ASPEN TECHNOLOGY INC /DE/
Form 10-Q
November 01, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

# FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

or

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

For the transition period from to

Commission File Number: 000-24786

ASPEN TECHNOLOGY, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware<br>(State or other jurisdiction of incorporation or organization) | 04-2739697<br>(I.R.S. Employer Identification No.) |
| 200 Wheeler Road<br>Burlington, Massachusetts<br>(Address of principal executive offices) | 01803<br>(Zip Code) |

(781) 221-6400
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes x No ¨

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

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

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

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 October 24, 2011, there were 93,909,310 shares of the registrant's common stock (par value $0.10 per share) outstanding.

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

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Condensed Consolidated Financial Statements (unaudited)

ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited and in thousands, except per share data)

| | Three Months Ended September 30, | |
|---|---|---|
| | 2011 | 2010 |
| Revenue: | | |
| Subscription and software | $ 31,910 | $ 18,967 |
| Services and other | 19,315 | 24,133 |
| Total revenue | 51,225 | 43,100 |
| Cost of revenue: | | |
| Subscription and software | 2,724 | 2,122 |
| Services and other | 11,097 | 11,126 |
| Total cost of revenue | 13,821 | 13,248 |
| Gross profit | 37,404 | 29,852 |
| Operating expenses: | | |
| Selling and marketing | 23,446 | 20,351 |
| Research and development | 13,769 | 12,575 |
| General and administrative | 15,887 | 16,557 |
| Restructuring charges | (73) | 77 |
| Total operating expenses | 53,029 | 49,560 |
| Loss from operations | (15,625) | (19,708) |
| Interest income | 2,231 | 3,702 |
| Interest expense | (1,092) | (1,244) |
| Other (expense) income, net | (2,032) | 2,664 |
| Loss before income taxes | (16,518) | (14,586) |
| (Benefit from) provision for income taxes | (4,782) | 882 |
| Net loss | $ (11,736) | $ (15,468) |
| Loss per common share: | | |
| Basic | $ (0.12) | $ (0.17) |
| Diluted | $ (0.12) | $ (0.17) |
| Weighted average shares outstanding: | | |
| Basic | 94,065 | 92,689 |
| Diluted | 94,065 | 92,689 |

See accompanying notes to these unaudited condensed consolidated financial statements.

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ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited and in thousands, except share data)

| | September 30, 2011 | June 30, 2011 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 145,356 | $ 149,985 |
| Accounts receivable, net | 21,998 | 27,866 |
| Current portion of installments receivable, net | 38,199 | 38,703 |
| Current portion of collateralized receivables, net | 16,165 | 15,748 |
| Unbilled services | 1,716 | 2,319 |
| Prepaid expenses and other current assets | 9,259 | 10,819 |
| Prepaid income taxes | 1,155 | 1,151 |
| Deferred income taxes- current | 7,271 | 7,272 |
| Total current assets | 241,119 | 253,863 |
| Non-current installments receivable, net | 40,566 | 47,773 |
| Non-current collateralized receivables, net | 7,604 | 9,291 |
| Property, equipment and leasehold improvements, net | 6,205 | 6,730 |
| Computer software development costs, net | 2,489 | 2,813 |
| Goodwill | 17,791 | 18,624 |
| Deferred income taxes- non-current | 74,426 | 69,242 |
| Other non-current assets | 3,857 | 3,639 |
| Total assets | $ 394,057 | $ 411,975 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of secured borrowings | $ 16,615 | $ 15,756 |
| Accounts payable | 4,789 | 2,099 |
| Accrued expenses and other current liabilities | 54,886 | 64,467 |
| Income taxes payable | 483 | 672 |
| Deferred revenue | 97,036 | 90,681 |
| Total current liabilities | 173,809 | 173,675 |
| Long-term secured borrowings | 8,194 | 9,157 |
| Long-term deferred revenue | 38,783 | 38,262 |
| Other non-current liabilities | 31,816 | 33,078 |
| Commitments and contingencies (Note 11) | | |
| Series D redeemable convertible preferred stock, $0.10 par value— | | |
| Authorized— 3,636 shares at September 30, 2011 and June 30, 2011 | | |
| Issued and outstanding— none at September 30, 2011 and June 30, 2011 | - | - |
| Stockholders' equity: | | |
| Common stock, $0.10 par value— Authorized—210,000,000 shares | | |
| Issued— 95,356,577 shares at September 30, 2011 and 94,939,400 shares at June 30, 2011 | | |
| Outstanding— 94,068,547 shares at September 30, 2011 and 94,238,370 shares at June 30, 2011 | 9,536 | 9,494 |
| Additional paid-in capital | 535,707 | 530,996 |
| Accumulated deficit | (393,007 ) | (381,271 ) |

| | | | | |
|---|---|---|---|---|
| Accumulated other comprehensive income | | 8,922 | | 9,115 |
| Treasury stock, at cost—1,288,030 shares of common stock at September 30, 2011 and 701,030 at June 30, 2011 | | (19,703 ) | | (10,531 ) |
| Total stockholders’ equity | | 141,455 | | 157,803 |
| Total liabilities and stockholders' equity | $ | 394,057 | $ | 411,975 |

See accompanying notes to these unaudited condensed consolidated financial statements.

