ASPEN TECHNOLOGY INC /DE/
Form S-1/A
September 15, 2010

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ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

As filed with the Securities and Exchange Commission on September 15, 2010

Registration No. 333-168409

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1
to

FORM S-1

REGISTRATION STATEMENT UNDER
THE SECURITIES ACT OF 1933

ASPEN TECHNOLOGY, INC.

(Exact name of registrant as specified in its charter)

Delaware	**7371**	**04-2739697**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

---

200 Wheeler Road
Burlington, Massachusetts 01803
(781) 221-6400
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Mark E. Fusco
President and Chief Executive Officer
Aspen Technology, Inc.
200 Wheeler Road
Burlington, Massachusetts 01803
(781) 221-6400
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Mark L. Johnson, Esq.	**Frederic G. Hammond, Esq.**	**Stuart M. Cable, Esq.**

Nicole C. Brookshire, Esq.
Cooley LLP
500 Boylston Street
Boston, Massachusetts 02116
(617) 937-2300

Senior Vice President and General Counsel
Aspen Technology, Inc.
200 Wheeler Road
Burlington, Massachusetts 01803
(781) 221-6400

Jocelyn M. Arel, Esq.
Michael J. Minahan, Esq.
Goodwin Procter LLP
Exchange Place
Boston, Massachusetts 02109
(617) 570-1000

Approximate date of commencement of proposed sale to public: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box: o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. 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 o	Accelerated filer ý	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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SUBJECT TO COMPLETION, DATED SEPTEMBER 15, 2010

The information in this prospectus is not complete and may be changed. The selling stockholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities, and the selling stockholders are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Preliminary Prospectus

15,000,000 Shares

ASPEN TECHNOLOGY, INC.

Common Stock

The selling stockholders identified in this prospectus, which consist of funds managed by Advent International Corporation, are selling all of the shares of common stock offered by this prospectus and will receive all of the proceeds from this offering. We will not receive any proceeds from the sale of shares of common stock in this offering.

Our common stock is traded on The NASDAQ Global Select Market under the symbol "AZPN." On September 14, 2010, the last reported sale price of our common stock on The NASDAQ Global Select Market was $10.37 per share.

Investing in our common stock involves a high degree of risk. See "Risk Factors" beginning on page 10.

	Per share	Total
Public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds to selling stockholders, before expenses	$	$

The underwriters have an option to purchase a maximum of 2,250,000 additional shares of common stock from the selling stockholders at the public offering price, less the underwriting discounts and commissions, to cover over-allotment of shares, if any. The underwriters can exercise this option at any time within 30 days from the date of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock to purchasers on , 2010.

J.P. Morgan **Deutsche Bank Securities**

William Blair & Company	**Canaccord Genuity**	**Wells Fargo Securities**
Cowen and Company		**Pacific Crest Securities**

, 2010

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You should rely only on the information contained in this prospectus or in any free writing prospectus we may authorize to be delivered to you. Neither we nor the selling stockholders have authorized anyone to provide you with information different from that contained in this prospectus. This prospectus is not an offer to sell, nor is it seeking an offer to buy, these securities in any jurisdiction where the offer or sale is not permitted. You should not assume that information appearing in this prospectus is accurate as of any date other than the date of this prospectus.

No action is being taken in any jurisdiction outside the United States to permit a public offering of our common stock or possession or distribution of this prospectus in that jurisdiction. Persons who come into possession of this prospectus in a jurisdiction outside the United States are required to inform themselves about and to observe any restrictions as to this offering and the distribution of this prospectus applicable to that jurisdiction.

ASPENONE, ASPENTECH, the AspenTech logo, DMCPLUS, HTFS, HYSYS and INFOPLUS.21 are our registered trademarks, and ASPEN BASIC ENGINEERING, ASPEN COLLABORATIVE DEMAND MANAGER, ASPEN ECONOMIC EVALUATION, ASPEN EXCHANGER DESIGN AND RATING, ASPEN FLEET OPTIMIZER, ASPEN INVENTORY MANAGEMENT & OPERATIONS SCHEDULING, ASPEN PETROLEUM SCHEDULER, ASPEN PETROLEUM SUPPLY CHAIN PLANNER, ASPEN PIMS, ASPEN PLANNING & SCHEDULING FOR OLEFINS, ASPEN PLANT SCHEDULER, ASPEN PLUS and ASPEN SUPPLY CHAIN PLANNER are our trademarks. All other trademarks, trade names and service marks appearing in this prospectus are the property of their respective owners.

Except as otherwise indicated, or as the context may otherwise require, the words "we," "our," "us," and "our company" refer to Aspen Technology, Inc. and its subsidiaries.

Our fiscal year ends on June 30, and references to a specific fiscal year are to the twelve months ended June 30 of that year. For example, "fiscal 2010" refers to the year ended June 30, 2010.

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PROSPECTUS SUMMARY

This summary highlights selected information contained in this prospectus. This summary does not contain all the information you should consider before investing in our common stock. Before deciding whether to buy shares of our common stock, you should read the entire prospectus carefully, including "Risk Factors" beginning on page 10 and our consolidated financial statements and related notes beginning on page F-1.

Aspen Technology

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

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

We have more than 1,500 customers globally. Our customers include manufacturers in process industries such as energy, chemicals, pharmaceuticals, consumer packaged goods, power, metals and mining, pulp and paper, and biofuels, as well as engineering and construction firms that help design process manufacturing plants. As of June 30, 2010, our installed base included 19 of the 20 largest petroleum companies, all of the 20 largest chemical companies, and 15 of the 20 largest pharmaceutical companies. Customers outside the United States accounted for a majority of our total revenue in each of fiscal 2010, 2009 and 2008, and no single customer represented 10% or more of our total revenue in fiscal 2010, 2009 or 2008.

We have established sustainable competitive advantages based on the breadth, flexibility and return on investment associated with our software offerings, as well as our market leadership position, our extensive process industry expertise and our established, diversified customer base. We consult and collaborate with customers to identify new applications, which leads to innovative, targeted solutions and fosters long-term customer relationships. This approach has helped us develop software solutions that are embedded in our customers' operations and integrated with their core business processes.

In July 2009 we introduced our aspenONE licensing model under which license revenue is recognized over the term of a license contract. Our new licensing model provides customers with increased access to our applications, and we believe this flexibility will lead to increased usage and revenue over time. Because we previously recognized a substantial majority of our license revenue upon shipment of software, our revenue for fiscal 2010 was significantly less than in the preceding fiscal years. We expect that our revenue will increase as customers renew their licensing arrangements under our new licensing model. We do not expect to recognize levels of revenue comparable to prior fiscal years unless and until a significant majority of our existing license agreements have been renewed under our new licensing model.

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Our new aspenONE licensing model has not changed the method or timing of our customer billing or cash collections. Our management uses several key financial metrics in operating and assessing our business, including the following:

Total term contract value, or TCV, was $1.2 billion as of June 30, 2010 and $1.0 billion as of June 30, 2009. TCV is an estimate of the renewal value of our active portfolio of term license agreements, and it did not include software maintenance and support, or SMS, prior to fiscal 2010. We estimate that TCV grew by approximately 10% during fiscal 2010 on a comparable "license-only" basis, after removing the SMS portion of TCV as of June 30, 2010.

Free cash flow totaled $35.3 million in fiscal 2010, $27.7 million in fiscal 2009 and $61.3 million in fiscal 2008.

Free cash flow is a non-GAAP financial measure. For important information regarding the above metrics, see " Summary Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations Key Business Metrics."

Industry Background

The process industries consist of companies that typically manufacture finished products by applying a controlled chemical process either to a raw material that is fed continuously through the plant or to a specific batch of raw material. The process industries include energy, chemicals, pharmaceuticals, consumer packaged goods, power, metals and mining, pulp and paper, and biofuels as well as engineering and construction firms that design process manufacturing plants.

Process manufacturing is often complex because small changes in the feedstocks used, or to the chemical process applied, can have a significant impact on the efficiency and cost-effectiveness of manufacturing operations. Companies in the process industries have extensive technical requirements and need a combination of software, services and domain expertise to help design, operate and manage manufacturing environments. The unique characteristics associated with process manufacturing create special demands for business applications that frequently exceed the capabilities of generic or non-process manufacturing software.

