ASPEN TECHNOLOGY INC /DE/
Form 10-Q
April 11, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2007

OR

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

For the transition period from to

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.)

200 Wheeler Road	
Burlington, Massachusetts	**01803**
(Address of Principal Executive Offices)	(Zip Code)

(781) 221-6400

(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 x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer , accelerated filer , and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer o	Accelerated Filer x
Non-Accelerated Filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes o No x

As of April 9, 2008, there were 89,991,155 shares of the registrant s common stock (par value $0.10 per share) outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. ***Condensed Consolidated Financial Statements (unaudited)***

ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited and in thousands, except share data)

	September 30, 2007	June 30, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 129,468	$ 132,267
Accounts receivable, net	46,093	47,200
Unbilled services	7,617	10,641
Current portion of installments receivable, net	13,326	14,214
Current portion of collateralized receivables, net	86,422	104,473
Prepaid expenses and other current assets	8,944	10,163
Total current assets	291,870	318,958
Non-current installments receivable, net	37,476	28,613
Non-current collateralized receivables, net	136,711	140,603
Property and leasehold improvements, at cost	40,905	38,393
Accumulated depreciation and amortization	(32,046)	(31,858)
	8,859	6,535
Computer software development costs	9,192	11,104
Other intangible assets, net	577	585
Goodwill	20,134	19,112
Other assets	3,124	3,387
	$ 507,943	$ 528,897
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of term debt	$ 133	$ 193
Current portion of secured borrowing	78,413	101,826
Accounts payable	5,285	5,833
Accrued expenses	90,237	95,742
Deferred revenue	63,478	62,345
Total current liabilities	237,546	265,939
Long-term secured borrowing	105,018	104,324
Deferred revenue	4,396	4,761
Deferred tax liability	567	625
Other liabilities	30,530	16,042
Commitments and contingencies (Note 11)		
Series D redeemable convertible preferred stock, $0.10 par value Authorized 3,636 shares as of September 30, 2007 and June 30, 2007		
Stockholders equity:		
Common stock:		
Authorized 120,000,000 shares		
Issued 89,402,784 as of September 30, 2007 and 89,133,494 shares as of June 30, 2007		
Outstanding 89,169,320 as of September 30, 2007 and 88,900,030 as of June 30, 2007	8,940	8,913
Additional paid-in capital	483,718	480,671
Accumulated deficit	(373,459)	(361,463)

Accumulated other comprehensive income		11,200		9,598
Treasury stock, at cost		(513)		(513)
Total stockholders equity		129,886		137,206
	$	507,943	$	528,897

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

ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited and in thousands, except per share data)

	Three Months Ended September 30, 2007	2006 (As restated, See Note 15)
Revenues:		
Software licenses	$ 31,119	$ 28,118
Service and other	33,719	36,047
Total revenues	64,838	64,165
Cost of revenues:		
Cost of software licenses	3,376	3,149
Cost of service and other	16,339	17,481
Amortization of technology related intangible assets		1,902
Total cost of revenues	19,715	22,532
Gross profit	45,123	41,633
Operating costs:		
Selling and marketing	22,291	21,210
Research and development	11,677	8,490
General and administrative	12,288	10,519
Restructuring charges	7,226	1,446
Loss (gain) on sales and disposals of assets	20	(15)
Total operating costs	53,502	41,650
Loss from operations	(8,379)	(17)
Interest income	6,198	5,120
Interest expense	(4,394)	(4,588)
Foreign currency exchange gain (loss)	163	(67)
(Loss) income before provision for income taxes	(6,412)	448
Provision for income taxes	(2,591)	(2,046)
Net loss	(9,003)	(1,598)
Accretion of preferred stock discount and dividends		(3,736)
Loss attributable to common shareholders	$ (9,003)	$ (5,334)
Basic and diluted loss per share attributable to common shareholders	$ (0.10)	$ (0.10)
Basic and diluted weighted average shares outstanding	88,995	52,801

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

ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited and in thousands)

