SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the Quarter Ended September 30, 2001.

or

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

For the transition period from to .

Commission File Number: 000-24786

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

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

Ten Canal Park, Cambridge, Massachusetts 02141
(Address of principal executive office and zip code)

Registrant's telephone number, including area code:
(617) 949-1000

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

As of October 31, 2001, there were 31,540,423 shares of the Registrant's common stock (par value $.10 per share) outstanding.

ASPEN TECHNOLOGY, INC.

QUARTERLY REPORT ON FORM 10-Q

INDEX

Item 1. ***Financial Statements.***

ASPEN TECHNOLOGY, INC

CONSOLIDATED CONDENSED BALANCE SHEETS

	September 30, 2001	June 30, 2001
	(Unaudited and in thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 25,517	$ 36,633
Short-term investments	29,992	31,005
Accounts receivable, net	71,948	86,737
Unbilled services	32,506	29,652
Current portion of long-term installments receivable, net	27,272	31,094
Deferred tax asset	3,351	3,252
Prepaid expenses and other current assets	18,368	17,591
Total current assets	208,954	235,964
Long-term installments receivable, net of current portion	38,721	43,428
Property and leasehold improvements, at cost	119,588	112,935
Accumulated depreciation and amortization	(73,366)	(69,659)
	46,222	43,276
Computer software development costs, net	9,113	8,539
Other intangible assets, net	19,473	20,483
Goodwill, net	23,657	23,481
Deferred tax asset	15,529	15,686
Other assets	16,506	15,737
	$378,175	$406,594
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current portion of long-term debt	$ 247	$ 2,539
Accounts payable and accrued expenses	48,378	62,959
Unearned revenue	17,349	18,711
Deferred revenue	24,936	24,341
Total current liabilities	90,910	108,550
Long-term debt, less current maturities	1,977	1,899
5¼% Convertible subordinated debentures	86,250	86,250
Deferred revenue, less current portion	7,265	8,190
Other liabilities	635	635
Stockholders' Equity:		
Common stock	3,189	3,157
Additional paid-in capital	231,809	228,976
Accumulated deficit	(38,486)	(24,127)
Accumulated other comprehensive loss	(3,240)	(4,751)
Deferred compensation and notes receivable from stockholders	(1,632)	(1,683)
Treasury stock, at cost	(502)	(502)
Total stockholders' equity	191,138	201,070
	$378,175	$406,594

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

ASPEN TECHNOLOGY, INC.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

	Three Months Ended September 30,	
	2001	2000
	(Unaudited and in thousands, except per share data)	
Software licenses	$ 19,231	$32,582
Service and other	42,011	36,906
Total revenues	61,242	69,488
Cost of software licenses	2,444	2,565
Cost of service and other	25,193	22,320
Selling and marketing	26,624	24,718
Research and development	17,999	14,992
General and administrative	7,422	6,565
Restructuring charge	2,642	—
Charge for in-process research and development	—	5,000
Total costs and expenses	82,324	76,160
Loss from operations	(21,082)	(6,672)
Other (expense) income, net	(184)	(134)
Interest income, net	753	1,541
Loss before benefit from income taxes	(20,513)	(5,265)
Benefit from income taxes	(6,154)	(1,580)
Net loss	$(14,359)	$(3,685)
Basic and diluted loss per share	$ (0.45)	$ (0.13)
Basic and diluted weighted average shares outstanding	31,760	29,181

