

ASPEN TECHNOLOGY INC /DE/
Form 10-Q
April 30, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

or

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: 0-24786

ASPEN TECHNOLOGY, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

04-2739697
(I.R.S. Employer Identification No.)

200 Wheeler Road
Burlington, Massachusetts
(Address of principal executive offices)

01803
(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 12 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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

As of April 23, 2013, there were 93,708,567 shares of the registrant's common stock (par value \$0.10 per share) outstanding.

Table of Contents

TABLE OF CONTENTS

	Page
<u>PART I - FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>Financial Statements.</u> 3
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u> 20
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk.</u> 38
<u>Item 4.</u>	<u>Controls and Procedures.</u> 39
<u>PART II - OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings.</u> 40
<u>Item 1A.</u>	<u>Risk Factors.</u> 40
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds.</u> 41
<u>Item 6.</u>	<u>Exhibits.</u> 42

SIGNATURES

Our registered trademarks include aspenONE, ASPEN PLUS, ASPENTECH, the AspenTech logo, DMCPLUS, HTFS, HYSYS and INFOPLUS.21.

Table of Contents**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements.***Consolidated Financial Statements (unaudited)***ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited and in thousands, except per share data)**

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	2012	2013	2012
Revenue:				
Subscription and software	\$ 60,899	\$ 42,444	\$ 174,436	\$ 120,856
Services and other	18,458	18,893	53,687	58,261
Total revenue	79,357	61,337	228,123	179,117
Cost of revenue:				
Subscription and software	3,229	2,717	9,519	8,063
Services and other	9,420	9,713	27,841	31,113
Total cost of revenue	12,649	12,430	37,360	39,176
Gross profit	66,708	48,907	190,763	139,941
Operating expenses:				
Selling and marketing	22,958	24,279	67,852	70,043
Research and development	15,772	14,423	46,577	40,959
General and administrative	11,685	13,103	36,124	40,480
Restructuring charges	(41)	(84)	(7)	(143)
Total operating expenses	50,374	51,721	150,546	151,339
Income (loss) from operations	16,334	(2,814)	40,217	(11,398)
Interest income	807	1,776	2,861	6,041
Interest expense	(12)	(611)	(385)	(2,718)
Other expense, net	(18)	(26)	(352)	(2,483)
Income (loss) before provision for (benefit from) income taxes	17,111	(1,675)	42,341	(10,558)
Provision for (benefit from) income taxes	6,598	(1,155)	17,478	(2,138)
Net income (loss)	\$ 10,513	\$ (520)	\$ 24,863	\$ (8,420)
Net income (loss) per common share:				
Basic	\$ 0.11	\$ (0.01)	\$ 0.27	\$ (0.09)
Diluted	\$ 0.11	\$ (0.01)	\$ 0.26	\$ (0.09)
Weighted average shares outstanding:				
Basic	93,730	93,583	93,556	93,851
Diluted	95,400	93,583	95,475	93,851

See accompanying Notes to these unaudited consolidated financial statements.

Table of Contents

ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited and in thousands)

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2013	2012	2013	2012
Net income (loss)	\$ 10,513	\$ (520)	\$ 24,863	\$ (8,420)
Other comprehensive (loss) income:				
Net unrealized losses on available for sale securities, net of tax effects of \$10	(19)		(19)	
Foreign currency translation adjustments	(932)	219	(325)	(434)
Total other comprehensive (loss) income	(951)	219	(344)	(434)
Comprehensive income (loss)	\$ 9,562	\$ (301)	\$ 24,519	\$ (8,854)

See accompanying Notes to these unaudited consolidated financial statements.

Table of Contents

ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited and in thousands, except share data)

	March 31, 2013	June 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 139,042	\$ 165,242
Short-term marketable securities	30,535	
Accounts receivable, net	28,996	31,450
Current portion of installments receivable, net	18,969	33,184
Collateralized receivables		6,297
Unbilled services	2,217	1,592
Prepaid expenses and other current assets	8,884	16,219
Prepaid income taxes	151	283
Current deferred tax assets	6,755	7,196
Total current assets	235,549	261,463
Long-term marketable securities	44,538	
Non-current installments receivable, net	2,645	14,046
Property, equipment and leasehold improvements, net	7,176	7,037
Computer software development costs, net	1,480	1,689
Goodwill	19,465	19,399
Non-current deferred tax assets	43,318	58,559
Other non-current assets	7,490	6,142
Total assets	\$ 361,661	\$ 368,335
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Secured borrowings	\$	\$ 10,756
Accounts payable	1,432	2,566
Accrued expenses and other current liabilities	29,416	37,989
Income taxes payable	875	598
Current deferred revenue	163,623	143,578
Current deferred tax liabilities	232	232
Total current liabilities	195,578	195,719
Non-current deferred revenue	52,251	43,595
Other non-current liabilities	14,005	15,429
Commitments and contingencies (Note 11)		
Series D redeemable convertible preferred stock, \$0.10 par value Authorized 3,636 shares at March 31, 2013 and June 30, 2012 Issued and outstanding none at March 31, 2013 and June 30, 2012		
Stockholders equity:		
Common stock, \$0.10 par value Authorized 210,000,000 shares Issued 99,316,649 shares at March 31, 2013 and 96,663,580 shares at June 30, 2012 Outstanding 93,900,675 shares at March 31, 2013 and 93,465,955 shares at June 30, 2012	9,932	9,666
Additional paid-in capital	568,247	547,546
Accumulated deficit	(370,216)	(395,079)
Accumulated other comprehensive income	7,751	8,095
Treasury stock, at cost 5,415,974 shares of common stock at March 31, 2013 and 3,197,625 at June 30, 2012	(115,887)	(56,636)
Total stockholders equity	99,827	113,592

Edgar Filing: ASPEN TECHNOLOGY INC /DE/ - Form 10-Q

Total liabilities and stockholders' equity	\$	361,661	\$	368,335
--	----	---------	----	---------

See accompanying Notes to these unaudited consolidated financial statements.

Table of Contents

ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited and in thousands)

	Nine Months Ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net income (loss)	\$ 24,863	\$ (8,420)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	4,114	3,984
Net foreign currency (gain) loss	(667)	784
Stock-based compensation	11,295	9,604
Deferred income taxes	15,668	(3,665)
Provision for bad debts	31	104
Other non-cash operating activities	365	486
Changes in assets and liabilities:		
Accounts receivable	2,395	(391)
Unbilled services	(645)	1,197
Prepaid expenses, prepaid income taxes, and other assets	4,888	(70)
Installments and collateralized receivables	32,365	42,510
Accounts payable, accrued expenses, and other liabilities	(11,186)	(9,209)
Deferred revenue	29,138	46,056
Net cash provided by operating activities	112,624	82,970
Cash flows from investing activities:		
Purchase of marketable securities	(75,713)	
Purchase of property, equipment and leasehold improvements	(3,018)	(1,175)
Insurance proceeds	2,222	
Purchase of technology intangibles	(902)	
Payments for acquisitions, net of cash acquired		(2,617)
Capitalized computer software development costs	(593)	(487)
Net cash used in investing activities	(78,004)	(4,279)
Cash flows from financing activities:		
Exercise of stock options	15,430	6,581
Proceeds from secured borrowings		4,982
Repayments of secured borrowings	(11,010)	(22,270)
Repurchases of common stock	(59,251)	(32,119)
Payment of tax withholding obligations related to restricted stock	(5,758)	(3,125)
Net cash used in financing activities	(60,589)	(45,951)
Effect of exchange rate changes on cash and cash equivalents	(231)	(161)
(Decrease) increase in cash and cash equivalents	(26,200)	32,579
Cash and cash equivalents, beginning of period	165,242	149,985
Cash and cash equivalents, end of period	\$ 139,042	\$ 182,564
Supplemental disclosure of cash flow information:		
Income tax paid, net	\$ 2,692	\$ 1,599
Interest paid	385	2,718

See accompanying Notes to these unaudited consolidated financial statements.

Table of Contents

ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Interim Unaudited Consolidated Financial Statements

The accompanying interim unaudited consolidated financial statements of Aspen Technology, Inc. and its subsidiaries have been prepared on the same basis as our annual consolidated financial statements. We omitted certain information and footnote disclosures normally included in our annual consolidated financial statements. Such Interim Financial Statements have been prepared in conformity with U.S. Generally Accepted Accounting Principles (GAAP), as defined in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 270, *Interim Reporting*, for interim financial information and with the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. It is suggested that these unaudited consolidated financial statements be read in conjunction with the audited consolidated financial statements for the year ended June 30, 2012, which are contained in our Annual Report on Form 10-K, as previously filed with the U.S. Securities and Exchange Commission (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 and all intercompany accounts and transactions have been eliminated in consolidation. The results of operations for the three and nine months ended March 31, 2013 are not necessarily indicative of the results to be expected for the subsequent quarter or for the full fiscal year.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Unless the context requires otherwise, references to we, our and us refer to Aspen Technology, Inc. and its subsidiaries.

2. Significant Accounting Policies

(a) Overview of Licensing Model Changes

Transition to the aspenONE Licensing Model

Prior to fiscal 2010, we offered term or perpetual licenses to specific products, or specifically defined sets of products, which we refer to as point products. The majority of our license revenue was recognized under an upfront revenue model, in which the net present value of the aggregate license fees was recognized as revenue upon shipment of the point products. Customers typically received one year of post-contract software maintenance and support, or SMS, with their license agreements and then could elect to renew SMS annually. Revenue from SMS was recognized ratably over the period in which the SMS was delivered.

In fiscal 2010, we introduced the following changes to our licensing model:

- (i) Began offering our aspenONE software on a subscription basis, allowing our customers access to all products within a licensed suite (aspenONE Engineering or aspenONE Manufacturing and Supply Chain). SMS is included for the entire term of the arrangement and customers are entitled to any software products or updates introduced into the licensed suite. We refer to this license arrangement as our aspenONE licensing model.

- (ii) Began to include SMS for the entire term on our point product term arrangements.

Revenue related to our aspenONE licensing model is recognized over the term of the arrangement on a ratable basis. During fiscal 2010 and 2011, license revenue related to our point product arrangements with SMS included for the entire term of the arrangement was generally recognized on the due date of each annual installment, provided all revenue recognition criteria were met. Beginning in fiscal 2012, we were unable to establish evidence of the fair value for the SMS component, and revenue from these arrangements is now recognized on a ratable basis.

The changes to our licensing model introduced in fiscal 2010 did not change the method or timing of customer billings or cash collections. Since the introduction of these changes, our net cash provided by operating activities has increased in each annual period from \$33.0 million in fiscal 2009 to \$104.6 million in fiscal 2012. During these periods we have realized steadily improving cash flow due to growth of our portfolio of term license contracts, as well as from the renewal of customer contracts, on an installment basis, that were previously paid upfront.

Table of Contents

Impact of Licensing Model Changes

The principal accounting implications of the changes to our licensing model are as follows:

- The majority of our license revenue is no longer recognized on an upfront basis. Since the upfront model resulted in the net present value of multiple years of future installments being recognized at the time of shipment, we do not expect to recognize levels of revenue comparable to our pre-transition levels until a significant majority of license agreements executed under our upfront revenue model (i) reach the end of their original terms and (ii) are renewed. Accordingly, since the changes to our licensing model in fiscal 2010, our product-related revenue has been significantly less than the level achieved in the fiscal years preceding our licensing model changes.
- The changes to our licensing model resulted in operating losses for fiscal 2010, 2011 and 2012. These changes did not impact the incurrence or timing of our expenses, and there was no corresponding expense reduction to offset the lower revenue. Subscription and software revenue has steadily increased from the beginning of fiscal 2010 as a portion of the license agreements executed under our upfront revenue model have reached the end of their original term and have been renewed under either our aspenONE licensing model or as point product arrangements which include Premier Plus TM SMS for the full contract term.
- The SMS component of our services and other revenue has decreased and been offset by a corresponding increase in subscription and software revenue as customers transition to our aspenONE licensing model or point product arrangements with Premier Plus SMS included for the full contract term. The entire arrangement fee, including the SMS component, is included within subscription and software revenue.
- Installment payments are not considered fixed or determinable, and as a result, are not included in installments receivable. Accordingly, our installments receivable balance has decreased as licenses previously executed under our upfront revenue model reached the end of their terms.
- The amount of our deferred revenue has increased as more revenue from our term license portfolio has been recognized on a ratable basis.

Introduction of our Premier Plus SMS Offering

Beginning in fiscal 2012, we introduced our Premier Plus SMS offering to provide more value to our customers. As part of this offering, customers receive 24x7 support, faster response times, dedicated technical advocates and access to web-based training modules. The Premier Plus SMS offering is only provided to customers that commit to SMS for the entire term of the arrangement. Our annually renewable legacy SMS offering continues to be available to customers with legacy term and perpetual license agreements.

The introduction of our Premier Plus SMS offering in fiscal 2012 resulted in a change to the revenue recognition of point product arrangements that include Premier Plus SMS for the term of the arrangement. Since we do not have vendor-specific objective evidence of fair value, or VSOE, for our Premier Plus SMS offering, the SMS element of our point product arrangements is not separable, resulting in revenue being recognized ratably over the term of the arrangement, once the other revenue recognition criteria have been met. Prior to fiscal 2012, license revenue was recognized on the due date of each annual installment, provided all revenue recognition criteria were met. The introduction of our Premier Plus SMS offering did not change the revenue recognition for our aspenONE licensing arrangements.

(b) Revenue Recognition

We generate revenue from the following sources: (1) licensing software products; (2) providing SMS and training; and (3) providing professional services. We sell our software products to end users under fixed-term and perpetual licenses. As a standard business practice, we offer extended payment term options for our fixed-term license arrangements, which are generally payable on an annual basis. Certain of our fixed-term license agreements include product mixing rights that allow customers the flexibility to change or alternate the use of multiple products included in the license arrangement after those products are delivered to the customer. We refer to these arrangements as token arrangements. Tokens are fixed units of measure. The amount of software usage is limited by the number of tokens purchased by the customer.

Four basic criteria must be satisfied before software license revenue can be recognized: persuasive evidence of an arrangement between us and an end user; delivery of our product has occurred; the fee for the product is fixed or determinable; and collection of the fee is probable.