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006 (As restated, See Note 15)
Cash flows from operating activities:		
Net loss	$ (9,003)	$ (1,598)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	2,825	5,271
Foreign currency loss (gain) on intercompany accounts	447	(321)
Stock-based compensation	2,502	1,741
Non-cash interest expense from amortization of debt costs	231	205
Loss on disposal of property	20	
Deferred income taxes	(58)	
Provision for doubtful accounts	565	330
Changes in assets and liabilities:		
Accounts receivable	1,402	(1,454)
Unbilled services	3,010	112
Prepaid expenses and other current assets	1,227	695
Installments and collateralized receivables	13,068	14,747
Accounts payable and accrued expenses	4,802	(11,760)
Deferred revenue	715	(4,862)
Other liabilities	589	(1,366)
Net cash provided by operating activities	22,342	1,740
Cash flows from investing activities:		
Purchase of property and leasehold improvements	(3,129)	(957)
Capitalized computer software development costs		(2,744)
Decrease (increase) in other long-term assets	26	(232)
Net cash used in investing activities	(3,103)	(3,933)
Cash flows from financing activities:		
Issuance of common stock under employee stock purchase plan	467	423
Exercise of stock options and warrants	697	551
Payments of long-term debt and capital lease obligations	(60)	(50)
Debt issuance costs		(1,124)
Proceeds from secured borrowing	20,680	31,510
Repayments of secured borrowing	(43,399)	(26,483)
Payment of tax withholding obligations related to restricted stock	(592)	
Net cash (used in) provided by financing activities	(22,207)	4,827
Effects of exchange rate changes on cash and cash equivalents	169	(40)
(Decrease) increase in cash and cash equivalents	(2,799)	2,594
Cash and cash equivalents, beginning of period	132,267	86,272
Cash and cash equivalents, end of period	$ 129,468	$ 88,866

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

ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Interim Unaudited Condensed Consolidated Financial Statements

In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America for interim financial information and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the 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 unaudited interim condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements for the year ended June 30, 2007, which are contained in the Annual Report on Form 10-K of Aspen Technology, Inc. and subsidiaries (the Company), as previously filed with the SEC. In the opinion of management, all adjustments, consisting of normal and recurring adjustments, considered necessary for a fair presentation of the financial position, results of operations, and cash flows at the dates and for the periods presented have been included. The results of operations for the three-month period ended September 30, 2007 are not necessarily indicative of the results to be expected for the full fiscal year.

2. Significant Accounting Policies

Revenue Recognition

The Company recognizes revenue in accordance with Statement of Position (SOP) No. 97-2, Software Revenue Recognition, as amended and interpreted. License revenue, including license renewals, consists principally of revenue earned under fixed-term and perpetual software license agreements and is generally recognized upon shipment of the software if collection of the resulting receivable is probable, the fee is fixed or determinable, and vendor-specific objective evidence (VSOE) of fair value exists for all undelivered elements, such as maintenance support, consulting and training services. The Company determines VSOE based upon the price charged when the same element is sold separately. Consulting and training services VSOE represents rates that the Company charges its customers when the Company sells these services separately. For an element not yet being sold separately, VSOE represents the price established by management having the relevant authority when it is probable that the price, once established, will not change before the separate introduction of the element into the marketplace. 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.

Revenue under license arrangements, which may include several different software products and services sold together, are allocated to the delivered elements based on the residual method. Under the residual method, the fair value of the undelivered elements is deferred and subsequently recognized when earned and the residual amount for the delivered elements is recognized in revenue when all other revenue recognition criteria are met. The Company has established VSOE for consulting services, training and maintenance and support services. Accordingly, software license revenues are recognized under the residual method in arrangements in which software is bundled with consulting services, training and maintenance and support services. Consulting services do not generally involve customizing or modifying the licensed software, but rather involve helping customers deploy the software to their specific business processes. The Company generally accounts for the services element of the arrangement separately. Occasionally, the Company provides consulting services considered essential to the functionality of the software or provides services for the significant production, modification or customization of the licensed software and recognizes revenue for such services and any related software licenses in accordance with SOP 81-1, Accounting for Performance of Construction Type and Certain Performance Type Contracts using the percentage-of-completion method.

When a loss is anticipated on a service contract, the full amount thereof is provided currently. Service revenues and consulting and training revenue are recognized as the related services are performed using the proportional performance method. 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 deferred revenue in the accompanying consolidated balance sheets. Reimbursement received for out-of-pocket expenses is recorded as revenue.

The Company has a practice of licensing its products through resellers in certain regions. For software licensed through these distribution channels, revenue is recognized at the time of delivery to the end customer, when persuasive evidence of an arrangements exists, the fee is fixed or determinable, collection is reasonably assured and other revenue recognition criteria are met.