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

ASPEN TECHNOLOGY, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000
	(Unaudited and in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(14,359)	$ (3,685)
Adjustments to reconcile net loss to net cash provided by operating activities (net of acquisition-related activity disclosed below):		
Depreciation and amortization	5,634	4,898
Charge for in-process research and development	—	5,000
Deferred income taxes	(34)	514
Decrease in accounts receivable	15,294	3,891
Increase in unbilled services	(2,321)	(1,132)
Decrease in installments receivable	8,532	4,702
Increase in prepaid expenses and other current assets	(584)	(2,324)
Decrease in accounts payable and accrued expenses	(14,731)	(8,750)
(Decrease) increase in unearned revenue	(1,489)	577
Decrease in deferred revenue	(362)	(3,667)
Net cash (used) provided by operating activities	(4,420)	24
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and leasehold improvements	(6,420)	(4,739)
Sale of investment securities	1,082	2,241
(Increase) decrease in other long-term assets	(753)	226
Increase in computer software development costs	(1,616)	(1,184)
Decrease in other long-term liabilities	—	(247)
Cash used in the purchase of business, net of cash acquired	—	(8,969)
Net cash used in investing activities	(7,707)	(12,672)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock under employee stock purchase plan	2,723	2,118
Exercise of stock options	142	5,867
Payments of long-term debt and capital lease obligations	(2,251)	(377)
Net cash provided by financing activities	614	7,608
EFFECTS OF EXCHANGE RATE CHANGES ON CASH	397	(106)
DECREASE IN CASH AND CASH EQUIVALENTS	(11,116)	(5,146)
CASH AND CASH EQUIVALENTS, beginning of period	36,633	49,371
CASH AND CASH EQUIVALENTS, end of period	$ 25,517	$ 44,225
During the three months ended September 30, 2000, the Company acquired a company in a purchase transaction. This acquisition is summarized as follows —		
Fair value of assets acquired, excluding cash		$ 22,857
Payments in connection with the acquisitions, net of cash acquired		(8,969)
Liabilities assumed		$ 13,888

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

1. Interim Condensed and Consolidated Financial Statements

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

2. Accounting Policies

(a) Revenue Recognition

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

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

Service revenues from fixed-price contracts are recognized using the percentage-of-completion method, measured by the percentage of costs (primarily labor) incurred to date as compared to the estimated total costs (primarily labor) for each contract. When a loss is anticipated on a contract, the full amount thereof is provided currently. Service revenues from time and expense contracts and consulting and training revenue are recognized as the related services are performed. Services that have been performed but for which billings have not been made are recorded as unbilled services, and billings that have been recorded before the services have been performed are recorded as unearned revenue in the accompanying consolidated balance sheets.

Installments receivable represent the present value of future payments related to the financing of noncancelable term and perpetual license agreements that provide for payment in installments, generally over a one- to five-year period. A portion of each installment agreement is recognized as interest income in the accompanying consolidated statements of operations. The interest rate utilized for the three-month periods ended September 30, 2001 and 2000 was 8.0% and 9.0%, respectively. At September 30, 2001, the Company had installments receivable of approximately $7.9 million denominated in foreign currencies. The September 2001 foreign installments receivable mature through May 2005 and have been hedged with specific foreign currency contracts. There have been no material gains or losses recorded relating to hedge contracts for the periods presented. The Company does not use derivative financial instruments for speculative or trading purposes.

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

(b) Computer Software Development Costs

Certain computer software development costs are capitalized in the accompanying consolidated condensed balance sheets. Capitalization of computer software development costs begins upon the establishment of technological feasibility. In accordance with Statement of Financial Accounting Standards (SFAS) No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or otherwise Marketed", the Company defines the establishment of technological feasibility as the development of a working model. Amortization of capitalized computer software development costs is provided on a product-by-product basis using the straight-line method, beginning upon commercial release of the product, and continuing over the remaining estimated economic life of the product, not to exceed three years. Total amortization expense charged to operations in each of the three-month periods ending September 30, 2001 and 2000 was approximately $1.0 million and $0.8 million, respectively.

(c) Net Income (Loss) Per Share

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

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

	Three Months Ended September 30,	
	2001	2000
Options and Warrants	1,199	3,521
Convertible Debt	1,628	1,628
Total	2,827	5,149

(d) Investments

Securities purchased to be held for indefinite periods of time, and not intended at the time of purchase to be held until maturity, are classified as available-for-sale securities. Securities classified as available-for-sale are required to be recorded at market value in the financial statements. Unrealized gains and losses have been accounted for as a separate component of stockholders' equity and accumulated other comprehensive loss. Realized investment gains and losses were not material in the three-month periods ending September 30, 2001 and 2000, respectively. Investments held as of September 30, 2001 consisted of $29.9 million in U.S. corporate bonds and $1.0 million in money market funds. The Company does not use derivative financial instruments in its investment portfolio.

(e) Derivative Instruments and Hedging

Effective July 1, 2000, the Company adopted SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133, as amended by SFAS No. 138, requires that all derivatives, including foreign currency exchange contracts, be recognized on the balance sheet at fair value. Derivatives that are not hedges must be recorded at fair value through earnings. If a derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative are either offset against the change in fair value of assets, liabilities or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is to be immediately recognized in earnings. The adoption of SFAS No. 133 has resulted in an immaterial cumulative effect on income and other comprehensive income for the Company.