Persuasive evidence of an arrangement We use a signed contract as evidence of an arrangement for software licenses and SMS. For professional services we use a signed contract and a work proposal to evidence an arrangement. In cases where both a signed contract and a purchase order are required by the customer, we consider both taken together as evidence of the arrangement.

Table of Contents

Delivery of our product Software and the corresponding access keys are generally delivered to customers via disk media with standard shipping terms of Free Carrier, our warehouse (i.e., FCA, named place). Our software license agreements do not contain conditions for acceptance.

Fee is fixed or determinable We assess whether a fee is fixed or determinable at the outset of the arrangement. Significant judgment is involved in making this assessment.

Under our upfront revenue model, we are able to demonstrate that the fees are fixed or determinable for all arrangements, including those for our term licenses that contain extended payment terms. We have an established history of collecting under the terms of these contracts without providing concessions to customers. In addition, we also assess whether a contract modification to an existing term arrangement constitutes a concession. In making this assessment, significant analysis is performed to ensure that no concessions are given. Our software license agreements do not include a right of return or exchange.

We cannot assert that the fees under our aspenONE licensing model and point product arrangements with Premier Plus SMS are fixed or determinable because the rights provided to customers, and the economics of the arrangements, are not comparable to our transactions with other customers under the upfront revenue model. As a result, the amount of revenue recognized for these arrangements is limited by the amount of customer payments that become due.

Collection of fee is probable We assess the probability of collecting from each customer at the outset of the arrangement based on a number of factors, including the customer's payment history, its current creditworthiness, economic conditions in the customer's industry and geographic location, and general economic conditions. If in our judgment collection of a fee is not probable, revenue is recognized as cash is collected, provided all other conditions for revenue recognition have been met.

Vendor-Specific Objective Evidence of Fair Value

We have established VSOE for certain SMS offerings, professional services, and training, but not for our software products or our Premier Plus SMS offering. We assess VSOE for SMS, professional services, and training, based on an analysis of standalone sales of the offerings using the bell-shaped curve approach. We do not have a history of selling our Premier Plus SMS offering to customers on a standalone basis, and as a result are unable to establish VSOE for this new deliverable.

We allocate the arrangement consideration among the elements included in our multi-element arrangements using the residual method. Under the residual method, the VSOE of the undelivered elements is deferred and the remaining portion of the arrangement fee for perpetual and term licenses is recognized as revenue upon delivery of the software, assuming all other revenue recognition criteria are met. If VSOE does not exist for an undelivered element in an arrangement, revenue is deferred until such evidence does exist for the undelivered elements, or until all elements are delivered, whichever is earlier. Under the upfront revenue model, the residual license fee is recognized upon delivery of the software provided all other revenue recognition criteria were met. Arrangements that qualify for upfront recognition include sales of perpetual licenses, amendments to existing legacy term arrangements and renewals of legacy term arrangements.

Subscription and Software Revenue

Subscription and software revenue consists of product and related revenue from our (i) aspenONE licensing model, including the bundled SMS; (ii) point product arrangements with our Premier Plus SMS offering included for the contract term; (iii) legacy arrangements including (a) amendments to existing legacy term arrangements, (b) renewals of legacy term arrangements and (c) legacy arrangements that are being recognized over time as a result of not previously meeting one or more of the requirements for recognition under the upfront revenue model; and (iv) perpetual arrangements.

When a customer elects to license our products under our aspenONE licensing model, our Premier Plus SMS offering is included for the entire term of the arrangement and the customer receives, for the term of the arrangement, the right to any new unspecified future software products and updates that may be introduced into the licensed aspenONE software suite. Due to our obligation to provide unspecified future software products and updates, we are required to recognize revenue ratably over the term of the arrangement, once the other revenue recognition criteria noted above have been met.

Our point product arrangements with Premier Plus SMS include SMS for the term of the arrangement. Since we do not have VSOE for our Premier Plus SMS offering, the SMS element of our point product arrangements is not separable. As a result, revenue associated with point product arrangements with Premier Plus SMS included for the contract term is recognized ratably over the term of the arrangement, once the other revenue recognition criteria have been met.

Perpetual license and legacy arrangements do not include the same rights as those provided to customers under the aspenONE licensing model and point product arrangements with Premier Plus SMS. We continue to have VSOE for the legacy SMS offering provided in support of these license arrangements and can therefore separate the undelivered elements. Accordingly, the license fees for perpetual licenses and legacy arrangements continue to be recognized upon delivery of the software products using the residual method, provided all other revenue recognition requirements have been met.

Table of Contents**Results of Operations Classification - Subscription and Software Revenue**

Prior to fiscal 2012, subscription and software revenue were each classified separately on our unaudited consolidated statements of operations, because each type of revenue had different revenue recognition characteristics, and the amount of revenue attributable to each was material in relation to our total revenue. Additionally, we were able to separate the residual amount of software revenue related to the software component of our point product arrangements which included SMS for the contract term, based on the VSOE for the SMS element.

As a result of the introduction of our Premier Plus SMS offering in the first quarter of fiscal 2012, the majority of our product-related revenue is now recognized on a ratable basis, over the term of the arrangement. Since the distinction between subscription and point product ratable revenue does not represent a meaningful difference from either a line of business or revenue recognition perspective, we have combined our subscription and software revenue into a single line item on our consolidated statements of operations beginning in the first quarter of fiscal 2012.

The following tables summarize the amount of subscription and software revenue recognized on a ratable basis and under a residual method for the three and nine months ended March 31, 2013 and 2012, respectively. Ratable revenue refers to product revenue that is recognized evenly over the term of the related agreement, beginning when the first payment becomes due. The residual method refers to the recognition of the difference between the total arrangement fee and the undiscounted VSOE for the undelivered element, assuming all other revenue recognition requirements have been met.

	Three Months Ended March 31,		Three Months Ended March 31,			
	2013	2012	2013	2012	% of Total	
(Dollars in thousands)						
Subscription and software revenue:						
Ratable	\$ 58,551	\$ 40,328	96.1		%	95.0%
Residual method (1)	2,348	2,116	3.9			5.0
Subscription and software revenue	\$ 60,899	\$ 42,444	100.0		%	100.0%

	Nine Months Ended March 31,		Nine Months Ended March 31,			
	2013	2012	2013	2012	% of Total	
(Dollars in thousands)						
Subscription and software revenue:						
Ratable	\$ 162,253	\$ 100,509	93.0		%	83.2%
Residual method (1)	12,183	20,347	7.0			16.8
Subscription and software revenue	\$ 174,436	\$ 120,856	100.0		%	100.0%

(1) Residual method revenue detail

Edgar Filing: ASPEN TECHNOLOGY INC /DE/ - Form 10-Q

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	2012	2013	2012
	(Dollars in thousands)		(Dollars in thousands)	
Residual method revenue:				
Legacy arrangements	\$ 2,123	\$ 1,714	\$ 10,840	\$ 18,498
Perpetual arrangements	225	402	1,343	1,849
Total residual method revenue	\$ 2,348	\$ 2,116	\$ 12,183	\$ 20,347

Services and Other

SMS Revenue

SMS revenue includes the maintenance revenue recognized from arrangements for which we continue to have VSOE for the undelivered SMS offering (legacy SMS offering). For arrangements sold with our legacy SMS offering, SMS renewals are at the option of the customer, and the fair value of SMS is deferred and subsequently amortized over the contractual term of the SMS arrangement.

Table of Contents

Professional Services Revenue

Professional services are provided to customers on a time-and-materials (T&M) or fixed-price basis. We recognize professional services fees for our T&M contracts based upon hours worked and contractually agreed-upon hourly rates. Revenue from fixed-price engagements is recognized using the proportional performance method based on the ratio of costs incurred to the total estimated project costs. Project costs are typically expensed as incurred. The use of the proportional performance method is dependent upon our ability to reliably estimate the costs to complete a project. We use historical experience as a basis for future estimates to complete current projects. Additionally, we believe that costs are the best available measure of performance. Out-of-pocket expenses which are reimbursed by customers are recorded as revenue.

In certain circumstances, professional services revenue may be recognized over a longer time period than that which the services are performed. If the costs to complete a project are not estimable or the completion is uncertain, the revenue is recognized upon completion of the services. In circumstances in which professional services are sold as a single arrangement with, or in contemplation of, a new aspenONE license or point product arrangement with Premier Plus SMS, revenue is deferred and recognized on a ratable basis over the longer of (i) the period the services are performed, or (ii) the license term. When we provide professional services considered essential to the functionality of the software, we recognize the combined revenue from the sale of the software and related services using the completed contract or percentage-of-completion method.

We have occasionally been required to commit unanticipated additional resources to complete projects, which resulted in losses on those contracts. Provisions for estimated losses on contracts are made during the period in which such losses become probable and can be reasonably estimated.

Deferred Revenue

Deferred revenue includes amounts billed or collected in advance of revenue recognition, including arrangements under the aspenONE licensing model, point product arrangements with Premier Plus SMS, legacy SMS offering, professional services, and training. Under the aspenONE licensing model and for point product arrangements with Premier Plus SMS, VSOE does not exist for the undelivered elements, and as a result the arrangement fees are recognized ratably (i.e., on a subscription basis) over the term of the license, and deferred revenue is recorded as each invoice becomes due.

For arrangements under the upfront revenue model, a portion of the arrangement fee is generally recorded as deferred revenue due to the inclusion of an undelivered element, typically our legacy SMS offering or professional services. The amount of revenue allocated to undelivered elements is based on the VSOE for those elements using the residual method, and is earned and recognized as revenue as each element is delivered.

(c) Installments Receivable

Installments receivable resulting from product sales under the upfront revenue model are discounted to present value at prevailing market rates at the date the contract is signed, taking into consideration the customer's credit rating. The finance element is recognized using the effective interest method over the relevant license term and is classified as interest income. Installments receivable are split between current and non-current in our unaudited consolidated balance sheets based on the maturity date of the related installment. Non-current installments receivable consist of receivables with a due date greater than one year from the period-end date. Current installments receivable consist of invoices with a due date of less than one year but greater than 45 days from the period-end date. Once an installments receivable invoice becomes due within 45 days, it is reclassified as a trade accounts receivable in our unaudited consolidated balance sheets. As a result, we did not have any past due installments receivable as of March 31, 2013.

Our non-current installments receivable are within the scope of Accounting Standards Update (ASU) No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. As our portfolio of financing receivables arises from the sale of our software licenses, the methodology for determining our allowance for doubtful accounts is based on the collective population of receivables and is not stratified by class or portfolio segment. We consider factors such as existing economic conditions, country risk, and customer's credit rating and past payment history in determining our allowance for doubtful accounts. We reserve against our installments receivable when the related trade accounts receivable have been past due for over a year, or when there is a specific risk of uncollectability. Our specific reserve reflects the full value of the related installments receivable for which collection has been deemed uncertain. Our specific reserve represented 96% and 89% of our total installments receivable allowance for doubtful accounts at March 31, 2013 and June 30, 2012, respectively. In instances when an installment receivable that is reserved ages into a trade account receivable, the related reserve is transferred to our trade accounts receivable allowance.

We write off receivables when they have been deemed uncollectable based on our judgment. In instances when we write off specific customers trade accounts receivable, we also write off any related current and non-current installments receivable

Table of Contents

balances. Any incremental interest income for installments receivable that has been reserved is offset by an additional provision to the allowance for doubtful accounts.

As of March 31, 2013, our gross current and non-current installments receivable of \$20.0 million and \$3.0 million are presented net of unamortized discounts of \$0.9 million and \$0.3 million and net of allowance for doubtful accounts of \$0.1 million each, respectively. Provision for bad debts related to current and non-current installments receivable was not significant during the three and nine months ended March 31, 2013 and 2012, respectively.

As of June 30, 2012, our gross current and non-current installments receivable of \$35.0 million and \$15.9 million are presented net of unamortized discounts of \$1.6 million and \$1.8 million, and net of allowance for doubtful accounts of \$0.2 million and less than \$0.1 million, respectively.

Under the aspenONE licensing model and for point product arrangements with Premier Plus SMS included for the contract term, the installment payments are not considered fixed or determinable and, as a result, are not included as installments receivable on our unaudited consolidated balance sheet.

(d) Loss Contingencies

We accrue estimated liabilities for loss contingencies arising from claims, assessments, litigation and other sources when it is probable that a liability has been incurred and the amount of the claim, assessment or damages can be reasonably estimated. We believe that we have sufficient accruals to cover any obligations resulting from claims, assessments or litigation that have met these criteria. Refer to Note 11 for discussion of these matters and related liability accruals.

(e) Other

For further information with regard to our Significant Accounting Policies, please refer to Note 2 of our Consolidated Financial Statements and Notes thereto included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2012.

3. Marketable Securities

The following table summarizes the fair value, the amortized cost and unrealized holding gains (losses) on our marketable securities as of March 31, 2013 (dollars in thousands):

Edgar Filing: ASPEN TECHNOLOGY INC /DE/ - Form 10-Q

	Fair Value	Cost	Unrealized Gains	Unrealized Losses
U.S. corporate bonds	\$ 30,535	\$ 30,540	\$ 4	\$ (9)
Total short-term marketable securities	\$ 30,535	\$ 30,540	\$ 4	\$ (9)
U.S. corporate bonds	\$ 44,538	\$ 44,562	\$ 3	\$ (27)
Total long-term marketable securities	\$ 44,538	\$ 44,562	\$ 3	\$ (27)

Our marketable securities are classified as available-for-sale and are recorded on the unaudited consolidated balance sheets at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income, net of tax. Our investments consist primarily of investment grade fixed income corporate debt securities with maturity dates ranging from April 2013 through January 2015. Unrealized losses are attributable to changes in interest rates.

We review our marketable securities at each reporting period to determine if any of our securities have experienced an other-than-temporary decline in fair value. During the three and nine months ended March 31, 2013, our marketable securities were not considered other-than-temporarily impaired and, as such, we did not recognize impairment losses during the periods then ended.

