ASPEN TECHNOLOGY INC /DE/
Form 10-K/A
November 14, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1

to

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO

SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

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

For the fiscal year ended June 30, 2006.

or

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

For the transition period from to

Commission file number: 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 Number)
Ten Canal Park **Cambridge, Massachusetts** (Address of Principal Executive Offices)	**02141** (Zip Code)

Registrant s telephone number, including area code:

(617) 949-1000

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common stock, $0.10 par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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 x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated Filer x Non-accelerated Filer o

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

As of December 31, 2005, the aggregate market value of common stock (the only outstanding class of common equity of the Registrant) held by nonaffiliates of the Registrant was $319,758,462 based on a total of 40,733,562 shares of common stock held by nonaffiliates and on a closing price of $7.85 on December 31, 2005 for the common stock as reported on the Nasdaq Global Market.

As of November 10, 2006, 53,519,072 shares of common stock were outstanding.

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This Amendment No. 1 on Form 10-K/A, which we refer to as this Form 10-K/A, amends and restates portions of our Annual Report on Form 10-K for the fiscal year ended June 30, 2006 as originally filed with the SEC on September 28, 2006, which we refer to as the original Form 10-K.

Aspen is our registered trademark.

This Form 10-K/A contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbors created thereby. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words believes, anticipates, plans, expects and similar expressions are intended to identify forward-looking statements. Readers are cautioned that all forward-looking statements involve risks and uncertainties, many of which are beyond our control, including the factors set forth under Item 1A. Risk Factors in the original Form 10-K. Although we believe that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate and there can be no assurance that actual results will be the same as those indicated by the forward-looking statements included in this Form 10-K/A. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. Moreover, we assume no obligation to update these forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements.

EXPLANATORY NOTES

Purpose of this Form 10-K/A (Second Restatement)

In the course of preparing our condensed consolidated financial statements for the three months ended September 30, 2006, we identified errors in the accounting for stock-based compensation and certain revenue transactions in the fiscal year ended June 30, 2006. The stock-based compensation error was due to a calculation error associated with forfeiture rates upon the adoption of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* (SFAS No. 123R), as of July 1, 2005.

In order to correct these errors, we are restating our financial statements for the fiscal year ended June 30, 2006 in order to reflect (a) additional stock-based compensation expense of approximately $1.4 million and (b) additional revenues of approximately $0.3 million. We refer to this as the second restatement. These errors had no effect on the fiscal year ended June 30, 2004 or 2005.

This Form 10-K/A is being filed for the purpose of restating our consolidated financial statements for the year ended June 30, 2006. See Note 17 to the consolidated financial statements under the caption Second Restatement for a discussion of the second restatement. This Form 10-K/A updates the information provided in Items 6, 7, 8, 9A and 15 of the original Form 10-K for the effects of the second restatement. This Form 10-K/A has not been updated for events occurring after the filing of the original Form 10-K, except to reflect the second restatement.

First Restatement

The following describes the first restatement reflected in the original Form 10-K. We refer to this as the first restatement. This description has not changed in any material respect from the explanatory note provided in the original Form 10-K.

In connection with the preparation of financial statements for the fiscal year ended June 30, 2006, a subcommittee of independent members of our board of directors reviewed our accounting treatment for all stock options granted since we completed our initial public offering in fiscal 1995. Based upon the subcommittee s review, the Audit Committee and management determined that certain option grants during fiscal years 1995 through 2004 were accounted for improperly, and concluded that stock-based compensation associated with certain grants was misstated in fiscal years 1995 through 2005, and in the nine months ended March 31, 2006. The subcommittee identified errors related to the determination of the measurement dates for grants of options allocated among a pool of employees when the specific number of options to be awarded to specific employees had not yet been finalized, and other measurement date errors. As a result of the errors in determining measurement dates, we also recorded payroll withholding tax-related adjustments for certain options formerly classified as Incentive Stock Option (ISO) grants under Internal Revenue Service regulations. These options were determined to have been granted with an exercise price below the fair market value of our stock on the actual grant date, so do not qualify for ISO tax treatment. The disqualification of ISO classification and the resulting conversion to non-qualified status results in additional withholding taxes on exercise of those options. We recorded estimated payroll withholding tax charges of $0.5 million, $0.2 million, and $1.2 million for the years ended June 30, 2004, 2005, and 2006, respectively, in connection with the disqualification of such ISO tax treatment. The stock-based compensation charges, including the aforementioned withholding tax adjustments, increased net loss for the fiscal years ended June 30, 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, and the nine months ended March 31, 2006 by $0.2 million, $1.5 million, $10.0 million, $7.0 million, $10.4 million, $11.5 million, $9.5 million, $7.2 million, $0.5 million, and $ 1.0 million, respectively.

In addition, as a result of the errors in determining measurement dates, certain options were determined to have been granted with an exercise price below the fair market value of our stock on the

actual grant date. These discounted options vesting subsequent to December 2004 result in nonqualified deferred compensation for purposes of Section 409A of the Internal Revenue Code, and holders are subject to an excise tax on the value of the options in the year in which they vest. We have concluded that it is probable we will either implement a plan to assist the affected employees for the amount of this tax, or adjust the terms of the original option grant which would also have financial statement ramifications. As such, we recorded an estimated liability of approximately $1.0 million in the fourth quarter of fiscal 2006 in connection with this contingency.

The restatement of prior year financial statements also includes the adjustments for other errors identified after the applicable period had been reported. Such errors were not previously recorded because we believed the amount of any such errors, both individually and in the aggregate, were not material to our consolidated financial statements. These errors related to the timing of revenue recognition, losses on sales and disposals of assets, interest income, and the calculation of foreign currency gains and losses.

As a result of the foregoing, we have restated our financial statements as of June 30, 2005 and for the fiscal years ended June 30, 2004 and 2005 in our consolidated financial statements, beginning on page F-3. We show the effects of the first restatement on our financial statements for the years ended June 1999, 2000, 2001, 2002 and 2003 in Item 6, Selected Financial Data. We show the effects of the first restatement on each of the quarters in the year ended June 30, 2005 and the first three quarters in the year ended June 30, 2006 in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Quarterly Data.

We have not amended and we do not intend to amend any of our other previously filed annual reports on Form 10-K or quarterly reports on Form 10-Q for the periods affected by the first restatement. For this reason, the consolidated financial statements and related financial information contained in such previously filed reports should not be relied upon.

PART II

Item 6. Selected Financial Data

The following selected consolidated financial data have been derived from our consolidated financial statements. The financial information set forth below reflects the restatements of our financial statements as discussed in Note 17 of the Notes to Consolidated Financial Statements. These data should be read in conjunction with the Consolidated Financial Statements and Notes thereto, and Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

	Year Ended June 30, 2002			**2003**			**2004**	**2005**	**2006**
	As Previously Reported	**Adjustments(3)**	**As Restated(2)**	**As Previously Reported**	**Adjustments(3)**	**As Restated(2)**	**As Restated(1)**	**As Restated(1)**	**As Restated(1)**
	(In thousands, except per share data)								
Consolidated Statement of Operations Data:									
Revenues:									
Software licenses	$ 136,377	$	$ 136,377	$ 162,354	$ (270)	$ 162,084	$ 158,150	$ 129,621	$ 152,773
Service and other	186,005		186,005	184,102		184,102	174,296	140,373	140,814
Total revenues	322,382		322,382	346,456	(270)	346,186	332,446	269,994	293,587
Cost of revenues:									
Cost of software licenses	11,830		11,830	13,916		13,916	15,577	16,864	16,805
Cost of service and other	118,772	4,121	122,893	106,868	3,381	110,249	101,823	82,744	72,690
Amortization of technology related intangible assets	5,042		5,042	8,219		8,219	7,270	7,112	7,070
Impairment of technology related intangible and computer software development assets	1,169		1,169	8,704		8,704	3,250		
Total cost of revenues	136,813	4,121	140,934	137,707	3,381	141,088	127,920	106,720	96,565
Gross profit	185,569	(4,121)	181,448	208,749	(3,651)	205,098	204,526	163,274	197,022
Operating costs:									
Selling and marketing	114,755	2,943	117,698	105,879	2,414	108,293	101,806	96,275	84,505
Research and development	74,176	1,943	76,119	65,143	1,595	66,738	60,111	47,276	44,322
General and administrative	29,673	2,487	32,160	29,644	2,125	31,769	34,347	49,277	42,482
Long-lived asset impairment charges				105,543		105,543	967		
Restructuring charges and FTC legal costs	14,914		14,914	41,080	564	41,644	20,085	24,960	3,993
Charges for in-process research and development	14,900		14,900						
Loss (gain) on sales and disposals of assets	(346)		(346)	(52)		(52)	(879)	14,314	898
Total operating costs	248,072	7,373	255,445	347,237	6,698	353,935	216,437	232,102	176,200
Income (loss) from operations	(62,503)	(11,494)	(73,997)	(138,488)	(10,349)	(148,837)	(11,911)	(68,828)	20,822
Interest income	6,209		6,209	8,191		8,191	7,296	6,204	5,034
Interest expense	(5,591)		(5,591)	(7,132)		(7,132)	(4,940)	(4,170)	(985)
Write-off of investments	(8,923)		(8,923)						
Foreign currency exchange gain (loss)	(1,424)		(1,424)	(195)	(117)	(312)	1,009	(481)	1,076
Income (loss) before provision for (benefit from) income taxes and equity in earnings from joint ventures	(72,232)	(11,494)	(83,726)	(137,624)	(10,466)	(148,090)	(8,546)	(67,275)	25,947
Provision for income taxes	(3,599)		(3,599)	(1,076)	15	(1,061)	(20,158)	(3,499)	(8,706)
Equity in losses from joint ventures	(166)		(166)	(514)		(514)	(351)		
Net income (loss)	(75,997)	(11,494)	(87,491)	(139,214)	(10,451)	(149,665)	(29,055)	(70,774)	17,241
Accretion of preferred stock discount and dividend	(6,301)		(6,301)	(9,184)		(9,184)	(6,358)	(14,450)	(15,383)
	$ (82,298)	$ (11,494)	$ (93,792)	$ (148,398)	$ (10,451)	$ (158,849)	$ (35,413)	$ (85,224)	$ 1,858

Income (loss) applicable to common stockholders									
Basic income (loss) per share applicable to common stockholders	$ (2.55)	$ (0.35)	$ (2.90)	$ (3.86)	$ (0.27)	$ (4.13)	$ (0.87)	$ (2.01)	$ 0.04
Diluted income (loss) per share applicable to common stockholders	$ (2.55)	$ (0.35)	$ (2.90)	$ (3.86)	$ (0.27)	$ (4.13)	$ (0.87)	$ (2.01)	$ 0.03
Weighted average shares outstanding Basic	32,308		32,308	38,476		38,476	40,575	42,381	44,627
Weighted average shares outstanding Diluted	32,308		32,308	38,476		38,476	40,575	42,381	53,771

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	June 30, 2002 As Restated(2) (In thousands)	2003 As Restated(2)	2004 As Restated(1)	2005 As Restated(1)	2006 As Restated(1)
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 33,571	$ 51,567	$ 107,633	$ 68,149	$ 86,272
Working capital	43,607	36,476	14,926	2,856	25,499
Total assets	537,840	373,525	350,850	242,494	274,238
Long-term obligations, less current maturities	92,135	89,911	1,952	338	149
Redeemable convertible preferred stock		57,537	106,761	121,210	125,475
Total stockholders equity (deficit)	223,037	30,019	26,881	(51,617)	(21,631)

(1) See Note 17 to the Notes to the Consolidated Financial Statements for a discussion of the restatements.

(2) The restated amounts for these years are unaudited. The unaudited financial results for 1997 and 1998, which are not presented here, the unaudited financial results for 1999, 2000 and 2001, which are presented below in condensed form, and the selected consolidated financial data for 2002 and 2003, presented above, have been restated to reflect adjustments related to the restatement described in Explanatory Notes First Restatement above, and in Note 17 of the Notes to Consolidated Financial Statements. The restatement adjustments affecting these periods primarily related to compensation expense associated with the stock option review, and result in an increased loss applicable to common stockholders for the fiscal years ended June 30, 1997, 1998, 1999, 2000, 2001, 2002 and 2003 of $0.2 million, $1.5 million, $10.0 million, $7.0 million, $10.4 million, $11.5 million and $10.5 million, respectively. In the consolidated financial statements for the year ended June 30, 2004 these cumulative amounts are reflected as adjustments to the beginning balances of the accumulated deficit of Stockholders Equity in the Statement of Stockholders Equity (Deficit) and Comprehensive Income (Loss).

(3) The adjustments related to the year ended June 30, 2002 relate to compensation expense associated with the stock option review. Of the adjustments related to the year ended June 30, 2003, $9.5 million related to compensation expense associated with the stock option review and $1.0 million related to other adjustments.

Basic and diluted income (loss) per share and weighted average shares outstanding in the preceding table have been computed as described in note 2(i) to the Consolidated Financial Statements included elsewhere in this Form 10-K/A. We have never declared or paid cash dividends on our common stock.

Restatement of Financial Results for Periods Prior to Fiscal 2002

The financial information set forth below reflects the restatement of our financial statements for the years ended June 30, 1999, 2000 and 2001 for the items discussed in Explanatory Notes First Restatement above and in Note 17 of the Notes to Consolidated Financial Statements. The restatement also affects periods prior to fiscal 1999, for which the impact on the net loss for these periods is approximately $1.7 million in the aggregate. All adjustments for these periods relate to compensation expense associated with the stock option review.

	Year Ended June 30, 1999			**2000**			**2001**		
	As Previously Reported	**Adjustments**	**As Restated(1)**	**As Previously Reported**	**Adjustments**	**As Restated(1)**	**As Previously Reported**	**Adjustments**	**As Restated(1)**
Total revenues	$ 219,688	$	$ 219,688	$ 261,070	$	$ 261,070	$ 314,937	$	$ 314,937
Gross profit	126,684	(3,680)	123,004	165,047	(2,528)	162,519	183,820	(3,741)	180,079
Income (loss) from operations	(47,775)	(9,985)	(57,760)	(4,218)	(7,013)	(11,231)	(44,347)	(10,389)	(54,736)
Net income (loss)	$ (27,626)	$ (9,985)	($37,611)	$ (3,226)	$ (7,013)	$ (10,239)	$ (36,809)	$ (10,389)	$ (47,198)
Diluted net income (loss) per share	$ (1.01)	$ (0.36)	$ (1.37)	$ (0.10)	$ (0.23)	$ (0.33)	$ (1.23)	$ (0.35)	$ (1.58)

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(1) The Consolidated Financial Statements as of and for the years ended June 30, 1999, 2000 and 2001 were previously audited by Arthur Andersen LLP. The restated amounts for these years were derived from restated financial statements that have not been audited.

Restatement of Pro Forma Disclosures of Stock-Based Compensation for Periods Prior to Fiscal 2004

The financial information set forth below reflects the restatement of our pro forma disclosures made in accordance with Statement of Financial Accounting Standard No. 123, Accounting for Stock-Based Compensation for the years ended June 30, 1999, 2000, 2001, 2002 and 2003 for the items discussed in Explanatory Notes First Restatement above and in Note 17 of the Notes to Consolidated Financial Statements.