In addition to the technical requirements associated with the process industries, several industry trends are driving the growing complexity of these industries:

Globalization of markets. Growing demand and available feedstock in emerging markets are leading process companies to design, build and operate plants in China, India, Russia, Latin America and the Middle East.

Volatile markets. Unpredictable commodity markets are straining the manufacturing and supply chain operations of process manufacturers, which must react quickly to frequent changes in the prices and availability of feedstock and in the pricing of finished products.

Increased margin pressure. Increasingly competitive global markets are driving process companies to design more efficient plants while increasing throughput and reducing costs at existing plants.

Shrinking engineering workforce. Decreasing numbers of chemical engineers in mature markets are driving process companies to adopt technology solutions that can capture knowledge and automate tasks.

Environmental and safety regulations. Expanding regulatory requirements are presenting compliance challenges for process companies, which face heightened scrutiny because of the environmental, safety and other implications of their products and manufacturing processes.

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Market Opportunity

Technology solutions historically have played a major role in helping companies in the process industries improve their manufacturing productivity. In the 1980s process manufacturers implemented distributed control systems, or DCS, to automate the management of plant hardware. In the 1990s they adopted enterprise resource planning, or ERP, systems to streamline back office functions and interact with DCS. Many process manufacturers have implemented both DCS and ERP systems but have realized that these systems are incapable of optimizing what is produced, how it is produced or where it is produced.

Process optimization software addresses the gap between DCS and ERP systems by optimizing the manufacturing process itself: how the process is run and the economics of that process. By connecting DCS and ERP systems with intelligent, dynamic applications, process optimization software allows a manufacturer to make better, faster economic decisions closer to the process. This software can optimize a manufacturing environment by, for example, incorporating process manufacturing domain knowledge, supporting real-time decision making, and providing the ability to forecast and simulate potential actions. Furthermore, these solutions can optimize the supply chain by helping a manufacturer to understand the operating conditions in each plant, which enables a manufacturer to decide where to manufacture products based on economics.

The market for engineering, manufacturing and supply chain process optimization software and services for the energy, chemicals and pharmaceuticals industries was $2.4 billion in 2008, based on information from reports issued in 2009 by ARC Advisory Group. More specifically, based on this information, it is estimated that:

- the engineering market was $443 million in 2008 and will grow 8% annually through 2013;
- the manufacturing market was $1.7 billion in 2008 and will grow 12% annually through 2013; and
- the supply chain market was $279 million in 2008 and will grow 5% annually through 2013.

aspenONE Solutions

We provide integrated process optimization software solutions designed and developed specifically for the process industries. We also offer customer support, professional services and training services. Our aspenONE software applications are organized into two suites, which are centered on our principal business areas of engineering, manufacturing and supply chain:

- *aspenONE Engineering.* Our engineering software is used on an engineer's desktop to design new plants, re-design existing plants, and simulate and optimize plant processes.
- *aspenONE Manufacturing and Supply Chain.* Our manufacturing software is designed to optimize day-to-day processing activities, enabling process manufacturers to make better, more profitable decisions and to improve plant performance. Our supply chain management software is designed to enable process manufacturers to reduce inventory levels, increase asset efficiency and optimize supply chain decisions.

The key benefits of our aspenONE solutions include:

Broad and comprehensive software suites. We are the only software provider that has developed comprehensive suites of software applications addressing the engineering, manufacturing and supply chain requirements of process manufacturers.

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Mission-critical, integrated software solutions. aspenONE provides a standards-based framework that integrates applications, data and models within each of our software suites. Process manufacturers seeking to improve their mission-critical business operations can use our integrated applications to support real-time decision-making both for individual production facilities and across multiple sites.

Flexible commercial model. Our new aspenONE licensing model provides a customer with access to all of the applications within a licensed aspenONE suite, enabling the customer to use those applications whenever required and to experiment with different applications to best solve whatever critical business challenges the customer faces. The customer can easily increase its usage of our software as its business requirements evolve, without disrupting its business processes.

Hardware-independent technology. Our software can be easily integrated and used with equipment manufactured by any major process manufacturing hardware vendor. Because of our hardware-independent approach, customers can use our software to create a unified view of their operations across plants with hardware from different vendors.

Our Competitive Strengths

We believe our key competitive advantages include, in addition to the comprehensive breadth of our integrated software solutions and the flexibility of our new aspenONE licensing model, the following:

Market leadership. We are a leader in each of the markets addressed by our software. Based on information presented in reports of ARC Advisory Group relating to performance in 2008, in our core process manufacturing industries of energy, chemicals and pharmaceuticals we ranked:

- #1 in the market addressed by our engineering software;
- #2 in the market addressed by our manufacturing software; and
- #1 in the market addressed by our supply chain software.

Industry-leading innovation based on substantial process expertise. Over the past 30 years, we have designed a number of major process engineering advances considered to be industry-standard applications. As of June 30, 2010, approximately 50% of our software development personnel had degrees in chemical engineering or a similar discipline, which helps us address the specific challenges of the process industries.

Rapid, high return on investment. Many customers purchase our software because they believe it will provide rapid, demonstrable and significant returns on their investment. For some customers, cost reductions in the first year following installation have exceeded the total cost of our software. For many customers, even a relatively small improvement in productivity can generate substantial recurring benefits due to the large production volumes and limited profit margins typical in process industries.

Established, diversified customer base. As of June 30, 2010, our installed base of more than 1,500 customers included 19 of the 20 largest petroleum companies, all of the 20 largest chemical companies, and 15 of the 20 largest pharmaceutical companies. We consult and collaborate with customers to identify new applications, which leads to innovative, targeted solutions and fosters long-term customer relationships.

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Growth Strategy

Our objective is to further establish and extend our position as a leading global provider of process optimization software and related services to the process industries. We intend to build upon our market and technology leadership position by pursuing the following:

- continue to provide innovative, market-leading solutions;
- further penetrate our existing customer base;
- expand our presence in emerging markets; and
- extend our vertical reach and indirect sales channel.

Risk Factors

Our business is subject to a number of risks that you should understand before deciding to invest in our common stock. These risks are discussed more fully in "Risk Factors" beginning on page 10, and they include:

- we depend on our aspenONE software for a substantial portion of our revenue, and our business will suffer if demand for, or usage of, our software declines for any reason or if existing customers do not renew under our new aspenONE licensing model;
- our revenue and net income for fiscal 2010 were, and for the foreseeable future will be, adversely affected by the transition to our new licensing model;
- in preparing our consolidated financial statements for fiscal 2010, our management identified two material weaknesses in our internal control over financial reporting, and our failure to remedy these or other material weaknesses could result in material misstatements in our financial statements and the loss of investor confidence in our reported financial information;
- arbitration and litigation involving a former reseller in the Middle East may subject us to substantial damages and expenses;
- our operating results may suffer if customers in the energy, chemicals, engineering and construction, or pharmaceuticals industries experience an economic downturn or other adverse events; and
- unfavorable economic and market conditions and a lessening demand in the market for process optimization software could adversely affect our operating results.

Corporate Information

We were incorporated in Massachusetts in 1981 and reincorporated in Delaware in 1998. Our principal executive offices are located at 200 Wheeler Road, Burlington, Massachusetts 01803, and our telephone number at that address is (781) 221-6400. Our website address is *www.aspentech.com*. The information on our website is not part of this prospectus.

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The Offering

Common stock offered by selling stockholders	15,000,000 shares
Common stock outstanding as of September 1, 2010	92,892,014 shares
Use of proceeds	The selling stockholders are selling all of the shares of common stock offered by this prospectus. We will not receive any proceeds from the sale of shares by the selling stockholders.
Symbol on The NASDAQ Global Select Market	"AZPN"

The number of shares of common stock outstanding as of September 1, 2010 excludes:

- 5,247,039 shares issuable upon the exercise of options outstanding and vested as of September 1, 2010, at a weighted average exercise price of $6.94 per share;
- 1,057,529 shares issuable upon the exercise of options outstanding but not vested as of September 1, 2010, at a weighted average exercise price of $10.84 per share;
- 2,214,431 shares issuable upon the vesting of restricted stock units outstanding as of September 1, 2010, without payment of an exercise price; and
- 6,348,233 shares authorized and available as of September 1, 2010, for future issuance under our equity compensation plans.