4. Goodwill

The changes in the carrying amount of goodwill by reporting unit for the nine months ended March 31, 2013 are as follows (dollars in thousands):

Table of Contents

Asset Class	Reporting Unit				Total
	License	SMS, Training, and Other	Professional Services		
Balance as of June 30, 2012					
Goodwill	\$ 69,570	\$ 15,398	\$ 5,102	\$	90,070
Accumulated impairment losses	(65,569)		(5,102)		(70,671)
	\$ 4,001	\$ 15,398	\$	\$	19,399
Effect of currency translation	32	34			66
Balance as of March 31, 2013					
Goodwill	\$ 69,602	\$ 15,432	\$ 5,102	\$	90,136
Accumulated impairment losses	(65,569)		(5,102)		(70,671)
	\$ 4,033	\$ 15,432	\$	\$	19,465

We test goodwill for impairment annually (or more often if impairment indicators arise), at the reporting unit level in accordance with the provisions of ASC 350, *Intangibles Goodwill and Other*.

We adopted ASU No. 2011-08, *Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment*, during fiscal 2012. In accordance with the provisions of ASU No. 2011-08, we must first assess qualitative factors to determine whether the existence of events or circumstances indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If we determine based on this assessment that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we are required to perform the two-step goodwill impairment test. The first step requires us to determine the fair value of each reporting unit and compare it to the carrying amount, including goodwill, of such reporting unit. If the fair value exceeds the carrying amount, no impairment loss is recognized. However, if the carrying amount of the reporting unit exceeds its fair value, the goodwill of the unit may be impaired. The amount of impairment, if any, is measured based upon the implied fair value of goodwill at the valuation date.

Fair value of a reporting unit is determined using a combined weighted average of a market-based approach (utilizing fair value multiples of comparable publicly traded companies) and an income-based approach (utilizing discounted projected cash flows). In applying the income-based approach, we would be required to make assumptions about the amount and timing of future expected cash flows, growth rates and appropriate discount rates. The amount and timing of future cash flows would be based on our most recent long-term financial projections. The discount rate we would utilize would be determined using estimates of market participant risk-adjusted weighted-average costs of capital and reflect the risks associated with achieving future cash flows.

We have elected December 31st as the annual impairment assessment date and perform additional impairment tests if triggering events occur. We performed our annual impairment test for each reporting unit as of December 31, 2012, and, based upon the results of our qualitative assessment, determined that it was not likely that their respective fair values were less than their carrying amounts. As such, we did not perform the two-step goodwill impairment test and did not recognize impairment losses as a result of our analysis. If an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value, goodwill will be evaluated for impairment between annual tests. No triggering events indicating goodwill impairment occurred during the three and nine months ended March 31, 2013.

5. Income Taxes

Edgar Filing: ASPEN TECHNOLOGY INC /DE/ - Form 10-Q

The effective tax rate for the periods presented is primarily the result of income earned in the U.S., taxed at U.S. federal and state statutory income tax rates, income earned in foreign tax jurisdictions which are taxed at their applicable rates, as well as the impact of permanent differences between book and tax income. Our effective tax rate for the three and nine months ended March 31, 2013 was 38.6% and 41.3%, respectively. Our effective benefit rate for the three and nine months ended March 31, 2012 was 69.0% and 20.3%, respectively.

Our effective tax rate for the three and nine months ended March 31, 2013 differs from the U.S. federal statutory income tax rate primarily as a result of the impact of permanent items, including non-deductible stock-based compensation expense.

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

Table of Contents

will not be realized. The ultimate realization of deferred tax assets is dependent upon the future generation of 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 carry-forwards, and other matters in making this assessment. At March 31, 2013, our total valuation allowance was approximately \$5.6 million.

We do not provide deferred taxes on unremitted earnings of foreign subsidiaries since we intend to indefinitely reinvest those earnings either currently or sometime in the foreseeable future. Unrecognized provisions for taxes on undistributed earnings of foreign subsidiaries, which are considered indefinitely reinvested, are not material to our consolidated financial position or results of operations.

6. Fair Value

We determine fair value by utilizing a fair value hierarchy that ranks the quality and reliability of the information used in its determination. Fair values determined using Level 1 inputs utilize unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access. Fair values determined using Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves for similar assets and liabilities.

Cash equivalents of \$119.3 million and \$144.0 million as of March 31, 2013, and June 30, 2012, respectively, are reported at fair value utilizing Level 1 inputs. Our cash equivalents consist of short-term, highly liquid investments with remaining maturities of three months or less when purchased.

Marketable securities of \$75.1 million as of March 31, 2013, are reported at fair value calculated in accordance with the market approach, utilizing market consensus pricing models with quoted prices that are directly or indirectly observable, or Level 2 inputs.

Financial instruments not measured or recorded at fair value in the accompanying unaudited consolidated financial statements consist of accounts receivable, installments receivable, collateralized receivables, accounts payable and secured borrowings. The estimated fair value of accounts receivable, installments receivable, collateralized receivables and accounts payable approximates their carrying value. The estimated fair value of secured borrowings exceeded the carrying value by \$0.2 million as of June 30, 2012. Secured borrowings were repaid in full or repurchased during the second quarter of fiscal 2013. The fair value of secured borrowings was calculated using the market approach, utilizing interest rates that were indirectly observable in markets for similar liabilities, or Level 2 inputs.

7. Supplementary Balance Sheet Information

The following table summarizes our accounts receivable, net of the related allowance for doubtful accounts, as of March 31, 2013 and June 30, 2012 (dollars in thousands). Refer to Note 2(c) for a summary of our installments receivable balances. Collateralized receivables are presented in the unaudited consolidated balance sheets and in the table below as of June 30, 2012, net of discounts for future interest established at inception of the installment arrangement.

	Gross	Unamortized Discounts	Allowance	Net
March 31, 2013:				
Accounts Receivable	\$ 30,867	\$	\$ 1,871	\$ 28,996
	\$ 30,867	\$	\$ 1,871	\$ 28,996
June 30, 2012:				
Accounts Receivable	\$ 33,432	\$	\$ 1,982	\$ 31,450
Collateralized Receivables - current	6,500	203		6,297
	\$ 39,932	\$ 203	\$ 1,982	\$ 37,747

Collateralized receivables were collected in full or repurchased during the second quarter of fiscal 2013. Repurchased receivables, net of discounts for future interest, were reclassified into accounts receivable or installments receivable during the period then ended.

Accrued expenses and other current liabilities in the accompanying unaudited consolidated balance sheets consist of the following (dollars in thousands):

Table of Contents

	March 31, 2013	June 30, 2012
Royalties and outside commissions	\$ 4,282	\$ 4,875
Payroll and payroll-related	14,107	21,558
Other	11,027	11,556
Total accrued expenses and other current liabilities	\$ 29,416	\$ 37,989

Other non-current liabilities in the accompanying unaudited consolidated balance sheets consist of the following (dollars in thousands):

	March 31, 2013	June 30, 2012
Deferred rent	\$ 971	\$ 1,532
Other*	13,034	13,897
Total other non-current liabilities	\$ 14,005	\$ 15,429

* Other is comprised primarily of our reserve for uncertain tax liabilities of \$11.2 million and \$12.2 million as of March 31, 2013 and June 30, 2012, respectively.

8. Stock-Based Compensation

General Award Terms

We issue stock options and restricted stock units (RSUs) to our employees and outside directors, pursuant to stockholder-approved equity compensation plans. Option awards are granted with an exercise price equal to the market closing price of our stock on the trading day prior to the date of grant; those options generally vest over four years and expire within 7 or 10 years of grant. RSUs generally vest over four years. Historically, our practice has been to settle stock option exercises and RSU vesting through newly-issued shares.

Stock-Based Compensation Accounting

Our stock-based compensation is principally accounted for as awards of equity instruments. Our policy is to issue new shares upon the exercise of stock awards. We adopted the simplified method related to accounting for the tax effects of share-based payment awards to employees under ASC Topic 718, *Compensation - Stock Compensation* (ASC 718). We use the with-and-without approach for determining if excess tax benefits are realized under ASC 718.

Edgar Filing: ASPEN TECHNOLOGY INC /DE/ - Form 10-Q

We utilize the Black-Scholes option valuation model for estimating the fair value of options granted. The Black-Scholes option valuation model incorporates assumptions regarding expected stock price volatility, the expected life of the option, the risk-free interest rate, dividend yield and the market value of our common stock. The expected stock price volatility is determined based on our stock's historic prices over a period commensurate with the expected life of the award. The expected life of an option represents the period for which options are expected to be outstanding as determined by historic option exercises and cancellations. The risk-free interest rate is based on the U.S. Treasury yield curve for notes with terms approximating the expected life of the options granted. The expected dividend yield is zero, based on our history and expectation of not paying dividends on common shares. We recognize compensation costs on a straight-line basis, net of estimated forfeitures, over the requisite service period for time-vested awards.

There were no awards granted during the three months ended March 31, 2013. The weighted average estimated fair value of awards granted during the three months ended March 31, 2012 was \$6.47. The weighted average estimated fair value of awards granted during the nine months ended March 31, 2013 and 2012 was \$9.76 and \$6.50, respectively.

We utilized the Black-Scholes option valuation model with the following weighted average assumptions:

Table of Contents

	Nine Months Ended March 31,	
	2013	2012
Risk-free interest rate	0.6%	1.2%
Expected dividend yield	0.0%	0.0%
Expected life (in years)	4.8	4.6
Expected volatility factor	48.9%	49.7%

The stock-based compensation expense and its classification in the unaudited consolidated statements of operations for the three and nine months ended March 31, 2013 and 2012 are as follows (dollars in thousands):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	2012	2013	2012
Recorded as expenses:				
Cost of services and other	\$ 325	\$ 280	\$ 984	\$ 897
Selling and marketing	994	1,103	2,943	3,502
Research and development	770	319	2,253	1,020
General and administrative	1,438	1,123	5,115	4,185
Total stock-based compensation	\$ 3,527	\$ 2,825	\$ 11,295	\$ 9,604

A summary of stock option and RSU activity under all equity plans for the nine months ended March 31, 2013 is as follows:

	Stock Options			Restricted Stock Units		
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in 000 s)	Shares	Weighted Average Grant Date Fair Value
Outstanding at June 30, 2012	4,180,265	\$ 9.03		\$ 59,034	1,327,071	\$ 12.73
Granted	498,264	23.40			588,148	23.40
Settled (RSUs)					(632,846)	13.96
Exercised	(2,232,816)	6.91				
Cancelled / Forfeited	(59,747)	11.91			(51,162)	14.84
Outstanding at March 31, 2013	2,385,966	\$ 13.94	6.73	\$ 43,785	1,231,211	\$ 17.10
Vested and exercisable at March 31, 2013	1,363,553	\$ 11.40	5.56	\$ 28,482		
Vested and expected to vest as of March 31, 2013	2,230,224	\$ 13.71	6.61	\$ 41,448	1,077,657	\$ 17.07

There were no RSUs granted during the three months ended March 31, 2013. The weighted average grant-date fair value of RSUs granted during the nine months ended March 31, 2013 was \$23.40, and during the three and nine months ended March 31, 2012 was \$16.53 and \$15.52, respectively. During each of three months ended March 31, 2013 and 2012, the total fair value of shares vested from RSU grants was \$4.0 million, respectively, and during the nine months ended March 31, 2013 and 2012 was \$17.1 million and \$9.5 million, respectively.

At March 31, 2013, the total future unrecognized compensation cost related to stock options and RSUs was \$6.8 million and \$18.4 million, respectively, and is expected to be recorded over a weighted average period of 2.6 years and 2.7 years, respectively.

The total intrinsic value of options exercised during the three months ended March 31, 2013 and 2012 was \$22.6 million and \$4.7 million, respectively. The total intrinsic value of options exercised during the nine months ended March 31, 2013 and 2012 was \$45.8 million and \$9.7 million, respectively. We received \$15.4 million and \$6.6 million in cash proceeds from option exercises during the nine months ended March 31, 2013 and 2012, respectively. We paid \$5.8 million and \$3.1 million for withholding taxes on vested RSUs during the nine months ended March 31, 2013 and 2012, respectively.

Table of Contents

At March 31, 2013, common stock reserved for future issuance or settlement under equity compensation plans was 8.3 million shares.

9. Common Stock

On October 24, 2012, our Board of Directors approved a share repurchase program for up to \$100 million worth of our common stock. This share repurchase program replaced the prior share repurchase program approved by the Board of Directors on November 1, 2011 for up to \$100 million, which had approximately \$41.8 million of remaining capacity on October 24, 2012. The program approved on November 1, 2011 had replaced a repurchase program with a value of up to \$40 million which had been approved by the Board of Directors on October 29, 2010. The timing and amount of any shares repurchased are based on market conditions and other factors. All share repurchases of our common stock have been recorded as treasury stock under the cost method.

We repurchased 2,218,349 shares of our common stock for \$59.3 million during the nine months ended March 31, 2013. We repurchased 2,496,595 shares of our common stock for \$46.1 million during fiscal 2012. As of March 31, 2013, the remaining dollar value under the stock repurchase program approved on October 24, 2012 was \$65.3 million.

10. Net Income (Loss) Per Share

Basic income (loss) per share is determined by dividing net income (loss) by the weighted average common shares outstanding during the period. Diluted income (loss) per share is determined by dividing net income (loss) by diluted weighted average shares outstanding during the period. Diluted weighted average shares reflect the dilutive effect, if any, of potential common shares. To the extent their effect is dilutive, employee equity awards and other commitments to be settled in common stock are included in the calculation of diluted net income (loss) per share based on the treasury stock method.

For the three and nine months ended March 31, 2013, certain employee equity awards were anti-dilutive based on the treasury stock method. For the three and nine months ended March 31, 2012, all potential common shares were anti-dilutive due to the net loss. The calculations of basic and diluted net income (loss) per share and basic and diluted weighted average shares outstanding are as follows (dollars and shares in thousands, except per share data):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	2012	2013	2012
Net income (loss)	\$ 10,513	\$ (520)	\$ 24,863	\$ (8,420)
Weighted average shares outstanding	93,730	93,583	93,556	93,851
Dilutive impact from:				
Share-based payment awards	1,670		1,919	

Edgar Filing: ASPEN TECHNOLOGY INC /DE/ - Form 10-Q

Dilutive weighted average shares outstanding	95,400	93,583	95,475	93,851
Income (loss) per share				
Basic	\$ 0.11	\$ (0.01)	\$ 0.27	\$ (0.09)
Dilutive	\$ 0.11	\$ (0.01)	\$ 0.26	\$ (0.09)

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	2012	2013	2012
Employee equity awards	438	6,392	947	6,805

11. Commitments and Contingencies

In the ordinary course of business, we from time to time pursue lawsuits and claims to enforce our intellectual property rights and to address other intellectual property, commercial and miscellaneous matters. In addition, we are also from time to time

Table of Contents

involved in other lawsuits, claims, investigations, proceedings and threats of litigation. These include an April 2004 claim by a customer for approximately \$5.0 million that certain of our software products and implementation services failed to meet the customer's expectations.

