of the companies we acquire, we may not realize the anticipated benefits and our operating costs could increase.

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

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

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

If we fail to anticipate and respond to changes in the market for e-business solutions for process manufacturers, which is at a very early stage, our future revenue growth may be limited.

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

If use of the Internet or e-business does not continue to grow, our future operating results may suffer.

The success of our e-business strategy is dependent on increasing demand for e-business products and solutions, and for increasing acceptance of use of the Internet for transacting business. Rapid growth in the use of the Internet and commercial online services is a recent phenomenon. Demand for recently introduced products and services over the Internet and online services is subject to a high level of uncertainty. The development of the Internet as a viable medium for the delivery of software applications is subject to number of factors, including:

- enterprises may be unwilling to shift their software selling and purchasing habits from traditional processes; and

- insufficient availability of telecommunications services or changes in telecommunications services could result in slower response times.

Critical issues concerning use of Internet-based business services are still unresolved and will likely affect use of these services. These issues include security, reliability, congestion, cost, ease of access and quality of service. Even if these issues are resolved, if the market for Internet-based business services fails to develop, or develops at a slower pace than anticipated, our business and operating results could be harmed.

The growth of e-business and PetroVantage may be adversely affected by new laws or regulations relating to the Internet.

We operate in an environment of uncertainty as to potential government regulation of the Internet. The Internet has rapidly emerged as a commercial medium, and governmental agencies have not yet been able to adapt all existing regulations to the Internet environment. Laws and regulations may be introduced and court decisions reached that affect the Internet or other online services, covering issues such as user pricing, user privacy, freedom of expression, access charges, content and quality of goods and services, advertising, intellectual property rights and information security. In addition, because we offer our software worldwide, foreign jurisdictions may claim that we are required to comply with their laws. Any future regulation may have a negative impact on our business by restricting our method of operation or imposing additional costs.

In addition, because our software applications may be delivered and used over the Internet anywhere in the world, multiple jurisdictions may claim that we are required to qualify to do business as a foreign corporation in each of those jurisdictions. Our failure to qualify as a foreign corporation in a jurisdiction where we are required to do so could subject us to taxes and penalties for the failure to qualify. In addition, state or foreign governments might allege or charge us with violations of local laws, we might unintentionally violate these laws, and these laws might be modified, or new laws might be enacted, in the future.

Internet-based business services may be subject to sales and other taxes that could adversely affect our business.

A number of legislative proposals have been made by federal, state, local and foreign governments that would impose additional taxes on the provision of goods and services over the Internet, and some states have taken measures to tax Internet-related activities. In November 2001, Congress extended until November 1, 2003 a moratorium on state and local taxes on Internet access or on discriminatory taxes on electronic commerce. State and local laws existing in October 1998 when the moratorium first took effect, were excluded from this moratorium. When this moratorium is ultimately lifted, some type of federal or state taxes may be imposed upon Internet commerce. The imposition of sales, value-added or similar taxes could make it more expensive to use our software platforms, diminish our competitiveness and harm our business and operating results.

If we fail to protect the privacy of our e-business customers' information or to ensure the security of online transactions, we could have difficulty retaining our e-business customers.

Concern about the security of the transmission of confidential information over public networks is a significant barrier to online services. Advances in computer capabilities, new discoveries in the field of cryptography, or other events or developments could result in compromises or breaches of Internet security systems that protect proprietary information. If any well-publicized compromises of security were to occur, they could substantially reduce interest in the Internet as a medium for delivering software applications, which would harm our business and operating results. In addition, one of the features of our software applications is the ability to develop and maintain profiles of consumers for use by businesses. Typically, these products capture profile information when consumers, business customers and employees visit an Internet website and volunteer information in response to survey questions. Our products augment these profiles over time by collecting usage data. Although our customers' management products are designed to operate with applications that protect user privacy, concerns about privacy may nevertheless cause visitors to resist providing the personal data necessary to support this profiling capability. If we cannot adequately address consumers' privacy concerns, these concerns could seriously harm our business, financial condition and operating results.