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

| | Three Months Ended September 30, | |
|---|---|---|
| | 2011 | 2010 |
| Cash flows from operating activities: | | |
| Net loss | $ (11,736) | $ (15,468) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,412 | 1,361 |
| Net foreign currency loss (gain) | 1,275 | (2,179) |
| Stock-based compensation | 3,708 | 2,697 |
| Deferred income taxes | (5,354) | 46 |
| Provision for bad debts | 150 | 717 |
| Other non-cash activities | 13 | - |
| Changes in assets and liabilities: | | |
| Accounts receivable | 5,594 | 5,241 |
| Unbilled services | 611 | (287) |
| Prepaid expenses, prepaid income taxes, and other assets | 1,187 | 4,791 |
| Installments and collateralized receivables | 8,329 | 11,901 |
| Accounts payable, accrued expenses, and other liabilities | (6,898) | (16,438) |
| Deferred revenue | 6,982 | 14,006 |
| Net cash provided by operating activities | 5,273 | 6,388 |
| Cash flows from investing activities: | | |
| Purchase of property, equipment and leasehold improvements | (386) | (588) |
| Capitalized computer software development costs | (200) | (176) |
| Net cash used in investing activities | (586) | (764) |
| Cash flows from financing activities: | | |
| Exercise of stock options and warrants | 2,232 | 137 |
| Proceeds from secured borrowings | 1,408 | 1,924 |
| Repayments of secured borrowings | (2,232) | (9,341) |
| Repurchases of common stock | (9,172) | - |
| Payment of tax withholding obligations related to restricted stock | (1,187) | (796) |
| Net cash used in financing activities | (8,951) | (8,076) |
| Effects of exchange rate changes on cash and cash equivalents | (365) | 668 |
| Decrease in cash and cash equivalents | (4,629) | (1,784) |
| Cash and cash equivalents, beginning of period | 149,985 | 124,945 |
| Cash and cash equivalents, end of period | $ 145,356 | $ 123,161 |
| | | |
| Supplemental disclosure of cash flow information: | | |
| Interest paid | $ 1,092 | $ 1,581 |
| Income tax paid (refunded), net | 631 | (6,496) |

See accompanying notes to these unaudited condensed consolidated financial statements.

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ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Interim Unaudited Condensed Consolidated Financial Statements

The accompanying interim unaudited condensed consolidated financial statements (Interim Financial Statements) of Aspen Technology, Inc. and its subsidiaries have been prepared on the same basis as our annual consolidated financial statements. We condensed or omitted certain information and footnote disclosures normally included in our annual consolidated financial statements. Such Interim Financial Statements have been prepared in conformity with U.S. Generally Accepted Accounting Principles (GAAP), as defined in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 270, Interim Reporting, for interim financial information and with the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. It is suggested that these Interim Financial Statements be read in conjunction with the audited consolidated financial statements for the year ended June 30, 2011, which are contained in our Annual Report on Form 10-K, as previously filed with the U.S. Securities and Exchange Commission (SEC). In the opinion of management, all adjustments, consisting of normal and recurring adjustments, considered necessary for a fair presentation of the financial position, results of operations, and cash flows at the dates and for the periods presented have been included and all intercompany accounts and transactions have been eliminated in consolidation. The results of operations for the three months ended September 30, 2011 are not necessarily indicative of the results to be expected for subsequent quarters or for the full fiscal year.

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

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

2. Significant Accounting Policies

Overview of Licensing Model Changes

Transition to the aspenONE Subscription Offering

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

In fiscal 2010 we began offering our aspenONE software as a subscription model, which allows our customers access to all products within a licensed suite (aspenONE Engineering or aspenONE Manufacturing and Supply Chain). SMS is included for the entire arrangement and customers are entitled to any software products or updates introduced into the licensed suite. Revenue is recognized over the term of a license agreement on a subscription, or ratable basis. We also continued to offer customers the ability to license point products, but since fiscal 2010, have included SMS for the term of the agreement. In fiscal 2010 and 2011, revenue from point product arrangements was generally

recognized on the due date of each annual installment, provided all other revenue recognition requirements were met.

Introduction of our Enhanced SMS Offering

In July 2011, we introduced an enhanced SMS offering to provide more value to our customers. As part of this offering, customers receive 24x7 support, faster response times, dedicated technical advocates and access to web-based training modules. The enhanced SMS offering is being provided to new and existing customers of both our aspenONE subscription offering and customers who have licensed point products with SMS included for the term of the arrangement. Our legacy annually renewable SMS offering continues to be available to customers with term or perpetual license agreements signed prior to fiscal 2010.



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The introduction of our enhanced SMS offering has resulted in a change to the revenue recognition of point product arrangements that include SMS for the term of the arrangement. Beginning in fiscal 2012, the revenue associated with point product arrangements that include the enhanced SMS offering is being recognized on a ratable basis, whereas prior to fiscal 2012, revenue was recognized under the residual method, as payments became due. The introduction of our enhanced SMS offering did not change the revenue recognition for our aspenONE subscription arrangements.