Maintenance and support services are recognized ratably over the life of the maintenance and support contract period. Maintenance and support services include telephone support and 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 sold independently at time of renewal. The Company generally does not provide specified upgrades to its customers in connection with the licensing of its software products.

Accounting for Stock-Based Compensation

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the vesting period. Prior to fiscal 2006, the Company used the intrinsic value method. Under the intrinsic value method, stock-based compensation is recognized when the award is less than the fair value on the measurement date. See Note 7, Stock-Based Compensation, in the notes to the unaudited condensed consolidated financial statements for more discussion.

Accounting for Transfers of Financial Assets

The Company derecognizes financial assets when control has been surrendered in compliance with SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. Transfers of assets that meet the requirements of SFAS No. 140 for sale accounting treatment are removed from the balance sheet and gains or losses on the sale are recognized. If the conditions for sale accounting treatment are not met, or are no longer met, assets transferred are classified as collateralized receivables in the consolidated balance sheet and cash received from these transactions is classified as secured borrowings. All transfers of have been accounted for as secured borrowings. Transaction costs associated with secured borrowings, if any, are treated as borrowing costs and recognized in interest expense. As customer payments are made on the collateralized receivables, the collateralized receivable and debt obligation are reduced.

Income Taxes

The Company calculates the provision for income taxes during quarterly periods utilizing the expected effective tax rate for the year. The Company s tax provisions primarily related to income taxes attributable to its operating results in foreign jurisdictions, foreign withholding taxes, and interest associated with uncertain tax positions. The Company s accounting policy with respect to uncertain tax positions is described in Note 3.

Deferred income taxes are recognized based on temporary differences between the financial statement and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using the statutory tax rates and laws expected to apply to taxable income in the years in which the temporary differences are expected to reverse. Valuation allowances are provided against net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and the timing of the temporary differences becoming deductible. Management considers, among other available information, scheduled reversals of deferred tax liabilities, projected future taxable income, limitations of availability of net operating loss carryforwards, and other matters in making this assessment.

Derivatives

The Company records all derivatives, which consist of foreign currency exchange contracts, on the balance sheet at fair value. Derivatives that are not accounting hedges must be adjusted to fair value through earnings. If a derivative is a 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 included in accumulated other comprehensive income depending on the nature of the hedge. The ineffective portion of a derivative s change in fair value is immediately recognized in earnings. The Company does not account for any derivatives using hedge accounting treatment during the periods presented and therefore the changes in fair value of derivatives is recognized in earnings.

3. Income Taxes

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertain Tax Positions, an Interpretation of FASB Statement No. 109, or FIN 48, which clarifies the criteria for recognition and measurement of benefits from uncertain tax positions. Under FIN 48, an entity should recognize a tax benefit when it is more-likely-than-not, based on the technical merits, that the position would be sustained upon examination by a taxing authority. The amount to be recognized, if the more-likely-than-not threshold was passed, should be measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. Furthermore, any change in the recognition, derecognition or measurement of a tax position should be recognized in the period in which the change occurs.

The Company adopted FIN 48 as of July 1, 2007, and the change in net assets as a result of applying FIN 48 is recognized as an adjustment to accumulated deficit on that date. As a result of the implementation of FIN 48 on July 1, 2007, the Company recognized an increase of approximately $3.0 million in the liability for unrecognized tax benefits, which was accounted for as an increase to the accumulated deficit. In addition, as of July 1, 2007, the Company had $7.4 million of deferred tax assets previously subject to a full valuation allowance which have been de-recognized upon adoption of FIN 48. These amounts did not result in an adjustment to the accumulated deficit at July 1, 2007 as a result of the full valuation allowance recorded against these deferred tax assets. To the extent these previously unrecognized tax benefits are ultimately recognized, they will affect the effective tax rate in a future period. The total amount of unrecognized tax benefits upon adoption was $25.5 million.

The Company has historically accounted for interest and penalties related to uncertain tax positions as part of its provision for income taxes. Following adoption of FIN 48, the Company will continue this classification. As of July 1, 2007, the Company has accrued $6.2 million of interest and $0.7 million of penalties related to uncertain tax positions. Prior to July 1, 2007, the Company classified all income taxes payable as a current liability. Under FIN 48, the Company is required to classify those obligations that are expected to be paid within the next twelve months as a current obligation and the remainder as a non-current obligation. As of July 1, 2007, the Company classified $10.6 million as non-current obligations within other liabilities.