Except as otherwise noted, the information in this prospectus assumes no exercise by the underwriters of their over-allotment option.

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Summary Consolidated Financial Data

The following tables summarize our consolidated financial data for the periods presented. You should read these data together with the consolidated financial statements beginning on page F-1, as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the other financial information included elsewhere in this prospectus.

	Year Ended June 30,		
	2010	2009	2008
	(In thousands, except per share data)		
Consolidated Statement of Operations Data			
Revenue:			
Subscription	$ 11,071	$	$
Software	42,920	179,591	168,404
Total subscription and software(1)	53,991	179,591	168,404
Services and other	112,353	131,989	143,209
Total revenue	166,344	311,580	311,613
Cost of revenue:			
Subscription and software	6,437	12,409	15,916
Services and other	59,673	63,411	69,077
Total cost of revenue	66,110	75,820	84,993
Gross profit	100,234	235,760	226,620
Operating expenses:			
Selling and marketing(2)	97,002	84,126	94,965
Research and development(2)	48,228	46,375	49,899
General and administrative(2)	63,246	58,256	54,496
Restructuring charges	1,128	2,446	8,623
Impairment of goodwill and intangible assets		623	
Total operating expenses	209,604	191,826	207,983
(Loss) income from operations	(109,370)	43,934	18,637
Interest income	19,324	22,698	23,784
Interest expense	(8,455)	(10,516)	(17,783)
Other (expense) income, net	(2,407)	(1,824)	3,386
(Loss) income before income taxes	(100,908)	54,292	28,024
Provision for income taxes	(6,537)	(1,368)	(3,078)
Net (loss) income	$ (107,445)	$ 52,924	$ 24,946
(Loss) earnings per common share:			
Basic	$ (1.18)	$ 0.59	$ 0.28
Diluted	$ (1.18)	$ 0.57	$ 0.27
Weighted average shares outstanding:			
Basic	91,247	90,053	89,640
Diluted	91,247	92,578	94,092

(1)

In July 2009 we introduced our aspenONE licensing model under which license revenue is recognized over the term of a license contract. We previously recognized a substantial majority of our license revenue upfront, upon shipment of software. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Transition to New aspenONE Licensing Model."

(2)

Certain costs previously recorded as selling and marketing expense in fiscal 2009 and 2008 have been reclassified to research and development expense and general and administrative expense, as described in note 2(y) to the consolidated financial statements beginning on page F-1.

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In the following table, as adjusted data reflect the estimated offering expenses we expect to incur in connection with this offering.

	June 30, 2010	
	Actual	As Adjusted
	(In thousands)	
Consolidated Balance Sheet Data		
Cash and cash equivalents	$ 124,945	$ 124,095
Working capital	94,466	93,616
Accounts receivable, net	31,738	31,738
Installments receivable, net	128,598	128,598
Collateralized receivables, net	51,430	51,430
Total deferred revenue	87,279	87,279
Total secured borrowings	76,135	76,135
Redeemable convertible preferred stock		
Total stockholders' equity (deficit)	140,970	140,120

Following the introduction of our new aspenONE licensing model, management focuses on certain metrics, including the key metrics set forth below, to assist in operating and assessing our business. We believe these metrics are useful to investors in evaluating our operating performance following the introduction of our new licensing model. None of these metrics should be considered as an alternative to any measure of financial performance calculated in accordance with U.S. generally accepted accounting principles or GAAP, including net cash provided by operating activities, which is the GAAP financial measure most directly comparable to free cash flow. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Key Business Metrics."

	June 30,	
	2010	2009
	(In billions)	
Total Term Contract Value Data(1)		
Total term contract value (TCV)	$ 1.2	$ 1.0

(1) Software maintenance and support, or SMS, was not included as part of our term license arrangements prior to fiscal 2010, and no SMS was included in estimated TCV as of June 30, 2009. For comparability purposes, we estimated "license-only" TCV growth for fiscal 2010 by removing the SMS portion of TCV as of June 30, 2010. On this comparable "license-only" basis, we estimate that TCV grew by approximately 10% during fiscal 2010. Overall, we estimate that TCV, with SMS included as of June 30, 2010, increased by approximately 17% during fiscal 2010.

	Year Ended	Three Months Ended			
	June 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009
			(In thousands)		
Bookings Data					
Bookings	$ 365,948	$ 137,750	$ 93,916	$ 95,255	$ 39,027

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	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009
			(In thousands)		
Future Cash Collections and Billings Backlog Data					
Billings backlog	$ 389,354	$ 270,293	$ 206,499	$ 128,252	$ 100,499
Accounts receivable, net	31,738	28,612	35,507	36,568	49,882
Installments receivable, undiscounted (non-GAAP)(1)	147,315	167,643	180,671	197,053	208,204
Collateralized receivables, undiscounted (non-GAAP)(1)	56,461	70,068	88,722	103,072	107,750
Future cash collections	$ 624,868	$ 536,616	$ 511,399	$ 464,945	$ 466,335

(1) Excludes unamortized discount. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Key Business Metrics Future Cash Collections and Billings Backlog."

	Year Ended June 30,		
	2010	2009	2008
		(In thousands)	
Adjusted Total Costs Data			
Total cost of revenue	$ 66,110	$ 75,820	$ 84,993
Total operating expenses	209,604	191,826	207,983
Total expenses	275,714	267,646	292,976
Less:			
Stock-based compensation	(15,260)	(4,670)	(10,600)
Adjusted total costs (non-GAAP)	$ 260,454	$ 262,976	$ 282,376

	Year Ended June 30,		
	2010	2009	2008
		(In thousands)	
Consolidated Statements of Cash Flows and Free Cash Flow Data			
Net cash provided by operating activities	$ 38,622	$ 33,032	$ 71,464
Purchase of property, equipment and leasehold improvements	(2,652)	(2,972)	(9,424)
Capitalized computer software development costs	(699)	(2,382)	(780)
Free cash flow (non-GAAP)	$ 35,271	$ 27,678	$ 61,260

For these purposes:

Total term contract value, or TCV, is an estimate of the renewal value, as of a specific date, of our active portfolio of term license agreements. TCV is calculated by multiplying the terminal annual payment for each active term license agreement by the original length of the existing license term, and then aggregating this amount for all active term license agreements. TCV includes the value of SMS for license agreements under our new aspenONE licensing model, in which SMS is committed for the entire license term. TCV does not include any amounts for perpetual licenses, professional services, training or standalone renewal SMS.

Bookings represent the amount of contractually committed subscription and software fees, including any bundled software maintenance and support or SMS. Bookings do not include (a) the amount of fees for professional services, training and standalone renewal SMS or (b) the amount of subscription and software fees remaining under existing license agreements that are replaced prior to the scheduled expiration date.

Billings backlog represents the aggregate value of uninvoiced bookings from prior and current periods. Billings backlog is not reflected on our consolidated balance sheets.

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RISK FACTORS

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 occurs, our business, financial condition, results of operations or cash flows would likely suffer. In that case, the trading price of our common stock could fall, and you may lose all or part of your investment in our common stock.

Risks Related to Our Business

We depend on our aspenONE software for a substantial portion of our revenue, and our business will suffer if demand for, or usage of, our software declines for any reason or if existing customers do not renew under our new aspenONE licensing model.

Our aspenONE suites account for a significant majority of our license revenue and will continue to do so for the foreseeable future. If demand for, or usage of, our software declines for any reason or if existing customers do not renew under our new aspenONE licensing model, our revenue would decline and our operating results would suffer. As a result, our revenue could be adversely affected by:

- any decline in demand for or usage of our aspenONE suites;
- the failure of our aspenONE suites to achieve continued market acceptance;
- the introduction of products and technologies that serve as a replacement or substitute for, or represent an improvement over, our aspenONE suites;
- technological innovations that our aspenONE suites do not address; and
- our inability to release enhanced versions of our aspenONE suites on a timely basis.