The Internet is subject to rapid change, which could result in significant additional costs to us or in our products and services becoming obsolete.

Markets for Internet-based products and services are characterized by rapidly changing technologies, frequent new product and service introductions, and evolving industry standards. The recent growth of the Internet and intense existing and emerging competition exacerbate these market characteristics. To succeed, we will need to adapt effectively to rapidly changing technologies and to improve continually the performance features and reliability of our software. We could incur substantial costs in modifying our software to adapt to these changes. Our technologies may also become obsolete, and we may lose customers and revenue if we fail to adapt our software to the rapid changes that are characteristic of the Internet.

We may lose all or part of our investment in PetroVantage if the PetroVantage solution is not adopted by the market to the extent needed for us to recoup our investment.

On September 14, 2000, we announced that we had formed PetroVantage, Inc. to develop a collaborative Internet-based software solution for optimizing and coordinating trading and logistics decisions and workflow among companies involved in evaluating, transporting and trading of crude oil, intermediates and refined products. We had invested $14.3 million in PetroVantage operating expenses through December 31, 2001 and have committed to fund operations through at least the end of fiscal year 2002. We may lose all or a portion of our investment in PetroVantage if PetroVantage's collaborative software solution does not gain market acceptance, is unable to achieve profitability or positive cash flow, or otherwise fails to meet our expectations.

The operation of PetroVantage differs significantly from the operation of our traditional business, and PetroVantage has no operating history that can be used to evaluate its business and future prospects. The creation and maintenance of a new collaborative software solution for crude oil, intermediate petroleum products, and refined petroleum products is a new, rapidly evolving and intensely competitive business. There are competing software solutions and Internet sites that provide alternative ways to improve the performance of companies working in the petroleum market, and these companies may choose one of these alternatives over PetroVantage even though PetroVantage provides the benefits and workflow improvements we plan to provide.

We may require additional capital.

We may need to raise additional capital in order to fund the continued development and marketing of our solutions. We expect our current cash balances (including proceeds from the Series B-1 convertible preferred stock issuance), cash-equivalents, short-term investments, availability of sales of our installment contracts, availability under our bank line of credit and cash flows from operations will be sufficient to meet our working capital and capital expenditure requirements for at least the next twelve months. However, we may need to obtain additional financing thereafter or earlier, if our current plans and projections prove to be inaccurate or our expected cash flows prove to be insufficient to fund our operations because of lower-than-expected revenues, unanticipated expenses or other unforeseen difficulties or to fund one or more acquisitions. Our ability to obtain additional financing will depend on a number of factors, including market conditions, our operating performance and investor interest. These factors may make the timing, amount, terms and conditions of any financing unattractive. They may also result in our incurring additional indebtedness or accepting stockholder dilution. If adequate funds are not available or are not available on acceptable terms, we may have to forego strategic acquisitions or investments, reduce or defer our development activities, or delay our introduction of new products and services. Any of these actions may seriously harm our business and operating results.

We may suffer losses on fixed-price engagements.

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

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

We have derived approximately 50% of our total revenues from customers outside the United States in each of the past three fiscal years. We anticipate that revenues from customers outside the United States will continue to account for a significant portion of our total revenues for the foreseeable future. Our operations outside the United States are subject to additional risks, including:

- unexpected changes in regulatory requirements, exchange rates, tariffs and other barriers;

- political and economic instability;

- difficulties in managing distributors and representatives;

- difficulties in staffing and managing foreign subsidiary operations;

- difficulties and delays in translating products and product documentation into foreign languages; and

- potentially adverse tax consequences.

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

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

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

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

We may have to defend against intellectual property infringement claims, which could be expensive and, if we are not successful, could disrupt our business.

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

Our inability to manage our growth may harm our operating results.

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

Our software is complex and may contain undetected errors.