The Company s U.S. and foreign tax returns are subject to periodic compliance examinations by various local and national tax authorities through periods defined by tax codes in the applicable jurisdiction. The years prior to 2004 are closed in the U.S., although the utilization of net operating loss carry forwards generated in earlier periods will keep these periods open for examination. The Company s operating entities in Canada are subject to audit from year 2000 forward, in the UK from 2006 forward, and other international subsidiaries from 2002 forward. In connection with examinations of tax filings, uncertain tax positions can arise from differing interpretations of applicable tax laws and regulations relative to the amount, timing or proper inclusion or exclusion of revenues and expenses in taxable income or loss. For periods that remain subject to audit, the Company has asserted and unasserted potential assessments that are subject to final tax settlements.

4. Secured Borrowings and Collateralized Receivables

The Company has transferred customer installment and trade receivables to financial institutions or unconsolidated special purpose entities (referred to herein as receivable sale facilities) that have been accounted for as secured borrowings. The transferred receivables serve as collateral under the receivable sales facilities.

At September 30, 2007 and June 30, 2007, receivables totaling $223.1 million and $245.1 million, respectively, were pledged as collateral for the secured borrowings. The secured borrowings totaled $183.4 million and $206.2 million as of September 30, 2007 and June 30, 2007, respectively. The collateralized installment receivables are presented net of applicable discounts for interest established for the individual receivable. The interest rates implicit in the installment receivables for the three months ended September 30, 2007 ranged from 5.0% to 9.0%. The Company recorded $4.2 million and $3.9 million of interest income associated with the collateralized receivables for the three months ended September 30, 2007 and 2006, respectively, and recognized $4.1 million of interest expense associated with the secured borrowings each year. Proceeds from and payments on the secured borrowings are presented as components of cash flows from financing activities in the consolidated statements of cash flows. Payments on secured borrowings and operating cash flows from collateralized receivables are recognized upon customer payment of amounts due.

Traditional Programs

The Company has arrangements to transfer certain of its receivables to three financial institutions at the mutual agreement of the Company and the financial institution for each such customer receivable. The transfer of customer receivables under these programs has been accounted for as secured borrowings. The Company received cash proceeds of $20.7 million and $11.5 million for the three months ended September 30, 2007 and 2006 related to these programs.

The total collateralized receivables for the Traditional Programs approximate the amount of the secured borrowings recorded in the consolidated balance sheet. The collateralized receivables earn interest income and the secured borrowings accrue borrowing costs at approximately the same interest rates. The secured borrowings and collateralized receivables are reduced as the related customer receivable is collected. The terms of the customer accounts receivable range from amounts that are due within 30 days to installment receivables that are due over five years. The Company acts as the servicer for the receivables in one of the three arrangements.

Under the terms of the Traditional Programs the Company has transferred the receivables to the financial institutions with limited financial recourse. Potential recourse obligations are primarily related to one program that requires the

Company to pay interest to the financial institution when the underlying customer has not paid by the installment due date. This recourse is limited to a maximum period of 90 days after the due date. The amount of installment receivables that has this potential recourse obligation is $45.2 million at September 30, 2007. In addition, the Company has recourse obligations totaling $1.6 million at September 30, 2007 if the underlying installment receivable is not paid by the customer. This recourse obligation is in the form of a deferred payment by the financial institution that is withheld until customer payments are received.

Securitization of Accounts Receivable

The Fiscal 2005 and Fiscal 2007 securitization transactions include collateralized receivables whose value exceeds the related borrowings from the financial institutions. The Company receives and retains the right to collections on these securitized receivables after all borrowing and related costs are paid to the financial institution. The financial institutions rights to repayment are limited to the payments received from the collateralized receivables. The carrying value of the collateralized receivables at September 30, 2007 under these arrangements was $55.8 million and the secured borrowings totaled $18.8 million. The collateralized receivables earn interest income and the secured borrowings result in interest expense. The secured borrowings incur a higher interest rate than the implicit rates in the receivables. The Company acts as the servicer under both of these arrangements and the customer collections are used to repay the secured borrowings, interest and related costs.