In July 2009 we introduced our aspenONE licensing model under which we recognize license revenue over the term of a license contract. Our future success depends substantially on our customers' acceptance of our new licensing model. We are not able to predict the rate at which customers will renew under our new licensing model and therefore cannot predict the timing or amount of our future revenue or profitability. If customers fail to renew under our new licensing model, we may lose customers, which would negatively impact our financial performance. We intend to expend significant resources to continue to improve our aspenONE solutions and to train our customers in using our solutions, but the successful development of our new licensing model cannot be predicted and we cannot guarantee we will succeed in these goals. Furthermore, customers may elect to continue to purchase our applications on a point product basis, which could limit our ability to grow our business successfully.

Our revenue and net income for fiscal 2010 were, and for the foreseeable future will be, adversely affected by the transition to our new aspenONE licensing model.

Our new aspenONE licensing model, which we introduced in July 2009, provides customers with access to all of the applications within the aspenONE suite or suites they license and includes software maintenance and support, or SMS, for the term of the license contract. Prior to July 2009 we primarily recognized license revenue "upfront," upon shipment of software, on a net present value basis in the period in which a license contract was signed, not over the license term.

As a result of the transition to our new aspenONE licensing model, our revenue for 2010 was significantly less than the level achieved in the preceding years and we expect our license revenue will remain below that level for several more years. Our new licensing model makes it difficult for us to increase our license revenue rapidly through additional bookings in a period, as license revenue from

new customers will be recognized over the applicable license term. Similarly, the full effect of a decline in bookings in any period would not be fully recognized in our revenue for that period, but would negatively affect revenue in subsequent quarters. Moreover, the marked decrease in revenue levels following our introduction of our new licensing model will not result in, or be accompanied by, a corresponding reduction in operating expenses. As a result, the change to our new licensing model will result in our reporting not only significantly lower revenue but also large operating losses for at least the near term and potentially several years. A number of the measures of financial performance calculated in accordance with U.S. generally accepted accounting principles or GAAP and typically considered by investors for technology companies like ours will be of limited value in assessing our performance, growth and financial condition for the foreseeable future. Our announcement of GAAP-based operating results, as well as our lack of visibility into future operating results, may have a significant adverse effect on the price of our common stock.

In preparing our consolidated financial statements for fiscal 2010, our management identified two material weaknesses in our internal control over financial reporting, and our failure to remedy these or other material weaknesses could result in material misstatements in our financial statements and the loss of investor confidence in our reported financial information.

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act. Our management identified two material weaknesses in our internal control over financial reporting as of June 30, 2010. A material weakness is defined as a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

The material weaknesses identified by management as of June 30, 2010 consisted of inadequate and ineffective controls over income tax accounting and disclosure and controls over the recognition of professional services revenue. As a result of these material weaknesses, our management concluded as of June 30, 2010 that our internal control over financial reporting was not effective based on criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control An Integrated Framework* (September 1992).

We have been implementing and continue to implement remedial measures designed to address these material weaknesses. We cannot be certain that the measures we have taken are effective or will ensure that restatements will not occur in the future. If these remedial measures are insufficient to address these material weaknesses, or if additional material weaknesses or significant deficiencies in our internal control are discovered or occur in the future, our consolidated financial statements may contain material misstatements and we could be required to restate our financial results. We restated our consolidated financial statements for each of the fiscal years from fiscal 2002 to fiscal 2007 and for the first quarter of fiscal 2008. Any future restatement of consolidated financial statements could place a significant strain on our internal resources and harm our operating results. Further, any additional or unremedied material weakness may preclude us from meeting our reporting obligations on a timely basis. We have previously not been in compliance with SEC reporting requirements and NASDAQ listing requirements. As a result of the restatements of our consolidated financial statements, we did not maintain our status as a timely filer with the SEC during the period from September 2007 to November 9, 2009 and from November 16, 2009 to December 21, 2009, and as a result our common stock was delisted from The NASDAQ Global Select Market in February 2008 and not relisted until February 2010. If we again fail to remain in compliance with SEC reporting requirements and NASDAQ continued listing requirements, there may be a material adverse effect on our business and the market for our common stock. If we were required to restate our consolidated financial statements, we could be subject to class action litigation and SEC proceedings and could incur monetary

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judgments, penalties or other sanctions that could adversely affect our financial condition and could cause our stock price to decline.

Any failure to address the identified material weaknesses or any additional material weaknesses in our internal control could also adversely affect the results of the periodic management evaluations regarding the effectiveness of our internal control over financial reporting that are required to be included in our annual reports on Form 10-K. Internal control deficiencies could also cause investors to lose confidence in our reported financial information. We can give no assurance that the measures we have taken and plan to take in the future will remediate the material weaknesses identified or that any additional material weaknesses or additional restatements of financial results will not arise in the future due to a failure to implement and maintain adequate internal control over financial reporting or circumvention of these controls. In addition, even if we are successful in strengthening our controls and procedures, in the future those controls and procedures may not be adequate to prevent or identify irregularities or errors or to facilitate the fair presentation of our consolidated financial statements.

Arbitration and litigation involving a former reseller in the Middle East may subject us to substantial damages and expenses.

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, among other things, 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.

We expect a determination to be made in the second half of fiscal 2011 with respect to the pending arbitration. However, we can provide no assurance as to the actual timing or outcome of the arbitration. In general, neither party will have the ability to appeal the determination reached. Regardless of the outcome, the proceedings may result in significant legal expenses and may require significant attention and resources of management, all of which could result in losses and damages that have a material adverse effect on our business. 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 yet verified independently, a recent 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. If we are found to have breached the terms of our agreement with ATME, we could be found liable for the termination fee, the amount of which may be greater or less than the number indicated above. If we are found liable, we would incur damages that could have a material adverse effect on our cash flow and cash position.

On March 11, 2010, a Kuwaiti entity (known as ATME Group and affiliated with ATME) filed a lawsuit in a Kuwaiti court naming as defendants ATME, us and a reseller newly appointed by us in Kuwait. In this lawsuit, ATME Group claims that it was an exclusive reseller for ATME in Kuwait and that it therefore is entitled to damages resulting from purported customer contracts in Kuwait.

Our operating results may suffer if customers in the energy, chemicals, engineering and construction, or pharmaceuticals industries experience an economic downturn or other adverse events.

We derive a majority of our revenue from companies in the energy, chemicals, engineering and construction, and pharmaceutical industries. Accordingly, our future success depends upon the continued demand for process optimization software and related services by companies in these process industries. These industries are highly cyclical and highly reactive to the price of oil, as well as general economic conditions. Adverse changes in these industries could and have caused delays and reductions in information technology spending by our customers, which could lead to reductions, delays, postponements or cancellations of customer purchases of our products and services, particularly the aspenONE Manufacturing and Supply Chain suite, and in turn could negatively impact our operating results.

Because of the nature of their products and manufacturing processes, companies in these process industries are subject to heightened risk of adverse or even catastrophic environmental, safety and health accidents or incidents, such as the recent oil spill in the U.S. Gulf of Mexico. Further, our customers are often subject to ever-changing standards and regulations, and the global nature of their operations can subject them to numerous regulatory regimes. Legislation or regulations regarding these areas may require us to make rapid changes in our products and services, and our inability to effect those changes could adversely impact our revenue, operating margins and other operating results. Any of the foregoing types of events that affects our customers may adversely impact their operations and information technology spending, which could have an adverse effect on our operating results.

In addition, in the past, worldwide economic downturns and pricing pressures experienced by energy, chemical, pharmaceutical and other process industries have led to consolidations and reorganizations. These downturns, pricing pressures and reorganizations 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.

In addition, as the global economy deteriorated in 2009, some of our customers elected to change from paying for term licenses upfront to paying in installments over the contract term, which deferred our receipt of cash from those customers. A recurrence of these industry patterns, including any recurrence that may occur in connection with current global economic events, 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. There is no assurance that customers may not seek bankruptcy or other similar relief from creditors, fail to pay amounts due to us, or pay those amounts more slowly, any of which could adversely affect our results of operations.

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Unfavorable economic and market conditions or a lessening demand in the market for process optimization software could adversely affect our operating results.