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

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

The sale and implementation of certain of our software products and services, particularly in the areas of advanced process control and optimization, may entail the risk of product liability claims. Our software products and services are used in the design, operation and management of manufacturing processes at large facilities, and any failure of our software could result in significant claims against us for damages or for violations of environmental, safety and other laws and regulations. Our agreements with our customers generally contain provisions designed to limit our exposure to potential product liability claims. It is possible, however, that the limitation of liability provisions in our agreements may not be effective as a result of federal, state or local laws or ordinances or unfavorable judicial decisions. A substantial product liability claim against us could harm our operating results and financial condition.

Our common stock may experience substantial price and volume fluctuations.

The equity markets have from time to time experienced extreme price and volume fluctuations, particularly in the high technology sector, and those fluctuations have often been unrelated to the operating performance of particular companies. In addition, factors such as our financial performance, announcements of technological innovations or new products by us or our competitors, as well as market conditions in the computer software or hardware industries, may have a significant impact on the market price of our common stock. In the past, following periods of volatility in the market price of a public companies securities, securities class action litigation has often been instituted against companies. This type of litigation could result in substantial costs and a diversion of management's attention and resources.

Our common stockholders may experience further dilution and the price of our common stock may decline as a result of our Series B-1 convertible preferred stock financing.

On February 6, 2002, we issued and sold 30,000 shares of Series B-1 convertible preferred stock, together with warrants to purchase 365,854 shares of common stock, for a purchase price of $30.0 million.

Each share of Series B-1 preferred is convertible into a number of shares of common stock equal to the stated value, which initially is $1,000, divided by a conversion price of $19.97, subject to antidilution and other adjustments. If we issue additional shares of common stock, or instruments convertible or exchangeable for common stock, at an effective net price less than the lesser of (a) $17.75 and (b) the then-applicable conversion price, the conversion price will be reduced to equal that effective net price. These adjustments do not apply to the issuance of common stock or such instruments in specified firm commitment underwritten public offerings, strategic arrangements, mergers or acquisitions, and grants and purchases of securities pursuant to equity incentive plans.

The Series B-1 preferred accrues dividends at an annual rate of 4% that is payable quarterly, commencing June 30, 2002, in either cash or common stock, at our option (subject to our satisfaction of specified conditions set forth in our charter). From August 6, 2003 until February 6, 2004, holders may require that we redeem up to a total of 15,000 shares of Series B-1 preferred if the average closing price of the common stock for the 20 consecutive trading days immediately preceding August 6, 2003 or any date thereafter is below the then-applicable conversion price. Beginning on February 6, 2004, holders may require that we redeem any or all of their shares of Series B-1 preferred. Any such redemption must be made in cash or stock, at our option (subject to our satisfaction of specified conditions set forth in our charter), at a price equal to the stated value plus accrued but unpaid dividends. We will be required to redeem all of the then-outstanding Series B-1 preferred on February 7, 2009 at a price equal to the stated value plus all accrued but unpaid dividends. The redemption price may be paid in cash, common stock or both, at our option (subject to our satisfaction of specified conditions set forth in our charter).

As a result of these and other provisions, the Series B-1 preferred may be converted, and the warrants may be exercised, at a price per share that may be less than the then-current market price of the common stock, which may cause substantial dilution to our existing common stockholders. If the conversion price of the Series B-1 preferred or the exercise price of the warrants decreases as a result of antidilution provisions, the number of shares of common stock issuable in connection with any dividends conversion or redemption could increase significantly.

We are required to register the shares of common stock issuable upon conversion and upon exercise of the warrants under the Securities Act for public resale. Any sale of shares of common stock upon conversion of the Series B-1 preferred and exercise of the warrants into the public market could cause a decline in the trading price of the common stock.

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

Information relating to quantitative and qualitative disclosure about market risk is set forth under the caption “Notes to Consolidated Condensed Financial Statements,” [2. (a), (d) and (e)] and below under the captions “Investment Portfolio” and “Foreign Exchange Hedging.”