Forward foreign exchange contracts are used primarily by the Company to hedge certain balance sheet exposures resulting from changes in foreign currency exchange rates. Such exposures primarily result from portions of the Company's assets that are denominated in currencies other than the U.S. dollar, primarily the Japanese Yen and certain European currencies. These foreign exchange contracts are entered into to hedge recorded installments receivable made in the normal course of business, and accordingly, are not speculative in nature. As part of its overall strategy to manage the level of exposure to the risk of foreign currency exchange rate fluctuations, the Company hedges the majority of its installments receivable denominated in foreign currencies. At September 30, 2001, the Company had effectively hedged $7.9 million of installments receivable denominated in foreign currency. The Company does not hold or transact in financial instruments for purposes other than risk management.

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

The following table provides information about the Company's foreign currency derivative financial instruments outstanding as of September 30, 2001. The information is provided in U.S. dollar amounts, as presented in the Company's consolidated condensed financial statements. The table presents the notional amount (at contract exchange rates) and the weighted average contractual foreign currency rates (in thousands, except average contract rates):

	Notional Amount	Average Contract Rate
Japanese Yen	$2,932	110.54
British Pound Sterling	2,835	1.48
Swiss Franc	611	1.67
Thailand Bhat	474	43.20
French Franc	399	7.00
Euro	380	0.89
German Deutsche Mark	252	2.28
Netherlands Guilder	14	2.39
	$7,897	
Estimated fair value	$6,209*	

* The estimated fair value is based on the estimated amount at which the contracts could be settled based on forward exchange rates as of September 30, 2001. The market risk associated with these instruments resulting from currency exchange rate movements is expected to offset the market risk of the underlying installments being hedged. The credit risk is that the Company's banking counterparties may be unable to meet the terms of the agreements. The Company minimizes such risk by limiting its counterparties to major financial institutions. In addition, the potential risk of loss with any one party resulting from this type of credit risk is monitored. Management does not expect any loss as a result of default by other parties. However, there can be no assurances that the Company will be able to mitigate market and credit risks described above.

3. Sale of Installments Receivable

The Company sold, with limited recourse, certain of its installment contracts to two financial institutions for approximately $7.8 million during the three-month period ended September 30, 2001. The financial institutions have partial recourse to the Company only upon non-payment by the customer under the installments receivable. The amount of recourse is determined pursuant to the provisions of the Company's contracts with the financial institutions and varies depending upon whether the customers under the installment contracts are foreign or domestic entities. Collections of these receivables reduce the Company's recourse obligations, as defined.

At September 30, 2001, the balance of the uncollected principal portion of all contracts sold was $109.3 million. The Company's potential recourse obligation related to these contracts was approximately $8.6 million. In addition, the Company is obligated to pay additional costs to the financial institutions in the event of default by the customer.

4. Intangible Assets and Goodwill

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

In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." This statement supercedes Accounting Principles Board Opinion No. 17, "Intangible Assets," and applies to goodwill and intangible assets acquired after June 30, 2001, as well as goodwill and intangible assets previously acquired. Under this statement goodwill as well as certain other intangible assets, determined to have an infinite life, will no longer be amortized, instead these assets will be reviewed for impairment on a periodic basis. Early adoption of this statement is permitted for non-calendar year-end companies whereby the entity's fiscal year begins after March 15, 2001 and its first interim period financial statements have not been issued. Pursuant to this statement, the Company elected early adoption during the first fiscal quarter ended September 30, 2001. The goodwill associated with past acquisitions is no longer subject to amortization over its estimated useful life. Such goodwill will be subject to an annual assessment for impairment by applying a fair-value based test. The Company is currently assessing these assets for impairment and has not yet determined whether or to the extent to which the annual assessment process will affect the financial statements.

(a) Acquired other intangible assets subject to future amortization at September 30, 2001 consisted of the following (in thousands):

Asset Class	Gross Carrying Amount	Accumulated Amortization
Existing Technology	$29,285	$10,229
Uncompleted Contracts	936	936
Trade Name	766	441
Patent	99	39
Financing Costs	67	35
Total	$31,153	$11,680

Aggregate amortization expense for amortized other intangible assets for the three months ended September 30, 2001 was $1.3 million.