Our business is influenced by a range of factors that are beyond our control and difficult or impossible to predict. If the market for process optimization software grows more slowly than we anticipate, demand for our products and services could decline and our operating results could be impaired. Further, the state of the economy, which deteriorated in the recent broad recession, may deteriorate further in the future. Our operating results may be adversely affected by unfavorable global economic and market conditions as well as a lessening demand for process optimization software generally. Customer demand for our products is intrinsically linked to the strength of the economy. If weakness in the economies of the United States and other countries persists, many customers may delay or reduce technology purchases. This could result in reductions in sales of our products, longer sales cycles, slower adoption of new technologies, increased price competition or reduced use of our products by our customers. We will lose revenue if demand for our products is reduced because potential customers experience weak or deteriorating economic conditions, catastrophic environmental or other events and our business, results of operations, financial condition and cash flow from operations would likely be adversely affected.

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

As of June 30, 2010, we had 26 offices in 22 countries. We sell our products primarily through a direct sales force located throughout the world. In the event that we are unable to adequately staff and maintain our foreign operations, we could face difficulties managing our international operations.

Customers outside the United States accounted for a significant amount of our total revenue in fiscal 2010, 2009 and 2008. We anticipate that revenue from customers outside the United States will continue to account for a significant portion of our total revenue for the foreseeable future. Our 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 and possible nationalization of property by governments without compensation to the owners;
- less effective protection of intellectual property;
- requirements of foreign laws and other governmental controls;
- difficulties and delays in translating products and product documentation into foreign languages;
- difficulties and delays in negotiating software licenses compliant with accounting revenue recognition requirements in the United States;
- difficulties in collecting trade accounts receivable in other countries;
- adverse tax consequences; and
- the challenges of handling legal disputes in foreign jurisdictions.

Competition from software offered by current competitors and new market entrants, as well as from internally developed solutions by our customers, could adversely affect our ability to sell our software products and related services and could result in pressure to price our products in a manner that reduces our margins.

Our markets in general are highly competitive and differ among our principal product areas: engineering, manufacturing, and supply chain management. Our engineering software competes with

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products of businesses such as ABB Ltd., Chemstations, Inc., Honeywell International, Inc., Invensys plc, KBC Advanced Technologies plc, and Shell Global Solutions International BV. Our manufacturing software competes with products of companies such as ABB Ltd., Honeywell International, Inc., Invensys plc, OSIsoft, Inc., Rockwell Automation, Inc., Siemens AG and Yokogawa Electric Corporation. Our supply chain management software competes with products of companies such as JDA Software Group, Inc., Oracle Corporation and SAP AG. In addition, we face challenges in selling our solutions to large companies in the process industries that have internally developed their own proprietary software solutions.

Many of our current and potential competitors have greater financial, technical, marketing, service and other resources than we have. As a result, these companies may be able to offer lower prices, additional products or services, or other incentives that we cannot match or offer. These competitors may be in a stronger position to respond more quickly to new technologies and may be able to undertake more extensive marketing campaigns. We believe they also have adopted and may continue to pursue more aggressive pricing policies and make more attractive offers to potential customers, employees and strategic partners. For example, some competitors may be able to initiate relationships through sales and installations of hardware and then seek to expand their customer relationships by offering process optimization software at a discount. In addition, many of our competitors have established, and may in the future continue to establish, cooperative relationships with third parties to improve their product offerings and to increase the availability of their products in the marketplace. Competitors with greater financial resources may make strategic acquisitions to increase their ability to gain market share or improve the quality or marketability of their products.

Competition could seriously impede our ability to sell additional software products and related services on terms favorable to us. Businesses may continue to enhance their internally developed solutions, rather than investing in commercial software such as ours. Our current and potential commercial competitors may develop and market new technologies that render our existing or future products obsolete, unmarketable or less competitive. In addition, if these competitors develop products with similar or superior functionality to our products, we may need to decrease the prices for our products in order to remain competitive. If we are unable to maintain our current pricing due to competitive pressures, our margins will be reduced and our operating results will be negatively affected. We cannot assure you that we will be able to compete successfully against current or future competitors or that competitive pressures will not materially adversely affect our business, financial condition and operating results.

If we fail to develop new software products, enhance existing products and services, or penetrate new vertical markets, we will be unable to implement our growth strategy successfully and our business could be seriously harmed.

The maintenance and extension of our market leadership and our future growth is largely dependent upon our ability to develop new software products that achieve market acceptance with acceptable operating margins. Enterprises are requiring their application software vendors to provide greater levels of functionality and broader product offerings. Moreover, our industry is characterized by rapidly changing technologies and evolving industry standards and operating platforms. Competitors continue to make rapid technological advances in computer hardware and software technology and frequently introduce new products, services and enhancements. We must continue to enhance our current product line and develop and introduce new products and services that keep pace with increasingly sophisticated customer requirements and the technological developments of our competitors. Our business and operating results could suffer if we cannot successfully respond to the technological advances of competitors, or if our new products or product enhancements and services do not achieve market acceptance.

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Under our business plan, we are implementing a product strategy that unifies our software solutions under the aspenONE brand with differentiated aspenONE vertical solutions targeted at specific process industry segments. We cannot assure you that our product strategy will result in products that will meet market needs and achieve significant market acceptance. If we fail to introduce new products that meet the demands of our customers or our target markets, or if we fail to penetrate new vertical markets in the process industries, our revenue will likely grow at a slower rate than we anticipate and our financial condition could suffer.

Defects or errors in our software products could harm our reputation, impair our ability to sell our products and result in significant costs to us.

Our software products are complex and may contain undetected defects or errors. We have not suffered significant harm from any defects or errors to date, but we have from time to time found defects in our products and we may discover additional defects in the future. We may not be able to detect and correct defects or errors before releasing products. Consequently, we or our customers may discover defects or errors after our products have been implemented. We have in the past issued, and may in the future need to issue, corrective releases of our products to remedy defects or errors. The occurrence of any defects or errors could result in:

- lost or delayed market acceptance and sales of our products;
- delays in payment to us by customers;
- product returns;
- injury to our reputation;
- diversion of our resources;
- legal claims, including product liability claims, against us;
- increased service and warranty expenses or financial concessions; and
- increased insurance costs.

Defects and errors in our software products could result in claims for substantial damages against us.

We are subject to a number of lawsuits and disputes arising out of the conduct of our business.

We are subject to a number of lawsuits and disputes arising out of the conduct of our business. Resolution of these matters can be prolonged and costly, and the ultimate results or judgments are uncertain due to the inherent uncertainty in litigation and other proceedings. Moreover, our potential liabilities are subject to change over time due to new developments, changes in settlement strategy or the impact of evidentiary requirements, and we may be required to pay damage awards or settlements that could have a material adverse effect on our results of operations, cash flows and financial condition.

In March 2006, we settled class action litigation, including related derivative claims, arising out of our originally filed consolidated financial statements for fiscal 2000 through 2004, the accounting for which we restated in March 2005. Certain members of the class (representing 1,457,969 shares of common stock, or less than 1% of the shares putatively purchased during the class action period) opted out of the settlement and had the right to bring their own state or federal law claims against us, referred to as "opt-out" claims. Opt-out claims were filed on behalf of the holders of approximately 1.1 million of such shares. One of these actions was settled and three were dismissed. The claims in the remaining actions (described below) include claims against us and one or more of our former officers alleging securities and common law fraud, breach of contract, deceptive practices and/or rescissory

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damages liability, based on the restated results of one or more fiscal periods included in our restated consolidated financial statements referenced in the class action.

Herbert G. and Eunice E. Blecker, et al. v. Aspen Technology, Inc., et al., filed in June 2006 in the Business Litigation Session of the Massachusetts Superior Court for Suffolk County and docketed as Civ. A. No. 06-2357-BLS1, was an opt-out claim asserted by persons who received 248,411 shares of our common stock in an acquisition. Fact discovery in this action closed in July 2008, and a non-jury trial was conducted in November 2009. In January 2010, the court issued its order granting judgment in our favor and dismissing the case. In February 2010, the plaintiffs filed a notice of appeal of the judgment.

380544 Canada, Inc., et al. v. Aspen Technology, Inc., filed on February 15, 2007 in the federal district court for the Southern District of New York and docketed as Civ. A. No. 1:07-cv-01204-JFK in that court, is a claim asserted by persons who purchased 566,665 shares of our common stock in a private placement. Certain motions to dismiss filed by other defendants were resolved on May 5, 2009, and discovery is in process. The claims in the 380544 Canada action are for damages totaling at least $4.0 million, not including claims for attorneys' fees. We plan to defend the 380544 Canada action vigorously.