Impact of Licensing Model Changes

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

- The majority of our license revenue is no longer recognized on an upfront basis. Since the upfront model resulted in the net present value of multiple years of future installments being recognized at the time of shipment, we do not expect to recognize levels of revenue comparable to our pre-transition levels until a significant majority of license agreements executed under our upfront revenue model (i) reach the end of their original terms and (ii) are renewed. Accordingly, our product-related revenue for fiscal 2010, 2011 and the three months ended September 30, 2011 was significantly less than the level achieved in the fiscal years preceding our licensing model change.

- Because the timing of our incurrence of operating costs has not changed, the lower levels of revenue expected over the next few years may result in operating losses.

- Over the next several years, we expect substantially all of our customers to transition to term arrangements which include SMS for the contract term. During this transition period, we may continue to have arrangements where the software element will be recognized upfront, including perpetual licenses and amendments to existing legacy term arrangements. However, we do not expect revenue related to these sources to be significant in relation to our total revenue.

Revenue Recognition

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

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

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

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

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

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

With the introduction of our aspenONE subscription offering and the changes to the licensing terms of our point products arrangements sold on a fixed-term basis, we cannot assert that the fees in these new arrangements are fixed or determinable because the rights provided to customers and the economics of the arrangements are not comparable to our historical transactions with other customers under the upfront revenue model. As a result, the amount of revenue recognized for these arrangements is limited by the amount of customer payments that become due. For our term arrangements sold with SMS included for the term of the arrangement, this generally results in the fees being recognized ratably over the contract term.

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

Vendor-Specific Objective Evidence of Fair Value

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

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

Subscription and Software Revenue

Subscription and software revenue consists of product and related revenue from the following sources:

(i) aspenONE subscription arrangements;

(ii) fixed-term arrangements for point product licenses with our enhanced SMS offering included for the contract term (refered to as point product arrangements with enhanced SMS);

(iii) upfront amendments to legacy term arrangements (refered to as upfront legacy amendments) and legacy arrangements that are being recognized over time as a result of not previously meeting one or more of the requirements for recognition under the upfront revenue model (referred to as legacy arrangements); and,

(iv) perpetual arrangements.

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When a customer elects to license our products under our aspenONE subscription offering, our enhanced SMS offering is included for the entire term of the arrangement and the customer receives, for the term of the arrangement, the right to any new unspecified future software products and updates that may be introduced into the licensed aspenONE software suite. These agreements combine the right to use all software products within a given product suite with SMS for the term of the arrangement. Due to our obligation to provide unspecified future software products and updates, we are required to recognize the total revenue ratably over the term of the license, once the four revenue recognition criteria noted above are met.

Our point product arrangements with enhanced SMS also include SMS for the term of the arrangement. Since we do not have VSOE for our enhanced SMS offering, the SMS element of our point product arrangements is not separable. As a result, the total revenue is also recognized ratably over the term of the arrangement, once the four revenue recognition criteria are met.

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

Results of Operations Classification - Subscription and Software Revenue

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

As a result of the introduction of our enhanced SMS offering in fiscal 2012, the majority of our product-related revenue is now recognized on a ratable basis, over the term of the arrangement. Additionally, we do not expect residual revenue from upfront legacy amendments, legacy arrangements and perpetual arrangements to represent a material portion of our revenue during fiscal 2012 and beyond. Since the distinction between subscription and point product ratable revenue does not represent a meaningfully difference from either a line of business or revenue recognition perspective, we have combined our subscription and software revenue into a single line item on our statements of operations beginning in the first quarter of fiscal 2012.

The following table summarizes the changes to our revenue classifications and the timing of revenue recognition of subscription and software revenue for fiscal 2012 compared to fiscal 2011 and fiscal 2010. Ratable revenue refers to product revenue that is recognized evenly over the term of the related agreement, beginning when the first payment becomes due. The residual method refers to the recognition of the difference between the total arrangement fee and the undiscounted VSOE of fair value for the undelivered element, assuming all other revenue recognition requirements have been met.

| | Revenue Classification in Income Statement | | Revenue Recognition Methodology | |
|---|---|---|---|---|
| | Fiscal 2012 | Fiscal 2011 and 2010 | Fiscal 2012 | Fiscal 2011 and 2010 |
| Type of Revenue: | | | | |
| aspenONE subscription | Subscription and software | Subscription | Ratable | Ratable |
| Point products | | | | |

| | | | | |
|---|---|---|---|---|
| - Software | Subscription and software | Software | Ratable | Residual method |
| - Bundled SMS | Subscription and software | Services and other | Ratable | Ratable |
| Other | | | | |
| - Upfront legacy amendments and legacy arrangements | Subscription and software | Software | Residual method | Residual method |
| - Perpetual arrangements | Subscription and software | Software | Residual method | Residual method |

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The following table reconciles the amount of revenue recognized for the first quarter of fiscal 2012 and 2011, based on the revenue recognition methodology.  As illustrated below, the introduction of our enhanced SMS offering in fiscal 2012 has resulted in a substantial majority of our subscription and software revenue being recognized on a ratable basis in fiscal 2012.