(b) Goodwill

The changes in the carrying amount for the three months ended September 30, 2001 were as follows (in thousands):

Carrying amount as of June 30, 2001	$23,481
Effect of change in rates used for translation	176
Carrying amount as of September 30, 2001	$23,657

In the three months ended September 30, 2000 the Company amortized $0.3 million related to goodwill. This amortization, net of taxes, would have reduced the reported loss by $0.2 million. This change would not have affected the reported basic or diluted earnings per share of $(0.13).

6. Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The components of comprehensive income (loss) for the three-months ended September 30, 2001 and 2000 were as follows (in thousands):

	Three Months Ended September 30,	
	2001	2000
Net loss	$(14,359)	$(3,685)
Unrealized gain on investments	70	330
Foreign currency adjustment	1,492	(504)
Comprehensive loss	$(12,797)	$(3,859)

7. Restructuring and Other Charges

During August 2001, in light of further economic uncertainties, Company management made a decision to adjust its business plan by further reducing spending. This change in business plan consisted of a reduction in worldwide headcount of approximately 5% of the workforce and a reduction of certain future discretionary expenses. As a result of these measures, the Company recorded a restructuring charge of $2.6 million, primarily for severance, for the quarter ending September 30, 2001. As of September 30, 2001, there was approximately $1.2 million remaining in the accrued expenses relating to the remaining severance due under the restructuring.

In the third quarter of fiscal 2001, the revenues realized by the Company were reduced from the Company's expectations as customers delayed spending in the widespread slowdown in information technology spending and the deferral of late-quarter purchasing decisions. Like many other software companies, the Company reduced its revenue expectations for the fourth quarter and for the fiscal year 2002 until revenue visibility and predictability improves. Based on these reduced revenue expectations Company management evaluated the business plan and made significant changes, resulting in a restructuring plan for the Company's operations. This restructuring plan included a reduction in headcount, a substantial decrease in discretionary spending and a sharpening of the Company's e-business focus to emphasize its marketplace solutions. The restructuring plan resulted in a pretax charge totaling $7.0 million. As of September 30, 2001, there was approximately $3.3 million remaining in the accrued expenses relating to the restructuring. This amount primarily relates to the close-down/consolidation of facilities.

In the fourth quarter of fiscal 1999, the Company undertook certain actions to restructure its business. The restructuring resulted from a lower than expected level of license revenues which adversely affected fiscal year 1999 operating results. The license revenue shortfall resulted primarily from delayed decision making driven by economic difficulties among customers in certain of the Company's core vertical markets. The restructuring plan resulted in a pre-tax restructuring charge totaling $17.9 million. As of September 30, 2001, there was approximately $2.0 million remaining in the accrued expenses relating to the restructuring. This amount primarily relates to the close-down/consolidation of facilities.

8. Segment Information

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

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

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

	License	Consulting Services	Maintenance and Training	Total
Three Months Ended September 30, 2001 —				
Revenues from unaffiliated customers	$19,231	$27,490	$14,521	$61,242
Controllable expenses	14,863	17,192	2,857	34,912
Controllable margin(1)	$ 4,368	$10,298	$11,664	$26,330
Three Months Ended September 30, 2000 —				
Revenues from unaffiliated customers	$32,582	$24,407	$12,499	$69,488
Controllable expenses	11,565	17,403	3,266	32,234
Controllable margin(1)	$21,017	$ 7,004	$ 9,233	$37,254

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

Profit Reconciliation (in thousands):

	Three Months Ending September 30, 2001	Three Months Ending September 30, 2000
Total controllable margin for reportable segments	$ 26,330	$ 37,254
Selling and marketing	(20,469)	(20,924)
Research and development	(5,039)	(1,624)
General and administrative and overhead	(19,262)	(16,378)
Restructuring and other charges	(2,642)	—
Charge for in-process research and development	—	(5,000)
Interest and other income and expense, net	569	1,407
Loss before benefit from income taxes	$(20,513)	$ (5,265)

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

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

Results of Operations: Comparison of the Three Months Ended September 30, 2001 and 2000

We adopted SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets" in the first quarter of fiscal 2002. SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS No. 142, companies will no longer amortize goodwill and certain other intangible assets with indefinite lives, but will instead assess for impairment using a fair-value-based test, on at least an annual basis. Effective July 1, 2001, we have adopted SFAS No. 142. We are currently assessing these assets for impairment, and have not yet determined whether or the extent to which they will affect the financial statements.