	1999	**2000**	**2001**	**2002**	**2003**
	All amounts as restated				
Income (loss) attributable to common shareholders (in thousands)					
As reported	$ (37,611)	$ (10,239)	$ (47,198)	$ (93,792)	$ (158,849)
Less: Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(30,483)	(30,558)	(36,043)	(33,228)	(24,081)
Add: Stock-based compensation expense included in reported net income (loss).	9,985	7,013	10,389	11,494	9,515
Pro forma	$ (58,109)	$ (33,784)	$ (72,852)	$ (115,526)	$ (173,415)
Income (loss) attributable to common shareholders per share					
Basic and diluted					
As reported	$ (1.37)	$ (0.36)	$ (1.58)	$ (2.90)	$ (4.13)
Pro forma	(2.11)	(1.20)	(2.43)	(3.58)	(4.51)

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The following Management s Discussion and Analysis of Financial Condition and Results of Operations gives effect to the restatements discussed in Note 17 to the Consolidated Financial Statements.

Overview

We are a leading supplier of integrated software and services to the process industries, which consist of oil and gas, petroleum, chemicals, pharmaceuticals and other industries that manufacture and produce products from a chemical process. We provide a comprehensive, integrated suite of software applications that utilize proprietary empirical models of chemical manufacturing processes to improve plant and process design, economic evaluation, production, production planning and scheduling, and operational performance, and an array of services designed to optimize the utilization of these products by our customers.

Restatements of Financial Results

First Restatement

In connection with the preparation of financial statements for the fiscal year ended June 30, 2006, a subcommittee of independent members of our board of directors reviewed our accounting treatment for all stock options granted since we completed our initial public offering in fiscal 1995. Based upon the subcommittee s review, the Audit Committee and management determined that certain option grants during fiscal years 1995 through 2004 were accounted for improperly, and concluded that stock-based compensation associated with certain grants was misstated in fiscal years 1995 through 2005, and in the nine months ended March 31, 2006. The subcommittee identified errors related to the determination of the measurement dates for grants of options allocated among a pool of employees when the specific number of options to be awarded to specific employees had not yet been finalized, and other measurement date errors. As a result of the errors in determining measurement dates, we also recorded payroll withholding tax-related adjustments for certain options formerly classified as Incentive Stock Option (ISO) grants under Internal Revenue Service regulations. These options were determined to have been granted with an exercise price below the fair market value of our stock on the actual grant date, so do not qualify for ISO tax treatment. The disqualification of ISO classification and the resulting conversion to non-qualified status results in additional withholding taxes on exercise of those options. We recorded estimated payroll withholding tax charges of $0.5 million, $0.2 million, and $1.2 million for the years ended June 30, 2004, 2005, and 2006, respectively, in connection with the disqualification of such ISO tax treatment. The stock-based compensation charges, including the aforementioned withholding tax adjustments, increased net loss for the fiscal years ended June 30, 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, and the nine months ended March 31, 2006 by $0.2 million, $1.5 million, $10.0 million, $7.0 million, $10.4 million, $11.5 million, $9.5 million, $7.2 million, $0.5 million, and $ 1.0 million, respectively.

In addition, as a result of the errors in determining measurement dates, certain options were determined to have been granted with an exercise price below the fair market value of our stock on the actual grant date. These discounted options vesting subsequent to December 2004 result in nonqualified deferred compensation for purposes of Section 409A of the Internal Revenue Code, and holders are subject to an excise tax on the value of the options in the year in which they vest. We have concluded that it is probable we will either implement a plan to assist the affected employees for the amount of this tax, or adjust the terms of the original option grant which would also have financial statement ramifications. As such, we recorded an estimated liability of approximately $1.0 million in the fourth quarter of fiscal 2006 in connection with this contingency.

The restatement of prior year financial statements relating to option grants also includes the adjustments for other errors identified after the applicable period had been reported. We refer to this as the first restatement. The adjustments for such other errors were not previously recorded because we believed the amount of any such errors, both individually and in the aggregate, were not material to our consolidated financial statements. These errors related to the timing of revenue recognition, losses on sales and disposals of assets, interest income, and the calculation of foreign currency gains and losses.

Second Restatement

In the course of preparing the condensed consolidated financial statements for the three months ended September 30, 2006, we identified errors in the accounting for stock-based compensation and certain revenue transactions in the fiscal year ended June 30, 2006. The stock-based compensation error was due to a calculation error associated with forfeiture rates upon the adoption of SFAS No. 123R, as of July 1, 2005.

In order to correct these errors, we have restated our financial statements for the fiscal year ended June 30, 2006 in order to reflect (a) additional stock-based compensation expense of approximately $1.4 million and (b) additional revenues of approximately $0.3 million. We refer to this as the second restatement. These errors had no effect on the fiscal year ended June 30, 2004 or 2005.

Effects of Restatements

As a result of the foregoing, we have restated our financial statements as of June 30, 2005 and 2006 and for the fiscal years ended June 30, 2004, 2005 and 2006 in our consolidated financial statements, beginning on page F-3. We show the effects of the first restatement on our financial statements for the years ended June 1999, 2000, 2001, 2002 and 2003 in Item 6, Selected Financial Data. We show the effects of the restatements on each of the quarters in the years ended June 30, 2005 and 2006 in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Quarterly Data.

Significant Events Year Ended June 30, 2006

Following mediation, on November 16, 2005, we and the plaintiffs on behalf of putative class members, defined to include all persons who purchased our common stock between October 29, 1999 and March 15, 2005, inclusive, whom we refer to collectively as the Class , entered into a Stipulation and Agreement of Compromise, Settlement and Release of Securities Action, which we refer to as the Stipulation, which was filed with the Court on the same date providing, among other things, for settlement and release of all direct and indirect claims of the Class concerning matters covered by the Stipulation. On December 12, 2005, the Court granted preliminary approval of the settlement provided for in the Stipulation. After notice to the Class and hearing, on March 6, 2006, the Court granted final approval of the settlement, and the class action lawsuit was dismissed with prejudice. We entered into the Stipulation to resolve the matter and without acknowledging any fault, liability or wrongdoing of any kind. There has been no adverse determination by the Court against us or any of the other defendants in the case.

Pursuant to the terms of the settlement, we paid $1.9 million and our insurance carrier paid $3.7 million into a settlement fund for a total of $5.6 million. Our $1.9 million payment was recorded in general and administrative expenses in the quarter ended September 30, 2005. All costs of preparing and distributing notices to members of the Class and administration of the settlement, together with all fees and expenses awarded to plaintiffs counsel and certain other expenses, will be paid out of the settlement fund, which will be maintained by an escrow agent under the Court s supervision.

Summary of Restructuring Accruals

Restructuring charges originally arising in Q4 FY05

In May 2005, we initiated a plan to consolidate several corporate functions and to reduce our operating expenses. The plan to reduce operating expenses primarily resulted in headcount reductions, and also included the termination of a contract and the consolidation of facilities. These actions resulted in an aggregate restructuring charge of $3.8 million, recorded in the fourth quarter of fiscal 2005. During the year ended June 30, 2006, we recorded an additional $1.8 million related to headcount reductions, relocation costs and facility consolidations associated with the May 2005 plan that did not qualify for accrual at June 30, 2005.

As of June 30, 2006, there was $0.6 million remaining in accrued expenses relating to the remaining severance obligations and lease payments. The components of the restructuring plan are as follows (in thousands):

Fiscal 2005 Restructuring Plan	**Closure/ Consolidation of Facilities**	**Employee Severance, Benefits, and Related Costs**	**Contract Termination Costs**	**Total**
Restructuring charge	$ 84	$ 3,465	$ 300	$ 3,849
Fiscal 2005 payments		(1,005)	(300)	(1,305)
Accrued expenses, June 30, 2005	84	2,460		2,544
Restructuring charge	614	1,157		1,771
Restructuring charge Accretion	1	21		22
Fiscal 2006 payments	(600)	(3,125)		(3,725)
Accrued expenses, June 30, 2006	$ 99	$ 513		$ 612
Expected final payment date	May 2007	December 2006		

Restructuring charges originally arising in Q4 FY04

In June 2004, we initiated a plan to reduce our operating expenses in order to better align our operating cost structure with the then-current economic environment and to improve our operating margins. The plan to reduce operating expenses resulted in the consolidation of facilities, headcount reductions, and the termination of operating contracts. These actions resulted in an aggregate restructuring charge of $23.5 million, recorded in the fourth quarter of fiscal 2004. During the year ended June 30, 2005, we recorded $14.4 million related to headcount reductions and facility consolidations associated with the June 2004 restructuring plan that did not qualify for accrual at June 30, 2004. In addition, we recorded $0.4 million in restructuring charges related to the accretion of the discounted restructuring accrual and a $0.8 million decrease to the accrual related to changes in estimates of severance benefits and sublease terms. During the year ended June 30, 2006, we recorded a $0.7 million increase to the accrual primarily due to a change in the estimate of future operating costs and sublease assumptions associated with the facilities.

As of June 30, 2006, there was $7.0 million remaining in accrued expenses relating to the remaining severance obligations and lease payments. The components of the restructuring plan are as follows (in thousands):

Fiscal 2004 Restructuring Plan	**Closure/ Consolidation of Facilities and Contract exit costs**	**Employee Severance, Benefits, and Related Costs**	**Asset Impairments**	**Total**
Restructuring charge	$ 20,484	$ 1,191	$ 1,776	$ 23,451
Fiscal 2004 payments	(8,435)	(280)		(8,715)
Impairment of assets			(1,776)	(1,776)
Accrued expenses, June 30, 2004	12,049	911		12,960
Restructuring charge	9,132	4,349	968	14,449
Impairment of assets			(968)	(968)
Fiscal 2005 payments	(12,915)	(4,534)		(17,449)
Restructuring charge Accretion	446	3		449
Change in estimate Revised assumptions	(287)	(497)		(784)
Accrued expenses, June 30, 2005	8,425	232		8,657
Change in estimate Revised assumptions	643	27		670
Restructuring charge Accretion	432			432
Fiscal 2006 payments	(2,645)	(67)		(2,712)
Accrued expenses, June 30, 2006	$ 6,855	$ 192	$	$ 7,047
Expected final payment date	September 2012	December 2006		

Restructuring charges originally arising in Q2 FY03

In October 2002, we initiated a plan to further reduce operating expenses in response to first quarter revenue results that were below expectations and to general economic uncertainties. In addition, we revised revenue expectations for the remainder of the fiscal year and beyond, primarily related to the manufacturing/supply chain product line, which had been affected the most by the economic conditions. The plan to reduce operating expenses resulted in headcount reductions, consolidation of facilities, and discontinuation of development and support for certain non-critical products. These actions resulted in an aggregate restructuring charge of $28.7 million. During fiscal 2004, we recorded a $4.9 million decrease to the accrual related to revised assumptions associated with lease exit costs, particularly the buyout of a remaining lease obligation, and severance obligations. During fiscal 2005 and fiscal 2006, we recorded $7.0 million and $1.0 million increases, respectively to the accrual primarily due to a change in the estimate of the facility vacancy term, extending to the term of the lease.

As of June 30, 2006, there was $10.0 million remaining in accrued expenses relating to the remaining lease payments. The components of the restructuring plan are as follows (in thousands):

Fiscal 2003 Restructuring Plan	Closure/ Consolidation of Facilities	Employee Severance, Benefits, and Related Costs	Impairment of Assets and Disposition Costs	Total
Restructuring charge	$ 17,347	$ 10,028	$ 1,278	$ 28,653
Additional impairment of assets			302	302
Fiscal 2003 payments	(3,548)	(7,297)		(10,845)
Accrued expenses, June 30, 2003	13,799	2,731	1,580	18,110
Fiscal 2004 payments	(2,567)	(2,170)	(770)	(5,507)
Change in estimate Revised assumptions	(4,507)	(269)	(134)	(4,910)
Accrued expenses, June 30, 2004	6,725	292	676	7,693
Fiscal 2005 payments	(2,266)	(63)	(403)	(2,732)
Change in estimate Revised assumptions	7,239	(69)	(195)	6,975
Accrued expenses, June 30, 2005	11,698	160	78	11,936
Change in estimate Revised assumptions	1,116	(95)		1,021
Fiscal 2006 payments	(2,848)	(65)	(78)	(2,991)
Accrued expenses, June 30, 2006	$ 9,966	$	$	$ 9,966
Expected final payment date	September 2012			

Restructuring charges originally arising in Q4 FY02

In the fourth quarter of fiscal 2002, we initiated a plan to reduce operating expenses and to restructure operations around our two primary product lines, engineering software and manufacturing/supply chain software. We reduced worldwide headcount by approximately 10%, or 200 employees, closed and consolidated facilities, and disposed of certain assets, resulting in an aggregate restructuring charge of $13.2 million. During fiscal 2004, we recorded a $1.5 million decrease to the accrual related to revised assumptions associated with lease exit costs, particularly the buyout of a remaining lease obligation, and severance obligations. During fiscal 2005, we recorded a $0.2 million increase to the accrual due to changes in estimates of sublease assumptions and severance settlements. During fiscal 2006, we recorded a $0.1 million increase to the accrual due to changes in estimates of sublease assumptions.

As of June 30, 2006, there was $0.5 million remaining in accrued expenses relating to the remaining severance obligations and lease payments. The components of the restructuring plan are as follows (in thousands):

Fiscal 2002 Restructuring Plan	**Closure/ Consolidation of Facilities**	**Employee Severance, Benefits, and Related Costs**	**Total**
Restructuring charge	$ 4,901	$ 8,285	$ 13,186
Fiscal 2002 payments		(1,849)	(1,849)
Accrued expenses, June 30, 2002	4,901	6,436	11,337
Fiscal 2003 payments	(695)	(4,748)	(5,443)
Accrued expenses, June 30, 2003	4,206	1,688	5,894
Fiscal 2004 payments	(1,302)	(1,060)	(2,362)
Change in estimate Revised assumptions	(1,221)	(320)	(1,541)
Accrued expenses, June 30, 2004	1,683	308	1,991
Fiscal 2005 payments	(994)	(284)	(1,278)
Change in estimate Revised assumptions.	93	87	180
Accrued expenses, June 30, 2005	782	111	893
Change in estimate Revised assumptions	75		75
Fiscal 2006 payments	(375)	(66)	(441)
Accrued expenses, June 30, 2006	$ 482	$ 45	$ 527
Expected final payment date	September 2012	December 2006	

Critical Accounting Estimates and Judgments

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of our financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, 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. The significant accounting policies that we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

- revenue recognition for both software licenses and fixed-fee consulting services;
- impairment of long-lived assets, goodwill and intangible assets;
- accrual of legal fees associated with outstanding litigation;
- accounting for income taxes;
- allowance for doubtful accounts;
- accounting for securitization of installments receivable;
- restructuring accruals; and
- accounting for stock-based compensation.

Revenue Recognition Software Licenses

We recognize software license revenue in accordance with SOP No. 97-2, Software Revenue Recognition , as amended by SOP No. 98-4 and SOP No. 98-9, as well as the various interpretations and clarifications of those statements. When we provide professional services considered essential to the functionality of the software, we recognize revenue from the fees for such revenue and any related software licenses in accordance with SOP 81-1, Accounting for Performance of Construction Type and Certain Performance Type Contracts . These statements require that four basic criteria must be satisfied before software license revenue can be recognized:

- persuasive evidence of an arrangement between ourselves and a third party exists;
- delivery of our product has occurred;
- the sales price for the product is fixed or determinable; and
- collection of the sales price is probable.

Our management uses its judgment concerning the satisfaction of these criteria, particularly the criteria relating to the determination of whether the fee is fixed and determinable and the criteria relating to the collectibility of the receivables, particularly the installments receivable, relating to such sales. These two criteria are particularly relevant to reseller transactions where, specifically, revenue is only recognized upon delivery to the end user, since the determination of whether the fee is fixed or determinable and whether collection is probable is more difficult. Should changes and conditions cause management to determine that these criteria are not met for certain future transactions, all or substantially all of the software license revenue recognized for such transactions could be deferred.