The results of litigation and claims cannot be predicted with certainty, and unfavorable resolutions are possible and could materially affect our results of operations, cash flows or financial position. In addition, regardless of the outcome, litigation could have an adverse impact on us because of litigation fees and costs, diversion of management resources and other factors.

While the outcome of the proceedings and claims referenced above cannot be predicted with certainty, there are no such matters as of March 31, 2013, that, in the opinion of management, might have a material adverse effect on our financial position, results of operations or cash flows. Liabilities, if applicable, related to the aforementioned matters discussed in this Note have been included in our accrued liabilities at March 31, 2013 and June 30, 2012, and are not material to our financial position for the periods then ended.

As of March 31, 2013 we do not believe that there is a reasonable possibility of a loss exceeding the amounts already accrued for the proceedings or matters discussed above.

12. Segment and Geographic Information

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. Our chief operating decision maker is our President and Chief Executive Officer.

We have three operating segments: license; SMS, training, and other; and professional services. The chief operating decision maker assesses financial performance and allocates resources based upon the three lines of business.

The license line of business is engaged in the development and licensing of software. The SMS, training, and other line of business provides customers with a wide range of support services that include on-site support, telephone support, software updates and various forms of training on how to use our products. The professional services line of business offers implementation, advanced process control, real-time optimization, and other professional services.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies (refer to Note 2 in the financial statements in our Form 10-K for the year ended June 30, 2012). We do 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 (dollars in thousands):

	License	SMS, Training, and Other	Professional Services	Total
Three Months Ended March 31, 2013				
Segment revenue	\$ 60,899	\$ 10,945	\$ 7,513	\$ 79,357
Segment expenses	16,031	1,597	5,989	23,617
Segment operating profit (1)	\$ 44,868	\$ 9,348	\$ 1,524	\$ 55,740
Three Months Ended March 31, 2012				
Segment revenue	\$ 42,444	\$ 12,935	\$ 5,958	\$ 61,337
Segment expenses	17,224	2,179	5,702	25,105
Segment operating profit (1)	\$ 25,220	\$ 10,756	\$ 256	\$ 36,232
Nine Months Ended March 31, 2013				
Segment revenue	\$ 174,436	\$ 34,274	\$ 19,413	\$ 228,123
Segment expense	48,864	5,286	17,039	71,189
Segment operating profit (1)	\$ 125,572	\$ 28,988	\$ 2,374	\$ 156,934
Nine Months Ended March 31, 2012				
Segment revenue	\$ 120,856	\$ 41,504	\$ 16,757	\$ 179,117
Segment expense	50,639	7,385	17,945	75,969
Segment operating profit (loss) (1)	\$ 70,217	\$ 34,119	\$ (1,188)	\$ 103,148

(1) The segment operating profits (losses) reported reflect the direct expenses of the operating segment and contain certain allocations of selling and marketing, general and administrative, research and development, and do not contain restructuring

Table of Contents

and other corporate expenses incurred in support of the segments.

Reconciliation to Income (Loss) Before Income Taxes

The following table presents a reconciliation of total segment operating profit to income (loss) before income taxes for the three and nine months ended March 31, 2013 and 2012 (in thousands):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	2012	2013	2012
Total segment operating profit for reportable segments	\$ 55,740	\$ 36,232	\$ 156,934	\$ 103,148
Cost of subscription and software	(3,229)	(2,717)	(9,519)	(8,063)
Marketing	(3,896)	(4,011)	(9,896)	(10,326)
Research and development	(13,028)	(12,205)	(38,313)	(34,350)
General and administrative	(9,404)	(11,069)	(28,555)	(33,651)
Information technology and overhead	(6,363)	(6,303)	(19,146)	(18,695)
Stock-based compensation	(3,527)	(2,825)	(11,295)	(9,604)
Restructuring charges	41	84	7	143
Other expense, net	(18)	(26)	(352)	(2,483)
Interest income (net)	795	1,165	2,476	3,323
Income (loss) before income taxes	\$ 17,111	\$ (1,675)	\$ 42,341	\$ (10,558)

Table of Contents

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

You should read the following discussion in conjunction with our unaudited consolidated financial statements and related notes beginning on page 3. In addition to historical information, this discussion contains forward-looking statements that involve risks and uncertainties. You should read Item 1A. Risk Factors, of Part II for a discussion of important factors that could cause our actual results to differ materially from our expectations.

Our fiscal year ends on June 30th, and references in this Quarterly Report to a specific fiscal year are to the twelve months ended June 30th of such year (for example, fiscal 2013 refers to the year ending on June 30, 2013).

Business Overview

We are a leading global provider of mission-critical process optimization software solutions which are designed to manage and optimize plant and process design, operational performance, and supply chain planning. Our aspenONE software and related services have been developed specifically for companies in the process industries, including the energy, chemicals, and engineering and construction industries. Customers use our solutions to improve their competitiveness and profitability by increasing throughput and productivity, reducing operating costs, enhancing capital efficiency, and decreasing working capital requirements.

Our software incorporates our proprietary empirical models of manufacturing and planning processes and reflects the deep domain expertise we have amassed from focusing on solutions for the process industries for over 30 years. We have developed our applications to design and optimize processes across three principal business areas: engineering, manufacturing and supply chain. We are a recognized market and technology leader in providing process optimization software for each of these business areas.

We have established sustainable competitive advantages within our industry based on the following strengths:

- Innovative products that can enhance our customers' profitability;
- Long-term customer relationships;
- Large installed base of users of our software; and
- Long-term license contracts with historically high renewal rates.

We have more than 1,500 customers globally. Our customers include manufacturers in process industries such as energy, chemicals, pharmaceuticals, consumer packaged goods, power, metals and mining, pulp and paper, and biofuels, as well as engineering and construction

firms that help design and build process manufacturing plants.

We primarily license our software products through a subscription offering which we refer to as our aspenONE licensing model. Our aspenONE products are organized into two suites: 1) engineering and 2) manufacturing and supply chain (MSC). The aspenONE licensing model provides customers with access to all of the products within the aspenONE suite(s) they license. Customers can change or alternate the use of multiple products in a licensed suite through the use of exchangeable units of measurement, called tokens, licensed in quantities determined by the customer. This licensing system enables customers to use products as needed and to experiment with different products to best solve whatever critical business challenges they face. Customers can increase their usage of our software by purchasing additional tokens as business needs evolve. We believe easier access to all of the aspenONE products will lead to increased software usage and higher revenue over time.

Transition to the aspenONE Licensing Model

Prior to fiscal 2010, we offered term or perpetual licenses to specific products, or specifically defined sets of products, which we refer to as point products. The majority of our license revenue was recognized under an upfront revenue model, in which the net present value of the aggregate license fees was recognized as revenue upon shipment of the point products, provided all revenue recognition criteria were met. Customers typically received one year of post-contract software maintenance and support, or SMS, with their license agreements and then could elect to renew SMS annually. Revenue from SMS was recognized ratably over the period in which the SMS was delivered.

In fiscal 2010, we introduced the following changes to our licensing model:

- (i) Began offering our software on a subscription basis allowing our customers access to all products within a licensed suite (aspenONE Engineering or aspenONE Manufacturing and Supply Chain). SMS is included for the entire term of the arrangement and customers are entitled to any software products or updates introduced into the licensed suite. We refer to this license arrangement as our aspenONE licensing model.

- (ii) Began to include SMS for the entire term on our point product term arrangements.

Revenue related to our aspenONE licensing model is recognized over the term of the arrangement on a ratable basis. During

Table of Contents

fiscal 2010 and 2011, license revenue related to our point product arrangements with SMS included for the entire term of the arrangement was generally recognized on the due date of each annual installment, provided all revenue recognition criteria were met. Beginning in fiscal 2012, we were unable to establish evidence of the fair value for the SMS component and revenue from these arrangements is now recognized on a ratable basis.

The changes to our licensing model introduced in fiscal 2010 did not change the method or timing of customer billings or cash collections. Since the introduction of these changes, our net cash provided by operating activities has increased in each annual period from \$33.0 million in fiscal 2009 to \$104.6 million in fiscal 2012. During these periods we have realized steadily improving cash flow due to growth of our portfolio of term license contracts, as well as from the renewal of customer contracts, on an installment basis, that were previously paid upfront.

Impact of Licensing Model Changes

The principal accounting implications of the changes to our licensing model are as follows:

- The majority of our license revenue is no longer recognized on an upfront basis. Since the upfront model resulted in the net present value of multiple years of future installments being recognized at the time of shipment, we do not expect to recognize levels of revenue comparable to our pre-transition levels until a significant majority of license agreements executed under our upfront revenue model (i) reach the end of their original terms and (ii) are renewed. Accordingly, since the changes to our licensing model in fiscal 2010, our product-related revenue has been significantly less than the level achieved in the fiscal years preceding our licensing model changes.
- The changes to our licensing model resulted in operating losses for fiscal 2010, 2011 and 2012. These changes did not impact the incurrence or timing of our expenses, and there was no corresponding expense reduction to offset the lower revenue. Subscription and software revenue has steadily increased from the beginning of fiscal 2010 as a portion of the license agreements executed under our upfront revenue model have reached the end of their original term and have been renewed under either our aspenONE licensing model or as point product arrangements which include Premier Plus SMS for the full contract term. To the extent the remaining term license agreements executed under our upfront revenue model expire and are renewed, we expect to recognize levels of revenue and operating profit comparable to, or higher than, our pre-transition levels.
- The SMS component of our services and other revenue has, and is expected to continue to, decrease and continue to be offset by a corresponding increase in subscription and software revenue as customers transition to our aspenONE licensing model or point product arrangements with Premier Plus SMS included for the full contract term. The entire arrangement fee, including the SMS component, is included within subscription and software revenue.
- Installment payments are not considered fixed or determinable, and as a result, are not included in installments receivable. Accordingly, our installments receivable balance has, and is expected to continue to, decrease as licenses previously executed under our upfront revenue model reach the end of their terms.

- The amount of our deferred revenue has, and is expected to continue to, increase as more revenue from our term license portfolio is recognized on a ratable basis.

Introduction of our Premier Plus SMS Offering

Beginning in fiscal 2012, we introduced our Premier Plus SMS offering to provide more value to our customers. As part of this offering, customers receive 24x7 support, faster response times, dedicated technical advocates and access to web-based training modules. The Premier Plus SMS offering is only provided to customers that commit to SMS for the entire term of the arrangement. Our annually renewable legacy SMS offering continues to be available to customers with legacy term and perpetual license agreements.

The introduction of our Premier Plus SMS offering in fiscal 2012 resulted in a change to the revenue recognition of point product arrangements that include Premier Plus SMS for the term of the arrangement. Since we do not have vendor-specific objective evidence of fair value, or VSOE, for our Premier Plus SMS offering, the SMS element of our point product arrangements is not separable, resulting in revenue being recognized ratably over the term of the arrangement, once the other revenue recognition criteria have been met. Prior to fiscal 2012, license revenue was recognized on the due date of each annual installment, provided all revenue recognition criteria were met. The introduction of our Premier Plus SMS offering did not change the revenue recognition for our aspenONE licensing arrangements.

For additional information about the recognition of revenue under the upfront revenue model and our aspenONE licensing model, please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations - Revenue

Table of Contents

contained in Part II, Item 7 of our Form 10-K for our fiscal year ended June 30, 2012. Due to the accounting implications resulting from the changes to our licensing model, we believe that a number of performance indicators based on U.S. generally accepted accounting principles, or GAAP, will be of limited value in assessing our performance, growth and financial condition until a significant majority of our license agreements executed under our upfront revenue model reach the end of their original terms and are renewed under our aspenONE licensing model or as point product arrangements which include SMS for the contract term. Accordingly, we are focusing on a number of other business metrics, including those described below under Key Business Metrics.

Revenue

We generate revenue primarily from the following sources:

- *Software licenses.* We provide integrated process optimization software solutions designed specifically for the process industries. We license our software products, together with SMS, primarily on a term basis, and we offer extended payment options for our term license agreements that generally require annual payments, which we also refer to as installments.
- *SMS and training.* Our SMS business consists primarily of providing customer technical support and access to software fixes and updates. We provide customer technical support services throughout the world from our customer support centers as well as via email and through our support website. Our training business provides customers with a variety of training solutions, including on-site, Internet-based and customized training.
- *Professional services.* We offer professional services that include implementing and integrating our technology with customers' existing systems in order to improve their plant performance and gain better operational data. Customers who use our professional services typically engage us to provide those services over periods of up to 24 months. We charge customers for professional services on a time-and-materials or fixed-price basis.

Key Components of Operations

Revenue

Subscription and software revenue consists of product and related revenue from the following sources: (i) aspenONE licensing model, including the bundled SMS; (ii) point product arrangements with our Premier Plus SMS offering included for the contract term (referred to as point product arrangements with Premier Plus SMS); (iii) legacy arrangements including (a) amendments to existing legacy term arrangements, (b) renewals of legacy term arrangements and (c) legacy arrangements that are being recognized over time as a result of not previously meeting one or more of the requirements for recognition under the upfront revenue model; and (iv) perpetual arrangements.

Results of Operations Classification - Subscription and Software Revenue

Prior to fiscal 2012, subscription and software revenue were each classified separately on our unaudited consolidated statements of operations, because each type of revenue had different revenue recognition characteristics, and the amount of revenue attributable to each was material in relation to our total revenue. Additionally, we were able to separate the residual amount of software revenue related to the software component of our point product arrangements which included SMS for the contract term, based on the VSOE for the SMS element.

As a result of the introduction of our Premier Plus SMS offering in the first quarter of fiscal 2012, the majority of our product-related revenue is now recognized on a ratable basis, over the term of the arrangement. Since the distinction between subscription and point product ratable revenue does not represent a meaningful difference from either a line of business or revenue recognition perspective, we have combined our subscription and software revenue into a single line item on our consolidated statements of operations beginning in the first quarter of fiscal 2012.