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

Total Revenues.

Revenues are derived from software licenses and maintenance and other services. Total revenues for the three months ended September 30, 2001 were $61.2 million, a decrease of 11.9% from $69.5 million in the comparable period of fiscal 2001.

Total revenues from customers outside the United States were $31.3 million or 51.1% of total revenues for the three months ended September 30, 2001, as compared to $28.6 million or 41.2% of total revenues for the comparable period in fiscal 2001. The geographical mix of license revenues can vary from quarter to quarter; however, for fiscal 2002, the overall mix of revenues from customers outside the United States is expected to be relatively consistent with the prior year.

Software License Revenues.

Software license revenues represented 31.4% of total revenues for the three months ended September 30, 2001, as compared to 46.9% in the comparable period of fiscal 2001. Revenues from software licenses for the three months ended September 30, 2001 were $19.2 million, a decrease of 41.0% from $32.6 million in the comparable period of fiscal 2001. These decreases are due to the current uncertain economic environment, combined with the impact of the September 11, 2001 attacks, negatively affecting the close rate of software deals at the end of September.

Service and Other Revenues.

Revenues from service and other consist of consulting services, post contract support on software licenses, training and sales of documentation. Revenues from service and other for the three months ended September 30, 2001 were $42.0 million, an increase of 13.8% from $36.9 million in the comparable period in fiscal 2001. This increase reflects an improvement in our support and maintenance business resulting from the higher level of license revenues in late fiscal 2000 and early fiscal 2001 as compared to the comparable prior periods, as well as improvements in the pricing and utilization of our consulting services business.

Cost of Software Licenses.

Cost of software licenses consists of royalties, amortization of previously capitalized software costs, costs related to the delivery of software (including disk duplication and third party software costs), printing of manuals and packaging costs. Cost of software licenses for the three months ended September 30, 2001 was $2.4 million, a decrease of 4.7% from $2.6 million in the comparable period of fiscal 2001. Cost of software licenses as a percentage of revenues from software licenses was 12.7% for the three months ended September 30, 2001 as compared to 7.9% for the three months ended September 30, 2000. The percentage increase was due primarily to certain fixed costs spread over the lower license revenue for the quarter ended September 30, 2001 compared to the same period of fiscal 2001.

Cost of Service and Other.

Cost of service and other consists of the cost of execution of application consulting services, technical support expenses, the cost of training services and the cost of manuals sold separately. Cost of service and other for the three months ended September 30, 2001 was $25.2 million, an increase of 12.9% from $22.3 million in the comparable period in fiscal year 2001. Cost of service and other as a percentage of service and other revenues was 60.0% in the three months ended September 30, 2001 and 60.5% in the comparable period of fiscal year 2001. This percentage decrease was a result of software maintenance revenues, which increased at a rate higher than the costs required to support the higher revenue base, as well as increased revenue per hour, and improved utilization rates of billable engineers in the three months ended September 30, 2001.

Selling and Marketing Expenses.

Selling and marketing expenses for the three months ended September 30, 2001 were $26.6 million, an increase of 7.7% from $24.7 million in the comparable period in fiscal year 2001. As a percentage of total revenues, selling and marketing expenses were 43.5% for the three months ended September 30, 2001, as compared to 35.6% for the comparable period in fiscal 2000. The dollar increase was attributable to an expense base that increased to support an expected higher license revenue level. We continue to selectively invest in sales personnel and regional sales offices to improve our geographic proximity to our customers, to maximize the penetration of existing accounts and to add new customers. The increase in costs also was attributable to our continued investment in partnerships and initiatives to expand market awareness of our company and our products and services, as well as the roll out of certain e-business initiatives including PetroVantage.

Research and Development Expenses.