Investment Portfolio

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

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

	Fair Value at 12/31/01	FY2002	FY2003	FY2004	FY2005
Cash Equivalents	$51,794	$51,794	—	—	—
Weighted Average Interest Rate	2.01%	2.01%	—	—	—
Investments	$14,253	$ 5,385	$4,210	$1,485	$3,173
Weighted Average Interest Rate	5.68%	5.05%	5.63%	7.09%	6.13%
Total Portfolio	$66,047	$57,179	$4,210	$1,485	$3,173
Weighted Average Interest Rate	2.80%	2.30%	5.63%	7.09%	6.3%

Impact of Foreign Currency Rate Changes

During the first six months of fiscal 2002, the U.S. dollar generally strengthened against Asia/ Pacific currencies, but weakened against most currencies in Europe. The translation of the parent company's intercompany receivables and foreign entities assets and liabilities did not have a material impact on our consolidated results. Foreign exchange forward contracts are only purchased to hedge certain customer accounts and installment receivable amounts denominated in a foreign currency.

Foreign Exchange Hedging

We enter into foreign exchange forward contracts to reduce our exposure to currency fluctuations on customer accounts receivables denominated in foreign currency. The objective of these contracts is to neutralize the impact of foreign currency exchange rate movements on our operating results. We do not use derivative financial instruments for speculative or trading purposes. We had $8.7 million of foreign exchange forward contracts denominated in British, French, Japanese, Swiss, Netherlands, and Euro currencies which represented underlying customer accounts receivable transactions at the end of the second quarter of fiscal 2002. We adopted SFAS 133 in the first quarter of fiscal 2001. As a result, at each balance sheet date, the foreign exchange forward contracts and the related installments receivable denominated in foreign currency are revalued based on the current market exchange rates. Resulting gains and losses are included in earnings or deferred as a component of other comprehensive income. These deferred gains and losses are recognized in income in the period in which the underlying anticipated transaction occurs. Gains and loss related to these instruments for the first and second quarters of fiscal 2001 were not material to our financial position. We do not anticipate any material adverse effect on our consolidated financial position, results of operations, or cash flows resulting from the use of these instruments. However, we cannot assure you that these strategies will be effective or that transaction losses can be minimized or forecasted accurately.

The following table provides information about our foreign exchange forward contracts at the end of the second quarter of fiscal 2002. 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 2002.

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

Currency	Average Contract Rate	Forward Amount in U.S. Dollars (in thousands)	Contract Origination Date	Contract Maturity Date
Japanese Yen	112.69	$4,662	Various: Apr 99 – Oct 01	Various: Feb 02 – Dec 03
British Pound Sterling	1.48	2,673	Various: Jul 99 – Dec 01	Various: Jan 02 – Dec 03
Swiss Franc	1.64	611	Various: Jul 99 – Nov 00	Various: Feb 02 – Dec 02
Euro	0.89	437	Various: Jul 01 – Oct 01	Various: Feb 02 – May 03
French Franc	7.13	346	Various: Jul 99 – Nov 00	Various: Jan 02 – Dec 02
Netherland Guilder	2.39	14	Various: Aug 01	Various: Aug 02
Total		$8,743		

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

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

Item 2. *Changes in Securities and Use of Proceeds*

On February 6, 2002, we issued and sold 30,000 shares of Series B-1 convertible preferred stock, together with warrants to purchase 365,854 shares of common stock, for a purchase price of $30.0 million. In the discussion below, we refer to these securities as Series B-1 preferred and initial warrants. The Series B-1 preferred and initial warrants were issued in a private placement to three institutional investors.

Series B-1 Preferred

Each share of Series B-1 preferred has an initial stated value of $1,000. The Series B-1 preferred accrues dividends at an annual rate of 4% that is payable quarterly, commencing June 30, 2002, in either cash or common stock, at our option (subject to our satisfaction of specified conditions set forth in our charter). The Series B-1 preferred is subject to mandatory redemption on February 7, 2009.