Services and Other Revenue. Our services and other revenue consists primarily of revenue related to professional services, standalone renewals of our legacy SMS offering and training. The amount and timing of this revenue depend on a number of factors, including:

- whether the professional services arrangement was sold as a single arrangement with, or in contemplation of, a new aspenONE licensing transaction;
- the number, value and rate per hour of service transactions booked during the current and preceding periods;
- the number and availability of service resources actively engaged on billable projects;

Table of Contents

- the timing of milestone acceptance for engagements contractually requiring customer sign-off;
- the timing of negotiating and signing maintenance renewals;
- the timing of collection of cash payments when collectability is uncertain; and
- the size of the installed base of license contracts.

Cost of Revenue

Cost of Subscription and Software. Our cost of subscription and software revenue consists of royalties, amortization of capitalized software and purchased intangibles, distribution fees, the costs of providing SMS on arrangements where the related revenue is recorded as subscription and software revenue, and costs related to delivery of software.

Cost of Services and Other. Our cost of services and other revenue consists primarily of personnel-related and external consultant costs associated with providing customers professional services, SMS on arrangements for which we have VSOE for the SMS element, and training.

Operating Expenses

Selling and Marketing Expenses. Selling expenses consist primarily of the personnel and travel expenses related to the effort expended to license our products and services to current and potential customers, as well as for overall management of customer relationships. Marketing expenses include expenses needed to promote our company and our products and to acquire market research to help us better understand our customers and their business needs.

Research and Development Expenses. Research and development expenses consist primarily of personnel expenses related to the creation of new products and to enhancements and engineering changes to existing products.

General and Administrative Expenses. General and administrative expenses include the costs of corporate and support functions, such as executive leadership and administration groups, finance, legal, human resources and corporate communications, and other costs, such as outside professional and consultant fees, and provision for bad debts.

Restructuring Charges. Restructuring charges result from the closure or consolidation of our facilities, or from qualifying reductions in headcount.

Other Income and Expenses

Interest Income. Interest income is recorded for the accretion of interest on the installment payments of our term software license contracts when revenue is recognized upfront at net present value, and from the investment in marketable securities and short-term money market instruments.

Interest Expense. Interest expense consists of charges primarily related to our secured borrowings. Secured borrowings are derived from our borrowing arrangements with unrelated financial institutions.

Other Expense, Net. Other expense, net is comprised primarily of foreign currency exchange (losses) gains generated from the settlement and remeasurement of transactions denominated in currencies other than the functional currency of our operating units.

Provision for (Benefit from) Income Taxes. The provision for income taxes is comprised of domestic and foreign taxes. The benefit from income taxes is comprised of the deferred benefit for tax deductions and credits that we expect to utilize in the future. We record interest and penalties related to income tax matters as a component of income tax expense. We expect the amount of income tax expense to vary each reporting period depending upon fluctuations in our taxable income by jurisdiction.

Key Business Metrics

Background

Since the changes to our licensing model in fiscal 2010, our product-related revenue has been significantly less than the level achieved in the fiscal years preceding the changes. Since the upfront model resulted in the net present value of multiple years of future installments being recognized at the time of shipment, we do not expect to recognize levels of revenue comparable to our pre-transition levels until a significant majority of license agreements executed under our upfront revenue model (i) reach the end of their original terms and (ii) are renewed. As a result, we believe that, for the next few years, a number of our performance indicators based on U.S. generally accepted accounting principles or GAAP, including revenue, gross profit, operating income

Table of Contents

(loss) and net income (loss), will be of limited value in assessing our performance, growth and financial condition. Accordingly, we are focusing on certain non-GAAP and other business metrics, including the key metrics set forth below, to track our business performance. None of these metrics should be considered as an alternative to any measure of financial performance calculated in accordance with GAAP.

We use a non-GAAP measure of free cash flow to analyze cash flows generated from our operations. Management believes that this financial measure is useful to investors because it permits investors to view our performance using the same tools that management uses to gauge progress in achieving our goals. We believe this measure is also useful to investors because it is an indication of cash flow that may be available to fund investments in future growth initiatives and it is also useful as a basis for comparing our performance with that of our competitors. To supplement our presentation of total cost of revenue and total operating costs presented on a GAAP basis, we use a non-GAAP measure of adjusted total costs, which excludes certain non-cash and non-recurring expenses. Management believes that this financial measure is useful to investors because it approximates the cash operating costs of the business. The presentation of these non-GAAP measures is not meant to be considered in isolation or as an alternative to cash flows from operating activities as a measure of liquidity or as an alternative to total cost of revenue and total operating costs as a measure of our total costs.

Total Term Contract Value

Total term contract value, or TCV, is an estimate of the renewal value, as of a specific date, of our active portfolio of term license agreements. TCV is calculated by multiplying the terminal annual payment for each active term license agreement by the original length of the existing license term, and then aggregating this amount for all active term license agreements. Accordingly, TCV represents the full renewal value of all of our current term license agreements under the hypothetical assumption that all of those agreements are simultaneously renewed for the identical license terms and at the same terminal annual payment amounts. TCV includes the value of SMS for any multi-year license agreements for which SMS is committed for the entire license term. TCV does not include any amounts for perpetual licenses, professional services, training or standalone renewal SMS. TCV is calculated using constant currency assumptions for agreements denominated in currencies other than U.S. dollars in order to remove the impact of currency fluctuations between comparison dates.

We also estimate a *license-only TCV*, which we refer to as TLCV, by removing the SMS portion of TCV using our historic estimated selling price for SMS. Our portfolio of active license agreements currently reflects a mix of (a) license agreements that include SMS for the entire license term and (b) legacy license agreements that do not include SMS. TLCV provides a consistent basis for assessing growth, particularly while customers are continuing to transition to arrangements that include SMS for the term of the arrangement.

We believe TCV and TLCV are useful metrics for analyzing our business performance, particularly while we are transitioning to our aspenONE licensing model or to point product arrangements with Premier Plus SMS included for the full term and revenue comparisons between fiscal periods do not reflect the actual growth rate of our business. Comparing TCV and TLCV for different dates provides insight into the growth and retention rate of our business during the period between those dates.

TCV and TLCV increase as the result of:

- new term license agreements with new or existing customers;

- renewals or modifications of existing license agreements that result in higher license fees due to price escalation or an increase in the number of tokens (units of software usage) or products licensed; and

- renewals of existing license agreements that increase the length of the license term.

The renewal of an existing license agreement will not increase TCV and TLCV unless the renewal results in higher license fees or a longer license term. TCV and TLCV are adversely affected by customer non-renewals and by renewals that result in lower license fees or a shorter license term. Our standard license term historically has been between five and six years, and we do not expect this standard term to change in the future. Many of our contracts have escalating annual payments throughout the term of the arrangement. By calculating TCV and TLCV based on the terminal year annual payment, we are typically using the highest annual fee from the existing arrangement to calculate the hypothetical renewal value of our portfolio of term arrangements.

We estimate that TLCV grew by approximately 2.4% during the third quarter of fiscal 2013, from \$1.54 billion at December 31, 2012 to \$1.58 billion at March 31, 2013, and by approximately 7.9% during the nine months ended March 31, 2013, from \$1.46 billion at June 30, 2012. The growth was attributable primarily to an increase in the number of tokens or products licensed.

We estimate that TCV grew by approximately 2.8% during the third quarter of fiscal 2013, from \$1.78 billion at December 31, 2012 to \$1.83 billion at March 31, 2013, and by approximately 9.1% during the nine months ended March 31, 2013, from \$1.68 billion at June 30, 2012. The growth was attributable primarily to an increase in the number of tokens or products licensed.

Table of Contents**Adjusted Total Costs**

The following table presents our total cost of revenue and total operating expenses, adjusted for stock-based compensation expense, restructuring charges, and amortization of purchased intangibles, for the indicated periods (dollars in thousands):

	Three Months Ended March 31,		Period-to-Period Change		Nine Months Ended March 31,		Period-to-Period Change	
	2013	2012	\$	%	2013	2012	\$	%
Total cost of revenue	\$ 12,649	\$ 12,430	\$ 219	1.8 %	\$ 37,360	\$ 39,176	\$ (1,816)	(4.6) %
Total operating expenses	50,374	51,721	(1,347)	(2.6)	150,546	151,339	(793)	(0.5)
Total expenses	63,023	64,151	(1,128)	(1.8) %	187,906	190,515	(2,609)	(1.4) %
Less:								
Stock-based compensation	(3,527)	(2,825)	(702)	24.8	(11,295)	(9,604)	(1,691)	17.6
Restructuring charges	41	84	(43)	(51.2)	7	143	(136)	*
Amortization of purchased intangibles	(201)	(36)	(165)	*	(503)	(36)	(467)	*
Adjusted total costs (non-GAAP)	\$ 59,336	\$ 61,374	\$ (2,038)	(3.3) %	\$ 176,115	\$ 181,018	\$ (4,903)	(2.7) %

* Not meaningful

Comparison of the Three Months Ended March 31, 2013 and 2012

Total expenses decreased by \$1.1 million for the three months ended March 31, 2013 compared to the same period of the prior fiscal year. Adjusted total costs decreased by \$2.0 million for the three months ended March 31, 2013 compared to the same period of the prior fiscal year. The period-over-period decrease in adjusted total costs was primarily attributable to lower third-party commissions of \$0.8 million, a reduction of legal costs of \$0.7 million and lower compensation and related costs of \$0.5 million.

Stock-based compensation expense increased \$0.7 million primarily due to the incremental expense associated with the August 2012 annual program grant, which had a higher valuation than awards granted in previous periods. Amortization of purchased intangibles increased \$0.2 million due to the expense associated with assets acquired during the first nine months of fiscal 2013 and the second half of fiscal 2012. Please refer to the *Results of Operations* section below for additional information on period-over-period expense fluctuations.

Comparison of the Nine Months Ended March 31, 2013 and 2012

Total expenses decreased by \$2.6 million for the nine months ended March 31, 2013 compared to the same period of the prior fiscal year. Adjusted total costs decreased by \$4.9 million for the nine months ended March 31, 2013 compared to the same period of the prior fiscal year. The period-over-period decrease in adjusted total costs was primarily attributable to a reduction in legal costs of \$3.4 million, lower third-party commissions of \$1.2 million and lower office and related expenses of \$0.7 million. These decreases were partially offset by higher compensation and related costs of \$0.4 million.

Stock-based compensation expense increased \$1.7 million primarily due to the incremental expense associated with the August 2012 annual program grant, which had a higher valuation than awards granted in previous periods. Amortization of purchased intangibles increased \$0.5 million due to the expense associated with assets acquired during the first nine months of fiscal 2013 and the second half of fiscal 2012. Please refer to the Results of Operations section below for additional information on period-over-period expense fluctuations.

Free Cash Flow

Free cash flow is calculated as net cash provided by operating activities adjusted for the net impact of (a) purchases of property, equipment and leasehold improvements (b) insurance proceeds and (c) capitalized computer software development costs.

Customer collections and, consequently, cash flows from operating activities and free cash flow are primarily driven by license and services billings, rather than recognized revenue. As a result, the introduction of our aspenONE licensing model has not had an adverse impact on cash receipts. Until existing term license contracts are renewed and license-related revenue returns to prior year levels, we believe free cash flow is a more relevant measure of our financial performance than income statement profitability measures such as total revenue, gross profit, operating income (loss) and net income (loss). Additionally, we also believe that free cash flow is often used by securities analysts, investors and other interested parties in the

Table of Contents

evaluation of software companies.

The following table provides a reconciliation of net cash flows provided by operating activities to free cash flow for the periods presented (dollars in thousands):

	Nine Months Ended March 31,	
	2013	2012
Net cash provided by operating activities	\$ 112,624	\$ 82,970
Purchase of property, equipment, and leasehold improvements	(3,018)	(1,175)
Insurance proceeds	2,222	
Capitalized computer software development costs	(593)	(487)
Free cash flow (non-GAAP)	\$ 111,235	\$ 81,308

Total free cash flow increased \$29.9 million during the nine months ended March 31, 2013 as compared to the same period of the prior fiscal year.

We have realized steadily improving free cash flow due to growth of our portfolio of term license contracts as well as from the renewal of customer contracts on an installment basis that were previously paid upfront. Over the past few years we have reduced the incentive for customers to pay upfront by reducing the discount rate used to calculate the upfront payment. We expect our free cash flow to continue to improve as our portfolio of term license contracts continues to grow.

Critical Accounting Estimates and Judgments

Our unaudited consolidated financial statements are prepared in accordance with GAAP. The preparation of our interim financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe that the assumptions and estimates associated with the following critical accounting policies have the greatest potential impact on our unaudited consolidated financial statements:

- revenue recognition;

- accounting for income taxes; and
- loss contingencies.

Revenue Recognition

Four basic criteria must be satisfied before software license revenue can be recognized: persuasive evidence of an arrangement between us and an end user; delivery of our product has occurred; the fee for the product is fixed or determinable; and collection of the fee is probable.

Persuasive evidence of an arrangement We use a signed contract as evidence of an arrangement for software licenses and SMS. For professional services we use a signed contract and a work proposal to evidence an arrangement. In cases where both a signed contract and a purchase order are required by the customer, we consider both taken together as evidence of the arrangement.

Delivery of our product Software and the corresponding access keys are generally delivered to customers via disk media with standard shipping terms of Free Carrier, our warehouse (i.e., FCA, named place). Our software license agreements do not contain conditions for acceptance.

Fee is fixed or determinable We assess whether a fee is fixed or determinable at the outset of the arrangement. Significant judgment is involved in making this assessment.

Under our upfront revenue model, we are able to demonstrate that the fees are fixed or determinable for all arrangements, including those for our term licenses that contain extended payment terms. We have an established history of collecting under the

Table of Contents

terms of these contracts without providing concessions to customers. In addition, we also assess whether a contract modification to an existing term arrangement constitutes a concession. In making this assessment, significant analysis is performed to ensure that no concessions are given. Our software license agreements do not include a right of return or exchange.

We cannot assert that the fees under our aspenONE licensing model and point product arrangements with Premier Plus SMS are fixed or determinable because the rights provided to customers, and the economics of the arrangements, are not comparable to our transactions with other customers under the upfront revenue model. As a result, the amount of revenue recognized for these arrangements is limited by the amount of customer payments that become due.