Research and development expenses consist primarily of personnel and outside consultancy costs required to conduct our product development efforts. Capitalized research and development costs are amortized over the estimated remaining economic life of the relevant product, not to exceed three years. Research and development expenses during the three months ended September 30, 2001 were $18.0 million, an increase of $3.0 million, or 20.1%, from $15.0 million in the comparable period of fiscal 2001. As a percentage of revenues, research and development costs were 29.4% for the three months ended September 30, 2001, as compared to 21.6% for the same period in fiscal 2001. The increase in costs was attributable to the continued roll-out of our asset optimization and value chain solutions, including the addition of costs relating to the acquisitions we made in fiscal 2001, and other e-business technologies including PetroVantage. We capitalized

7.9% of our total research and development costs during the three months ended September 30, 2001 as compared to 9.6% in the comparable period of fiscal year 2001.

General and Administrative Expenses.

General and administrative expenses consist primarily of salaries of administrative, executive, financial and legal personnel, outside professional fees, and amortization of certain intangibles. General and administrative expenses were $7.4 million for the three months ended September 30, 2001 and $6.6 million for the comparable period in fiscal 2001, an increase of $0.9 million, or 13.1%. This increase is attributable primarily to a higher level of amortization relating to other intangible assets arising from our acquisitions in fiscal 2001, offset in part by the discontinued amortization of goodwill in fiscal 2001. In addition to this net change of amortization, general and administrative expenses increased due to a higher level of personnel employed to support our expected growth.

Restructuring and Other Charges.

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

Interest Income.

Interest income is generated from the investment of excess cash in short-term and long-term investments and from the license of software pursuant to installment contracts for engineering suite software. Under these installment contracts, we offer customers the option to make annual payments for its term licenses instead of a single license fee payment at the beginning of the license term. Historically, a substantial majority of the engineering suite customers have elected to license our products through installment contracts. Included in the annual payments is an implicit interest charge based upon the interest rate established us at the time of the license. As we sell more perpetual licenses for eSupply Chain and Plantelligence Solutions, these new sales are being paid for in forms that are not installment contracts. If the mix of sales moves away from installment contracts, the interest income in future periods will be reduced. We sell a portion of the installment contracts to unrelated financial institutions. The interest earned by us on the installment contract portfolio in any period is the result of the implicit interest established by us on installment contracts and the size of the contract portfolio. Interest income was $2.1 million for the three months ended September 30, 2001 and $2.8 million for the comparable period in fiscal 2001. This decrease was attributable to the overall decline in available short-term and long-term investments for the quarter ended September 30, 2001 compared to the same period of fiscal 2001.

Interest Expense.

Interest expense is generated from interest charged on our 5¼% convertible debentures, bank line of credit, notes payable and capital lease obligations. Interest expense was $1.3 million for each of the three months ended September 30, 2001 and 2000.

Tax Rate.

The effective tax rate for the three months ended September 30, 2001 and 2000 was 30.0% of pretax income (loss).

Liquidity and Capital Resources

During the three months ended September 30, 2001, our cash and cash equivalents balance decreased by $11.1 million. This decrease was due to operations using approximately $4.4 million of cash during the three months ended September 30, 2001, primarily as the result of the net loss, the decrease in accounts payable and accrued expenses, and the increase in unbilled services offset by the decrease in accounts receivable and installment receivables. In addition, approximately $6.4 million was used for capital purchases and $2.1 million used to pay-off a note issued in connection with our acquisition of Icarus.

We have arrangements to sell long-term contracts to two financial institutions, General Electric Capital Corporation and Fleet Business Credit Corporation. During the three months ended September 30, 2001, installment contracts decreased to $65.9 million, net of $7.8 million of installment contracts sold to the two financial institutions. Our arrangements with these two financial institutions provide for the sale of installment contracts up to certain limits and with certain recourse obligations. At September 30, 2001, the balance of the uncollected principal portion of the contracts sold to these two financial institutions was $109.3 million, for which we have a partial recourse obligation of approximately $8.6 million. The availability under these arrangements will increase as the financial institutions receive payment on installment contracts previously sold.

We maintain a $30.0 million secured bank line of credit, expiring October 26, 2003, that provides for borrowings based on of specified percentages of eligible accounts receivable and eligible current installment contracts. Advances under the line of credit bear interest at a rate equal to the bank's prime rate (5.50% at September 30, 2001) or, at our option, a rate equal to a defined LIBOR, plus a specified margin. The line of credit agreement requires us to provide the bank with certain periodic financial reports and to comply with certain financial tests, including maintenance of minimum levels of consolidated net worth and of the ratio of cash and cash equivalents, accounts receivable and current portion of our long term installments receivable to current liabilities. At September 30, 2001, there were no outstanding borrowings under the line of credit.