We can provide no assurance as to the outcome of these cases or the likelihood of the filing of additional opt-out claims, and these claims may result in judgments against us for significant damages. Regardless of the outcome, such litigation has resulted in the past, and may continue to result in the future, in significant legal expenses and may require significant attention and resources of management, all of which could result in losses and damages that have a material adverse effect on our business.

We may be subject to significant expenses and damages because of pending liability claims and other claims related to our products and services.

The sale and implementation of certain of our software products and services, particularly in the areas of advanced process control and supply chain management, entail the risk of product liability claims and associated damages. Our software products and services are often integrated with our customers' networks and software applications and are used in the design, operation and management of manufacturing and supply chain processes at large facilities, often for mission critical applications.

Any errors, defects, performance problems or other failures of our software could result in significant liability to us for damages or for violations of environmental, safety and other laws and regulations. Our software products and implementation services could give rise to warranty and other claims. We are unable to determine whether resolution of any of these matters will have a material adverse impact on our financial position, cash flows or results of operations, or, in many cases, reasonably estimate the amount of the loss, if any, that may result from the resolution of these matters.

Our agreements with 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, foreign, state or local laws or ordinances or unfavorable judicial decisions. A substantial product liability judgment against us could materially and adversely harm our operating results and financial condition. Even if our software is not at fault, a product liability claim brought against us could be time-consuming, costly to defend and harmful to our operations.

Implementation of some of our products can be difficult and time-consuming, and customers may be unable to implement those products successfully or otherwise achieve all of the potential benefits of the products.

Some of our scheduling, production management and execution, and supply chain products must integrate with the existing computer systems and software programs of our customers. This process can be complex, time-consuming and expensive. As a result, some customers may have difficulty in implementing those products or be unable to implement them successfully or otherwise achieve the products' potential benefits. Delayed or ineffective implementation of those software products or related services may limit our revenue or may result in customer dissatisfaction, harm to our reputation and customer unwillingness to pay the fees associated with these products.

We may suffer losses on fixed-price professional service engagements.

We undertake a portion of our professional service engagements on a fixed-price basis. Under these types of engagements, we bear the risk of cost overruns and inflation. In the past we have experienced cost overruns, which on occasion have been significant. Should the number of our fixed-price engagements increase in the future, we may experience additional cost overruns that could have a pronounced impact on our operating results.

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

In fiscal 2010, 24% of our total revenue was denominated in a currency other than the U.S. dollar. In addition, certain of our operating expenses incurred outside the United States are denominated in currencies other than the U.S. dollar. Our reported revenue and operating results are subject to fluctuations in foreign exchange rates. Foreign currency risk arises primarily from the net difference between non-U.S. dollar receipts from customers outside the United States and non-U.S. dollar operating expenses for subsidiaries in foreign countries. Currently, our largest exposures to foreign exchange rates exist primarily with the Euro, Pound Sterling, Canadian dollar and Japanese Yen against the U.S. dollar. Over recent months, the value of foreign currencies against the U.S. dollar has fluctuated dramatically. Since late fiscal 2008, we have not entered into derivative financial instruments, such as forward currency exchange contracts, intended to manage the volatility of these market risks. We cannot predict the impact of foreign currency fluctuations, and foreign currency fluctuations in the future may adversely affect our revenue and operating results. Any hedging policies we may implement in the future may not be successful, and the cost of those hedging techniques may have a significant negative impact on our operating results.

If we fail to comply or are deemed to have failed to comply, with our ongoing Federal Trade Commission, or FTC, consent decree, our business may suffer.

In December 2004, we entered into a consent decree with the FTC with respect to a civil administrative complaint filed by the FTC in August 2003 alleging that our acquisition of Hyprotech in May 2002 was anticompetitive in violation of Section 5 of the Federal Trade Commission Act and Section 7 of the Clayton Act. In July 2009, we announced that the FTC closed an investigation relating to the alleged violations of the decree and issued an order modifying the consent decree, which became final in August 2009. We are subject to ongoing compliance obligations under the FTC consent decree. There is no assurance that the actions required by the FTC's modified order and related settlement will not require significant attention and resources of management, which could have a material adverse effect on our business. Further, if we fail to comply, or are deemed to have failed to comply, with such consent decree, our business may suffer.

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. Our strategy is to rely on a combination of copyright, patent, trademark and trade secret laws in the United States and other jurisdictions, and to rely on license and confidentiality agreements and software security measures to further protect our proprietary technology and brand. We have obtained or applied for patent protection with respect to some of our

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intellectual property, but generally do not rely on patents as a principal means of protecting our intellectual property. We have registered or applied to register some of our trademarks in the United States and in selected other countries. We generally enter into non-disclosure agreements with our employees and customers, and historically have restricted third-party access to our software source code and licenses, which we regard as proprietary information. In certain cases, we have provided copies of source code to customers for the purpose of special product customization or have deposited copies of the source code 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. Our intellectual property rights may expire or be challenged, invalidated or infringed upon by third parties or we may be unable to maintain, renew or enter into new licenses on commercially reasonable terms. Any misappropriation of our technology or development of competitive technologies could harm our business and could diminish or cause us to lose the competitive advantages associated with our proprietary technology, and could subject us to substantial costs in protecting and enforcing our intellectual property rights and/or temporarily or permanently disrupt our sales and marketing of the affected products or services. The laws of some countries in which our products are licensed do not protect our intellectual property rights to the same extent as the laws of the United States. Moreover, in some non-U.S. countries, laws affecting intellectual property rights are uncertain in their application, which can affect the scope of enforceability of our intellectual property rights.

Third-party claims that we infringe the intellectual property rights of others may be costly to defend or settle and could damage our business.

We cannot be certain that our software and services do not infringe issued patents, copyrights, trademarks or other intellectual property rights of third parties. Litigation regarding intellectual property rights is common in the software industry, and we may be subject to legal proceedings and claims from time to time, including claims of alleged infringement of intellectual property rights of third parties by us or our licensees concerning their use of our software products and integration technologies and services. Third parties may bring claims of infringement against us. Because our software is integrated with our customers' networks and business processes, as well as other software applications, third parties may bring claims of infringement against us, as well as our customers and other software suppliers, if the cause of the alleged infringement cannot easily be determined.

Claims of alleged infringement may have a material adverse effect on our business and may discourage potential customers from doing business with us on acceptable terms, if at all. Defending against claims of infringement may be time-consuming and may result in substantial costs and diversion of resources, including our management's attention to our business. Furthermore, a party making an infringement claim could secure a judgment that requires us to pay substantial damages. A judgment could also include an injunction or other court order that could prevent us from selling our software or require that we re-engineer some or all of our products. Claims of intellectual property infringement also might require us to enter costly royalty or license agreements. We may be unable to obtain royalty or license agreements on terms acceptable to us or at all. Our business, operating results and financial condition could be harmed significantly if any of these events occurred, and the price of our common stock could be adversely affected. Furthermore, former employers of our current and future employees may assert that our employees have improperly disclosed confidential or proprietary information to us. In addition, we have agreed, and may agree in the future, to indemnify certain of our customers against claims that our software infringes upon the intellectual property rights of others. Although we carry general liability insurance, our current insurance coverage may not apply to, and likely would not protect us from, liability that may be imposed under any of the types of claims described above.

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If we are not successful in attracting, integrating and retaining highly qualified personnel, we may not be able to successfully implement our business strategy.

Our ability to establish and maintain a position of technology leadership in the highly competitive software market depends in large part upon our ability to attract, integrate and retain highly qualified managerial, sales, technical and accounting personnel. Competition for qualified personnel in the software industry is intense. We have from time to time in the past experienced, and we expect to continue to experience in the future, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. Our future success will depend in large part on our ability to attract, integrate and retain a sufficient number of highly qualified personnel, and there can be no assurance that we will be able to do so.

Our ability to raise capital in the future may be limited, and our failure to raise capital when needed could prevent us from executing our business plan.

We expect that our current cash and cash equivalents and cash flows from operations will be sufficient to meet our anticipated cash needs for at least the next twelve months. We may need to obtain additional financing thereafter or earlier, however, 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 revenue, fewer sales of installment receivable contracts, 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, the quality of our receivables, and the availability of capital in the credit markets. These factors may make the timing, amount, terms and conditions of any financing unattractive. 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 additional capital raised through the sale of equity or convertible debt securities may dilute the existing stockholder percentage ownership of our common stock. Furthermore, any new securities we issue may have rights, preferences and privileges superior to our common stock. Capital raised through debt financings may require us to make periodic interest and principal payments and may impose potentially restrictive covenants on the conduct of our business.