Collection of fee is probable We assess the probability of collecting from each customer at the outset of the arrangement based on a number of factors, including the customer's payment history, its current creditworthiness, economic conditions in the customer's industry and geographic location, and general economic conditions. If in our judgment collection of a fee is not probable, revenue is recognized as cash is collected, provided all other conditions for revenue recognition have been met.

Vendor-Specific Objective Evidence of Fair Value

We have established VSOE for certain SMS offerings, professional services, and training, but not for our software products or our Premier Plus SMS offering. We assess VSOE for SMS, professional services, and training based on an analysis of standalone sales of these offerings using the bell-shaped curve approach. We do not have a history of selling our Premier Plus SMS offering to customers on a standalone basis, and as a result are unable to establish VSOE for this new deliverable.

We allocate the arrangement consideration among the elements included in our multi-element arrangements using the residual method. Under the residual method, the VSOE of the undelivered elements is deferred and the remaining portion of the arrangement fee for perpetual and term licenses is recognized as revenue upon delivery of the software, assuming all other revenue recognition criteria are met. If VSOE does not exist for an undelivered element in an arrangement, revenue is deferred until such evidence does exist for the undelivered elements, or until all elements are delivered, whichever is earlier. Under the upfront revenue model, the residual license fee is recognized upon delivery of the software provided all other revenue recognition criteria were met. Arrangements that qualify for upfront recognition include sales of perpetual licenses, amendments to existing legacy term arrangements and renewals of legacy term arrangements.

Subscription and Software Revenue

Subscription and software revenue consists of product and related revenue from our (i) aspenONE licensing model, including the bundled SMS; (ii) point product arrangements with our Premier Plus SMS offering included for the contract term; (iii) legacy arrangements including (a) amendments to existing legacy term arrangements, (b) renewals of legacy term arrangements and (c) legacy arrangements that are being recognized over time as a result of not previously meeting one or more of the requirements for recognition under the upfront revenue model; and (iv) perpetual arrangements.

When a customer elects to license our products under our aspenONE licensing model, our Premier Plus SMS offering is included for the entire term of the arrangement and the customer receives, for the term of the arrangement, the right to any new unspecified future software products and updates that may be introduced into the licensed aspenONE software suite. Due to our obligation to provide unspecified future software products and updates, we are required to recognize revenue ratably over the term of the arrangement, once the other revenue recognition criteria noted above have been met.

Our point product arrangements with Premier Plus SMS include SMS for the term of the arrangement. Since we do not have VSOE for our Premier Plus SMS offering, the SMS element of our point product arrangements is not separable. As a result, revenue associated with point product arrangements with Premier Plus SMS included for the contract term is recognized ratably over the term of the arrangement, once the other revenue recognition criteria have been met.

Perpetual license and legacy arrangements do not include the same rights as those provided to customers under the aspenONE licensing model and point product arrangements with Premier Plus SMS. We continue to have VSOE for the legacy SMS offering provided in support of these license arrangements and can therefore separate the undelivered elements. Accordingly, the license fees for perpetual licenses and legacy arrangements continue to be recognized upon delivery of the software products using the residual method, provided all other revenue recognition requirements have been met.

Services and Other

SMS Revenue

SMS revenue includes the maintenance revenue recognized from arrangements for which we continue to have VSOE for the undelivered SMS offering (legacy SMS offering). For arrangements sold with our legacy SMS offering, SMS renewals are at the option of the customer, and the fair value of SMS is deferred and subsequently amortized over the contractual term of the SMS arrangement.

Table of Contents

Professional Services Revenue

Professional services are provided to customers on a time-and-materials, (or T&M), or fixed-price basis. We recognize professional services fees for our T&M contracts based upon hours worked and contractually agreed-upon hourly rates. Revenue from fixed-price engagements is recognized using the proportional performance method based on the ratio of costs incurred to the total estimated project costs. Project costs are typically expensed as incurred. The use of the proportional performance method is dependent upon our ability to reliably estimate the costs to complete a project. We use historical experience as a basis for future estimates to complete current projects. Additionally, we believe that costs are the best available measure of performance. Out-of-pocket expenses which are reimbursed by customers are recorded as revenue.

In certain circumstances, professional services revenue may be recognized over a longer time period than that which the services are performed. If the costs to complete a project are not estimable or the completion is uncertain, the revenue is recognized upon completion of the services. In circumstances in which professional services are sold as a single arrangement with, or in contemplation of, a new aspenONE license or point product arrangement with Premier Plus SMS, revenue is deferred and recognized on a ratable basis over the longer of (i) the period the services are performed, or (ii) the license term. When we provide professional services considered essential to the functionality of the software, we recognize the combined revenue from the sale of the software and related services using the completed contract or percentage-of-completion method.

We have occasionally been required to commit unanticipated additional resources to complete projects, which resulted in losses on those contracts. Provisions for estimated losses on contracts are made during the period in which such losses become probable and can be reasonably estimated.

Please refer to Management's Discussion and Analysis of Financial Condition and Result of Operations contained in Part II, Item 7 of our Annual Report on Form 10-K for our fiscal year ended June 30, 2012 for a discussion of our critical accounting policies and estimates related to accounting for income taxes and loss contingencies.

Table of Contents**Results of Operations***Comparison of the Three and Nine Months Ended March 31, 2013 and 2012*

The following table sets forth the results of operations and the period-over-period percentage change in certain financial data for the three and nine months ended March 31, 2013 and 2012 (in thousands, except percentages):

	Three Months Ended March 31,		Increase / (Decrease) Change %	Nine Months Ended March 31,		Increase / (Decrease) Change %
	2013	2012		2013	2012	
Revenue:						
Subscription and software	\$ 60,899	\$ 42,444	43.5 %	\$ 174,436	\$ 120,856	44.3 %
Services and other	18,458	18,893	(2.3)	53,687	58,261	(7.9)
Total revenue	79,357	61,337	29.4	228,123	179,117	27.4
Cost of revenue:						
Subscription and software	3,229	2,717	18.8	9,519	8,063	18.1
Services and other	9,420	9,713	(3.0)	27,841	31,113	(10.5)
Total cost of revenue	12,649	12,430	1.8	37,360	39,176	(4.6)
Gross profit	66,708	48,907	36.4	190,763	139,941	36.3
Operating expenses:						
Selling and marketing	22,958	24,279	(5.4)	67,852	70,043	(3.1)
Research and development	15,772	14,423	9.4	46,577	40,959	13.7
General and administrative	11,685	13,103	(10.8)	36,124	40,480	(10.8)
Restructuring charges	(41)	(84)	(51.2)	(7)	(143)	*
Total operating expenses	50,374	51,721	(2.6)	150,546	151,339	(0.5)
Income (loss) from operations	16,334	(2,814)	*	40,217	(11,398)	*
Interest income	807	1,776	(54.6)	2,861	6,041	(52.6)
Interest expense	(12)	(611)	(98.0)	(385)	(2,718)	(85.8)
Other expense, net	(18)	(26)	(30.8)	(352)	(2,483)	(85.8)
Income (loss) before provision for (benefit from) income taxes	17,111	(1,675)	*	42,341	(10,558)	*
Provision for (benefit from) income taxes	6,598	(1,155)	*	17,478	(2,138)	*
Net income (loss)	\$ 10,513	\$ (520)	* %	\$ 24,863	\$ (8,420)	* %

* Not meaningful

Table of Contents

The following table sets forth the results of operations as a percentage of net revenue in certain financial data for the three and nine months ended March 31, 2013 and 2012:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	2012	2013	2012
Revenue:				
Subscription and software	76.7 %	69.2 %	76.5 %	67.5 %
Services and other	23.3	30.8	23.5	32.5
Total revenue	100.0	100.0	100.0	100.0
Cost of revenue:				
Subscription and software	4.1	4.5	4.2	4.5
Services and other	11.9	15.8	12.2	17.4
Total cost of revenue	16.0	20.3	16.4	21.9
Gross profit	84.0	79.7	83.6	78.1
Operating expenses:				
Selling and marketing	28.9	39.5	29.7	39.1
Research and development	19.9	23.5	20.4	22.9
General and administrative	14.7	21.4	15.8	22.6
Restructuring charges	(0.1)	(0.1)	(0.0)	(0.1)
Total operating expenses	63.4	84.3	65.9	84.5
Income (loss) from operations	20.6	(4.6)	17.7	(6.4)
Interest income	1.0	2.9	1.3	3.4
Interest expense	(0.0)	(1.0)	(0.2)	(1.5)
Other expense, net	(0.0)	(0.0)	(0.2)	(1.4)
Income (loss) before provision for (benefit from) income taxes	21.6	(2.7)	18.6	(5.9)
Provision for (benefit from) income taxes	8.3	(1.9)	7.7	(1.2)
Net income (loss)	13.3 %	(0.8) %	10.9 %	(4.7) %

Revenue

Total revenue during the three and nine months ended March 31, 2013 increased by \$18.0 million and \$49.0 million compared to the corresponding periods of the prior fiscal year. The increases were due to higher subscription and software revenue of \$18.5 million and \$53.6 million, partially offset by lower services and other revenue of \$0.4 million and \$4.6 million, respectively.

Subscription and Software Revenue

	Three Months Ended March 31,		Period-to-Period Change		Nine Months Ended March 31,		Period-to-Period Change	
	2013	2012	\$	%	2013	2012	\$	%
	(Dollars in thousands)				(Dollars in thousands)			
	\$ 60,899	\$ 42,444	\$ 18,455	43.5 %	\$ 174,436	\$ 120,856	\$ 53,580	44.3 %

Subscription and software revenue				
As a percent of revenue	76.7 %	69.2 %	76.5 %	67.5 %

The increase in subscription and software revenue during the three and nine months ended March 31, 2013, compared to the corresponding periods of the prior fiscal year, was primarily the result of a larger base of arrangements being recognized on a ratable basis during the current quarter and the first nine months of fiscal 2013. We expect subscription and software revenue to continue to increase as customers renew expiring contracts formerly on the upfront revenue model. While we are transitioning to our aspenONE licensing model, we do not expect to recognize levels of revenue comparable to our pre-transition levels until a significant majority of license agreements executed under our upfront revenue model (i) reach the end of their original terms and (ii) are renewed.

The following tables summarize the amount of subscription and software revenue recognized on a ratable basis and under the residual method for the three and nine months ended March 31, 2013 and 2012, respectively. As illustrated below, the introduction of our aspenONE licensing model and the inclusion of our Premier Plus SMS offering with point product arrangements resulted in a substantial majority of our subscription and software revenue being recognized on a ratable basis in the first nine months of fiscal 2013 and 2012, respectively.

Table of Contents

	Three Months Ended March 31,		Three Months Ended March 31,			
	2013	2012	2013	2012		
	(Dollars in thousands)		% of Total			
Subscription and software revenue:						
Ratable	\$ 58,551	\$ 40,328	96.1	%		95.0 %
Residual method (1)	2,348	2,116	3.9			5.0 %
Subscription and software revenue	\$ 60,899	\$ 42,444	100.0	%		100.0 %

	Nine Months Ended March 31,		Nine Months Ended March 31,			
	2013	2012	2013	2012		
	(Dollars in thousands)		% of Total			
Subscription and software revenue:						
Ratable	\$ 162,253	\$ 100,509	93.0	%		83.2 %
Residual method (1)	12,183	20,347	7.0			16.8 %
Subscription and software revenue	\$ 174,436	\$ 120,856	100.0	%		100.0 %

(1) Residual method revenue detail

	Three Months Ended March 31,		Nine Months Ended March 31,			
	2013	2012	2013	2012		
	(Dollars in thousands)		(Dollars in thousands)			
Residual method revenue:						
Legacy arrangements	\$ 2,123	\$ 1,714	\$ 10,840	\$ 18,498		
Perpetual arrangements	225	402	1,343	1,849		
Total residual method revenue	\$ 2,348	\$ 2,116	\$ 12,183	\$ 20,347		

As noted in the table above, we recognized \$2.1 million and \$10.8 million of revenue related to legacy arrangements during the three and nine months ended March 31, 2013, compared to \$1.7 million and \$18.5 million in the corresponding periods of the prior fiscal year. We expect residual method revenue from legacy arrangements to decrease and be replaced with term-based licensing agreements that are recognized on a ratable basis. We do not expect revenue related to point products licensed on a perpetual basis to be a significant source of revenue during the remainder of fiscal 2013 and beyond. During the nine months ended March 31, 2012, we recognized \$6.0 million of revenue related to a renewal of a legacy arrangement.

Services and Other Revenue

	Three Months Ended March 31,		Period-to-Period Change		Nine Months Ended March 31,		Period-to-Period Change	
	2013	2012	\$	%	2013	2012	\$	%
	(Dollars in thousands)				(Dollars in thousands)			
Professional services revenue	\$ 7,513	\$ 5,958	\$ 1,555	26.1 %	\$ 19,413	\$ 16,757	\$ 2,656	15.9 %
SMS and other revenue	10,945	12,935	(1,990)	(15.4)	\$ 34,274	41,504	(7,230)	(17.4)

Edgar Filing: ASPEN TECHNOLOGY INC /DE/ - Form 10-Q

Services and other revenue	18,458	18,893	(435)	(2.3) %	53,687	58,261	(4,574)	(7.9) %
As a percent of revenue	23.3 %	30.8 %			23.5 %	32.5 %		

Professional Services Revenue

Professional services revenue during the three and nine months ended March 31, 2013 increased \$1.6 million and \$2.7 million, respectively, compared to the corresponding periods of the prior fiscal year.

The period-over-period increase in professional services revenue during the three months ended March 31, 2013 was primarily due to increased professional services activity, a reduction in net revenue deferrals on professional service arrangements sold as a single arrangement with, or in contemplation of, a new aspenONE license or point product arrangement with Premier Plus SMS, and favorable timing of revenue recognition on certain arrangements accounted for under the completed contract

Table of Contents

method. During the three months ended March 31, 2013, our net revenue deferrals of professional services revenue on arrangements recognized under a completed contract method decreased \$0.6 million compared to the corresponding period of the prior fiscal year.

The period-over-period increase in professional services revenue during the nine months ended March 31, 2013 was primarily due to increased professional services activity, and a reduction in the net revenue deferrals on professional service arrangements sold as a single arrangement with, or in contemplation of, a new aspenONE license or a point product arrangement with Premier Plus SMS, partially offset by revenue deferrals on arrangements which did not meet the requirements for revenue recognition. During the nine months ended March 31, 2013, we deferred \$1.9 million of professional services revenue accounted for under the completed contract method compared to \$1.2 million of revenue on such arrangements during the corresponding period of the prior fiscal year.