Revenue Recognition Fixed-Fee Consulting Services

We recognize revenue associated with fixed-fee service contracts in accordance with the proportional performance method, measured by the percentage of costs (primarily labor) incurred to date as compared to the estimated total costs (primarily labor) for each contract. When a loss is anticipated on a contract, the full amount of the anticipated loss is provided currently. Our management uses its judgment concerning the estimation of the total costs to complete the contract, considering a number of factors including the experience of the personnel that are performing the services and the overall complexity of the project. We have a significant amount of experience in the estimation of the total costs to complete a contract and have not typically recorded material losses related to these estimates. We do not expect the accuracy of our estimates to change significantly in the future. Should changes and conditions cause actual results to differ significantly from management s estimates, revenue recognized in future periods could be adversely affected.

Impairment of Long-lived Assets, Goodwill and Intangible Assets

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, we review the carrying value of long-lived assets when circumstances dictate that they should be reevaluated, based upon the expected future operating cash flows of our business. These future cash flow estimates are based on historical results, adjusted to reflect our best estimate of future markets and operating conditions, and are continuously reviewed based on actual operating trends. Historically, actual results have occasionally differed from our estimated future cash flow estimates. In the future, actual results may differ materially from these estimates, and accordingly cause a full impairment of our long-lived assets.

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, we conduct at least an annual assessment on January 1st of the carrying value of our goodwill assets, which is based on either

estimates of future income from the reporting units or estimates of the market value of the units, based on comparable recent transactions. These estimates of future income are based upon historical results, adjusted to reflect our best estimate of future markets and operating conditions, and are continuously reviewed based on actual operating trends. Historically, actual results have occasionally differed from our estimated future cash flow estimates. In the future, actual results may differ materially from these estimates. In addition, the relevancy of recent transactions used to establish market value for our reporting units is based on management s judgment.

During the year ended June 30, 2004, we recorded $4.2 million in charges related to the impairment of certain long-lived assets and technology related intangible and computer software development assets. The timing and size of future impairment charges involves the application of management s judgment and estimates and could result in the impairment of all or substantially all of our long-lived assets, intangible assets and goodwill, which totaled $44.0 million as of June 30, 2006.

Accrual of Legal Fees Associated with Outstanding Litigation

We accrue estimated future legal fees associated with outstanding litigation for which management has determined that it is probable that a loss contingency exists. This requires management to estimate the amount of legal fees that will be incurred in the defense of the litigation. These estimates are based heavily on our expectations of the scope, length to complete and complexity of the claims. Historically, as these factors have changed after our original estimates, we have adjusted our estimates accordingly. In the future, additional adjustments may be recorded as the scope, length or complexity of outstanding litigation changes.

Accounting for Income Taxes

As part of the process of preparing our consolidated financial statements we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax liabilities together with the assessment of temporary differences resulting from differing treatment of items, such as deferred revenue, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. Deferred tax assets also result from unused operating loss carryforwards, research and development tax credit carryforwards and foreign tax credit carryforwards. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase or decrease this allowance in a period, the impact will be included in the tax provision in our statement of operations.

Significant management judgment is required in determining any valuation allowance recorded against these deferred tax assets and liabilities. The valuation allowance is based on our estimates of taxable income by jurisdiction in which we operate and the period over which our deferred tax assets will be recoverable. In the event that actual results differ from these estimates or we adjust these estimates in future periods we may need to establish an additional valuation allowance which could result in a tax provision equal to the carrying value of our deferred tax assets. During the year ended June 30, 2004, we recorded a $14.6 million valuation allowance against our U.S. domiciled net deferred tax assets. Since that point, we have provided a full valuation allowance for all U.S. domiciled net deferred tax assets.

Allowance for Doubtful Accounts

We make judgments as to our ability to collect outstanding receivables and provide allowances for the portion of receivables for which collection is doubtful. Provisions are made based upon a specific review of all significant outstanding invoices. In determining these provisions, we analyze our historical collection

experience and current economic trends. If the historical data we use to calculate the allowance provided for doubtful accounts do not reflect the future ability to collect outstanding receivables, additional provisions for doubtful accounts may be required for all or substantially all of certain receivable balances.

Accounting for Securitization of Installments Receivable

We made judgments with respect to several variables associated with our June 2005 securitization transaction that had a significant impact on the valuation of our retained interest in the sold receivables, as well as the calculation of the loss on the transaction. These judgments include the discount rate used to value the retained interest in the sold receivables, and estimates of rates of default. In determining these factors, we consulted third parties with respect to fair market discount rates, and analyzed our historical collection experience to default rates and collection timing. If the historical collection data do not reflect the future ability to collect outstanding receivables, the value of our retained interest may fluctuate.

Accounting for Restructuring Accruals

We follow SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities. In accounting for these obligations, we are required to make assumptions related to the amounts of employee severance, benefits, and related costs and to the time period over which facilities will remain vacant, sublease terms, sublease rates and discount rates. We base our estimates and assumptions on the best information available at the time the obligation has arisen. These estimates are reviewed and revised as facts and circumstances dictate; changes in these estimates could have a material effect on the amount accrued on the balance sheet.

Accounting for Stock-Based Compensation

We adopted SFAS No. 123(R), Share-Based Payment, effective July 1, 2005. Under the fair value provisions of this statement, stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the vesting period. SFAS 123(R) requires significant judgment and the use of estimates, particularly for assumptions such as stock price volatility and expected option lives, as well as expected option forfeiture rates to value stock-based compensation in net income. If actual results differ significantly from these estimates, stock-based compensation expense and our results of operations could fluctuate significantly.

Results of Operations

The following table sets forth the percentages of total revenues represented by certain consolidated statement of operations data for the periods indicated:

	Year Ended June 30,		
	2004	**2005**	**2006**
Revenues:			
Software licenses	47.6 %	48.0 %	52.0 %
Service and other	52.4	52.0	48.0
Total revenues	100.0	100.0	100.0
Cost of revenues:			
Cost of software licenses	4.7	6.3	5.7
Cost of service and other	30.6	30.6	24.8
Amortization of technology related intangible assets	2.2	2.6	2.4
Impairment of technology related intangible and computer software development assets	1.0		
Total cost of revenues	38.5	39.5	32.9
Gross margin	61.5	60.5	67.1
Operating costs:			
Selling and marketing	30.6	35.7	28.7
Research and development	18.1	17.5	15.1
General and administrative	10.4	18.3	14.5
Long-lived asset impairment charges	0.3		
Restructuring charges and FTC legal costs	6.0	9.2	1.4
Loss (gain) on sales and disposals of assets	(0.3)	5.3	0.3
Total operating costs	65.1	86.0	60.0
Income (loss) from operations	(3.6)	(25.5)	7.1
Interest income	2.2	2.3	1.6
Interest expense	(1.5)	(1.5)	(0.3)
Foreign currency exchange gain (loss)	0.3	(0.2)	0.4
Income (loss) before provision for income taxes and equity in earnings from joint ventures	(2.6)%	(24.9)%	8.8 %

Comparison of Fiscal 2006 to Fiscal 2005

Revenues. Revenues are derived from software licenses, consulting services and maintenance and training. Total revenues for fiscal 2006 increased 8.7% to $293.6 million from $270.0 million in fiscal 2005. Total revenues from customers outside the United States were $167.0 million or 56.9% of total revenues and $162.7 million or 60.3% of total revenues for fiscal 2006 and 2005, respectively. The geographical mix of revenues can vary from period to period.

Software license revenues represented 52.0% and 48.0% of total revenues for fiscal 2006 and 2005, respectively. Revenues from software licenses in fiscal 2006 increased 17.9% to $152.8 million from $129.6 million in fiscal 2005. Software license revenues are attributable to software license renewals covering existing users, the expansion of existing customer relationships through licenses covering additional users, licenses of additional software products, and, to a lesser extent, to the addition of new customers. Our new customer base is less significant since we believe that we already have the significant players in the process industries as existing customers. We believe that the increase principally reflected

strength in our energy end-market, as well as continued strength in our chemicals and engineering & construction end-markets, combined with the increased efforts and time that our management were able to dedicate to software license activities, and the increased willingness of our customers to make investments in our products, following the resolution of the Federal Trade Commission, or FTC, proceedings and the audit committee investigation in fiscal 2005.

Revenues from service and other consist of consulting services, post-contract support on software licenses, training and sales of documentation. Revenues from service and other were relatively unchanged at $140.8 million for fiscal 2006 and $140.4 for fiscal 2005 as a 1.8% decline in the consulting services business was offset by a 1.5% increase in maintenance and training revenues. Consulting services declined due to the December 2004 sale of a portion of our consulting business to Honeywell, as part of our settlement with the FTC.

Cost of Software Licenses. Cost of software licenses consists of royalties, amortization of previously capitalized software costs, costs related to delivery of software, including disk duplication and third-party software costs, printing of manuals and packaging. Cost of software licenses for fiscal 2006 decreased to $16.8 million from $16.9 million in fiscal 2005. Cost of software licenses as a percentage of revenues from software licenses decreased to 11.0% for fiscal 2006 from 13.0% for fiscal 2005. The reduction in cost as a percentage of revenue is due to the increase in revenue over a base of costs, of which many are fixed in nature.

Cost of Service and Other. Cost of service and other consists of the cost of execution of application consulting services, technical support expenses and the cost of training services. Cost of service and other for fiscal 2006 decreased 12.2% to $72.7 million from $82.7 million for fiscal 2005. Cost of service and other, as a percentage of revenues from service and other, decreased to 51.6% for fiscal 2006 from 58.9% for fiscal 2005. The decrease in cost is primarily due to decreased payroll costs of $8.9 million and decreased rent and facility costs of $3.5 million related to reductions in headcount and facility consolidations offset in part by increases of $3.1 million in reimbursable costs and a $2.1 million increase in stock-based compensation costs.

Amortization of Technology Related Intangible Assets. Amortization of technology related intangible assets consists of the amortization from intangible assets obtained in acquisitions. These assets are generally being amortized over a period of three to five years. Amortization expense was $7.1 million in both fiscal 2006 and fiscal 2005.

Selling and Marketing. Selling and marketing expenses for fiscal 2006 decreased 12.2% to $84.5 million from $96.3 million for fiscal 2005, declining as a percentage of total revenues to 28.7% from 35.7%. The reduction in cost is primarily due to a decrease in payroll costs of $4.0 million, lower rent and facility costs of $5.9 million, lower marketing and advertising costs of $2.2 million, lower travel expenses of $1.5 million and a $2.7 million decrease in advertising costs related to AspenWorld, which took place in October 2004, partially offset by a $3.1 million increase in stock-based compensation costs.

Research and Development. Research and development expenses consist of personnel and outside consultancy costs required to conduct our product development efforts. Research and development expenses for fiscal 2006 decreased 6.2% to $44.3 million from $47.3 million for fiscal 2005, and decreased as a percentage of total revenues to 15.1% from 17.5%. The decrease is primarily attributable to a $0.7 million decrease in payroll costs, a $1.7 million reduction in consultant costs, a $1.0 million reduction in depreciation, and a $0.5 million decrease in rent and facility costs, partially offset by a $1.2 million decrease in software development costs eligible for capitalization and a $1.6 million increase in stock-based compensation costs.

We capitalized software development costs that amounted to 13.9% of our total engineering costs during fiscal 2006, as compared to 15.3% in fiscal 2005. These percentages will vary from quarter to quarter and year to year, depending upon the stage of development for the various projects in a given period.

General and Administrative. General and administrative expenses consist primarily of salaries of administrative, executive, financial and legal personnel, and outside professional fees. General and administrative expenses for fiscal 2006 decreased 13.8% to $42.5 million from $49.3 million for fiscal 2005, and decreased as a percentage of total revenues to 14.3% from 18.3%. This decrease is due to a $7.1 million reduction in legal, accounting and consulting costs associated with the internal investigation by the audit committee, a $1.9 million decrease in payroll costs, and a $1.0 million reduction in rent and facility costs, partially offset by a $3.3 million increase in stock-based compensation costs and increased recruiting costs of $0.7 million.

Restructuring Charges and FTC Legal Costs. During fiscal 2006 we recorded an additional $1.8 million related to headcount reductions, relocation costs and facility consolidations associated with the May 2005 plan that did not qualify for accrual at June 30, 2005. The remaining $2.2 million relates to revisions of estimates associated with lease exit costs and accretion of the discounted restructuring accruals under previous restructuring plans. During fiscal 2005, we recorded $25.0 million in restructuring charges and FTC legal costs. Of this amount, $14.4 million related to headcount reductions and facility consolidations associated with the June 2004 restructuring plan that did not qualify for accrual at June 30, 2004, $3.8 million related to the May 2005 restructuring charge, $0.4 million related to the accretion of discounted restructuring accruals, and $6.5 million related to adjustments to prior restructuring accruals, all offset by $0.2 million in FTC legal cost, related to the FTC challenge of our acquisition of Hyprotech.

Loss (Gain) on Sales of Assets. Losses and gains on sales and disposals of assets primarily result from our programs to sell installment receivable contracts and from disposals of fixed assets. Loss on sales of assets was a $0.9 million loss in fiscal 2006 as compared to a $14.3 million loss in fiscal 2005. This decline is due to the absence of the $14.6 million loss incurred on the securitization of installments receivable in fiscal 2005.

Interest Income. Interest income is generated from investment of excess cash and from the license of software pursuant to installment contracts. Under these installment contracts, we offer a customer the option to make annual payments for its term licenses instead of a single license fee payment at the beginning of the license term. Historically, a substantial majority of the asset optimization customers have elected to license these products through installment contracts. Included in the annual payments is an implicit interest rate established by us at the time of the license. As we sell more perpetual licenses for value chain solutions, these sales are being paid for in forms that are generally not installment contracts. If the mix of sales moves away from installment contracts, interest income in future periods will be reduced.

We sell a portion of the installment contracts to unrelated financial institutions. The interest earned by us on the installment contract portfolio in any one year is the result of the implicit interest rate established by us on installment contracts and the size of the contract portfolio. Interest income was $5.0 million for fiscal 2006 as compared to $6.2 million in fiscal 2005. This decrease primarily is due to the securitization of approximately $71.2 million of our installments receivable in June 2005, which significantly lowered the average carrying balance of our installments receivable.

Interest Expense. Interest expense was incurred under our convertible debentures and through the course of other financing transactions. Interest expense in fiscal 2006 decreased to $1.0 million from $4.2 million in fiscal 2005. This decrease in interest expense resulted from the retirement of our convertible debentures in June 2005.

Foreign currency exchange gain (loss). Foreign currency exchange gains and losses are primarily incurred through the revaluation of receivables denominated in foreign currencies. In fiscal 2006 we recorded a foreign currency exchange gain of $1.1 million, compared to a $0.5 million loss in fiscal 2005. This increase was primarily due to favorable exchange rate fluctuations and effective hedging of foreign receivable balances.

Provision for/Benefit from Income Taxes. We recorded a provision for income taxes of $8.7 million for fiscal 2006, primarily related to foreign taxes. We recorded a provision for income taxes of $3.5 million for fiscal 2005 and provided a full valuation allowance against the net operating losses generated during fiscal 2005.

Under SFAS No. 109, a deferred tax asset related to the future benefit of a tax loss carryforward should be recorded unless we make a determination that it is more likely than not that such deferred tax asset would not be realized. Accordingly, a valuation allowance would be provided against the deferred tax asset to the extent that we cannot demonstrate that it is more likely than not that the deferred tax asset will be realized. In determining the amount of valuation allowance required, we consider numerous factors, including historical profitability, estimated future taxable income, the volatility of the historical earnings, and the volatility of earnings of the industry in which we operate. We periodically review our deferred tax asset to determine if such asset is realizable.