Risks Related to Our Common Stock

Our stock price may be adversely affected as more shares of our common stock become available for resale upon, or following, this offering.

There may be negative pressure on our stock price as more shares of our common stock become available for resale as a consequence of this offering.

In addition, other shares of our common stock held by the selling stockholders and not included in this offering will be eligible for resale in the public market, subject to volume limitations pursuant to Rule 144 under the Securities Act, although each of the selling stockholders has agreed to certain restrictions on transfers of our common stock during the 90-day period following the date of this prospectus except with the prior written consent of J.P. Morgan Securities LLC and Deutsche Bank Securities Inc. We previously granted to the selling stockholders rights to require that we register up to all of those shares under the Securities Act, although the selling stockholders will not be able to request a registration in connection with an additional underwritten public offering for a period of 18 months following completion of this offering. Sales by the selling stockholders, or other holders of a large number of our shares, of substantial amounts of our common stock in the public market after the completion of this offering, or the perception that those sales could occur, could adversely affect the market price of our common stock and could materially impair our future ability to raise capital through offerings of our common stock. Further, if a large number of shares of our common stock are sold in the public market after they become eligible for sale as a result of this offering, these sales could reduce the trading price of our common stock.

Following completion of this offering, the selling stockholders will continue to own a substantial portion of our capital stock and may have significant influence over our affairs.

Upon completion of this offering, the selling stockholders collectively will own 14,512,336 shares of common stock, or 15.6% of our outstanding common stock, based upon shares outstanding as of August 16, 2010, assuming no exercise of the underwriters' overallotment option. In addition, two of our seven current directors previously were elected by the selling stockholders in their prior capacities as holders of shares of Series D-1 convertible preferred stock. As a result, the selling stockholders may exercise significant influence over corporate actions requiring stockholder approval, irrespective of how our other stockholders may vote, including:

- any amendment of our charter or bylaws;
- the approval of some mergers and other significant corporate transactions, including a sale of substantially all of our assets; or
- the defeat of any non-negotiated takeover attempt that might otherwise benefit the other stockholders.

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 often have been unrelated to the operating performance of particular companies. In addition, factors such our new aspenONE licensing model, our financial performance, announcements of technological innovations or new products by us or our competitors, and 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 company's securities, securities class action litigation has often been instituted against that company. This type of litigation against us could result in substantial liability and costs and divert management's attention and resources.

Our corporate documents and provisions of Delaware law may prevent a change in control or management that stockholders may consider desirable.

Section 203 of the Delaware General Corporation Law, our charter and our by-laws contain provisions that might enable our management to resist a takeover of our company. These provisions include:

- limitations on the removal of directors;
- a classified board of directors, so that not all members of the board are elected at one time;
- advance notice requirements for stockholder proposals and nominations;
- the inability of stockholders to act by written consent or to call special meetings;

the ability of the board to make, alter or repeal our by-laws; and

the ability of the board to designate the terms of and issue new series of preferred stock without stockholder approval.

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These provisions could:

- have the effect of delaying, deferring or preventing a change in control of our company or a change in our management that stockholders may consider favorable or beneficial;

- discourage proxy contests and make it more difficult for stockholders to elect directors and take other corporate actions; and

- limit the price that investors might be willing to pay in the future for shares of our common stock.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA

This prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act. Forward-looking statements relate to future events or our future financial performance. We generally identify forward-looking statements by terminology such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "potential," "should," "target," or the negative of these terms or other similar words. These statements are only predictions. The outcome of the events described in these forward-looking statements is subject to known and unknown risks, uncertainties and other factors that may cause our, our customers' or our industry's actual results, levels of activity, performance or achievements expressed or implied by these forward-looking statements, to differ. "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business," as well as other sections in this prospectus, discuss some of the factors that could contribute to these differences. The forward-looking statements made in this prospectus relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.

This prospectus also contains estimates and other information concerning our industry, including market size and growth rates, that are based on industry publications, surveys and forecasts, including those generated by ARC Advisory Group. This information involves a number of assumptions and limitations, and you are cautioned not to give undue weight to these estimates. Although we believe the information in these industry publications, surveys and forecasts is reliable, we have not independently verified the accuracy or completeness of the information. The industry in which we operate is subject to a high degree of uncertainty and risk due to variety of factors, including those described in "Risk Factors."

USE OF PROCEEDS

The selling stockholders are offering all of the shares of common stock offered by this prospectus and will receive all of the proceeds from this offering. For information about the selling stockholders, see "Principal and Selling Stockholders Selling Stockholders."

We will not receive any of the proceeds from this offering. We are obligated to pay all expenses we incur in connection with this offering, including all registration and filing fees, printing expenses, fees and expenses of our counsel and of one separate counsel designated by the selling stockholders, and state Blue Sky fees and expenses. The selling stockholders will pay other expenses they incur in connection with this offering, including all underwriting discounts and commissions.

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MARKET PRICE OF COMMON STOCK

Our common stock is traded on The NASDAQ Global Select Market under the symbol "AZPN." Our common stock was traded on The NASDAQ Global Select Market (and its predecessors, the NASDAQ National Market and NASDAQ Global Market) from our initial public offering in 1994 through February 18, 2008, and then was quoted on the over the counter Pink OTC Markets under the symbol "AZPN.PK" until being relisted on The NASDAQ Global Select Market on February 10, 2010. The following table sets forth, for the periods indicated, the high and low sales prices per share of our common stock as reported by The NASDAQ Global Select Market or the Pink OTC Markets, as applicable:

	Low	High
Fiscal 2010		
Quarter ended June 30, 2010	$ 9.52	$ 12.01
Quarter ended March 31, 2010	8.32	10.59
Quarter ended December 31, 2009	9.20	10.89
Quarter ended September 30, 2009	8.55	10.75
Fiscal 2009		
Quarter ended June 30, 2009	$ 6.00	$ 9.60
Quarter ended March 31, 2009	5.50	8.25
Quarter ended December 31, 2008	5.10	13.00
Quarter ended September 30, 2008	11.45	15.10

On September 14, 2010, the last reported sale price for our common stock on The NASDAQ Global Select Market was $10.37 per share. On August 16, 2010, there were 784 holders of record of our common stock. The number of record holders does not include persons who held our common stock in nominee or "street name" accounts through brokers.

DIVIDEND POLICY

We have never declared or paid cash dividends on our common stock. We currently intend to retain all earnings, if any, to finance the development and growth of our business and do not anticipate paying cash dividends on our common stock in the foreseeable future. Any future determination relating to our dividend policy will be made at the discretion of the board of directors and will depend on a number of factors, including our future earnings, capital requirements, financial condition and future prospects and such other factors as the board may deem relevant. In addition, under the terms of our credit facility, we may not declare or pay any cash dividends on our common stock without the prior approval of the lender, Silicon Valley Bank.

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CAPITALIZATION

The following table describes our current portion of secured borrowing and our capitalization as of June 30, 2010. You should read this table together with the other financial information contained in this prospectus, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes beginning at page F-1.

	June 30, 2010 (In thousands)
Current portion of secured borrowing	$ 30,424
Long-term secured borrowing	$ 45,711
Stockholders' equity:	
Undesignated preferred stock, $0.10 par value:	
Authorized 10,000,000 shares	
Issued and outstanding no shares	
Common stock, $0.10 par value:	
Authorized 210,000,000 shares	
Issued 92,668,280 shares	
Outstanding 92,434,816 shares	9,267
Additional paid-in capital	515,729
Accumulated deficit	(391,038)
Accumulated other comprehensive income	7,525
Treasury stock, at cost 233,464 shares of common stock	(513)
Total stockholders' equity	140,970
Total capitalization	$ 186,681

The number of shares of common stock issued and outstanding as of June 30, 2010 excludes:

630,640 shares issuable upon the exercise of warrants outstanding and exercisable as of June 30, 2010, at an exercise price of $3.33 per share;

5,266,354 shares issuable upon the exercise of options outstanding and vested as of June 30, 2010, at a weighted average exercise price of $7.11 per share;

129,516 shares issuable upon the exercise of options outstanding but not vested as of June 30, 2010, at a weighted average exercise price of $10.24 per share;

1,512,263 shares issuable upon the vesting of restricted stock units outstanding as of June 30, 2010, without payment of an exercise price; and

8,348,803 shares authorized and available as of June 30, 2010, for future issuance under our equity compensation plans.