Under the aspenONE licensing model, revenue from committed professional service arrangements that are sold as a single arrangement with, or in contemplation of, a new aspenONE licensing transaction is deferred and recognized on a ratable basis over the longer of (a) the period the services are performed or (b) the term of the related software arrangement. As our typical contract term approximates five years, professional services revenue on these types of arrangements will usually be recognized over a longer period than the period over which the services are performed. During the three and nine months ended March 31, 2013, we had net revenue deferrals of \$0.5 million and \$2.0 million for professional services bundled with aspenONE transactions. By comparison, we had net revenue deferrals of \$0.8 million and \$3.1 million on similar arrangements during the three and nine months ended March 31, 2012.

SMS and Other Revenue

SMS and other revenue includes revenue from annually renewed, legacy SMS, offered in support of our perpetual and legacy term arrangements.

SMS and other revenue decreased by \$2.0 million and \$7.2 million during the three and nine months ended March 31, 2013 compared to the corresponding periods of the prior fiscal year. The decrease was primarily due to customers transitioning from legacy term and perpetual arrangements to term license arrangements that include Premier Plus SMS for the contract term. Under our aspenONE licensing model and for point product arrangements with Premier Plus SMS, the entire arrangement fee is included within subscription and software revenue. We expect legacy SMS revenue to continue to decrease as additional customers transition to our aspenONE licensing model. In the foreseeable future, we expect that SMS revenue will represent less than 10% of our total revenue, at which time we will include SMS revenue in the subscription and software line in our unaudited consolidated statements of operations.

Expenses

Cost of Subscription and Software Revenue

Three Months Ended March 31,	Period-to-Period Change	Nine Months Ended March 31,	Period-to-Period Change
---------------------------------	----------------------------	--------------------------------	----------------------------

Edgar Filing: ASPEN TECHNOLOGY INC /DE/ - Form 10-Q

	2013 (Dollars in thousands)		2012 (Dollars in thousands)		\$	%	2013 (Dollars in thousands)		2012 (Dollars in thousands)		\$	%
Cost of subscription and software revenue	\$	3,229	\$	2,717	\$	512	18.8%	9,519	8,063	\$	1,456	18.1%
Gross margin		94.7 %		93.6 %				94.5 %	93.3 %			

The period-over-period increase in cost of subscription and software revenue during the three and nine months ended March 31, 2013 was primarily due to a larger percentage of SMS services being provided to customers under our aspenONE licensing model and point product arrangements with Premier Plus SMS. We allocate the portion of SMS cost associated with providing support services on these arrangements to match the expense with the related revenue. As more customers transition to the aspenONE licensing model, more of the related SMS costs will be included in cost of subscription and software revenue. Additionally, the period-over-period increase in cost of subscription and software revenue during the three and nine months ended March 31, 2013 was attributable to higher amortization of purchased intangibles of \$0.2 million and \$0.5 million during the periods then ended, respectively.

Table of Contents**Cost of Services and Other Revenue**

	Three Months Ended March 31,		Period-to-Period Change		Nine Months Ended March 31,		Period-to-Period Change	
	2013	2012	\$	%	2013	2012	\$	%
Cost of services and other revenue	\$ 9,420	\$ 9,713	\$ (293)	(3.0) %	\$ 27,841	\$ 31,113	\$ (3,272)	(10.5) %
Gross margin	49.0 %	48.6 %			48.1 %	46.6 %		

Cost of services and other revenue includes the cost of providing professional services, training, annually renewed legacy SMS, and other revenue.

Cost of Professional Services Revenue

The cost of professional services revenue increased \$0.2 million during the three months ended March 31, 2013 compared to the corresponding period of the prior fiscal year. The increase was primarily attributable to recognition of revenue and costs on projects under the completed contract method, partially offset by lower compensation and related costs.

The cost of professional services revenue decreased \$1.2 million during the nine months ended March 31, 2013 compared to the corresponding period of the prior fiscal year. The decrease was primarily attributable to lower compensation and related costs, partially offset by an increase due to recognition of revenue and costs on projects under the completed contract method.

Cost of SMS and Other Revenue

Cost of SMS and other revenue decreased \$0.5 million and \$2.1 million during the three and nine months ended March 31, 2013 compared to the corresponding periods of the prior fiscal year. The period-over-period decrease in cost of SMS and other revenue was primarily due to the growth of our subscription-based revenue and the associated higher allocation of SMS support costs being reported in cost of subscription and software revenue. As the subscription business grows, we expect the cost of SMS revenue to continue to migrate from cost of services and other revenue to cost of subscription and software revenue. Eventually, we expect the majority of the costs of our SMS business to be presented in cost of subscription and software revenue.

Gross margin on services and other revenue increased from 48.6% during the three months ended March 31, 2012 to 49.0% during the corresponding period of the current fiscal year primarily due to improved margins within our professional services business. The gross margin increase within professional services was primarily attributable to increased revenues, as noted above.

Edgar Filing: ASPEN TECHNOLOGY INC /DE/ - Form 10-Q

Gross margin on services and other revenue increased from 46.6% during the nine months ended March 31, 2012 to 48.1% during the corresponding period of the current fiscal year primarily due to the increased professional services revenues and to the reduction in compensation and related costs on professional services, as noted above. As the gross margin on SMS has historically been higher than on professional services, and SMS revenue continues to migrate to subscription and software revenue, we expect the gross margin on services and other revenue to trend downward, however it may be variable on a quarter to quarter basis.

Selling and Marketing Expense

	Three Months Ended March 31,		Period-to-Period Change		Nine Months Ended March 31,		Period-to-Period Change	
	2013	2012	\$	%	2013	2012	\$	%
	(Dollars in thousands)				(Dollars in thousands)			
Selling and marketing expense	\$ 22,958	\$ 24,279	\$ (1,321)	(5.4) %	\$ 67,852	\$ 70,043	\$ (2,191)	(3.1) %
As a percent of revenue	28.9 %	39.5 %			29.7 %	39.1%		

The period-over-period decrease in selling and marketing expense during the three months ended March 31, 2013 was primarily the result of lower third-party commissions of \$0.8 million and lower compensation and related costs of \$0.5 million.

The period-over-period decrease in selling and marketing expense during the nine months ended March 31, 2013 was primarily the result of lower compensation and related costs of \$1.4 million and lower third-party commissions of \$1.0 million.

Table of Contents**Research and Development Expense**

	Three Months Ended March 31,		Period-to-Period Change		Nine Months Ended March 31,		Period-to-Period Change	
	2013	2012	\$	%	2013	2012	\$	%
	(Dollars in thousands)				(Dollars in thousands)			
Research and development expense	\$ 15,772	\$ 14,423	\$ 1,349	9.4 %	\$ 46,577	\$ 40,959	\$ 5,618	13.7%
As a percent of revenue	19.9 %	23.5 %			20.4 %	22.9 %		

The period-over-period increase in research and development expense during the three months ended March 31, 2013 was primarily the result of higher compensation and related costs of \$1.2 million, including higher stock-based compensation expense of \$0.5 million. These increases are primarily due to higher headcount.

The period-over-period increase in research and development expense during the nine months ended March 31, 2013 was primarily the result of higher compensation and related costs of \$5.5 million, including higher stock-based compensation expense of \$1.3 million. These increases are primarily due to higher headcount.

General and Administrative Expense

	Three Months Ended March 31,		Period-to-Period Change		Nine Months Ended March 31,		Period-to-Period Change	
	2013	2012	\$	%	2013	2012	\$	%
	(Dollars in thousands)				(Dollars in thousands)			
General and administrative expense	\$ 11,685	\$ 13,103	\$ (1,418)	(10.8)%	\$ 36,124	\$ 40,480	\$ (4,356)	(10.8) %
As a percent of revenue	14.7 %	21.4 %			15.8 %	22.6 %		

The period-over-period decrease in general and administrative expense during the three months ended March 31, 2013 was primarily attributable to a reduction in legal costs of \$0.7 million, lower provisions for bad debt of \$0.6 million and other less significant items that totaled \$0.4 million, partially offset by higher compensation and related costs of \$0.3 million.

The period-over-period decrease in general and administrative expense during the nine months ended March 31, 2013 was primarily attributable to a reduction in legal costs of \$3.4 million and other less significant items that totaled \$1.6 million, net, partially offset by higher compensation and related costs of \$0.6 million.

Interest Income

Edgar Filing: ASPEN TECHNOLOGY INC /DE/ - Form 10-Q

	Three Months Ended March 31,		Period-to-Period Change		Nine Months Ended March 31,		Period-to-Period Change	
	2013	2012	\$	%	2013	2012	\$	%
Interest income	\$ 807	\$ 1,776	\$ (969)	(54.6) %	\$ 2,861	\$ 6,041	\$ (3,180)	(52.6) %
As a percent of revenue	1.0 %	2.9 %			1.3 %	3.4 %		

The period-over-period decrease in interest income during the three and nine months ended March 31, 2013 was attributable to the continued decrease of our installments receivable portfolio, partially offset by the income generated from investments in marketable securities.

Table of Contents**Interest Expense**

	Three Months Ended March 31,		Period-to-Period Change		Nine Months Ended March 31,		Period-to-Period Change	
	2013	2012	\$	%	2013	2012	\$	%
	(Dollars in thousands)				(Dollars in thousands)			
Interest expense	\$ (12)	\$ (611)	\$ 599	(98.0) %	\$ (385)	\$ (2,718)	\$ 2,333	(85.8) %
As a percent of revenue	(0.0) %	(1.0) %			(0.2) %	(1.5) %		

The period-over-period decrease in interest expense during the three and nine months ended March 31, 2013 was attributable to the pay-down of our secured borrowings which were repaid in full during the second quarter of fiscal 2013.

Other Expense, Net

	Three Months Ended March 31,		Period-to-Period Change		Nine Months Ended March 31,		Period-to-Period Change	
	2013	2012	\$	%	2013	2012	\$	%
	(Dollars in thousands)				(Dollars in thousands)			
Other expense, net	\$ (18)	\$ (26)	\$ 8	(30.8) %	\$ (352)	\$ (2,483)	\$ 2,131	(85.8) %
As a percent of revenue	(0.0) %	(0.0) %			(0.2) %	(1.4) %		

Other expense, net is comprised primarily of unrealized and realized foreign currency exchange gains and losses generated from the settlement and remeasurement of transactions denominated in currencies other than the functional currency of our operating units. Other expense, net also includes miscellaneous non-operating gains and losses.

During the three months ended March 31, 2013 and 2012, other expense, net was comprised of less than \$0.1 million and \$0.2 million of net currency losses, respectively. During the nine months ended March 31, 2013 and 2012, other expense, net was comprised of \$0.4 million and \$2.6 million of net currency losses, respectively.

Provision for (Benefit from) Income Taxes

	Three Months Ended March 31,		Period-to-Period Change		Nine Months Ended March 31,		Period-to-Period Change	
	2013	2012	\$	%	2013	2012	\$	%
	(Dollars in thousands)				(Dollars in thousands)			
Provision for (benefit from) income taxes	\$ 6,598	\$ (1,155)	\$ 7,753	*	\$ 17,478	\$ (2,138)	\$ 19,616	*

Edgar Filing: ASPEN TECHNOLOGY INC /DE/ - Form 10-Q

Effective tax rate	38.6 %	(69.0) %	41.3 %	(20.3) %
--------------------	--------	----------	--------	----------

* Not meaningful

The effective tax rate for the periods presented is primarily the result of income earned in the U.S. taxed at U.S. federal and state statutory income tax rates, income earned in foreign tax jurisdictions taxed at the applicable rates, as well as the impact of permanent differences between book and tax income.

Our effective tax rate for the three and nine months ended March 31, 2013 and was 38.6% and 41.3%, respectively, compared to a benefit rate of 69.0% and 20.3% for the corresponding periods of the prior fiscal year.

During the three and nine months ended March 31, 2013, our income tax expense was driven primarily by pre-tax profitability in our domestic and foreign operations and the impact of non-deductible stock-based compensation.

During the three and nine months ended March 31, 2012, our income tax benefit was driven primarily by losses within the period and our belief that it is more likely than not that we will recognize this benefit in the future.

Liquidity and Capital Resources

Resources

In recent years, we have financed our operations principally with cash generated from operating activities. As of March 31,

Table of Contents

2013, our principal sources of liquidity consisted of \$139.0 million in cash and cash equivalents and \$75.1 million of marketable securities.

We believe our existing cash and cash equivalents and marketable securities, together with our cash flows from operating activities will be sufficient to meet our anticipated cash needs for at least the next twelve months. To the extent our cash and cash equivalents, marketable securities and cash flows from operating activities are insufficient to fund future activities, we may need to raise additional funds through the financing of receivables or from public or private equity or debt financings. We also may need to raise additional funds in the event we decide to make one or more acquisitions of businesses, technologies or products. If additional funding is required, we may not be able to effect a receivable, equity or debt financing on terms acceptable to us or at all.

Our cash equivalents of \$119.3 million consist primarily of money market funds. Our investments in marketable securities of \$75.1 million consist primarily of investment grade fixed income corporate debt securities with maturities ranging from less than one month to 22 months. The fair value of our portfolio is affected by interest rate movements, credit and liquidity risks. The objective of our investment policy is to manage our cash and investments to preserve principal and maintain liquidity, while earning a return on our investment portfolio by investing available funds. We diversify our investment portfolio by investing in multiple types of investment-grade securities and using a third-party investment manager.

The following table summarizes our cash flow activities for the periods indicated (dollars in thousands):

	Nine Months Ended	
	March 31,	
	2013	2012
Cash flow provided by (used in):		
Operating activities	\$ 112,624	\$ 82,970
Investing activities	(78,004)	(4,279)
Financing activities	(60,589)	(45,951)
Effect of exchange rates on cash balances	(231)	(161)
(Decrease) increase in cash and cash equivalents	\$ (26,200)	\$ 32,579

Operating Activities

Our primary source of cash is from the annual installments associated with our software license arrangements and related software support services, and to a lesser extent from professional services and training. We believe that cash inflows from our term license business will grow as we benefit from the continued growth of our portfolio of term license contracts, and as customers renew expiring contracts that were previously paid upfront. We anticipate that existing cash and cash equivalents and marketable securities balances, together with funds generated from operations, will be sufficient to finance our operations and meet our cash requirements for the foreseeable future.