Comparison of Fiscal 2005 to Fiscal 2004

Revenues. Total revenues for fiscal 2005 decreased 18.8% to $270.0 million from $332.4 million in fiscal 2004. Total revenues from customers outside the United States were $162.7 million or 60.3% of total revenues and $190.8 million or 57.4% of total revenues for fiscal 2005 and 2004, respectively. The geographical mix of revenues can vary from period to period.

Software license revenues represented 48.0% and 47.6% of total revenues for fiscal 2005 and 2004, respectively. Revenues from software licenses in fiscal 2005 decreased 18.3% to $129.6 million from $158.2 million in fiscal 2004. Software license revenues are attributable to software license renewals covering existing users, the expansion of existing customer relationships through licenses covering additional users, licenses of additional software products, and, to a lesser extent, to the addition of new customers. We believe that the decrease was primarily due to distractions caused by the ongoing uncertainty of the FTC proceedings, our audit committee investigation, changes in sales management and delays in purchasing from customers.

Revenues from service and other for fiscal 2005 decreased 19.5% to $140.4 million from $174.3 million for fiscal 2004. These decreases were attributable primarily to the consulting services business. Consulting services decreased due to the general low-level of licenses of our supply chain products during the two most recent fiscal years. Our consulting services are more heavily linked to the implementation of our supply chain products than they are to our other products. We believe that the decrease was also due to distractions caused by the ongoing uncertainty of the FTC proceedings and our audit committee investigation.

Cost of Software Licenses. Cost of software licenses for fiscal 2005 increased 8.3% to $16.9 million from $15.6 million in fiscal 2004. Cost of software licenses as a percentage of revenues from software licenses increased to 13.0% for fiscal 2005 from 9.8% for fiscal 2004. The cost increase is primarily due to an increase in amortization of computer software development costs of $0.9 million. The increase in the amortization of computer software development costs is related to several significant product releases, including *aspenONE* in December 2004.

Cost of Service and Other. Cost of service and other for fiscal 2005 decreased 18.7% to $82.7 million from $101.8 million for fiscal 2004. Cost of service and other, as a percentage of revenues from service and

other, increased to 58.9% for fiscal 2005 from 58.4% for fiscal 2004. The decrease in cost is primarily due to decreased payroll costs of $10.7 million related to reductions in headcount, as well as a decrease in reimbursable expenses of $5.5 million and a $2.3 million reduction in stock-based compensation.

Amortization of Technology Related Intangible Assets. Amortization expense for fiscal 2005 decreased 2.2% to $7.1 million from $7.3 million for fiscal 2004.

Selling and Marketing. Selling and marketing expenses for fiscal 2005 decreased 5.4% to $96.3 million from $101.8 million for fiscal 2004, while increasing as a percentage of total revenues to 35.7% from 30.6%. The decrease in cost is primarily due to a decrease in payroll costs of $6.0 million attributable to the headcount reductions effected in the June 2004 restructuring plan and a $1.7 million decrease in stock-based compensation expense, offset by an increase in advertising costs of $2.6 million related to AspenWorld, which took place in October 2004.

Research and Development. Research and development expenses for fiscal 2005 decreased 21.4% to $47.3 million from $60.1 million for fiscal 2004, and decreased as a percentage of total revenues to 17.5% from 18.1%. The decrease is primarily attributable to a $5.6 million decrease in payroll costs and a $2.7 million decrease in facilities related costs associated with the June 2004 restructuring plan, and a $2.1 million decrease in consulting costs, partially offset by a decline in stock-based compensation expense of $1.1 million.

We capitalized software development costs that amounted to 15.3% of our total engineering costs during fiscal 2005, as compared to 11.2% in fiscal 2004. These percentages will vary from quarter to quarter, depending upon the stage of development for the various projects in a given period. This increase is primarily due to the significant amount of effort associated with the development and release of *AspenONE* in December 2004 and *AspenONE* 2004.1 in May 2005.

General and Administrative. General and administrative expenses for fiscal 2005 increased 43.5% to $49.3 million from $34.3 million for fiscal 2004, and increased as a percentage of total revenues to 18.3% from 10.4%. This increase is due to a $7.1 million increase in legal, accounting and consulting costs associated with the internal investigation by the audit committee, $3.8 million in litigation defense and settlement costs related to KBC, a $1.9 million increase in audit and consulting fees associated with the Sarbanes-Oxley Act, specifically our Section 404 efforts, and $3.4 million in contract and employment termination costs, offset in part by a $1.5 million decline in stock-based compensation expense.

Long-Lived Asset Impairment Charges. In fiscal 2004, this amount consisted of $1.0 million in impairment charges based on our decision to discontinue certain internal capital projects that had previously been put on hold. In addition, certain fixed assets that supported research and development efforts were considered impaired as a result of the product consolidation decisions made in the April 2004 product review.

Restructuring Charges and FTC Legal Costs. During fiscal 2005, we recorded $25.0 million in restructuring charges and FTC legal costs. Of this amount, $14.4 million related to headcount reductions and facility consolidations associated with the June 2004 restructuring plan that did not qualify for accrual at June 30, 2004, $3.8 million related to the May 2005 restructuring charge, $0.4 million related to the accretion of discounted restructuring accruals, and $6.5 million related to adjustments to prior restructuring accruals, all offset by $0.2 million in FTC legal costs, related to the FTC challenge of our acquisition of Hyprotech.

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

Closure/consolidation of facilities: Approximately $0.1 million of the restructuring charge relates to the termination of a facility lease. The facility lease had a remaining term of two years. The amount accrued is an estimate of the remaining obligation under the lease, reduced by expected income from the sublease of the underlying properties.

Employee severance, benefits and related costs: Approximately $3.4 million of the restructuring charge relates to the reduction in headcount. Approximately 130 employees, or 10% of the workforce, were eliminated under the restructuring plan. The employees were primarily located in North America and Europe. All business units were affected, including services, sales and marketing, research and development, and general and administrative.

Contract termination costs: Approximately $0.3 million of the restructuring charge relates to charges associated with the termination of a contract for a future user conference. The contract was terminated in June 2005.

Loss (Gain) on Sales of Assets. Loss (gain) on sales of assets was a $14.3 million loss in fiscal 2005 as compared to $0.9 million gain in fiscal 2004. This decrease is primarily due to the loss of $14.6 million incurred on the June 2005 securitization of installments receivable.

Interest Income. Interest income was $6.2 million for fiscal 2005 as compared to $7.3 million in fiscal 2004. This decrease primarily is due to the increased sale of receivables and lower license revenues, resulting in the decrease of installments receivable balance.

Interest Expense. Interest expense in fiscal 2005 decreased to $4.2 million from $4.9 million in fiscal 2004. This decrease in interest expense results from the elimination of interest bearing debt, such as the retirement of a portion of the convertible debentures in January 2004, March 2004 and May 2004, and the retirement of the remaining portion in June 2005.

Foreign currency exchange gain (loss). In fiscal 2005 we recorded a foreign currency exchange loss of $0.5 million, compared to a $1.0 million gain in fiscal 2004. This increase was due to unfavorable exchange rate fluctuations.

Provision for/Benefit from Income Taxes. We recorded a provision for income taxes of $3.5 million for fiscal 2005, primarily related to foreign taxes. We recorded a provision for income taxes of $20.2 million for fiscal 2004. The provision for fiscal 2004 includes a $14.6 million valuation allowance against U.S. domiciled net deferred tax assets and a $6.8 million provision primarily related to foreign taxes. Additionally, as part of a change in the Japan-US tax treaty, the Japanese withholding tax law was repealed effective July 1, 2004 and provided approximately $1.5 million of income tax relief to the Company as of the enactment date of the tax law change which occurred in the quarter ended March 31, 2004. We provided a full valuation allowance against the net operating losses generated during fiscal 2004 and 2005.

Under SFAS No. 109, a deferred tax asset related to the future benefit of a tax loss carryforward should be recorded unless we make a determination that it is more likely than not that such deferred tax asset would not be realized. Accordingly, a valuation allowance would be provided against the deferred tax asset to the extent that we cannot demonstrate that it is more likely than not that the deferred tax asset will be realized. In determining the amount of valuation allowance required, we consider numerous factors, including historical profitability, estimated future taxable income, the volatility of the historical earnings, and the volatility of earnings of the industry in which we operate. We periodically review our deferred tax asset to determine if such asset is realizable. In fiscal 2004, we concluded, in accordance with SFAS No. 109, that we should record a valuation allowance on a significant portion of our deferred tax asset under the more likely than not test and therefore increased the amount of the valuation allowance. See Note 10 to Consolidated Financial Statements.

Equity in earnings from joint ventures. Equity in earnings from joint ventures was a $0.4 million loss in fiscal 2004. These losses relate to net losses incurred by certain joint ventures in which we have an equity interest. These investments were liquidated during fiscal 2005, and there were no material gains or losses realized.

Quarterly Results

Our operating results and cash flow have fluctuated in the past and may fluctuate significantly in the future as a result of a variety of factors, including purchasing patterns, timing of introductions of new solutions and enhancements by us and our competitors, and fluctuating economic conditions. Because license fees for our software products are substantial and the implementation of our solutions often involve the services of engineers over an extended period of time, the sales process for our solutions is lengthy and can exceed one year. Accordingly, software revenues are difficult to predict, and the delay of any order could cause our quarterly revenues to fall substantially below expectations. Moreover, to the extent that we succeed in shifting customer purchases away from point solutions and toward integrated solutions, the likelihood of delays in ordering may increase and the effect of any delay may become more pronounced.

We ship software products within a short period after receipt of an order and usually do not have a material backlog of unfilled orders of software products. Consequently, revenues from software licenses, including license renewals, in any quarter are substantially dependent on orders booked and shipped in that quarter. Historically, a majority of each quarter s revenues from software licenses has been derived from license agreements that have been consummated in the final weeks of the quarter. Therefore, even a short delay in the consummation of an agreement may cause revenues to fall below expectations for that quarter. Since our expense levels are based in part on anticipated revenues, we may be unable to adjust spending in a timely manner to compensate for any revenue shortfall and any revenue shortfall would likely have a disproportionately adverse effect on net income. We expect that these factors will continue to affect our operating results for the foreseeable future.

The following tables presents previously reported and restated quarterly consolidated statement of operations data for fiscal 2005 and 2006. These data are unaudited but, in our opinion, reflect all adjustments necessary for a fair presentation of these data in accordance with US GAAP. See
Restatements of Financial Results above and Note 17 to the Notes to the Consolidated Financial Statements for a discussion of the first and second restatements.

	Quarter ended September 30, 2004				**Quarter ended December 31, 2004**			
	As Previously Reported	**First Restatement Stock-based Compensation and Related Tax Adjustments**	**Other Adjustments**	**As Restated (1)**	**As Previously Reported**	**First Restatement Stock-based Compensation and Related Tax Adjustments**	**Other Adjustments**	**As Restated (1)**
	(In thousands, except per share data)							
Revenues:								
Software licenses	$ 25,273	$	$ (220)	$ 25,053	$ 36,732	$	$ (116)	$ 36,616
Service and other	37,997		(70)	37,927	34,893		(70)	34,823
Total revenues	63,270		(290)	62,980	71,625		(186)	71,439
Cost of revenues:								
Cost of software licenses	3,941			3,941	4,731			4,731
Cost of service and other	22,108	56		22,164	21,913	50		21,963
Amortization of technology related intangible assets	1,774			1,774	1,778			1,778
Total cost of revenues	27,823	56		27,879	28,422	50		28,472
Gross profit	35,447	(56)	(290)	35,101	43,203	(50)	(186)	42,967
Operating costs:								
Selling and marketing	22,375	40	(12)	22,403	23,401	36	(12)	23,425
Research and development	12,183	26	(12)	12,197	11,574	23	(12)	11,585
General and administrative	10,427	30	2	10,459	12,694	27	2	12,723
Restructuring charges and FTC legal costs	21,508			21,508	219			219
Loss (gain) on sales and disposals of assets	(362)			(362)	5			5
Total operating costs	66,131	96	(22)	66,205	47,893	86	(22)	47,957
Income (loss) from operations	(30,684)	(152)	(268)	(31,104)	(4,690)	(136)	(164)	(4,990)
Interest income, net	654		9	663	657		9	666
Other income (expense), net	(393)		(40)	(433)	351		10	361
Income (loss) before provision for taxes	(30,423)	(152)	(299)	(30,874)	(3,682)	(136)	(145)	(3,963)
Benefit from (provision for) income taxes	340		4	344	573		2	575
Income (loss)	(30,083)	(152)	(295)	(30,530)	(3,109)	(136)	(143)	(3,388)
Accretion of preferred stock discount and dividend	(3,528)			(3,528)	(3,589)			(3,589)
Income (loss) applicable to common stockholders	$ (33,611)	$ (152)	$ (295)	$ (34,058)	$ (6,698)	$ (136)	$ (143)	$ (6,977)
Basic income (loss) per share applicable to common shareholders	$ (0.80)	$ (0.00)	$ (0.01)	$ (0.81)	$ (0.16)	$ (0.00)	$ (0.01)	$ (0.17)
Basic weighted average shares outstanding	41,796			41,796	42,153			42,153
Diluted income (loss) per share applicable to common shareholders	$ (0.80)	$ (0.00)	$ (0.01)	$ (0.81)	$ (0.16)	$ (0.00)	$ (0.01)	$ (0.17)
Diluted weighted average shares outstanding	41,796			41,796	42,153			42,153

	Quarter ended March 31, 2005				Quarter ended June 30, 2005			
	As Previously Reported	First Restatement Stock-based Compensation and Related Tax Adjustments	Other Adjustments	As Restated (1)	As Previously Reported	First Restatement Stock-based Compensation and Related Tax Adjustments	Other Adjustments	As Restated (1)
	(In thousands, except per share data)							
Revenues:								
Software licenses	$ 31,097	$	$ (140)	$ 30,957	$ 36,131	$	$ 864	$ 36,995
Service and other	33,121		(300)	32,821	34,323		479	34,802
Total revenues	64,218		(440)	63,778	70,454		1,343	71,797
Cost of revenues:								
Cost of software licenses	4,035			4,035	4,157			4,157
Cost of service and other	19,215	45		19,260	19,402	38	(83)	19,357
Amortization of technology related intangible assets	1,778			1,778	1,782			1,782
Total cost of revenues	25,028	45		25,073	25,341	38	(83)	25,296
Gross profit	39,190	(45)	(440)	38,705	45,113	(38)	1,426	46,501
Operating costs:								
Selling and marketing	24,299	32	(12)	24,319	26,112	28	(12)	26,128
Research and development	11,552	21	(12)	11,561	11,927	18	(12)	11,933
General and administrative	12,746	24	22	12,792	13,308	21	(26)	13,303
Restructuring charges and FTC legal costs	(97)			(97)	3,277		53	3,330
Loss (gain) on sales and disposals of assets	81			81	13,911		679	14,590
Total operating costs	48,581	77	(2)	48,656	68,535	67	682	69,284
Income (loss) from operations	(9,391)	(122)	(438)	(9,951)	(23,422)	(105)	744	(22,783)
Interest income, net	477		9	486	185		34	219
Other income (expense), net	(16)		3	(13)	676		(1,072)	(396)
Income (loss) before provision for taxes	(8,930)	(122)	(426)	(9,478)	(22,561)	(105)	(294)	(22,960)
Benefit from (provision for) income taxes	(1,133)		7	(1,126)	(3,556)		264	(3,292)
Income (loss)	(10,063)	(122)	(419)	(10,604)	(26,117)	(105)	(30)	(26,252)
Accretion of preferred stock discount and dividend	(3,630)			(3,630)	(3,703)			(3,703)
Income (loss) applicable to common stockholders	$ (13,693)	$ (122)	$ (419)	$ (14,234)	$ (29,820)	$ (105)	$ (30)	$ (29,955)
Basic income (loss) per share applicable to common shareholders	$ (0.32)	$ (0.00)	$ (0.01)	$ (0.33)	$ (0.69)	$ (0.00)	$ (0.00)	$ (0.70)
Basic weighted average shares outstanding	42,639			42,639	42,942			42,942
Diluted income (loss) per share applicable to common shareholders	$ (0.32)	$ (0.00)	$ (0.01)	$ (0.33)	$ (0.69)	$ (0.00)	$ (0.00)	$ (0.70)
Diluted weighted average shares outstanding	42,639			42,639	42,942			42,942