Conversion

Conversion at Option of Holders. Each share of Series B-1 preferred is convertible into a number of shares of common stock equal to the stated value, which initially is $1,000, divided by a conversion price of $19.97, subject to antidilution and other adjustments summarized below and set forth in detail in our charter. As a result, the shares of Series B-1 preferred initially are convertible into an aggregate of approximately 1,502,254 shares of common stock. If we issue additional shares of common stock, or instruments convertible or exchangeable for common stock, at an effective net price less than the lesser of (a) $17.75 and (b) the then-applicable conversion price, the conversion price will be reduced to equal that effective net price. These adjustments do not apply, however, to the issuance of common stock or such instruments in specified firm commitment underwritten public offerings, strategic arrangements, mergers or acquisitions, and grants and purchases of securities pursuant to equity incentive plans. In addition, the conversion price of the Series B-1 preferred is subject to equitable adjustment in the event of stock splits, stock dividends, distributions, subdivisions or combinations affecting common stock.

Mandatory Conversion. In general, we may require holders to convert their shares of Series B-1 preferred into common stock if the closing price of the common stock has exceeded 135% of the conversion price for 25 consecutive trading days at any time after the effective date of a registration statement covering the common stock issuable upon conversion. We may be precluded, to the extent set forth in our charter, from exercising this right in circumstances where some of the 25 trading days occurred after we have publicly announced a change of control event.

Redemption

Redemption at Option of Holders. From August 6, 2003 until February 6, 2004, holders may require that we redeem up to a total of 15,000 shares of Series B-1 preferred if the average closing price of the common stock for the 20 consecutive trading days immediately preceding August 6, 2003 or any date thereafter is below the then-applicable conversion price. Beginning on February 6, 2004, holders may require that we redeem any or all of their shares of Series B-1 preferred. Any such redemption must be made in cash or stock, at our option (subject to our satisfaction of specified conditions set forth in our charter), at a price equal to the stated value plus accrued but unpaid dividends. The Series B-1 preferred is not subject to optional redemption before August 6, 2003, except as described in the following paragraph.

Redemption or Conversion upon Change of Control. In the event of a specified “change of control,” a holder may require that we redeem shares of Series B-1 preferred in cash at a price equal to 115% of the stated value, plus accrued but unpaid dividends. In such an event, a holder alternatively may elect to convert shares of Series B-1 preferred into the consideration that the holder would have received had the holder converted the shares of Series B-1 preferred into common stock immediately before the change of control event. Events constituting a change of control for these purposes are set forth in our charter.

Mandatory Redemption. We will be required to redeem all of the then-outstanding Series B-1 preferred on February 7, 2009 at a price equal to the stated value plus all accrued but unpaid dividends. The redemption price may be paid in cash, common stock or both, at our option (subject to our satisfaction of specified conditions set forth in our charter).

Repurchase

Upon the occurrence of specified "triggering events," each holder may require that we repurchase all or any portion of the shares of Series B-1 preferred then held by such holder at a price per share equal to 115% of the greater of:

- the stated value of the shares, and

- the market value of the common stock issuable upon conversion of the shares,

together with all accrued and unpaid dividends. In addition, holders may require that we repurchase all or any portion of shares of common stock previously issued upon conversion of shares of Series B-1 preferred, at a price per share equal to 115% of the market value of the common stock.

The triggering events are set forth in our charter and in general relate to:

- bankruptcy-related events;

- changes of control;

- a suspension of trading of the common stock;

- our failure to have sufficient authorized shares of common stock reserved for issuance upon conversions of Series B-1 preferred or exercises of initial warrants or to deliver common stock certificates upon any such conversion or exercise;

- our failure to cause a registration statement to be filed, or to be declared and maintained effective, as required under the registration rights agreement;

- our failure to make a cash payment when due, or any other continuing default by us, under any of the documents delivered in connection with the placement.