In June 1998, we sold $86.3 million of 5 ¼% convertible subordinated debentures. The debentures are convertible into shares of our common stock at any time prior to June 15, 2005, unless previously redeemed or repurchased, at a conversion price of $52.97 per share, subject to adjustment in certain events. Interest on the debentures is payable on June 15 and December 15 of each year. The debentures are redeemable in whole or part at our option at any time on or after June 15, 2001 at various redemption prices expressed as a percentage of principal plus accrued interest through the date of redemption.

In the event of a change of control, as defined, each holder of the debentures may require us to repurchase those debentures, in whole or in part, for cash or, at our option, for common stock (valued at 95% of the average last reported sale prices for the five trading days immediately preceding the repurchase date) at a price of 100% of principal amount plus accrued interest to the repurchase date. The debentures are unsecured obligations and are subordinated in right of payment to all existing and future senior debt, as defined.

As of September 30, 2001, we had cash and cash-equivalents totaling $25.5 million, as well as short-term investments totaling $30.0 million. Our commitments as of September 30, 2001 consisted primarily of leases on our headquarters and other facilities. Other than our $0.9 million remaining capital commitment to Optimum Logistics and our $0.4 million commitment to our new joint venture in Japan there were no other material commitments for capital or other expenditures. We believe our current cash balances, availability of sales of our installment contracts, availability under our bank line of credit and cash flows from our operations will be sufficient to meet our working capital and capital expenditure requirements for at least the next twelve months. We may, however, seek to take advantage of favorable market conditions by raising additional funds from time to time through public or private security offerings, debt financings, strategic alliances or other financing sources.

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

INVESTING IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD CAREFULLY CONSIDER THE RISKS AND UNCERTAINTIES DESCRIBED BELOW BEFORE PURCHASING OUR COMMON STOCK. THE RISKS AND UNCERTAINTIES DESCRIBED BELOW ARE NOT THE ONLY ONES FACING OUR COMPANY. ADDITIONAL RISKS AND UNCERTAINTIES MAY ALSO IMPAIR OUR BUSINESS OPERATIONS. IF ANY OF THE FOLLOWING RISKS ACTUALLY OCCUR, OUR BUSINESS, FINANCIAL CONDITION

OR RESULTS OF OPERATIONS WOULD LIKELY SUFFER. IN THAT CASE, THE TRADING PRICE OF OUR COMMON STOCK COULD FALL, AND YOU MAY LOSE ALL OR PART OF THE MONEY YOU PAID TO BUY OUR COMMON STOCK.

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

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

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

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

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

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

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

As a result of lower-than-anticipated license revenues in our fiscal quarter ended September 30, 2001, our operating results for the quarter were below the expectations of public market analysts and many investors. If, due to one or more of the foregoing factors or an unanticipated cause, our operating results fail to meet the expectations of public market analysts and investors in a future quarter, the market price of our common stock would likely decline.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A number of legislative proposals have been made by federal, state, local and foreign governments that would impose additional taxes on the provision of goods and services over the Internet, and some states have taken measures to tax Internet-related activities. In October 1998, Congress placed a three-year moratorium on state and local taxes on Internet access or on discriminatory taxes on electronic commerce. Existing state and local laws were excluded from this moratorium. In May 2001, Congress extended this moratorium until October 2006. When this moratorium is ultimately lifted, some type of federal or state taxes may be imposed upon Internet commerce. The imposition of sales, value-added or similar taxes could make it more expensive to use our software platforms, diminish our competitiveness and harm our business and operating results.

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

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

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

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

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

On September 14, 2000, we announced that we had formed PetroVantage, Inc. to develop a collaborative Internet-based software solution for optimizing and coordinating trading and logistics decisions and workflow among companies involved in evaluating, transporting and trading of crude oil, intermediates and refined products. We have invested $11.3 million in PetroVantage operating expenses and have committed to fund operations through at least the end of fiscal year 2002. We may lose all or a portion of our investment in PetroVantage if PetroVantage's collaborative software solution does not gain market acceptance, is unable to achieve profitability or positive cash flow, or otherwise fails to meet our expectations.