	Quarter ended September 30, 2005					Quarter ended December 31, 2005				
		First Restatement		Second Restatement			First Restatement		Second Restatement	
	As Previously Reported	Stock-based Compensation and Related Tax Adjustments	Other Adjustments	Adjustments	As Restated(1)	As Previously Reported	Stock-based Compensation and Related Tax Adjustments	Other Adjustments	Adjustments	As Restated(1)
	(In thousands, except per share data)									
Revenues:										
Software licenses	$ 24,317	$	$ (280)	$	$ 24,037	$ 41,690	$	$ 180	$	$ 41,870
Service and other	35,736			61	35,797	34,701			50	34,751
Total revenues	60,053		(280)	61	59,834	76,391		180	50	76,621
Cost of revenues:										
Cost of software licenses	3,782		93		3,875	4,244				4,244
Cost of service and other	17,244	55		44	17,343	17,859	50		53	17,962
Amortization of technology related intangible assets	1,782				1,782	1,773				1,773
Total cost of revenues	22,808	55	93	44	23,000	23,876	50		53	23,979
Gross profit	37,245	(55)	(373)	17	36,834	52,515	(50)	180	(3)	52,642
Operating costs:										
Selling and marketing	18,647	40	(12)	83	18,758	20,624	36	(12)	111	20,759
Research and development	10,134	26	(12)	35	10,183	11,771	23	(12)	44	11,826
General and administrative	10,185	30	106	138	10,459	9,884	27		181	10,092
Restructuring charges and FTC legal costs	2,199				2,199	995				995
Loss (gain) on sales and disposals of assets	61				61	316				316
Total operating costs	41,226	96	82	256	41,660	43,590	86	(24)	336	43,988
Income (loss) from operations	(3,981)	(151)	(455)	(239)	(4,826)	8,925	(136)	204	(339)	8,654
Interest income, net	151		665		816	244		510		754
Other income (expense), net	(663)		459		(204)	1,055				1,055
Income (loss) before provision for taxes	(4,493)	(151)	669	(239)	(4,214)	10,224	(136)	714	(339)	10,463
Benefit from (provision for) income taxes	(640)		(10)		(650)	(2,080)		(11)		(2,091)
Income (loss)	(5,133)	(151)	659	(239)	(4,864)	8,144	(136)	703	(339)	8,372
Accretion of preferred stock discount and dividend	(3,778)				(3,778)	(3,843)				(3,843)
Income (loss) applicable to common stockholders	$ (8,911)	$ (151)	$ 659	$ (239)	$ (8,642)	$ 4,301	$ (136)	$ 703	$ (339)	$ 4,529
Basic income (loss) per share applicable to common shareholders	$ (0.21)	$ (0.00)	$ 0.02	$ (0.01)	$ (0.20)	$ 0.10	$ (0.00)	$ 0.01	$ (0.01)	$ 0.10
Basic weighted average shares outstanding	43,237				43,237	43,753				43,753
Diluted income (loss) per share applicable to common shareholders	$ (0.21)	$ (0.00)	$ 0.02	$ (0.01)	$ (0.20)	$ 0.08	$ (0.00)	$ 0.01	$ (0.00)	$ 0.09
Diluted weighted average shares outstanding	43,237				43,237	52,765				52,762

	Quarter ended March 31, 2006					Quarter ended June 30, 2006		
		First Restatement		Second Restatement			Second Restatement	
	As Previously Reported	Stock-based Compensation and Related Tax Adjustments	Other Adjustments	Adjustments	As Restated(1)	As Previously Reported	Adjustments	As Restated(1)
Revenues:								
Software licenses	$ 41,750	$	$ 642	$	$ 42,392	$ 44,387	$ 87	$ 44,474
Service and other	35,351			64	35,415	34,776	75	34,851
Total revenues	77,101		642	64	77,807	79,163	162	79,325
Cost of revenues:								
Cost of software licenses	4,518				4,518	4,168		4,168
Cost of service and other	18,231	259		52	18,542	18,794	49	18,843
Amortization of technology related intangible assets	1,776				1,776	1,739		1,739
Total cost of revenues	24,525	259		52	24,836	24,701	49	24,750
Gross profit	52,576	(259)	642	12	52,971	54,462	113	54,575
Operating costs:								
Selling and marketing	21,325	186	(2)	106	21,615	23,178	195	23,373
Research and development	11,844	122	(2)	41	12,005	10,245	63	10,308
General and administrative	9,498	135	32	112	9,777	12,019	135	12,154
Restructuring charges and FTC legal costs	534				534	265		265
Loss (gain) on sales and disposals of assets	103				103	418		418
Total operating costs	43,304	443	28	259	44,034	46,125	393	46,518
Income (loss) from operations	9,272	(702)	614	(247)	8,937	8,337	(280)	8,057
Interest income, net	558		499		1,057	1,422		1,422
Other income (expense), net	304				304	(79)		(79)
Income (loss) before provision for taxes	10,134	(702)	1,113	(247)	10,298	9,680	(280)	9,400
Benefit from (provision for) income taxes	(3,083)		(17)		(3,100)	(2,865)		(2,865)
Income (loss)	7,051	(702)	1,096	(247)	7,198	6,815	(280)	6,535
Accretion of preferred stock discount and dividend	(3,888)				(3,888)	(3,874)		(3,874)
Income (loss) applicable to common stockholders	$ 3,163	$ (702)	$ 1,096	$(247)	$ 3,310	$ 2,941	$(280)	$2,661
Basic income (loss) per share applicable to common shareholders	$ 0.07	$ (0.02)	$ 0.03	$(0.01)	$ 0.07	$ 0.06	$(0.00)	$0.06
Basic weighted average shares outstanding	44,561				44,561	46,989		46,989
Diluted income (loss) per share applicable to common shareholders	$ 0.06	$ (0.02)	$ 0.02	$(0.00)	$ 0.06	$ 0.05	$(0.00)	$0.05
Diluted weighted average shares outstanding	55,497				55,497	58,646		58,646

(1) See Note 17 to the Consolidated Financial Statements.

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Liquidity and Capital Resources

In fiscal 2006, operating activities provided $19.9 million of cash as net income, excluding non-cash expenses for stock-based compensation and depreciation and amortization, was partially offset by cash payments related to restructuring, legal and financial accruals and an increase in installments receivable. In fiscal 2004 and 2005, operating activities provided $40.9 million and $25.9 million of cash, respectively.

In fiscal 2006, investing activities used $10.5 million of cash primarily as a result of the capitalization of computer software development costs and the ordinary purchases of property and equipment. In fiscal 2004 and 2005, investing activities used $7.6 million $11.8 million of cash, respectively.

In fiscal 2006, financing activities provided $8.5 million of cash primarily due to exercise of stock options, partially offset by payment of preferred stock dividends. In fiscal 2004 and 2005, financing activities provided $22.2 million of cash and used $53.7 million of cash, respectively.

Historically, we have financed our operations principally through cash generated from public offerings of our convertible debentures and common stock, private offerings of our preferred stock and common stock, operating activities, and the sale of installment contracts to third parties.

On June 15, 2005, we paid $58.2 million to retire all of the outstanding principal amount of our convertible debentures, together with interest accrued thereon. We funded this payment with (a) $8.6 million of our existing cash, (b) $5.8 million obtained from our sales of installments receivable under our existing receivables programs with Silicon Valley Bank and GE Capital Corporation, and (c) $43.8 million through the sale of additional installments receivable under the arrangement described below.

On June 15, 2005, we securitized outstanding installment software license receivables totaling $71.2 million. Such securitization was structured in a manner so that the securitization qualified as a sale. We received $43.8 million of cash and retained an interest in the sold receivables valued at $16.6 million. We also retained certain limited recourse obligations relative to the receivables valued at approximately $1.0 million. Overall, the transaction (including $2.1 million in aggregate fees and expenses, including fees of the lenders agent and fees of our outside legal counsel and financial advisors) resulted in a loss of $14.6 million in the quarter ended June 30, 2005 and was recorded as a loss on sales and disposals of assets in the accompanying consolidated statement of operations. We expect that these installments receivable will generate approximately $17.5 million and $14.0 million of cash flows during fiscal years 2007 and 2008 that we would have received, if not for the securitization of these receivables. This transaction allowed us to accelerate the collection of cash associated with our installments receivable. From time to time, it is likely that we will engage in other securitization transactions.

In August 2003, we issued and sold 300,300 shares of Series D-1 preferred, along with WD warrants to purchase up to 6,006,006 shares of common stock, for an aggregate purchase price of $100.0 million. Concurrently, we paid $30.0 million and issued 63,064 shares of Series D-2 preferred, along with WB and WD warrants to purchase up to 1,261,280 shares of common stock, to repurchase all of the outstanding Series B preferred. The Series D preferred earns cumulative dividends at an annual rate of 8%, that are payable when and if declared by the board, in cash or, subject to certain conditions, common stock. Each share of Series D preferred currently is convertible into 100 shares of common stock, subject to anti-dilution and other adjustments. On May 16, 2006, holders of the Series D converted 30,000 Series D preferred shares into 3,000,000 shares of common stock. At the time of the conversion, we also made a cash payment of $2.4 million to settle the accrued dividends on the converted shares. As a result, the shares of Series D preferred currently are convertible into an aggregate of 33,336,400 shares of common stock. The Series D preferred is subject to redemption at the option of the holders as follows: 50% on or after August 14, 2009 and 50% on or after August 14, 2010.

We have had arrangements to sell installments receivable to three financial institutions, General Electric Capital Corporation, Bank of America and Silicon Valley Bank. We sold certain installment contracts for aggregate proceeds of approximately $97.6 million and $77.1 million during fiscal 2005 and 2006, respectively. As of June 30, 2006, there was approximately $64 million in additional availability under the arrangements. We expect to continue to have the ability to sell receivables, as the collection of the sold receivables will reduce the outstanding balance, and the availability under the arrangements can be increased. At June 30, 2006, we had a partial recourse obligation that was within the range of $0.1 million to $1.5 million.

In January 2003, we executed a loan arrangement with Silicon Valley Bank. This arrangement provides a line of credit of up to the lesser of (1) $15.0 million or (2) 70% of eligible domestic receivables, and a line of credit of up to the lesser of (1) $10.0 million or (2) 80% of eligible foreign receivables. The lines of credit bear interest at the bank s prime rate (8.25% at June 30, 2006). We are required to maintain a $4.0 million compensating cash balance with the bank, or be subject to an unused line fee and collateral handling fees. The lines of credit will initially be collateralized by nearly all of our assets, and upon achieving certain net income targets, the collateral will be reduced to a lien on our accounts receivable. We are required to meet certain financial covenants, including minimum tangible net worth, minimum cash balances and an adjusted quick ratio. As of June 30, 2006, there were $8.5 million in letters of credit outstanding under the line of credit, and there was $11.8 million available for future borrowing. As of June 30, 2006, we were in compliance with the tangible net worth and adjusted quick ratio covenants. The loan arrangement expires in January 2007. We are currently in negotiations to either: (i) extend this line of credit with our current lender and amend the terms of the facility; or (ii) obtain a facility from another lender.

As of June 30, 2006, we had cash and cash equivalents totaling $86.3 million. Our commitments as of June 30, 2006 consisted of capital lease obligations and leases for our headquarters and other facilities. Other than these, there were no other commitments for capital or other expenditures. Our obligations related to these items at June 30, 2006 are as follows (in thousands):

	2007	**2008**	**2009**	**2010**	**2011**	**Thereafter**	**Total**
Operating leases	$ 9,680	$ 7,437	$ 7,570	$ 7,406	$ 6,460	$ 14,834	$ 53,387
Debt obligations	247	149					396
Total commitments	$ 9,927	$ 7,586	$ 7,570	$ 7,406	$ 6,460	$ 14,834	$ 53,783

We believe our current cash balances, together with availability of sales of our installment contracts and cash flows from our operations will be sufficient to meet our working capital and capital expenditure requirements for at least fiscal 2007. However, we may need to obtain additional financing thereafter or earlier, if our current plans and projections prove to be inaccurate or our expected cash flows prove to be insufficient to fund our operations because of lower-than-expected revenues, unanticipated expenses or other unforeseen difficulties. In addition, we may seek to take advantage of favorable market conditions by raising additional funds from time to time through public or private security offerings, debt financings, strategic alliances or other financing sources. Our ability to obtain additional financing will depend on a number of factors, including market conditions, our operating performance and investor interest. These factors may make the timing, amount, terms and conditions of any financing unattractive. They may also result in our incurring additional indebtedness or accepting stockholder dilution. If adequate funds are not available or are not available on acceptable terms, we may have to forego strategic acquisitions or investments, reduce or defer our development activities, or delay our introduction of new products and services. Any of these actions may seriously harm our business and operating results.

Inflation

Inflation has not had a significant impact on our operating results to date and we do not expect inflation to have a significant impact during fiscal 2007.

New Accounting Pronouncements

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertain Tax Positions, an Interpretation of FAS 109 (FIN 48), which clarifies the criteria for recognition and measurement of benefits from uncertain tax positions. Under FIN 48, an entity should recognize a tax benefit when it is more-likely-than-not , based on the technical merits, that the position would be sustained upon examination by a taxing authority. The amount to be recognized should be measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. Furthermore, any change in the recognition, derecognition or measurement of a tax position should be recognized in the interim period in which the change occurs. We expect to adopt FIN 48 as of July 1, 2007, and any change in net assets as a result of applying the Interpretation will be recognized as an adjustment to retained earnings on that date. We are in the process of evaluating our uncertain tax positions in accordance with FIN 48.

Item 8. ***Financial Statements and Supplementary Data***

The consolidated financial statements of Aspen Technology, Inc. are filed as a part of this Form 10-K/A beginning on page F-1 and are incorporated herein by reference.

Item 9A. ***Controls and Procedures***

Disclosure Controls and Procedures. Our management, with the participation of our chief executive officer and our current chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2006, the final day of the fiscal year covered by this Form 10-K/A. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the 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 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 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.

Management, including our chief executive officer (who also was our then-acting chief financial officer), had previously concluded that our disclosure controls and procedures were not effective at the reasonable assurance level as of June 30, 2006 because of the existence of four material weaknesses described in 1) through 4) under Management s Report on Internal Control over Financial Reporting in the original Form 10-K. In connection with the second restatement of our consolidated financial statements described in Note 17 to the consolidated financial statements, our current management, including our chief executive officer and our current chief financial officer, have determined that a new material weakness in internal control over the calculation and review of forfeiture rates affecting its stock-based compensation expense also existed as of June 30, 2006. In connection with this filing on Form 10-K/A management re-evaluated the effectiveness of disclosure controls and procedures and concluded that disclosure controls and procedures were not effective. Additionally, management has revised its report on internal control over financial reporting as described below.

Management s Report on Internal Control Over Financial Reporting and Attestation of Independent Registered Public Accounting Firm (as Revised). Management s revised report on our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act), including the description of material weaknesses in our internal control over financial reporting as of June 30, 2006 and the remedial measures we are undertaking to address those material weaknesses and the independent registered public accounting firm s related audit report are included below.