| | Three Months Ended September 30, | | Three Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | (Dollars in thousands) | | % of Total | |
| Subscription and software revenue: | | | | |
| Ratable (1) | $ 28,455 | $ 9,656 | 89.2 % | 50.9 % |
| Residual method (2) | 3,455 | 9,311 | 10.8 | 49.1 |
| Total subscription and software revenue | $ 31,910 | $ 18,967 | 100.0 % | 100.0 % |

(1)   In the first quarter of fiscal 2011, the fair value of the SMS element of point product arrangements totaled $0.4 million and was presented in the statements of operations as services and other revenue.  For fiscal 2012, the fee attributable to the SMS in point product arrangements is no longer separable, because we are unable to establish VSOE of fair value, and as a result, is included within ratable revenue.

| (2) Residual method revenue detail | Three Months Ended September 30, | |
|---|---|---|
| | 2011 | 2010 |
| | (Dollars in thousands) | |
| Residual method revenue: | | |
| Point products - Software | * | $ 5,611 |
| Upfront legacy amendments and legacy arrangements | 3,115 | 2,831 |
| Perpetual arrangements | 340 | 869 |
| Total residual method revenue | $ 3,455 | $ 9,311 |

* In fiscal 2012, the total combined arrangement fee (which includes the fee attributable to SMS) for point product arrangements with enhanced SMS is recognized on a ratable basis.

Services and Other

SMS Revenue

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

For arrangements executed under the aspenONE subscription offering and for point product arrangements with enhanced SMS, we have not established VSOE for the SMS deliverable. As a result, the revenue related to the SMS element of these transactions is reported in subscription and software revenue in the consolidated statements of operations.

Professional Services

Professional services are provided to customers on a time-and-materials (T&M) or fixed-price basis. We allocate the fair value of our professional services that are bundled with non-aspenONE subscription arrangements, and generally recognize the related revenue as the services are performed, assuming all other revenue recognition criteria have been met. We recognize professional services fees for our T&M contracts based upon hours worked and contractually agreed-upon hourly rates. Revenue from fixed-price engagements is recognized using the proportional performance method based on the ratio of costs incurred, to the total estimated project costs. Professional services revenue is recognized within services and other revenue in the statement of operations. Project costs are based on standard rates, which vary by the consultant's professional level, plus all direct expenses incurred to complete the engagement that are not reimbursed by the client. Project costs are typically expensed as incurred. The use of the proportional performance method is dependent upon our ability to reliably estimate the costs to complete a project. We use historical experience as a basis for future estimates to complete current projects. Additionally, we believe that costs are the best available measure of performance. Out-of-pocket expenses which have been reimbursed by customers are recorded as revenue.

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If the costs to complete a project are not estimable or the completion is uncertain, the revenue is recognized upon completion of the services. In those circumstances in which committed professional services arrangements are sold as a single arrangement with, or in contemplation of, a new license agreement, revenue is deferred and recognized on a ratable basis over the longer of the period the services are performed or the license term. We have occasionally been required to commit unanticipated additional resources to complete projects, which resulted in lower than anticipated income or losses on those contracts. Provisions for estimated losses on contracts are made during the period in which such losses become probable and can be reasonably estimated.

Occasionally, we provide professional services considered essential to the functionality of the software. We recognize the combined revenue from the sale of the software and related services using the percentage-of-completion method. When these professional services are combined with, and essential to, the functionality of an aspenONE subscription transaction, the amount of combined revenue will be recognized over the longer of the subscription term or the period the professional services are provided.

Deferred Revenue

Under the upfront revenue model, a portion of the arrangement fee is generally recorded as deferred revenue due to the inclusion of an undelivered element, typically our legacy SMS offering. The amount of revenue allocated to undelivered elements is based on the VSOE of fair value for those elements using the residual method and is earned and recognized as revenue as each element is delivered. Deferred revenue related to these transactions generally consists of SMS and represents payments received in advance of services rendered as of the balance sheet dates.

For arrangements under the aspenONE subscription offering and for point product arrangements with enhanced SMS, VSOE of fair value does not exist for the undelivered elements, and as a result, we are required to recognize the arrangement fees ratably (i.e., on a subscription basis) over the term of the license. Therefore, deferred revenue is recorded as each payment comes due and revenue is recognized ratably over the associated license period.

Installments Receivable

Installments receivable resulting from product sales under the upfront revenue model are discounted to present value at prevailing market rates (generally 8% to 9%) at the date the contract is signed, based on the customers’ credit rating. Finance fees are recognized using the effective interest method over the relevant license term and are classified as interest income. Installments receivable are split between current and non-current in our condensed consolidated balance sheets based on the maturity date of the related installment. Non-current installments receivable consist of receivables with a due date greater than one year from the period-end date. Current installments receivable consist of invoices with a due date of less than one year but greater than 45 days from the period-end date. Once an installments receivable invoice becomes due within 45 days, it is reclassified as a trade accounts receivable on our condensed consolidated balance sheet. As a result, we did not have any past due installments receivable as of September 30, 2011.