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

We may require additional capital.

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

We may suffer losses on fixed-price engagements.

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

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

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

- unexpected changes in regulatory requirements, exchange rates, tariffs and other barriers;
- political and economic instability;
- difficulties in managing distributors and representatives;
- difficulties in staffing and managing foreign subsidiary operations;
- difficulties and delays in translating products and product documentation into foreign languages; and
- potentially adverse tax consequences.

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

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

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

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

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

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

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

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

Our software is complex and may contain undetected errors.

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

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

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

Our common stock may experience substantial price and volume fluctuations.

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

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

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

Investment Portfolio.

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

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

	Fair Value at 9/30/01	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005
Cash Equivalents	$25,517	$25,517	—	—	—
Weighted Average Interest Rate	3.05%	3.05%	—	—	—
Investments	$29,992	$14,460	$10,799	$1,542	$3,191
Weighted Average Interest Rate	5.45%	5.21%	5.34%	7.09%	6.13%
Total Portfolio	$55,509	$39,977	$10,799	$1,542	$3,191
Weighted Average Interest Rate	4.35%	3.83%	5.34%	7.09%	6.13%

Impact of Foreign Currency Rate Changes.

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

Foreign Exchange Hedging.

We enter into foreign exchange forward contracts to reduce our exposure to currency fluctuations on customer accounts receivables denominated in foreign currency. The objective of these contracts is to neutralize the impact of foreign currency exchange rate movements on our operating results. We do not use derivative financial instruments for speculative or trading purposes. We had $7.9 million of foreign exchange forward contracts denominated in British, French, Japanese, Swiss, German, Thailand, Netherlands, and Euro currencies which represented underlying customer accounts receivable transactions at the end of the first quarter of fiscal 2002. We adopted SFAS 133 for the first quarter of fiscal 2001. As a result, at each balance sheet date, the foreign exchange forward contracts and the related installments receivable denominated in foreign currency are revalued based on the current market exchange rates. Resulting gains and losses are included in earnings or deferred as a component of other comprehensive income. These deferred gains and losses are recognized in income in the period in which the underlying anticipated transaction occurs. Gains and loss related to these instruments for the first quarter of fiscal 2002 were not material to our financial position. We do not anticipate any material adverse effect on our consolidated financial position, results of operations, or cash flows resulting from the use of these instruments. However, we can not assure you that these strategies will be effective or that transaction losses can be minimized or forecasted accurately.

The following table provides information about our foreign exchange forward contracts at the end of the first quarter of fiscal 2002. The table presents the value of the contracts in U.S. dollars at the contract exchange rate as of the contract maturity date. The average contract rate approximates the weighted average contractual foreign currency exchange rate and the forward position in U.S. dollars approximates the fair value of the contract at the end of the first quarter of fiscal 2002.

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

Currency	Average Contract Rate	Forward Amount in U.S. Dollars	Contract Origination Date	Contract Maturity Date
		(In thousands)		
Japanese Yen	110.54	$2,932	Various: Jan 99 – Aug 01	Various: Oct 01 – Mar 03
British Pound Sterling	1.48	2,835	Various: July 99 – Sept 01	Various: Oct 01 – Feb 03
Swiss Franc	1.67	611	Various: July 99 – Nov 00	Various: Feb 02 – Dec 02
Thailand Bhat	43.20	474	Jan 01	Jan 02
French Franc	7.00	399	Various: Jan 99 – Nov 00	Various: July 01 – Dec 02
Euro	0.89	380	Various: July 01 – Aug 01	Various: Oct 01 – May 03
German Deutsche Mark	2.28	252	Oct 00	Oct 01
Netherlands Guilder	2.39	14	Aug 01	Aug 02
Total		$7,897		

PART II. OTHER INFORMATION

Item 1. ***Legal Proceedings.***

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

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

(a) *Exhibits*

None

(b) *Reports on Form 8-K*

On August 8, 2001, the Company filed a Current Report on Form 8-K, to report under Items (Other Events) that the Company had announced its fourth quarter earnings for fiscal 2001. Financial statements were filed with this report.

SIGNATURE

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

ASPEN TECHNOLOGY, INC.

Date: November 14, 2001

By: /s/ LISA W. ZAPPALA

Lisa W. Zappala

Senior Vice President and Chief Financial Officer