Changes in Internal Control Over Financial Reporting. We previously reported six material weaknesses in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act), which were described in Item 9A and Management s Report on Internal Control Over Financial Reporting in our Annual Report on Form 10-K for the fiscal year ended June 30, 2005, which we filed on September 13, 2005. A material weakness is a significant deficiency (as defined in Public Company Accounting Oversight Board Auditing Standard No. 2), or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

During the first three quarters of the year ended June 30, 2006, we reported on Form 10-Q material changes made to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) to address our previously reported material weaknesses. During the fourth quarter, management completed testing to assess the effectiveness of its remedial measures and based on that testing has concluded in the fourth quarter that three of the previously reported material weaknesses no longer constitute material weaknesses as of June 30, 2006. For the three remaining items which management believes still constitute material weaknesses as of June 30, 2006, we have made changes in our internal controls over financial reporting as they relate to these control areas, but there continues to be additional work required for us to conclude that these control areas are operating such that they no longer constitute material weaknesses.

A discussion of the changes reported on Form 10-Q in previous quarters and their impact on our previously reported material weaknesses is included below. The following three previously reported material weaknesses no longer constituted material weaknesses as of June 30, 2006:

1) *Inadequate staffing and ineffective training and communication within the accounting and finance organization.*

- We increased the staffing and level of expertise of our accounting and finance organization, including hiring a vice president corporate controller, a director of corporate accounting, a manager of financial reporting, a manager of revenue operations, a credit and collections manager, an accounts payable manager, a sales tax analyst, and additional general accountants in general ledger, payroll, and collections in our Cambridge, Massachusetts headquarters, as well as a manager of revenue operations for the Asia Pacific region.

- We consolidated our North American accounting operations into a single shared service center at our Cambridge, Massachusetts headquarters.

- We implemented procedures under which we hold periodic meetings of cross-functional teams to improve communication and provide additional training.

- We held several training sessions on revenue recognition and internal credit policies for regional sales personnel, sales and executive management and new finance management.

During the fourth quarter of 2006, management concluded that the remedial measures described above were sufficient such that inadequate staffing and ineffective training and communication within the accounting and finance organization no longer constituted a material weakness as of June 30, 2006.

2) *Ineffective revenue recognition controls.*

- We took steps to improve our procedures relating to approving revenue arrangements sold through foreign agents, including redefining the identification, approval, recording and monitoring processes for agents and their commissions, and increasing coordination amongst our internal functional organizations.

- We completed an inventory of software currently held by our resellers.

- We implemented a policy requiring each customer to provide written confirmation of acceptance of ongoing maintenance.

- We enhanced our documentation regarding our pricing policies relating to consulting services and software maintenance services.

During the fourth quarter of 2006, management concluded that the remedial measures described above were sufficient such that ineffective revenue recognition controls no longer constituted a material weakness as of June 30, 2006.

3) *Inadequate controls over bank accounts.*

- We enhanced our existing policies and procedures related to the maintenance of bank accounts to include a periodic evaluation of our existing accounts, and closed accounts and updated bank signatory authorizations as appropriate for our business.

- We implemented policies and procedures to ensure bank accounts are included in our general ledger chart of accounts on a timely basis.

During the fourth quarter of 2006, management concluded that the remedial measures described above were sufficient such that inadequate controls over bank accounts no longer constituted a material weakness as of June 30, 2006.

The three remaining previously reported material weaknesses which management believes require further work and still constituted material weaknesses as of June 30, 2006, as well as the related significant changes to internal controls over financial reporting, are as follows:

1) Inadequate financial statement preparation and review procedures.

- We significantly increased the number and expertise of experienced supervisory personnel within the accounting and finance organization.

- We implemented procedures under which we hold periodic meetings of cross-functional teams to improve communication and provide additional training.

- We enhanced our existing monthly closing meetings to include a formal planning and financial review process, and have extended attendance at those meetings to a broader group of senior financial management and staff.

- We implemented policies and procedures to identify and add accounts, including bank accounts, to our general ledger chart of accounts on a timely basis.

- We enhanced our existing policies and procedures relating to general ledger account reconciliations, including establishment of a formal escalation method to notify senior financial management of accounts that have unreconciled or unadjusted variances.

- We implemented formal policies and procedures to ensure that our accounting and analysis of intangible assets, reserves and accruals are adequately supported and documented.

- We have implemented procedures for the timely preparation of memoranda to support all non-routine transactions.

Although the remedial measures implemented above improved our financial statement preparation and review as of June 30, 2006, certain of our processes and systems require further work and are dependent upon the recruiting and training of a number of qualified staff that were hired late in the fiscal year. As a result, certain controls over our periodic financial close process were not in place for a sufficient duration or were not effective as of June 30, 2006. Specifically, we did not have effective controls and procedures as of June 30, 2006 with respect to the (a) review of manual journal entries recorded at the consolidated level; (b) timely disposition of required adjustments identified through the period-end account analysis and reconciliation process, and (c) accounting for complex non-routine transactions.

This material weakness over our period financial close process as of June 30, 2006 is discussed further in Management s Report on Internal Control Over Financial Reporting (as revised) included below.

2) Ineffective and inadequate controls over the accounts receivable function.

- We enhanced our policies and procedures relating to determining the creditworthiness of new and existing customers.

- We improved our policies and procedures to ensure that accurate invoices are submitted to customers and that all invoices paid by customers are recorded accurately and timely in our records.

- We enhanced our bad debt policies to clarify when reserves and write-offs are required and have implemented procedures designed to assess the proper valuation of our accounts receivable reserves.

- We engaged external collections agencies and legal counsel to assist with the collection of certain outstanding accounts receivable.

Although the remedial measures implemented above improved the internal controls over our accounts receivable function as of June 30, 2006, our accounts receivable reconciliation and review procedures require further work. As a result, controls in the accounts receivable function over the process to record customer invoice payments timely and accurately were not effective as of June 30, 2006. Specifically, we did not have effective procedures and controls over our accounts receivable function to provide reasonable assurance that all customer invoice payments are being recorded timely and accurately, and reflected as liabilities in those cases where we collected cash from customers relating to invoices previously sold to financial institutions.

This material weakness over controls in our accounts receivable function to record customer invoice payments timely and accurately as of June 30, 2006 is discussed further in Management s Report on Internal Control Over Financial Reporting (as revised) included below.

3) *Inadequate controls over the accounting for taxes.*

- We implemented policies and procedures for the determination, review and documentation of income tax and sales tax liabilities and deferred income tax assets and liabilities as well as for preparing income tax provision calculations.

- We increased the level of review of all quarterly and annual tax accounts and calculations.

Although the remedial measures implemented above improved our controls over the accounting for taxes, further work is required to develop effective controls over the accounting for our income tax provision, income tax liabilities and deferred income tax accounts and related disclosures. As a result, controls over the accounting for income taxes were not adequate to prevent or detect a material misstatement of our financial position or results of operations as of June 30, 2006. Specifically, we did not have effective design or operational controls over the accounting for income taxes to provide reasonable assurance that the relevant income tax accounts and related disclosures can be prepared in accordance with generally accepted accounting principles.

This material weakness over the accounting for income taxes as of June 30, 2006 is discussed further in Management s Report on Internal Control Over Financial Reporting (as revised) included below.

In addition, during the fourth quarter, management identified one new material weakness in internal control over the accrual of goods and services received as of June 30, 2006. As a result, controls over the accrual of goods and services received were not effective as of June 30, 2006 to provide reasonable assurance that all goods and services received are being recorded timely and completely.

This material weakness over the accrual of goods and services received as of June 30, 2006 is discussed further in Management s Report on Internal Control Over Financial Reporting (as revised) included below.

In November 2006, our current management, including our chief executive officer and our current chief financial officer, identified a new material weakness in internal control over the calculation and review of forfeiture rates affecting stock-based compensation expense for the year ended June 30, 2006. Specifically, we did not have effective operational and review controls in place to provide reasonable assurance that the calculation of stock-based compensation expense reflected accurate forfeiture rates under the provisions of FASB Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* (SFAS No. 123R), which was adopted on July 1, 2005. This control deficiency resulted in the restatement of the consolidated financial statements for the year ended June 30, 2006 as described in Note 17 to the consolidated financial statements under the caption Second Restatement. This material weakness relating to the calculation and review of forfeiture rates affecting stock-based compensation expense for the year ended June 30, 2006 is discussed further in Management s Report on Internal Control Over Financial Reporting (as revised) included below.

Remediation

Management has identified the following measures to address the material weaknesses described above and in Management s Report on Internal Control Over Financial Reporting (as revised) included below.

In order to improve controls over the periodic financial close process, we intend to:

- Upgrade our existing financial applications, which will allow management to streamline the capturing of relevant data, improve the general ledger and entity account level reporting structures and enhance the information query and reporting capability for the consolidated books worldwide;

- Implement enhanced controls to review all manual journal entries recorded at the consolidated level prior to posting;

- Implement enhanced controls to reconcile subsidiary-level books to the consolidated books;

- Simplify the legal entity structure;

- Implement improved processes and procedures to ensure that all reconciling items identified in balance sheet account reconciliations are accounted for properly and timely;

- Implement procedures to help ensure that the proper accounting of all complex non-routine transactions is researched, detailed in memoranda and reviewed by senior management prior to recording; and

- Continue to assess the adequacy and expertise of the finance and accounting staff on a global basis.

In order to improve controls in the accounts receivable function over the process to record customer invoice payments timely and accurately, we intend to:

- Implement improved accounts receivable reconciliation and review procedures to ensure all cash receipts are timely applied to applicable accounts receivables balances and to timely record the appropriate liability in the case where the receivable has been sold to a financial institution.

- Assess the adequacy of the accounting applications deployed to service accounts receivable which have been sold.

In order to improve controls over the accounting for income taxes, we intend to:

- Further enhance our policies and procedures for determining and documenting income tax liabilities and deferred income tax assets and liabilities, as well as for preparing income tax provision calculations;

- Further increase the level of review of all quarterly and annual tax accounts and calculations;

- Improve the internal reporting of financial account balances to the tax department.

- Increase the number of personnel with specialized corporate and international tax expertise in the tax department.

In order to improve controls over the accrual of goods and services received, we intend to:

- Complete the final phase of a system implementation that will allow for accurate and timely reports of open purchase orders;

- Implement additional reviews of open purchase orders for appropriate accounting treatment in each reporting period; and

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- Implement improved processes and procedures to allow for communication of any known liabilities to finance management so they can be recorded timely and accurately.

In order to improve controls over the calculation and review of forfeiture rates affecting stock-based compensation expense we intend to:

- Adjust the calculation methodology for our stock-based compensation expense to include accurate forfeiture rates under the provisions of SFAS No. 123R; and

- Increase the level of management review of our stock-based compensation expense calculations to ensure forfeiture rates are accurately reflected under the provisions of SFAS No. 123R.

If the remedial measures described above are insufficient to address any of the five identified material weaknesses, or if additional material weaknesses or significant deficiencies in our internal control are discovered in the future, we may fail to meet our future reporting obligations on a timely basis, our financial statements may contain material misstatements, our operating results may be harmed, we may be subject to class action litigation, and our common stock may be delisted from The Nasdaq Global Market. For example, material weaknesses that remain unremediated could result in material post-closing adjustments in future financial statements. Any failure to address the identified material weaknesses or any additional material weaknesses or significant deficiencies in our internal control could also adversely affect the results of the periodic management evaluations regarding the effectiveness of our internal control over financial reporting that are required to be included in our annual reports on Form 10-K. Internal control deficiencies could also cause investors to lose confidence in our reported financial information. We can give no assurance that the measures we have taken to date or any future measures will remediate the material weaknesses identified or that any additional material weaknesses will not arise in the future due to a failure to implement and maintain adequate internal control over financial reporting or circumvention of these controls. In addition, even if we are successful in strengthening our controls and procedures, those controls and procedures may not be adequate to prevent or identify irregularities or facilitate the fair presentation of our financial statements or SEC reports.

Management s Report on Internal Control over Financial Reporting (as Revised)

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for our company. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Exchange Act, as a process designed by, or under the supervision of, a company s principal executive and principal financial officers and effected by the company s board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In connection with the original filing of our 2006 Annual Report filed on Form 10-K, management, including our chief executive officer (who was also our then-acting chief financial officer), assessed the effectiveness of our internal controls over financial reporting as of June 30, 2006. In connection with this assessment, we identified the following four material weaknesses in internal control over financial reporting as of June 30, 2006. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework.

1) Inadequate and ineffective controls over the periodic financial close process

We did not have effective design or operational controls and procedures that provided reasonable assurance that financial statements could be prepared in accordance with generally accepted accounting principles. Specifically, we did not have adequate controls and procedures with respect to the (a) review of manual journal entries recorded at the consolidated level; (b) timely disposition of required adjustments identified through the period-end account analysis and reconciliation process, and (c) accounting for complex non-routine transactions. As a result of this identified weakness, material post closing adjustments were identified and posted to our books and records and financial statements. These adjustments, which are reflected in our financial statements as of and for the year ended June 30, 2006 (as set forth below and incorporated by reference in Item 8 of this Form 10-K/A), caused changes in assets, liabilities, stockholders equity, revenues, and expenses.

2) Inadequate and ineffective controls in the accounts receivable function over the process to record customer invoice payments timely and accurately

We did not have effective design or operational controls and procedures over our accounts receivable function to provide reasonable assurance that all customer invoice payments are being recorded timely and accurately, and reflected as liabilities in those cases where we collected cash from customers relating to invoices previously sold to financial institutions. As a result of this identified weakness, material post-closing adjustments were posted to our books and records and financial

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statements. These adjustments, which are reflected in our financial statements as of and for the year ended June 30, 2006, caused changes to accounts receivable and accrued expenses.

3) Inadequate and ineffective controls over the accounting for income taxes

We did not have adequate design or operational controls over the accounting for income taxes to provide reasonable assurance that the relevant income tax accounts and related disclosures can be prepared in accordance with generally accepted accounting principles. As a result of this identified weakness, post-closing adjustments have been posted to our books and records and our financial statements. These adjustments, which are reflected in the accompanying financial statements for the year ended June 30, 2006, caused changes to income taxes payable, deferred income tax assets and liabilities, the income tax provision, and additional paid-in capital.

4) Inadequate and ineffective controls over accrual of goods and services received

We did not have effective operational controls in place to provide reasonable assurance that all goods and services received are being recorded timely and completely. As a result of this identified weakness, material post-closing adjustments were posted to our books and records and financial statements. These adjustments, which are reflected in the accompanying financial statements as of and for the year ended June 30, 2006, caused changes to unbilled services, property and leasehold improvements, accounts payable, service and other revenue, cost of services, and operating expenses.

In November 2006, our current management, including our chief executive officer and our current chief financial officer identified a new material weakness in internal control over the calculation and review of forfeiture rates affecting stock-based compensation expense for the year ended June 30, 2006, described below. This control deficiency resulted in the restatement of the consolidated financial statements for the year ended June 30, 2006 as described in Note 17 to the consolidated financial statements under the caption Second Restatement.

5) Inadequate and ineffective controls over the calculation and review of forfeiture rates affecting stock-based compensation expense

We did not have effective design or operational controls in place to provide reasonable assurance that the calculation of stock-based compensation expense reflected accurate forfeiture rates under the provisions of SFAS No. 123R, which was adopted on July 1, 2005. This control deficiency resulted in the restatement of the consolidated financial statements for the year ended June 30, 2006 as described in Note 17 to the consolidated financial statements under the caption Second Restatement .