Fiscal 2005 Securitization

On June 15, 2005, the Company securitized and transferred installment receivables with a net carrying value of $71.9 million and received cash proceeds of $43.8 million. This transfer did not meet the criteria for a sale and has been accounted for as a secured borrowing. These borrowings are secured by collateralized receivables and the debt and borrowing costs are repaid as the receivables are collected.

Fiscal 2007 Securitization

On September 29, 2006, the Company entered into a three year revolving securitization facility and securitized and transferred installment receivables with a net carrying value of $32.1 million and received cash proceeds of $20.0 million. This transfer did not meet the criteria for a sale and has been accounted for as a secured borrowing. These borrowings are secured by collateralized receivables and the debt and borrowing costs are repaid as the receivables are collected. The Company capitalized $1.1 million of debt issuance costs associated with this transaction and these costs are being recognized in interest expense using the effective interest method.

Secured Borrowing Balances

The secured borrowings consist of the following at September 30, 2007 and June 30, 2006 (in thousands):

	September 30, 2007	June 30, 2007
Traditional Programs weighted average interest rate of 7.7%	$ 164,623	$ 180,314

Fiscal 2005 Securitization	interest rate of 13%		5,484		9,072
Fiscal 2007 Securitization	interest rate of 9.9%		13,324		16,764
Total secured borrowings			183,431		206,150
Less current portion			(78,413)		(101,826)
		$	105,018	$	104,324

The cash payments on the collateralized receivables fund the secured borrowing payments, and the Company retains payments received on collateralized receivables which are in excess of the secured borrowings. The Company has no future cash obligations other than the limited recourse obligations noted above.

In December 2007, the Company paid the outstanding amount of the Fiscal 2005 Securitization at its carrying value. The unamortized debt issue costs were charged to expense at the time.

The Company had been in violation of certain covenants related to the Fiscal 2007 Securitization due to the delay in filing its financial statements and other violations. The secured borrowings under this arrangement have been classified in the current portion of secured borrowings. In March 2008, the Company paid the outstanding amount of the Fiscal 2007 Securitization at its carrying value plus a termination fee of $0.8 million, and this securitization is no longer available. The unamortized debt issue costs were charged to expense at the time.

5. Derivative Instruments and Hedging

Forward foreign exchange contracts are used by the Company to offset certain installment and accounts receivable cash flow exposures resulting from changes in foreign currency exchange rates. Such exposures have historically resulted from portions of the Company s installments receivable that are denominated in currencies other than the U.S. dollar, primarily the Euro, Japanese Yen, Canadian Dollar and the British Pound Sterling.

The Company records its foreign currency exchange contracts at fair value in its consolidated balance sheet and the related gains or losses on these contracts are recognized in earnings. During the three months ended September 30, 2007 the net loss recognized in the consolidated statements of operations was $1.7 million. During the three months ended September 30, 2006, the net loss recognized in the consolidated statements of operations was $0.1 million.

The following table provides information about the Company s foreign currency derivative financial instruments outstanding as of September 30, 2007. The table presents the notional amount (at contract exchange rates) and the fair value of the derivatives in U.S. dollars:

	Notional Contract Amount	Fair Value Loss
	(In thousands)	
Euro	$ 26,306	$ (1,331)
British Pound Sterling	4,077	(72)
Japanese Yen	2,819	(117)
Canadian Dollar	1,465	(131)
Swiss Franc	278	(34)
	$ 34,945	$ (1,685)

6. Other Liabilities

Other liabilities in the accompanying unaudited condensed consolidated balance sheets consist of the following (in thousands):

	September 30, 2007	June 30, 2007
Tax liabilities	$ 10,924	$
Restructuring accruals	14,235	10,255
Other	5,371	5,787
Total	$ 30,530	$ 16,042

7. Stock-Based Compensation Plans

General Award Terms

The Company issues stock options to its employees and outside directors, and restricted stock units to its employees and provides employees the right to purchase stock pursuant to a stockholder approved stock option and employee stock purchase plan. Options are generally granted with an exercise price equal to the market price of the Company s stock at the date of the grant: those options generally vest over four years and have 7 or 10 year contractual terms. Restricted stock units generally vest over four years (if performance conditions are met). The Company discontinued its employee stock compensation plan after the six-month subscription period ended June 30, 2007.