Our non-current installments receivable are within the scope of Accounting Standards Update (ASU) No. 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. As our portfolio of financing receivables arise from the sale of our software licenses, the methodology for determining our allowance for doubtful accounts is based on the collective population and is not stratified by class or portfolio segment. We consider factors such as existing economic conditions, country risk, and customers’ past payment history in determining our allowance for doubtful accounts. We reserve against our installments receivable when the related trade accounts receivable have been past due for over a year, or when there is a specific risk of uncollectability. Our specific reserve reflects the full value of the related installments receivable for which collection has been deemed uncertain. Our specific reserve represented 93% and 92% of our total installments receivable

allowance for doubtful accounts at September 30, 2011 and June 30, 2011, respectively. In instances when an installment receivable that is reserved against ages into trade accounts receivable, the related reserve is transferred to our trade accounts receivable allowance.

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We write-off receivables when they have been deemed uncollectable, based on our judgment. In instances when we write-off specific customers' trade accounts receivable, we also write-off any related current and non-current installments receivable balances. Any incremental interest income for installments receivable that has been reserved against is offset by an additional provision to the allowance for doubtful accounts.

The following table summarizes our net current and non-current installments receivable, net of related unamortized discount and allowance for doubtful accounts balances at September 30, 2011 and June 30, 2011 (dollars in thousands) :

| | Current | Non-current | Total |
|---|---|---|---|
| September 30, 2011 | | | |
| Installments receivable, gross | $ 40,523 | $ 46,533 | $ 87,056 |
| Less: Unamortized discount | (1,664) | (5,896) | (7,560) |
| Less: Allowance for doubtful accounts | (660) | (71) | (731) |
| Installments receivable, net | $ 38,199 | $ 40,566 | $ 78,765 |
| June 30, 2011 | | | |
| Installments receivable, gross | $ 41,407 | $ 55,277 | $ 96,684 |
| Less: Unamortized discount | (1,937) | (7,383) | (9,320) |
| Less: Allowance for doubtful accounts | (767) | (121) | (888) |
| Installments receivable, net | $ 38,703 | $ 47,773 | $ 86,476 |

The following table shows a rollforward of our current and non-current allowance for doubtful accounts for the installments receivable balances during the periods ending September 30, 2011 and 2010, respectively (dollars in thousands):

| | Current | Non-current | Total |
|---|---|---|---|
| September 30, 2011 | | | |
| Balance at June 30, 2011 | $ 767 | $ 121 | $ 888 |
| Transfers to trade accounts receivable | (41) | - | (41) |
| Transfers from non-current to current | - | - | - |
| Write-offs | (19) | (21) | (40) |
| Recoveries of previous write-offs | - | - | - |
| Provision for bad debts | (47) | (29) | (76) |
| Balance at September 30, 2011 | $ 660 | $ 71 | $ 731 |
| September 30, 2010 | | | |
| Balance at June 30, 2010 | $ 1,119 | $ 1,196 | $ 2,315 |
| Transfers to trade accounts receivable | (70) | - | (70) |
| Transfers from non-current to current | 26 | (26) | - |
| Write-offs | - | - | - |
| Recoveries of previous write-offs | - | - | - |
| Provision for bad debts | 91 | 26 | 117 |
| Balance at September 30, 2010 | $ 1,166 | $ 1,196 | $ 2,362 |

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Our installments receivable balance will continue to decrease over time, as licensing agreements previously executed under our upfront revenue model reach the end of their terms and are renewed under our new licensing model. Under the aspenONE subscription offering and for point product arrangements with enhanced SMS, payment amounts under extended payment term arrangements are not presented in the condensed consolidated balance sheets as the related arrangement fees are not fixed or determinable. Accordingly, future installments under our new licensing model are not considered financing receivables.

Loss Contingencies

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

Other

For further information with regard to our "Significant Accounting Policies," please refer to Note 2 of our Consolidated Financial Statements and Notes thereto included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2011.

3. Goodwill

The changes in the carrying amount of goodwill by reporting unit for the three months ended September 30, 2011 were as follows (dollars in thousands):

| | Reporting Unit | | | |
|---|---|---|---|---|
| Asset Class | License | Professional Services | Maintenance and Training | Total |
| Balance as of June 30, 2011 | | | | |
| Goodwill | $ 68,049 | $ 5,102 | $ 16,144 | $ 89,295 |
| Accumulated impairment losses | (65,569 ) | (5,102 ) | - | (70,671 ) |
| | $ 2,480 | $ - | $ 16,144 | $ 18,624 |
| Effect of changes in currency translation | (7 ) | - | (826 ) | (833 ) |
| Balance as of September 30, 2011 | | | | |
| Goodwill | $ 68,042 | $ 5,102 | $ 15,318 | $ 88,462 |
| Accumulated impairment losses | (65,569 ) | (5,102 ) | - | (70,671 ) |
| | $ 2,473 | $ - | $ 15,318 | $ 17,791 |

We test goodwill for impairment annually (or more often if impairment indicators arise), at the reporting unit level using a fair value- based approach in accordance with the provisions of ASC 350, Intangibles—Goodwill and Other. We have elected December 31st as the annual impairment assessment date and perform additional impairment tests if triggering events occur. The initial step requires us to determine the fair value of each reporting unit and compare it to the carrying value, including goodwill, of such reporting unit. If the fair value exceeds the carrying value, no impairment loss is recognized. However, if the carrying value of the reporting unit exceeds its fair value, the goodwill of the unit may be impaired. The amount of impairment, if any, is measured based upon the implied fair value of goodwill at the valuation date.