In connection with management s assessment of the effectiveness of internal control over financial reporting in the Company s original filing of its 2006 Annual Report on Form 10-K, management, including our chief executive officer (who was our then-acting chief financial officer), had previously concluded that our internal control over financial reporting was not effective at the reasonable assurance level as of June 30, 2006 because of the existence of the four material weaknesses described in 1) through 4) above. In connection with the restatement of the Company s consolidated financial statements described in Note 17 to the consolidated financial statements under the caption Second Restatement , our current management, including our chief executive officer and our current chief financial officer, have determined that the material weakness described in 5) above over the calculation and review of forfeiture rates affecting stock-based compensation expense also existed as of June 30, 2006. Accordingly, management has revised this report on internal control over financial reporting to include the additional material weakness. In making this revised assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework. Based on this revised assessment as of June 30, 2006, management has concluded that our internal control over financial reporting was not effective based on those criteria, because of the five material weaknesses described above.

Deloitte & Touche LLP, our independent registered public accounting firm, has issued a report on our revised assessment of our internal control over financial reporting. This report appears on page 35.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Aspen Technology, Inc.:
Cambridge, Massachusetts

We have audited management s assessment, included in the accompanying Management s Report on Internal Control over Financial Reporting (as revised), that Aspen Technology, Inc. and subsidiaries (the Company) did not maintain effective internal control over financial reporting as of June 30, 2006, because of the effect of the material weaknesses identified in management s revised assessment based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weaknesses have been identified and included in management s revised assessment:

1. *Inadequate and ineffective controls over the periodic financial close process.*

The Company did not have effective design or operational controls and procedures that provided reasonable assurance that financial statements could be prepared in accordance with generally accepted accounting principles. Specifically, the Company did not have adequate controls and procedures with respect to the (a) review of manual journal entries recorded at the consolidated level; (b) timely disposition of required adjustments identified through the period-end account analysis and reconciliation process, and (c) accounting for complex non-routine transactions. As a result of these identified weaknesses, material post closing adjustments were identified and posted to the Company s books and records and financial statements. These adjustments, which are reflected in the Company s financial statements as of and for the year ended June 30, 2006, caused changes in assets, liabilities, stockholders equity, revenues and expenses. Such weaknesses could continue to impact the balances in all of the accounts previously mentioned.

2. *Inadequate and ineffective controls in the accounts receivable function over the process to record customer invoice payments timely and accurately.*

The Company did not have effective design or operational controls over the accounts receivable function to provide reasonable assurance that all customer invoice payments are being recorded timely and accurately, and reflected as liabilities in those cases where the Company collected cash from customers relating to invoices previously sold to financial institutions. As a result of these identified weaknesses, material post-closing adjustments were posted to the Company s books and records and financial statements. These adjustments, which are reflected in the Company s financial statements as of and for the year ended June 30, 2006, caused changes to accounts receivable and accrued expenses. Such weaknesses could continue to impact the balances in all of the accounts previously mentioned.

3. *Inadequate and ineffective controls over the accounting for income taxes.*

The Company did not have adequate design or operational controls over the accounting for income taxes to provide reasonable assurance that the relevant income tax accounts and related disclosures can be prepared in accordance with generally accepted accounting principles. As a result of these identified weaknesses, post-closing adjustments have been posted to the Company s books and records and its financial statements. These adjustments, which are reflected in the accompanying financial statements for the year ended June 30, 2006, caused changes to income taxes payable, deferred income tax assets and liabilities, the income tax provision, and additional paid-in capital. Such weaknesses could continue to impact the balances in the accounts previously mentioned.

4. *Inadequate and ineffective controls over accrual of goods and services.*

The Company did not have adequate design or operational controls in place to provide reasonable assurance that all goods and services received are being recorded timely and completely. As a result of these identified weaknesses, material post-closing adjustments were posted to the Company s books and records and financial statements. These adjustments, which are reflected in the financial statements as of and for the year ended June 30, 2006, caused changes to unbilled services, property and leasehold improvements, accounts payable, service and other revenue, cost of services, and operating expenses. Such weaknesses could continue to impact the balances in all of the accounts previously mentioned.

5. *Inadequate and ineffective controls over the calculation and review of forfeiture rates affecting stock-based compensation.*

The Company did not have effective design or operational controls in place to provide reasonable assurance that the calculation of stock-based compensation expense reflected accurate forfeiture rates under the provisions of Statement of Financial Accounting Standards No. 123(R) *Share-Based Payment*, which was adopted on July 1, 2005. These identified weaknesses resulted in a material adjustment to increase stock-based compensation and additional paid-in capital. This material weakness contributed to the restatement of the previously reported consolidated financial statements for the year ended June 30, 2006, as discussed in Note 17 to the consolidated financial statements under the caption Second Restatement .

These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements as of and for the year ended June 30, 2006 (as restated), of the Company and this report does not affect our report on such restated financial statements.

In our opinion, management s revised assessment that the Company did not maintain effective internal control over financial reporting as of June 30, 2006, is fairly stated, in all material respects, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of June 30, 2006, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended June 30, 2006 (as restated), of the Company and our report dated September 28, 2006 (November 14, 2006 as to the effects of the restatement discussed in Note 17 under the caption Second Restatement) expressed an unqualified opinion on those financial statements and includes explanatory paragraphs relating to the restatement of the Company s consolidated financial statements described in Note 17 and the adoption of Statement of Financial Accounting Standard No. 123(R) *Share-Based Payment* described in Note 8.

/s/ DELOITTE & TOUCHE LLP
Boston, Massachusetts
September 28, 2006 (November 14, 2006 as to the effects of the material weakness related to forfeiture rates used to calculate stock-based compensation expense discussed in Management s Report on Internal Control over Financial Reporting (as revised))

PART IV

Item 15. *Exhibits and Financial Statement Schedules*

(a)(1) Financial Statements

Description	Page
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Financial Statements:	
Balance Sheets (restated) as of June 30, 2005 and 2006	F-3
Statements of Operations (restated) for the years ended June 30, 2004, 2005 and 2006	F-4
Statements of Stockholders Equity (Deficit) and Comprehensive Income (Loss) (restated) for the years ended June 30, 2004, 2005 and 2006	F-5
Statements of Cash Flows (restated) for the years ended June 30, 2004, 2005 and 2006	F-6
Notes to Consolidated Financial Statements	F-7

(a)(2) Financial Statement Schedules

All schedules are omitted because they are not required or the required information is shown in the consolidated financial statements or notes thereto.

(a)(3) Exhibits

3.1(1)	Certificate of Incorporation of Aspen Technology, Inc., as amended.
3.2(2)	By-laws of Aspen Technology, Inc.
4.1(3)	Specimen Certificate for Shares of Aspen Technology, Inc. s common stock, $.10 par value.
4.2(2)	Rights Agreement dated as of March 12, 1998 between Aspen Technology, Inc. and American Stock Transfer and Trust Company, as Rights Agent, including related forms of the following: (a) Certificate of Designation of Series A Participating Cumulative Preferred Stock of Aspen Technology, Inc.; and (b) Right Certificate.
4.3(4)	Amendment No. 1 dated as of October 26, 2001 to Rights Agreement dated as of March 12, 1998 between Aspen Technology, Inc. and American Stock Transfer & Trust Company, as Rights Agent.
4.4(5)	Amendment No. 2 dated as of February 6, 2002 to Rights Agreement dated as of March 12, 1998 between Aspen Technology, Inc. and American Stock Transfer & Trust Company.
4.5(6)	Amendment No. 3 dated as of March 19, 2002 to Rights Agreement dated as of March 12, 1998 between Aspen Technology, Inc. and American Stock Transfer & Trust Company.
4.6(7)	Amendment No. 4 dated as of May 9, 2002 to Rights Agreement dated as of March 17, 1998 between Aspen Technology, Inc. and American Stock Transfer & Trust Company, as Rights Agent.
4.7(8)	Amendment No. 5 dated as of June 1, 2003 to Rights Agreement dated as of March 17, 1998 between Aspen Technology, Inc. and American Stock Transfer & Trust Company, as Rights Agent.
4.10(9)	Form of Warrant of Aspen Technology, Inc. dated as of May 9, 2002.
4.11(1)	Form of WD Common Stock Purchase Warrant of Aspen Technology, Inc. dated as of August 14, 2003.

4.12(1)	Form of WB Common Stock Purchase Warrant of Aspen Technology, Inc. dated as of August 14, 2003.
10.1(10)	Lease Agreement dated as of January 30, 1992 between Aspen Technology, Inc. and Teachers Insurance and Annuity Association of America regarding Ten Canal Park, Cambridge, Massachusetts.
10.2(11)	First Amendment to Lease Agreement dated May 5, 1997 between Aspen Technology, Inc. and Beacon Properties, L.P., successor-in-interest to Teachers Insurance and Annuity Association of America, regarding Ten Canal Park, Cambridge, Massachusetts.
10.3(11)	Second Amendment to Lease Agreement dated as of August 14, 2000 between Aspen Technology, Inc. and EOP-Ten Canal Park, L.L.C., successor-in-interest to Beacon Properties, L.P. regarding Ten Canal Park, Cambridge, Massachusetts.
10.4(10)	System License Agreement between Aspen Technology, Inc. and the Massachusetts Institute of Technology, dated March 30, 1982, as amended.
10.5(10)	Vendor Program Agreement, dated March 29, 1990, between Aspen Technology, Inc. and General Electric Capital Corporation.
10.6(12)	Rider No. 1, dated December 14, 1994, to Vendor Program Agreement between Aspen Technology, Inc. and General Electric Capital Corporation.
10.7(10)	Letter Agreement, dated March 25, 1992, between Aspen Technology, Inc. and Sanwa Business Credit Corporation.
10.8(16)	Third Amendment, effective as of March 28, 2003, to the Letter Agreement by and between Aspen Technology, Inc. and Fleet Business Credit, LLC (formerly Sanwa Business Credit Corporation).
10.9(32)	Amended and Restated Direct Finance and Services Addendum to Letter Agreement, effective December 30, 2004, by and among Aspen Technology, Inc. Fleet Business Credit LLC, Fleet Business Credit (UK) Limited, and Fleet Business Credit (Deutschland) GmbH.
10.10(13)	Loan and Security Agreement, dated as of January 30, 2003, by and among Silicon Valley Bank and Aspen Technology, Inc., AspenTech, Inc. and Hyprotech Company.
10.11(13)	Export-Import Bank Loan and Security Agreement, dated as of January 30, 2003, by and among Silicon Valley Bank, Aspen Technology, Inc. and AspenTech, Inc.
10.12(25)	Export-Import Bank Borrower Agreement, dated as of April 1, 2005, by and between Aspen Technology, Inc. and AspenTech Inc. in favor of the Export-Import Bank of the United States and Silicon Valley Bank.
10.13(25)	Promissory Note (Ex-Im), dated April 1, 2005, by and between Aspen Technology, Inc. and AspenTech, Inc. in favor of Silicon Valley Bank.
10.14(13)	Form of Negative Pledge Agreement, dated as of January 30, 2003, in favor of Silicon Valley Bank, executed by Aspen Technology, Inc., AspenTech, Inc. and Hyprotech Company.
10.15(13)	Security Agreement, dated as of January 30, 2003, by and between Silicon Valley Bank and AspenTech Securities Corporation.
10.16(13)	Unconditional Guaranty, dated as of January 30, 2003, by AspenTech Securities Corporation in favor of Silicon Valley Bank.
10.17(14)	First Loan Modification Agreement, effective as of June 27, 2003, by and among Silicon Valley Bank, Aspen Technology, Inc. and AspenTech, Inc.

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10.18(14)	Pledge Agreement, effective as of June 27, 2003, by Aspen Technology, Inc. in favor of Silicon Valley Bank.
10.19(26)	First Loan Modification Agreement (Exim), dated as of September 10, 2004, by and among Aspen Technology, Inc., AspenTech, Inc. and Silicon Valley Bank.
10.20(26)	Second Loan Modification Agreement, dated as of September 10, 2004, by and among Aspen Technology, Inc., AspenTech, Inc. and Silicon Valley Bank.
10.21(25)	Fourth Loan Modification Agreement, dated April 1, 2005 by and among Silicon Valley Bank, Aspen Technology, Inc. and AspenTech, Inc.
10.22(25)	Third Loan Modification Agreement (Exim), dated as of April 1, 2005, by and among Silicon Valley Bank, Aspen Technology, Inc. and AspenTech, Inc.
10.23(27)	Sixth Loan Modification Agreement, dated as of June 15, 2005, by and among Aspen Technology, Inc., Aspentech, Inc. and Silicon Valley Bank
10.24(27)	Fourth Loan Modification Agreement EXIM, dated as of June 15, 2005, by and among Aspen Technology, Inc., Aspentech, Inc. and Silicon Valley Bank
10.25(27)	Partial Release and Acknowledgement Agreement, dated as of June 15, 2005, by and among Aspen Technology, Inc., Aspentech, Inc. and Silicon Valley Bank
10.26(27)	Loan Agreement, dated as of June 15, 2005, among Aspen Technology, Inc., Aspen Technology Receivables II LLC, Guggenheim Corporate Funding, LLC and the lenders named therein
10.27(27)	Security Agreement, dated as of June 15, 2005, between Aspen Technology Receivables II LLC and Guggenheim Corporate Funding, LLC
10.28(27)	Purchase and Sale Agreement, dated as of June 15, 2005, between Aspen Technology, Inc. and Aspen Technology Receivables I LLC
10.29(27)	Purchase and Resale Agreement, dated as of June 15, 2005, between Aspen Technology Receivables I LLC and Aspen Technology Receivables II LLC
10.30(24)	Non-Recourse Receivables Purchase Agreement, dated December 31, 2003, between Silicon Valley Bank and Aspen Technology, Inc.
10.31(26)	Second Amendment to Non-Recourse Receivables Purchase Agreement, dated as of September 30, 2004, by and between Silicon Valley Bank and Aspen Technology, Inc.
10.32(28)	Third Amendment to Non-Recourse Receivables Purchase Agreement, dated as of December 31, 2004, by and between Silicon Valley Bank and Aspen Technology, Inc.
10.33(29)	Fifth Amendment to Non-Recourse Receivables Purchase Agreement, dated as of March 31, 2005, by and between Silicon Valley Bank and Aspen Technology, Inc.
10.34(15)	Securities Purchase Agreement dated June 1, 2003 by and among Aspen Technology, Inc. and the Purchasers listed therein.
10.35(15)	Repurchase and Exchange Agreement dated as of June 1, 2003 by and among Aspen Technology, Inc. and the Holders named therein.
10.36(1)	Investor Rights Agreement dated as of August 14, 2003 by and among Aspen Technology, Inc. and the Stockholders Named therein.
10.37(1)	Management Rights Letter dated as of August 14, 2003 by and among Aspen Technology, Inc. and the entities named therein.
10.38(17)	Amended and Restated Registration Rights Agreement dated as of March 19, 2002 between Aspen Technology, Inc. and the Purchasers named therein.