If a triggering event (other than a bankruptcy-related event, a change of control or a payment default) occurs and is continuing after the expiration of any applicable cure period, we must pay holders an amount in cash equal to one percent for each of the first two months, and two percent for each subsequent month, of the aggregate purchase price originally paid for the Series B-1 preferred and initial warrants. These amounts will no longer accrue to a holder if the holder elects to have its Series B-1 preferred and initial warrants repurchased as described above.

Initial Warrants

The initial warrants are exercisable through February 6, 2007 to purchase 365,854 shares of common stock at an initial exercise price of $23.99 per share. If we issue additional shares of common stock, or instruments convertible or exchangeable for common stock, at an effective net price less than the exercise price, the exercise price will be reduced to equal that effective net price. These adjustments do not apply, however, to the issuance of common stock or such instruments in specified firm commitment underwritten public offerings, strategic arrangements, mergers or acquisitions, and grants and purchases of securities pursuant to equity incentive plans. The initial warrants are subject to repurchase as described above.

Registration of Underlying Common Stock

In connection with the transactions described above, we have agreed to register for resale under the Securities Act the shares of common stock issuable upon conversion of the Series B-1 preferred shares and exercisable under the initial warrants. Pursuant to the registration rights agreement, we have agreed to register these shares on a shelf registration statement on Form S-3. We have agreed to have an initial registration statement declared effective by May 30, 2002 and to use our best efforts to keep it continuously effective until the earlier of (a) the second anniversary of the closing of the purchase of the Series B-2 preferred stock and the additional warrants or (b) all the shares covered by the registration statement have been sold. During such period, we may not suspend sales under the registration statement except in the limited circumstances set forth in the registration rights agreement.

Item 4. ***Submission of Matters to a Vote of Security Holders***

We held our annual meeting of stockholders on December 11, 2001 to (1) elect two directors to hold office until our 2004 annual meeting of stockholders and (2) vote on two other proposals described below. Proxies for the meeting were solicited in accordance with Section 14(a) of the Securities Exchange Act pursuant to a proxy statement dated November 5, 2001. There was no solicitation in opposition to the persons nominated by the board of directors, and both of the board's nominees were elected. The votes cast by proxy or in person with respect to the election of directors, as determined by the final report of the inspectors, are set forth below. There were no broker non-votes with respect to either nominee.

Nominee	Votes for Nominee	Votes Withheld
Joseph F. Boston	28,390,290	1,933,673
Gresham T. Brebach, Jr.	29,521,750	802,213

The following directors of the company continued in office after the annual meeting: Lawrence B. Evans, Douglas R. Brown, Stephen L. Brown, Stephen M. Jennings, and Joan C. McArdle.

Stockholders also approved a charter amendment to increase the number of authorized shares of common stock from 40,000,000 to 120,000,000. A total of 22,609,358 shares were voted for the proposal to approve the charter amendment, 7,660,819 shares were voted against the proposal, and holders of 53,786 shares abstained from voting on the proposal.

Stockholders also approved a stockholder proposal recommending that the board of directors rescind the stockholder rights plan it had adopted on March 12, 1998 and that the directors agree not to reissue or extend these rights, or create a new rights plan, unless approved by a majority of the outstanding shares at a meeting of stockholders. A total of 14,280,155 shares were voted for the proposal, 12,446,168 shares were voted against the proposal, holders of 965,775 shares abstained from voting on the proposal, and there were 2,631,865 broker non-votes on the proposal.

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

(a) Exhibits

None

(b) Report on Form 8-K

On October 29, 2001, we filed a current report on Form 8-K, with respect to our operating results for the quarter ended September 30, 2001.

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SIGNATURE

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

ASPEN TECHNOLOGY, INC.

By: /s/LISA W. ZAPPALA

Lisa W. Zappala
Senior Vice President and
Chief Financial Officer

Date: February 14, 2002