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

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We performed our annual impairment test for each reporting unit as of December 31, 2010 and determined that their estimated fair values substantially exceeded the carrying values. As such, no impairment losses were recognized as a result of the analysis. If an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value, goodwill will be evaluated for impairment between annual tests. No triggering events indicating goodwill impairment occurred during the three months ended September 30, 2011.

4. Income Taxes

Deferred income taxes are recognized based on temporary differences between the financial statement and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using the statutory tax rates and laws expected to apply to taxable income in the years in which the temporary differences are expected to reverse.

Valuation allowances are provided against net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the future generation of future taxable income, the ability to utilize tax credits, and the timing of the temporary differences becoming deductible. Management considers, among other available information, scheduled reversals of deferred tax liabilities, projected future taxable income, limitations of availability of net operating loss carry-forwards, and other matters in making this assessment.

Based on our evaluation of the realizability of our deferred tax assets in future years, a significant portion of the U.S. valuation allowance was reversed during the year ended June 30, 2011 due to our projection of future taxable income. A valuation allowance has been retained in the U.S. for certain R&D credits that are anticipated to expire unused and for a deferred tax asset on unrealized capital losses. A valuation allowance has also been retained on certain foreign subsidiary net operating loss (“NOL”) carryfowards because it is more likely than not that a benefit will not be realized. At September 30, 2011 and June 30, 2011, our total valuation allowance was $8.3 million and $8.0 million, respectively.

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

We are continuously subject to examination by the IRS, as well as various state and foreign jurisdictions. The IRS and other taxing authorities may challenge certain deductions and credits reported by us on our income tax returns. We account for uncertain tax positions pursuant to FIN 48, Accounting for Uncertain Tax Positions, (currently included as provisions of ASC Topic 740, Income Taxes), which clarifies the criteria for recognition and measurement of benefits from uncertain tax positions. Under this guidance, an entity should recognize a tax benefit when it is more-likely-than-not, based on the technical merits, that the position would be sustained upon examination by a taxing authority. The amount to be recognized, if the more-likely-than-not threshold is passed, should be measured as the largest amount of tax benefit that is greater than 50 percent likely to be realized upon the ultimate settlement with a taxing authority that has full knowledge of all relevant information. Furthermore, any change in the recognition, de-recognition or measurement of a tax position should be recorded in the period in which the change occurs. We account for interest and penalties related to uncertain tax positions as part of the provision for income taxes.

5. Fair Value Measurements

We determine fair value utilizing a fair value hierarchy that ranks the quality and reliability of the information used in its determination. Fair values determined using Level 1 inputs utilize unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access. Fair values determined using Level 2 inputs utilize data

points that are observable such as quoted prices, interest rates and yield curves for similar assets and liabilities.

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Cash equivalents of $128.0 million and $139.0 million as of September 30, 2011, and June 30, 2011, respectively, are reported at fair value utilizing quoted market prices in identical markets, or Level 1 inputs. Our cash equivalents consist of short-term, highly liquid investments with remaining maturities of three months or less when purchased.

Financial instruments not measured or recorded at fair value in the accompanying financial statements consist of accounts receivable, installments receivable, collateralized receivables, accounts payable and secured borrowings. The estimated fair value of accounts receivable, installments receivable, collateralized receivables and accounts payable approximates their carrying value. The estimated fair value of secured borrowings exceeds the carrying value by $0.7 million and $1.1 million as of September 30, 2011 and June 30, 2011, respectively. The fair value of secured borrowings was calculated using the market approach, utilizing interest rates that were indirectly observable in markets for similar liabilities, or Level 2 inputs.

6. Supplementary Balance Sheet Information

The following table summarizes our accounts receivable and collateralized receivables balances, net of the related allowance for doubtful accounts and unamortized discount, as of September 30, 2011 and June 30, 2011 (dollars in thousands). Refer to Note 2 for a summary of our installments receivable balances. Collateralized receivables are presented on the consolidated balance sheet and in the table below, net of discounts for future interest established at inception of the installment arrangement and carry terms of up to five years.

| | Gross | Unamortized Discounts | Allowance | Net |
|---|---|---|---|---|
| September 30, 2011 | | | | |
| Accounts Receivable | $ 23,855 | $ - | $ 1,857 | $ 21,998 |
| | | | | |
| Collateralized Receivable | | | | |
| Current | 16,627 | 462 | - | 16,165 |
| Non-current | 8,340 | 736 | - | 7,604 |
| | $ 24,967 | $ 1,198 | $ - | $ 23,769 |
| | | | | |
| June 30, 2011 | | | | |
| Accounts Receivable | $ 29,750 | $ - | $ 1,884 | $ 27,866 |
| | | | | |
| Collateralized Receivable | | | | |
| Current | 16,371 | 623 | - | 15,748 |
| Non-current | 10,320 | 1,029 | - | 9,291 |
| | $ 26,691 | $ 1,652 | $ - | $ 25,039 |

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

| | September 30, 2011 | June 30, 2011 |
|---|---|---|
| Royalties and outside commissions | $ 2,859 | $ 3,158 |
| Payroll and payroll-related | 10,843 | 20,510 |
| Restructuring accruals | 3,217 | 3,259 |
| Amounts due to financing institutions | 25,297 | 26,038 |

| | | |
|---|---|---|
| Other | 12,670 | 11,502 |
| Accrued expenses and other current liabilities | $ 54,886 | $ 64,467 |

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Current liabilities for amounts due to financing institutions totaled $25.3 million at September 30, 2011 and $26.0 million at June 30, 2011. The balance is primarily attributable to amounts due to a financing institution for a large previously financed arrangement, which was superseded by the customer in fiscal 2011. The arrangement has not yet been repaid or replaced to the financing institution.