10.39(10)	Equity Joint Venture Contract between Aspen Technology, Inc. and China Petrochemical Technology Company.
10.40(28)+	Purchase and Sale Agreement, dated October 6, 2004, by and among Aspen Technology, Inc., Hyprotech Company, AspenTech Canada Ltd., and Hyprotech UK Ltd. (collectively, the AspenTech Parties) and Honeywell International Inc., Honeywell Control Systems Limited and Honeywell Limited-Honeywell Limitee (collectively, the Honeywell Parties).
10.41(28)+	Amendment No. 1 to the Purchase and Sale Agreement, dated October 6, 2004 by and among the AspenTech Parties and the Honeywell Parties.
10.42(28)+	Hyprotech License Agreement, dated as of December 23, 2004, by and between Aspen Technology, Inc. and Honeywell International, Inc.
10.43(28)+	Hyprotech License Agreement, dated as of December 23, 2004, by and between AspenTech Canada Ltd. and Honeywell Limited-Honeywell Limitee.
10.44(28)+	Hyprotech License Agreement, dated as of December 23, 2004, by and between Hyprotech Company and Honeywell Limited-Honeywell Limitee.
10.45(28)+	Hyprotech License Agreement, dated as of December 23, 2004, by and between AspenTech Ltd. and Honeywell Control Systems Limited.
10.46(28)+	Hyprotech License Agreement, dated as of December 23, 2004, by and between Hyprotech UK Ltd. and Honeywell Control Systems Limited.
10.47(10)*	1988 Non-Qualified Stock Option Plan, as amended.
10.48(18)*	1995 Stock Option Plan.
10.49(27)*	Amended and Restated 1995 Directors Stock Option Plan.
10.50(18)*	1995 Employees Stock Purchase Plan.
10.51(19)*	1998 Employees Stock Purchase Plan.
10.52(20)*	Amendment No. 1 to 1998 Employees Stock Purchase Plan.
10.53(21)*	1996 Special Stock Option Plan.
10.54(34)*	Restated 2001 Stock Option Plan.
10.55(30)*	2005 Stock Incentive Plan.
10.56(10)*	Form of Employee Confidentiality and Non-Competition Agreement.
10.57(31)*	Employment Agreement, dated as of December 7, 2004, between Aspen Technology, Inc. and Mark E. Fusco.
10.58(23)*	Employment Agreement, dated April 1, 2002, by and between Aspen Technology, Inc. and C. Steven Pringle
10.59(3)*	Letter Agreement, dated June 24, 2003, by and between Aspen Technology, Inc. and C. Steven Pringle.
10.60(23)*	Offer Letter, dated June 16, 2003, by and between Aspen Technology, Inc. and Charles F. Kane.
10.61(23)*	Letter Agreement, dated June 24, 2003, by and between Aspen Technology, Inc. and Manolis Kotzabasakis.
10.62(14)*	Letter Amendment, dated August 18, 2003, by and between Aspen Technology, Inc. and C. Steve Pringle.
10.63(14)*	Letter Amendment, dated August 18, 2003, by and between Aspen Technology, Inc. and Charles F. Kane.

10.64(14)*	Letter Amendment, dated August 18, 2003, by and between Aspen Technology, Inc. and Manolis Kotzabasakis.
10.65(32)*	Amendment No. 1 to Employment and Change of Control Agreement, dated as of October 28, 2005, between Aspen Technology, Inc. and Mark E. Fusco.
10.66(32)*	Aspen Technology, Inc. Executive Annual Incentive Bonus Plan FY06
10.67(32)*	Aspen Technology, Inc. Operations Executives Plan FY06
10.68(33)*	Aspen Technology, Inc. Executive Annual Incentive Bonus Plan FY07
10.69(33)*	Aspen Technology, Inc. Operations Executives Plan FY07
10.70(22)	Securities Purchase Agreement dated as of May 9, 2002 between Aspen Technology, Inc. and the Purchasers listed therein, and related Amendment dated June 5, 2002.
10.71(17)	Amended and Restated Securities Purchase Agreement dated as of March 19, 2002 between Aspen Technology, Inc. and the Purchasers named therein.
10.72(34)	Tenth Loan Modification Agreement, dated as of September 14, 2006, between Silicon Valley Bank and Aspen Technology, Inc.
10.73(34)	Sixth Loan Modification Agreement (EXIM) , dated as of September 14, 2006, between Silicon Valley Bank and Aspen Technology, Inc.
14.1(32)	Code of Conduct and Business Ethics
21.1(34)	Subsidiaries of Aspen Technology, Inc.
23.1	Consent of Deloitte & Touche LLP
24.1(34)	Power of Attorney.
31.1	Certification of President and Chief Executive Officer pursuant to Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial and Accounting Officer pursuant to Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
32.1	Certification of President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial and Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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(1) Previously filed as an exhibit to the Current Report on Form 8-K of Aspen Technology, Inc. dated August 21, 2003 (filed on August 22, 2003), and incorporated herein by reference.

(2) Previously filed as an exhibit to the Current Report on Form 8-K of Aspen Technology, Inc. dated March 12, 1998 (filed on March 27, 1998), and incorporated herein by reference.

(3) Previously filed as an exhibit to Amendment No. 1 to the Registration Statement on Form 8-A of Aspen Technology, Inc. (filed on June 12, 1998), and incorporated herein by reference.

(4) Previously filed as an exhibit to Amendment No. 2 to the Registration Statement on Form 8-A of Aspen Technology, Inc. filed on November 8, 2001, and incorporated herein by reference.

(5) Previously filed as an exhibit to Amendment No. 3 to the Registration Statement on Form 8-A of Aspen Technology, Inc. filed on February 12, 2002, and incorporated herein by reference.

(6) Previously filed as an exhibit to Amendment No. 4 to the Registration Statement on Form 8-A of Aspen Technology, Inc. filed on March 20, 2002, and incorporated herein by reference.

(7) Previously filed as an exhibit to Amendment No. 5 to the Registration Statement on Form 8-A of Aspen Technology, Inc. filed on May 31, 2002, and incorporated herein by reference.

(8) Previously filed as an exhibit to Amendment No. 6 to Form 8-A of Aspen Technology, Inc. filed on June 2, 2003, and incorporated herein by reference.

(9) Previously filed as an exhibit to the Current Report on Form 8-K of Aspen Technology, Inc. dated June 5, 2002 (filed on June 7, 2002), and incorporated herein by reference.

(10) Previously filed as an exhibit to the Registration Statement on Form S-1 of Aspen Technology, Inc. (Registration No. 33-83916) (filed on September 13, 1994), and incorporated herein by reference.

(11) Previously filed as an exhibit to the Annual Report on Form 10-K of Aspen Technology, Inc. for the fiscal year ended June 30, 2000, and incorporated herein by reference.

(12) Previously filed as an exhibit to the Registration Statement on Form S-1 of Aspen Technology, Inc. (Registration No. 33-88734) (filed on January 29, 1995), and incorporated herein by reference.

(13) Previously filed as an exhibit to the Quarterly Report on Form 10-Q of Aspen Technology, Inc. for the fiscal quarter ended December 31, 2002, and incorporated herein by reference.

(14) Previously filed as an exhibit to the Annual Report on Form 10-K of Aspen Technology, Inc. for the fiscal year ended June 30, 2003, and incorporated herein by reference.

(15) Previously filed as an exhibit to the Current Report on Form 8-K of Aspen Technology, Inc. filed on June 2, 2003, and incorporated herein by reference.

(16) Previously filed as an exhibit to the Quarterly Report on Form 10-Q of Aspen Technology, Inc. for the fiscal quarter ended March 31, 2002, and incorporated herein by reference.

(17) Previously filed as an exhibit to the Current Report on Form 8-K filed by Aspen Technology, Inc. on March 19, 2002, and incorporated herein by reference.

(18) Previously filed as an exhibit to the Registration Statement on Form S-8 of Aspen Technology, Inc. (Registration No. 333-11651) (filed on September 9, 1996), and incorporated herein by reference.

(19) Previously filed as an exhibit to the Registration Statement on Form S-8 of Aspen Technology, Inc. (Registration No. 333-44575) (filed on January 20, 1998), and incorporated herein by reference.

(20) Previously filed as an exhibit to the Definitive Proxy Statement on Schedule 14A of Aspen Technology, Inc. filed November 13, 2000, and incorporated herein by reference.

(21) Previously filed as an exhibit to the Annual Report on Form 10-K of Aspen Technology, Inc. for the fiscal year ended June 30, 1997, and incorporated herein by reference.

(22) Previously filed as an exhibit to the Current Report on Form 8-K of Aspen Technology, Inc. dated May 31, 2002 (filed on May 31, 2002), and incorporated herein by reference.

(23) Previously filed as an exhibit to the Current Report on Form 8-K of Aspen Technology, Inc. dated July 11, 2003 (filed on July 11, 2003), and incorporated herein by reference.

(24) Previously filed as an exhibit to the Quarterly Report on Form 10-Q of Aspen Technology, Inc. for the fiscal quarter ended December 31, 2003, and incorporated herein by reference.

(25) Previously filed as an exhibit to the Quarterly Report on Form 10-Q of Aspen Technology, Inc. for the fiscal quarter ended March 31, 2005, and incorporated herein by reference.

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(26) Previously filed as an exhibit to the Quarterly Report on Form 10-Q of Aspen Technology, Inc. for the fiscal quarter ended September 30, 2004, and incorporated herein by reference.

(27) Previously filed as an exhibit to the Current Report on Form 8-K of Aspen Technology, Inc. dated June 15, 2005 (filed on June 20, 2005), and incorporated herein by reference.

(28) Previously filed as an exhibit to the Quarterly Report on Form 10-Q of Aspen Technology, Inc. for the fiscal quarter ended December 31, 2004, and incorporated herein by reference.

(29) Previously filed as an exhibit to the Quarterly Report on Form 10-Q of Aspen Technology, Inc. for the fiscal quarter ended March 31, 2005, and incorporated herein by reference.

(30) Previously filed as an exhibit to the Current Report on Form 8-K of Aspen Technology, Inc. dated May 26, 2005 (filed on June 2, 2005), and incorporated herein by reference.

(31) Previously filed as an exhibit to the Current Report on Form 8-K of Aspen Technology, Inc. dated December 21, 2004 (filed on December 23, 2004), and incorporated herein by reference.

(32) Previously filed as an exhibit to the Annual report on Form 10-K of Aspen Technology, Inc. for the year ended June 30, 2005, and incorporated herein by reference.

(33) Previously files as an exhibit to the Current Report on Form 8-K of aspen Technology, Inc. dated June 29, 2006 (filed on July 6, 2006), and incorporated by reference.

(34) Previously filed as an exhibit to the Annual Report on Form 10-K of Aspen Technology, Inc. for the fiscal year ended June 30, 2006 (filed on September 28, 2006), and incorporated herein by reference.

Confidential treatment requested as to certain portions

* Management contract or compensatory plan

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment No. 1 on Form 10-K/A to be signed on its behalf by the undersigned, thereunto duly authorized.

	ASPEN TECHNOLOGY, INC.	
Date: November 14, 2006	By:	/s/ MARK E. FUSCO Mark E. Fusco President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Amendment No. 1 on Form 10-K/A has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of November 14, 2006.

Signature	Title
/s/ MARK E. FUSCO Mark E. Fusco	President, Chief Executive Officer and Director *(Principal Executive Officer)*
/s/ BRADLEY T. MILLER Bradley T. Miller	Senior Vice President and Chief Financial Officer *(Principal Accounting and Financial Officer)*
/s/ STEPHEN M. JENNINGS Stephen M. Jennings	Chairman of the Board of Directors
/s/ DONALD P. CASEY Donald P. Casey	Director
/s/ GARY E. HAROIAN Gary E. Haroian	Director
/s/ JOAN C. MCARDLE Joan C. McArdle	Director
/s/ DAVID M. MCKENNA David M. McKenna	Director
/s/ MICHAEL PEHL Michael Pehl	Director

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ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Aspen Technology, Inc.:
Cambridge, Massachusetts

We have audited the accompanying consolidated balance sheets of Aspen Technology, Inc. and subsidiaries (the Company) as of June 30, 2005 and 2006, and the related consolidated statements of operations, stockholders equity (deficit) and comprehensive income (loss), and cash flows for each of the three years in the period ended June 30, 2006. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2005 and 2006, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 17, the accompanying consolidated financial statements have been restated.

As discussed in Note 8 to the consolidated financial statements, effective July 1, 2005 the Company adopted Statement of Financial Accounting Standards No. 123(R) *Share-Based Payment*, based on the modified prospective application transition method.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company s internal control over financial reporting as of June 30, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated September 28, 2006 (November 14, 2006 as to the effect of the material weakness related to forfeiture rates used to calculate stock-based compensation expense discussed in Management s Report on Internal Control over Financial Reporting (as revised)) expressed an unqualified opinion on management s assessment of the effectiveness of the Company s internal control over financial reporting and an adverse opinion on the effectiveness of the Company s internal control over financial reporting because of material weaknesses.

/s/ DELOITTE & TOUCHE LLP
Boston, Massachusetts
September 28, 2006 (November 14, 2006 as to the effects of the restatement discussed in Note 17 under the caption Second Restatement)

ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	June 30, 2005 (As restated, see Note 17) (In thousands, except share data)	2006 (As restated, see Note 17)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 68,149	$ 86,272
Accounts receivable, net of allowance for doubtful accounts of $4,653 in 2005 and $5,110 in 2006	52,102	55,654
Unbilled services	9,826	8,518
Current portion of long-term installments receivable, net of unamortized discount of $345 in 2005 and $650 in 2006	5,355	12,123
Deferred tax asset	692	
Prepaid expenses and other current assets	11,299	8,813
Total current assets	147,423	171,380
Long-term installments receivable, net of unamortized discount of $2,846 in 2005 and $7,786 in 2006	18,445	35,681
Retained interest in sold receivables	16,667	19,010
Property and leasehold improvements, at cost:		
Computer equipment	11,888	11,015
Purchased software	25,683	20,495
Furniture and fixtures	6,907	6,638
Leasehold improvements	5,503	5,747
	49,981	43,895
Less Accumulated depreciation and amortization	39,025	35,544
	10,956	8,351
Computer software development costs, net of accumulated amortization of $37,734 in 2005 and $46,891 in 2006	17,411	15,456
Purchased intellectual property, net of accumulated amortization of $1,531 in 2005 and $2,096 in 2006	730	165
Other intangible assets, net of accumulated amortization of $35,339 in 2005 and $42,830 in 2006	12,123	5,131
Goodwill	14,729	14,917
Deferred tax asset	1,354	1,595
Other assets	2,656	2,552
	$ 242,494	$ 274,238
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
Current liabilities:		
Current portion of long-term obligations	$ 1,042	$ 247
Accounts payable	5,086	4,613
Accrued expenses	80,593	77,033
Deferred revenue	57,846	63,988
Total current liabilities	144,567	145,881
Long-term obligations, less current portion	338	149
Deferred revenue, less current portion	2,093	2,609
Deferred tax liability	2,760	1,309
Other liabilities	23,143	20,446
Commitments and contingencies (Notes 11, 12, 13 and 14)		
Series D redeemable convertible preferred stock, $0.10 par value		
Authorized 367,000 shares in 2005 and 2006		
Issued and outstanding 363,364 shares in 2005 and 333,364 shares in 2006 (Liquidation preference of $139,470 as of June 30, 2006)	121,210	125,475
Stockholders equity (deficit):		
Common stock, $0.10 par value		
Authorized 120,000,000 shares		
Issued 43,299,816 shares in 2005 and 49,090,499 shares in 2006		
Outstanding 43,066,352 shares in 2005 and 48,857,035 shares in 2006	4,330	4,909
Additional paid-in capital	402,799	430,811
Accumulated deficit	(458,366)	(456,508)
Deferred compensation	(414)	
Accumulated other comprehensive income (loss)	547	(330)
Treasury stock, at cost 233,464 shares of common stock in 2005 and 2006	(513)	(513)
Total stockholders equity (deficit)	(51,617)	(21,631)
	$ 242,494	$ 274,238

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

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ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended June 30,		
	2004 (As restated, see Note 17)	2005 (As restated, see Note 17)	2006 (As restated, see Note 17)
	(In thousands, except per share data)		
Revenues:			
Software licenses	$ 158,150	$ 129,621	$ 152,773
Service and other	174,296	140,373	