Stock Compensation

The Company recognizes compensation costs on a straight-line basis over the requisite service period for time vested awards. For awards that vest based on performance conditions, the Company uses the accelerated model for graded vesting awards. All of the Company s stock-based compensation is accounted for as equity instruments and there have been no liability awards granted. The Company s policy is to issue new shares upon exercise of stock awards. Stock-based compensation cost for the three months ended September 30, 2006 and 2007 are included in the following categories (in thousands):

	Three Months Ended September 30,	
	2007	2006
Recorded as expense:		
Cost of service and other	$ 323	$ 310
Selling and marketing	734	621
Research and development	444	199
General and administrative	1,001	611
	2,502	1,741
Capitalized computer software development costs		55
Total stock-based compensation	$ 2,502	$ 1,796

8. Net Loss Per Common Share

Basic loss per share was determined by dividing loss attributable to common shareholders by the weighted average common shares outstanding during the period. Diluted earnings per share was determined by dividing loss attributable to common shareholders by diluted weighted average shares outstanding. Diluted weighted average shares reflects the dilutive effect, if any, of potential common shares. To the extent their effect is dilutive, potential common shares include common stock options and warrants, based on the treasury stock method, convertible preferred stock based on the if-converted method, and other commitments to be settled in common stock. For the three months ended September 30, 2006 and 2007, all potential common shares were antidilutive due to the net loss. The calculations of basic and diluted net loss per share attributable to common shareholders and basic and diluted weighted average shares outstanding are as follows (in thousands, except per share data):

	Three Months Ended, September 30,	
	2007	2006
Loss attributable to common shareholders	$ (9,003)	$ (5,334)
Basic and Diluted weighted average shares outstanding	88,995	52,801
Basic and Diluted loss per share attributable to common shareholders	$ (0.10)	$ (0.10)

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

	Three Months Ended September 30,	
	2007	2006
Convertible preferred stock		33,336
Employee equity awards and warrants	9,934	12,213
Preferred stock dividend, to be settled in common stock		2,864
Total	9,934	48,413

9. Comprehensive Loss

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The components of comprehensive loss for the three months ended September 30, 2006 and 2007 were as follows (in thousands):

	Three Months Ended, September 30,	
	2007	**2006**
Net loss	$ (9,003)	$ (1,598)
Foreign currency translation adjustments	1,602	(245)
Total comprehensive loss	$ (7,401)	$ (1,843)

10. Restructuring Charges

During the three months ended September 30, 2007, the Company recorded $7.2 million in restructuring charges primarily related to the relocation of the Company s corporate headquarters under the May 2007 restructuring plan discussed below.

At September 30, 2007, total restructuring liabilities for all plans included $0.7 million for employee severance, benefits, and related costs and $18.7 million for the closure or cease to use facilities. Management anticipates that payments of $5.2 million will be made over the next twelve months and the remaining $14.2 million will be made through 2012.

(a) Restructuring charges originally arising in the three months ended June 30, 2007

In May 2007, the Company initiated a plan to relocate its corporate headquarters from Cambridge to Burlington, Massachusetts. The relocation resulted in the Company ceasing to use its prior corporate headquarters leased space, subleasing the space to a third party, and the relocation to a new facility. During the year ended June 30, 2007, the Company recorded a charge of $0.1 million associated with the relocation of certain departments to temporary space. The closure and relocation actions resulted in an aggregate charge of approximately $6.1 million, with $6.0 million of the charge recognized in three months ended September 30, 2007.

As of September 30, 2007, there was $5.8 million in accrued expenses relating to the remaining lease payments. During the three months ended September 30, 2007, the following activity was recorded (in thousands):

Fiscal 2007 Restructuring Plan		**Closure/ Consolidation of Facilities**
Accrued expenses, July 1, 2007	$	
Restructuring charge		6,068
Payments		(289)
Accrued expenses, September 30, 2007	$	5,779
Expected final payment date		September 2012

Subsequent to September 30, 2007, the Company incurred additional charges of $0.3 million related to the Cambridge facility. The additional activities were completed by October 2007.

(b) Restructuring charges originally arising in the three months ended June 30, 2005

In May 2005, the Company initiated a plan to consolidate several corporate functions and to reduce its operating expenses. The plan to reduce operating expenses primarily resulted in headcount reductions, and also included the termination of a contract and the consolidation of facilities. These actions resulted in an aggregate restructuring charge of $3.8 million, recorded in the fourth quarter of fiscal 2005. During the ye