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

| | September 30, 2011 | June 30, 2011 |
|---|---|---|
| Restructuring accruals | $ 106 | $ 942 |
| Deferred rent | 2,070 | 2,139 |
| Royalties and outside commissions | 454 | 603 |
| Other * | 29,186 | 29,394 |
| Total other non-current liabilities | $ 31,816 | $ 33,078 |

* Other is comprised primarily of our reserve for uncertain tax liabilities (including accrued interest and penalties) of $28.1 million and $28.3 million as of September 30, 2011 and June 30, 2011, respectively.

## 7. Stock-Based Compensation

### General Award Terms

We issue stock options and restricted stock units to our employees and outside directors, pursuant to stockholder approved stock option plans. Option awards are generally granted with an exercise price equal to the market price of our stock at the date of grant; those options generally vest over four years and have 7 or 10-year contractual terms. Restricted stock units (RSUs) generally vest over four years. Historically, our practice has been to settle stock option exercises and restricted stock vesting through newly- issued shares.

### Stock-Based Compensation Accounting

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

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

The weighted average estimated fair value of awards granted during the three months ended September 30, 2011 and 2010 was $6.46 and $4.83, respectively. We utilized the Black-Scholes option valuation model with the following

weighted average assumptions:

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| | Three Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2011 | | 2010 | |
| Risk-free interest rate | 1.2 | % | 1.4 | % |
| Expected dividend yield | 0.0 | % | 0.0 | % |
| Expected life (in years) | 4.6 | | 4.5 | |
| Expected volatility factor | 49.6 | % | 52.9 | % |

The stock-based compensation expense and its classification (dollars in thousands) in the condensed consolidated statements of operations for the three months ended September 30, 2011 and 2010 were as follows:

| | Three Months Ended September 30, | | | |
|---|---|---|---|---|
| Recorded as expense: | | 2011 | | 2010 |
| Cost of service and other | $ | 303 | $ | 253 |
| Selling and marketing | | 1,170 | | 896 |
| Research and development | | 348 | | 289 |
| General and administrative | | 1,887 | | 1,259 |
| Total stock-based compensation | $ | 3,708 | $ | 2,697 |

A summary of stock option and RSU activity under all equity plans for the three months ended September 30, 2011 is as follows:

| | Stock Options | | | | Restricted Stock Units | |
|---|---|---|---|---|---|---|
| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value (in 000's) | Shares | Weighted Average Grant Date Fair Value |
| Outstanding at June 30, 2011 | 4,724,305 | $7.64 | | $45,058 | 1,338,376 | $10.19 |
| Granted | 751,072 | 15.50 | | | 893,107 | 15.50 |
| Settled(RSUs) | - | - | | | (248,703) | 11.78 |
| Exercised | (243,024) | 9.17 | | | - | |
| Cancelled/Forfeited | (24,309) | 10.28 | | | (37,552) | 10.73 |
| Outstanding at September 30, 2011 | 5,208,044 | $8.69 | 5.5 | $34,434 | 1,945,228 | $12.41 |
| Exercisable at September 30, 2011 | 3,872,167 | $7.07 | 4.2 | $31,775 | - | - |
| Vested and expected to vest as of September 30, 2011 | 5,035,652 | $8.53 | 5.3 | $34,091 | 1,684,334 | $12.42 |

The weighted average grant-date fair value of RSUs granted during the three months ended September 30, 2011 and 2010 was $15.50 and $10.93, respectively. During the three months ended September 30, 2011 and 2010, the total fair value of shares vested from RSU grants was $3.8 million and $2.4 million, respectively.

At September 30, 2011, the total future unrecognized compensation cost related to stock options and RSUs was $6.7 million and $20.9 million, respectively, and is expected to be recorded over a weighted average period of 3.3 years and 3.0 years, respectively.

The total intrinsic value of options exercised during the three months ended September 30, 2011 and 2010 was $1.8 million and $0.1 million, respectively. We received $2.2 million and $0.1 million in cash proceeds from option exercises during the three months ended September 30, 2011 and 2010, respectively. We paid $1.2 million and $0.8 million for withholding taxes on vested RSUs during the three months ended September 30, 2011 and 2010, respectively.

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At September 30, 2011, common stock reserved for future issuance or settlement under equity compensation plans was 13.1 million shares.

8. Common Stock

On October 29, 2010, our Board of Directors approved a stock repurchase program for up to $40 million worth of our common stock. The timing and amount of any shares repurchased are determined based on management's evaluation of market conditions and other factors. All share repurchases of our common stock have been recorded as treasury stock under the cost method. We repurchased 587,000 shares of our common stock for $9.2 million during the three months ended September 30, 2011. As of September 30, 2011, the remaining dollar value under the stock repurchase program approved by our Board of Directors on October 29, 2010 was $20.3 million.