Cash from operating activities provided \$112.6 million during the nine months ended March 31, 2013. This amount resulted from net income of \$24.9 million, adjusted for non-cash items of \$30.8 million, and a net source of cash of \$56.9 million due to net decreases in operating assets of \$39.0 million and net increases in operating liabilities of \$17.9 million.

Non-cash expenses within net income consisted primarily of \$11.3 million for stock-based compensation expense, deferred income tax expense of \$15.7 million, and \$4.1 million of depreciation and amortization.

A net decrease in operating assets of \$39.0 million and a net increase in operating liabilities of \$17.9 million contributed \$56.9 million to net cash from operating activities. Sources of cash consisted of decreases in installment and collateralized receivables totaling \$32.4 million, decreases in prepaid expenses, prepaid income taxes, and other assets totaling \$4.9 million, decreases in accounts receivable of \$2.4 million and increases in deferred revenue of \$29.1 million. Partially offsetting these sources of cash were increases in unbilled services of \$0.6 million and reductions in accounts payable, accrued expenses and other current liabilities of \$11.2 million

Investing Activities

During the nine months ended March 31, 2013, we used \$78.0 million of cash for investing activities. The cash used consisted of \$75.7 million for purchases of marketable securities related to a program which we initiated during the third quarter of fiscal 2013 to make direct investments in these assets.

Additional uses of cash during the period included \$3.0 million related to capital expenditures, primarily for computer hardware and software, \$0.9 million used for the purchase of technology intangibles, and \$0.6 million related to capitalized

Table of Contents

computer software development costs. Partially offsetting these uses of cash was the receipt of \$2.2 million for insurance proceeds. We do not expect our future investment in capital expenditures to be materially different from recent levels. We are not currently a party to any material purchase contracts related to future capital expenditures.

Financing Activities

During the nine months ended March 31, 2013, we used \$60.6 million of cash for financing activities. We paid \$59.3 million for the repurchase of our common stock, made net payments on secured borrowings of \$11.0 million, and paid withholding taxes of \$5.8 million on vested and settled restricted stock units. Sources of cash in the period included proceeds of \$15.4 million from the exercise of employee stock options.

Borrowings Collateralized by Receivable Contracts

We had no outstanding secured borrowings as of March 31, 2013 since the balance due to the financial institutions was repaid in full during the second quarter of fiscal 2013. We maintained arrangements with financial institutions for borrowings secured by our installments receivable contracts for which limited recourse existed against us. Under these programs, we and the financial institution negotiated the amount borrowed and interest rate secured by each receivable for each transaction. The customers' payments of the underlying receivables funded the repayment of the related amounts borrowed. We have never been required to repurchase the receivables for events of default in accordance with program terms. The collateralized receivables earned interest income, and the secured borrowings accrued borrowing costs at approximately the same interest rate.

Recently Issued and Adopted Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. ASU No. 2013-02 requires entities to present by component significant amounts reclassified out of accumulated other comprehensive income either on the face of the statement where net income is presented or in the notes to the financial statements. ASU No. 2013-02 is effective for annual and interim periods beginning after December 31, 2012 and should be applied prospectively. We adopted ASU No. 2013-02 during the third quarter of fiscal 2013. The adoption of ASU No. 2013-02 did not have a material effect on our financial position, results of operations or cash flows.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. ASU No. 2011-05 eliminates the option of presenting components of other comprehensive income as a part of the statement of changes in stockholders' equity. ASU No. 2011-05 requires entities to present all non-owner changes in stockholders' equity either on the face of the financial statements or in the notes. The non-owner changes in stockholders' equity are required to be presented on the face of the financial statements either as a single statement of comprehensive income or as two separate consecutive statements. ASU No. 2011-05 is effective for public entities for annual periods, and interim periods within those years, beginning after December 15, 2011 and should be applied retrospectively. We adopted ASU No. 2011-05 during the first quarter of fiscal 2013. The adoption of ASU No. 2011-05 did not have a material effect on our financial position, results of operations or cash flows.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

In the ordinary course of conducting business, we are exposed to certain risks associated with potential changes in market conditions. These market risks include changes in currency exchange rates and interest rates which could affect operating results, financial position and cash flows. We manage our exposure to these market risks through our regular operating and financing activities and, if considered appropriate, we may enter into derivative financial instruments such as forward currency exchange contracts.

Foreign Currency Risk

During the three and nine months ended March 31, 2013, 19.3% and 19.6% of our total revenue was denominated in a currency other than the U.S. dollar. In addition, certain of our operating costs incurred outside the United States are denominated in currencies other than the U.S. dollar. We conduct business on a worldwide basis and as a result, a portion of our revenue, earnings, net assets, and net investments in foreign affiliates is exposed to changes in foreign currency exchange rates. We measure our net exposure for cash balance positions and for currency cash inflows and outflows in order to evaluate the need to mitigate our foreign exchange risk. We may enter into foreign currency forward contracts to minimize the impact related to unfavorable exchange rate movements, although we have not done so during the three and nine months ended March 31, 2013 and 2012. Our largest exposures to foreign currency exchange rates exist primarily with the Euro, Pound Sterling, Canadian Dollar, and Japanese Yen.

During the three months ended March 31, 2013 and 2012, we recorded less than \$0.1 million and \$0.2 million of net foreign currency exchange losses related to the settlement and remeasurement of transactions denominated in currencies other than the functional currency of our operating units. Our analysis of operating results transacted in various foreign currencies indicated that a hypothetical 10% change in the foreign currency exchange rates could have increased or decreased the consolidated results of operations for the three months ended March 31, 2013 and 2012 by \$1.3 million and \$1.7 million, respectively.

During the nine months ended March 31, 2013 and 2012, we recorded \$0.4 million and \$2.6 million of net foreign currency exchange losses related to the settlement and remeasurement of transactions denominated in currencies other than the functional currency of our operating units. Our analysis of operating results transacted in various foreign currencies indicated that a hypothetical 10% change in the foreign currency exchange rates could have increased or decreased the consolidated results of operations for the nine months ended March 31, 2013 and 2012 by \$3.8 million and \$3.3 million, respectively.

Interest Rate Risk

We do not use derivative financial instruments in our investment portfolio. We place our investments in money market instruments and high quality, investment grade, fixed-income corporate debt securities that meet high credit quality standards, as specified in our investment guidelines.

Edgar Filing: ASPEN TECHNOLOGY INC /DE/ - Form 10-Q

We mitigate the risks by diversifying our investment portfolio and limiting the amount of investments in debt securities of any single issuer. As of March 31, 2013, our debt securities are short- to intermediate- term investments with maturities ranging from less than 1 month to 22 months.

Our analysis of our investment portfolio and interest rates at March 31, 2013 indicated that a 100 basis point increase or decrease in interest rates would result in a decrease or increase of approximately \$0.8 million in the fair value of our investment portfolio. At June 30, 2012, our investment portfolio consisted of money market instruments which were included in cash and cash equivalents on our Consolidated Balance Sheets.

Table of Contents

Item 4. Controls and Procedures

a) *Disclosure Controls and Procedures*

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2013. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Securities Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of March 31, 2013, and due to the material weakness in our internal controls over financial reporting described in *Management's Report on Internal Controls over Financial Reporting* on Form 10-K for our fiscal year ended June 30, 2012, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were not effective.

b) *Changes in Internal Controls Over Financial Reporting*

During the three months ended March 31, 2013, no changes other than those in conjunction with certain remediation efforts described below, were identified to our internal controls over financial reporting that materially affected, or were reasonably likely to materially affect, our internal controls over financial reporting.

c) *Remediation Efforts*

Management is committed to remediating the material weakness in internal controls related to the accounting for income taxes in a timely fashion. In fiscal 2012, we made significant progress toward executing remediation plans to address the material weakness. Specifically, we successfully implemented the following measures to improve our internal controls over income tax accounting and disclosure. We plan to further enhance these measures in the fourth quarter of fiscal 2013.

- Enhanced tax accounting processes and related controls, and increased capabilities of tax professionals to ensure that our accounting for income taxes and related disclosures can be completed accurately and in a timely manner;
- Increased the level of review and validation of work performed by management and third-party tax professionals in the preparation of our provision for income taxes; and

- Utilized third-party subject matter experts to assist us in determining the appropriate accounting for material and complex tax transactions.

In addition, in the fourth quarter of fiscal 2013, we will continue training and education efforts and implement remedial actions designed to address the areas where the material weakness was previously identified. If required, we will continue to utilize qualified external consultants to advise us on complex tax issues and to assist us in the preparation and review of our consolidated income tax provision.

d) Remediation Plans

Management, in coordination with the input, oversight and support of our Audit Committee, has identified the aforementioned measures to strengthen our internal controls over financial reporting and to address the material weakness described above. We began implementing these measures in fiscal 2012. We expect these remedial actions, related to this material weakness, to be effectively implemented in the fourth quarter of fiscal 2013 in order to successfully remediate the material weakness reported within the Form 10-K for the period ended June 30, 2012, by the end of fiscal 2013.

Table of Contents

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

Refer to Note 11, Commitments and Contingencies, in the Notes to the Unaudited Consolidated Financial Statements for information regarding certain legal proceedings, the contents of which are herein incorporated by reference.

Item 1A. Risk Factors.

The risks described in Item 1A. Risk Factors, in our Annual Report on Form 10-K for the year ended June 30, 2012, could materially and adversely affect our business, financial condition and results of operations. These risk factors do not identify all risks that we face - our operations could also be affected by factors that are not presently known to us or that we currently consider to be immaterial to our operations. The Risk Factors section of our 2012 Annual Report on Form 10-K remains current in material respects, with the exception of the revised risk factors below.

The majority of our revenue is attributable to operations outside the United States, and our operating results therefore may be materially affected by the economic, political, regulatory and other risks of foreign operations.

As of March 31, 2013, we operated in 30 countries. We sell our products primarily through a direct sales force located throughout the world. In the event that we are unable to adequately staff and maintain our foreign operations, we could face difficulties managing our international operations.

Customers outside the United States accounted for the majority of our total revenue during the nine months ended March 31, 2013 and 2012. We anticipate that revenue from customers outside the United States will continue to account for a significant portion of our total revenue for the foreseeable future. Our operating results attributable to operations outside the United States are subject to additional risks, including:

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

- less effective protection of intellectual property;

- requirements of foreign laws and other governmental controls;

- delays in the execution of license agreement renewals in the same quarter in which the original agreements expire;
- difficulties in collecting trade accounts receivable in other countries;
- adverse tax consequences; and
- the challenges of managing legal disputes in foreign jurisdictions.

Fluctuations in foreign currency exchange rates could result in declines in our reported revenue and operating results.

During the nine months ended March 31, 2013, 19.6% of our total revenue was denominated in a currency other than the U.S. dollar. In addition, certain of our operating expenses incurred outside the United States are denominated in currencies other than the U.S. dollar. Our reported revenue and operating results are subject to fluctuations in foreign exchange rates. Foreign currency risk arises primarily from the net difference between non-U.S. dollar receipts from customers outside the United States and non-U.S. dollar operating expenses for subsidiaries in foreign countries. Currently, our largest exposures to foreign exchange rates exist primarily with the Euro, Pound Sterling, Canadian dollar and Japanese Yen against the U.S. dollar. During the three and nine months ended March 31, 2013 and 2012, we have not entered into, and have not been a party to any, derivative financial instruments, such as forward currency exchange contracts, intended to manage the volatility of these market risks. We cannot predict the impact of foreign currency fluctuations, and foreign currency fluctuations in the future may adversely affect our revenue and operating results. Any hedging policies we may implement in the future may not be successful, and the cost of those hedging techniques may have a significant negative impact on our operating results.

Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

The following table provides information about purchases by us during the three months ended March 31, 2013 of shares of our common stock.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased (2)	(b) Average Price Paid per Share (3)	(c) Total Number of Shares Purchased as Part of Publicly Announced Program (1)	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
January 1 to 31, 2013	217,100	\$28.27	217,100	
February 1 to 28, 2013	265,044	\$30.37	265,044	
March 1 to 31, 2013	255,700	\$31.90	255,700	
Total	737,844	\$30.19	737,844	\$ 65,344,582

(1) On October 24, 2012, the Board of Directors approved a share repurchase program with a value of up to \$100 million of our common stock and no expiration date. This share repurchase program replaced the prior share repurchase program approved by the Board of Directors on November 1, 2011 with a value of up to \$100 million and terminated on October 24, 2012. The program approved on November 1, 2011 had replaced a repurchase program with a value of up to \$40 million which had been approved by the Board of Directors on October 29, 2010 and expired on October 31, 2011.

(2) As of March 31, 2013, the total number of shares of common stock repurchased under all programs approved by the Board of Directors was 5,415,974 shares.

(3) The total average price paid per share is calculated as the total amount paid for the repurchase of our common stock during the period divided by the total number of shares repurchased.

Table of Contents**Item 6. Exhibits.**

Exhibit Number	Description	Filed with this Form 10-Q	Form	Incorporated by Reference		Exhibit Number
				Filing Date with SEC		
31.1	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
31.2	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
32.1	Certification of President and Chief Executive Officer and Executive Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X				
101.INS	Instance Document	X				
101.SCH	XBRL Taxonomy Extension Schema Document	X				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	X				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	X				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	X				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	X				

Table of Contents

SIGNATURES

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.

Date: April 30, 2013	By:	Aspen Technology, Inc. /s/ MARK E. FUSCO Mark E. Fusco <i>President and Chief Executive Officer</i> <i>(Principal Executive Officer)</i>
Date: April 30, 2013	By:	/s/ MARK P. SULLIVAN Mark P. Sullivan <i>Executive Vice President and Chief Financial Officer</i> <i>(Principal Financial and Accounting Officer)</i>

Table of Contents**EXHIBIT INDEX**

Exhibit Number	Description	Filed with this Form 10-Q	Form	Incorporated by Reference	
				Filing Date with SEC	Exhibit Number
31.1	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
31.2	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
32.1	Certification of President and Chief Executive Officer and Executive Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X			
101.INS	Instance Document	X			
101.SCH	XBRL Taxonomy Extension Schema Document	X			
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	X			
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	X			
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	X			
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	X			