9. Net Loss per Common Share

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

For the three months ended September 30, 2011 and 2010, all potential common shares were anti-dilutive due to the net loss. The calculations of basic and diluted loss per share and basic and diluted weighted average shares outstanding are as follows (dollars and shares in thousands, except per share data):

| | Three Months Ended September 30, | |
|---|---|---|
| | 2011 | 2010 |
| Net loss | $ (11,736 ) | $ (15,468 ) |
| | | |
| Weighted average shares outstanding | 94,065 | 92,689 |
| Dilutive impact from: | | |
| Share-based payment awards | - | - |
| Warrants | - | - |
| Dilutive weighted average shares outstanding | 94,065 | 92,689 |
| | | |
| Loss per share | | |
| Basic | $ (0.12 ) | $ (0.17 ) |
| Dilutive | $ (0.12 ) | $ (0.17 ) |

Historically, we issued warrants to purchase 7,267,286 shares of common stock in connection with various financing activities. These warrants provided for net equity settlement and were accounted for in equity. Prior to fiscal 2011, 6,636,646 warrants were exercised in a cashless exercise resulting in the issuance of 4,869,539 shares of common stock. During fiscal 2011, the remaining 630,640 warrants were exercised in a cashless exercise resulting in the issuance of 424,753 shares of common stock. There were no warrants outstanding at September 30, 2011 or June 30, 2011.

The following potential common shares were excluded from the calculation of diluted weighted average shares outstanding because their inclusion would be anti-dilutive at the balance sheet date due to the net loss (shares in

thousands):

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| | Three Months Ended September 30, | |
|---|---|---|
| | 2011 | 2010 |
| Employee equity awards | 7,013 | 8,246 |

10. Comprehensive Loss

Comprehensive loss is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The components of comprehensive loss for the three months ended September 30, 2011 and 2010 were as follows (dollars in thousands):

| | Three Months Ended September 30, | |
|---|---|---|
| | 2011 | 2010 |
| Net loss | $ (11,736 ) | $ (15,468 ) |
| Foreign currency translation adjustments | (193 ) | 429 |
| Total comprehensive loss | $ (11,929 ) | $ (15,039 ) |

11. Commitments and Contingencies

(a) ATME arbitration

Prior to October 6, 2009, we had an exclusive reseller relationship covering certain countries in the Middle East with AspenTech Middle East W.L.L., a Kuwaiti corporation (now known as Advanced Technology Middle East W.L.L.) that we refer to below as ATME. Under the reseller agreement, we had the right to terminate for a material breach in the event of ATME’s willful misconduct or fraud. Effective October 6, 2009, we terminated the reseller relationship for material breach by ATME based on certain actions of ATME.

On November 2, 2009, ATME commenced an action in the Queen’s Bench Division (Commercial Court) of the High Court of Justice (England & Wales) captioned In The Matter Of An Intended Arbitration Between AspenTech Middle East W.L.L. and Aspen Technology, Inc., 2009 Folio 1436, seeking preliminary injunctive relief restraining us from taking any steps to impede ATME from serving as our exclusive reseller in the countries covered by the reseller agreement with ATME. We filed evidence in opposition to that request for relief on November 12, 2009. At a hearing on November 13, 2009, the court dismissed ATME’s application for preliminary injunctive relief. The court sealed an Order to this effect on November 23, 2009, and further ordered that ATME pay our costs of claim.

Relatedly, on November 11, 2009, we filed a request for arbitration against ATME in the International Court of Arbitration of the International Chamber of Commerce, captioned Aspen Technology, Inc. v. AspenTech Middle East W.L.L., Case No. 16732/VRO. Our request for arbitration asserted claims against ATME seeking a declaration that ATME committed a material breach of our agreement and that our termination of our agreement was lawful, and seeking damages for ATME’s willful misconduct in connection with the reseller relationship. On November 18, 2009, ATME filed its answer to that request for arbitration and asserted counterclaims against us seeking a declaratory judgment that we unlawfully terminated our agreement with ATME and seeking damages for breach of contract by reason of our purported unlawful termination of our agreement. Our reply to those counterclaims was filed on December 18, 2009. Pursuant to a procedural order issued by the arbitral tribunal, a hearing was conducted between January 24, 2011 and February 2, 2011, and a supplemental hearing took place in June 2011.

We expect a determination to be made in the first half of fiscal 2012 with respect to the pending arbitration. However, we can provide no assurance as to the actual timing or outcome of the arbitration. In general, there is no provision for

either party to appeal the determination reached. The reseller agreement with ATME contained a provision whereby we could be liable for a termination fee if the agreement were terminated other than for material breach. This fee is to be calculated based on a formula contained in the reseller agreement that we believe was originally developed based on certain assumptions about the future financial performance of ATME, as well as ATME's actual financial performance. Based on the formula and the financial information provided to us by ATME, which we have not verified independently, a calculation based on the formula would result in a termination fee of between $60 million and $77 million. Under the terminated reseller agreement, no termination fee is owed on termination for material breach.