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SELECTED CONSOLIDATED FINANCIAL DATA

The data set forth below should be read in conjunction with our consolidated financial statements, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the other financial information presented in this prospectus. The consolidated statement of operations data for the years ended June 30, 2010, 2009 and 2008 and the consolidated balance sheet data as of June 30, 2010 and 2009 are derived from consolidated financial statements included in this prospectus in reliance on the report of KPMG LLP. The consolidated statements of operations data for the years ended June 30, 2007 and 2006 and the consolidated balance sheet data as of June 30, 2008, 2007 and 2006 are derived from audited consolidated financial statements not included in this prospectus. Historical results are not necessarily indicative of operating results to be expected in the future. Basic and diluted income (loss) per share and weighted average shares outstanding have been computed as described in note 2(i) to the consolidated financial statements beginning on page F-1.

	Year Ended June 30,				
	2010	2009	2008	2007	2006
	(In thousands, except per share data)				
Consolidated Statement of Operations Data					
Revenue:					
Subscription	$ 11,071	$	$	$	$
Software	42,920	179,591	168,404	199,761	153,730
Total subscription and software(1)	53,991	179,591	168,404	199,761	153,730
Services and other	112,353	131,989	143,209	141,268	140,686
Total revenue	166,344	311,580	311,613	341,029	294,416
Cost of revenue:					
Subscription and software	6,437	12,409	15,916	21,134	25,364
Services and other	59,673	63,411	69,077	72,426	72,690
Total cost of revenue	66,110	75,820	84,993	93,560	98,054
Gross profit	100,234	235,760	226,620	247,469	196,362
Operating expenses:					
Selling and marketing(2)	97,002	84,126	94,965	88,694	79,283
Research and development(2)	48,228	46,375	49,899	47,396	49,544
General and administrative(2)	63,246	58,256	54,496	51,342	44,708
Restructuring charges	1,128	2,446	8,623	4,634	3,993
Impairment of goodwill and intangible assets		623			
Total operating expenses	209,604	191,826	207,983	192,066	177,528
(Loss) income from operations	(109,370)	43,934	18,637	55,403	18,834
Interest income	19,324	22,698	23,784	21,909	19,978
Interest expense	(8,455)	(10,516)	(17,783)	(18,613)	(19,532)
Other (expense) income, net	(2,407)	(1,824)	3,386	(734)	(2,874)
(Loss) income before income taxes	(100,908)	54,292	28,024	57,965	16,406
Provision for income taxes	(6,537)	(1,368)	(3,078)	(12,447)	(9,941)
Net (loss) income	(107,445)	52,924	24,946	45,518	6,465
Accretion of preferred stock discount and dividends				(7,290)	(15,383)
Net (loss) income	$ (107,445)	$ 52,924	$ 24,946	$ 38,228	$ (8,918)

(Loss) earnings per common share:										
Basic	$	(1.18)	$	0.59	$	0.28	$	0.54	$	(0.20)
Diluted	$	(1.18)	$	0.57	$	0.27	$	0.50	$	(0.20)
Weighted average shares outstanding:										
Basic		91,247		90,053		89,640		70,879		44,627
Diluted		91,247		92,578		94,092		91,869		44,627

(1) In July 2009 we introduced our aspenONE licensing model under which license revenue is recognized over the term of a license contract. We previously recognized a substantial majority of our license revenue upfront, upon shipment of software. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Transition to New aspenONE Licensing Model."

(2) Certain costs previously recorded as selling and marketing expense in fiscal 2009, 2008, 2007 and 2006 have been reclassified to research and development expense and general and administrative expense, as described in note 2(y) to the consolidated financial statements beginning on page F-1.

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	Year Ended June 30,				
	2010	2009	2008	2007	2006
	(In thousands)				
Consolidated Balance Sheet Data					
Cash and cash equivalents	$ 124,945	$ 122,213	$ 134,048	$ 132,267	$ 86,272
Working capital	94,466	97,914	116,307	53,019	10,440
Accounts receivable, net	31,738	49,882	86,870	47,200	48,332
Installments receivable, net	128,598	177,921	134,290	42,827	47,410
Collateralized receivables, net	51,430	96,366	135,349	245,076	211,262
Total deferred revenue	87,279	78,871	106,905	67,106	60,141
Total secured borrowings	76,135	112,096	147,207	206,150	182,404
Redeemable convertible preferred stock					125,475
Total stockholders' equity (deficit)	140,970	229,410	172,813	137,206	(22,602)

Following the introduction of our new aspenONE licensing model, management focuses on certain metrics, including the key metrics set forth below, to assist in operating and assessing our business. We believe these metrics are useful to investors in evaluating our operating performance following the introduction of our new licensing model. None of these metrics should be considered as an alternative to any measure of financial performance calculated in accordance with U.S. generally accepted accounting principles or GAAP, including net cash provided by operating activities, which is the GAAP financial measure most directly comparable to free cash flow. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Key Business Metrics."

	June 30,	
	2010	2009
	(In billions)	
Total Term Contract Value Data(1)		
Total term contract value (TCV)	$ 1.2	$ 1.0

(1) Software maintenance and support, or SMS, was not included as part of our term license arrangements prior to fiscal 2010, and no SMS was included in estimated TCV as of June 30, 2009. For comparability purposes, we estimated "license-only" TCV growth for fiscal 2010 by removing the SMS portion of TCV as of June 30, 2010. On this comparable "license-only" basis, we estimate that TCV grew by approximately 10% during fiscal 2010. Overall, we estimate that TCV, with SMS included as of June 30, 2010, increased by approximately 17% during fiscal 2010.

	Year Ended June 30, 2010	Three Months Ended June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009
	(In thousands)				
Bookings Data					
Bookings	$ 365,948	$ 137,750	$ 93,916	$ 95,255	$ 39,027

	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009
	(In thousands)				
Future Cash Collections and Billings Backlog Data					
Billings backlog	$ 389,354	$ 270,293	$ 206,499	$ 128,252	$ 100,499
Accounts receivable, net	31,738	28,612	35,507	36,568	49,882
Installments receivable, undiscounted (non-GAAP)(1)	147,315	167,643	180,671	197,053	208,204
Collateralized receivables, undiscounted (non-GAAP)(1)	56,461	70,068	88,722	103,072	107,750
Future cash collections	$ 624,868	$ 536,616	$ 511,399	$ 464,945	$ 466,335

(1) Excludes unamortized discount. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Key Business Metrics Future Cash Collections and Billings Backlog."

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	Year Ended June 30,		
	2010	2009	2008
	(In thousands)		
Adjusted Total Costs Data			
Total cost of revenue	$ 66,110	$ 75,820	$ 84,993
Total operating expenses	209,604	191,826	207,983
Total expenses	275,714	267,646	292,976
Less:			
Stock-based compensation	(15,260)	(4,670)	(10,600)
Adjusted total costs (non-GAAP)	$ 260,454	$ 262,976	$ 282,376

	Year Ended June 30,		
	2010	2009	2008
	(In thousands)		
Consolidated Statements of Cash Flows and Free Cash Flow Data			
Net cash provided by operating activities	$ 38,622	$ 33,032	$ 71,464
Purchase of property, equipment and leasehold improvements	(2,652)	(2,972)	(9,424)
Capitalized computer software development costs	(699)	(2,382)	(780)
Free cash flow (non-GAAP)	$ 35,271	$ 27,678	$ 61,260

For these purposes:

Total term contract value, or TCV, is an estimate of the renewal value, as of a specific date, of our active portfolio of term license agreements. TCV is calculated by multiplying the terminal annual payment for each active term license agreement by the original length of the existing license term, and then aggregating this amount for all active term license agreements. TCV includes the value of SMS for license agreements under our new aspenONE licensing model, in which SMS is committed for the entire license term. TCV does not include any amounts for perpetual licenses, professional services, training or standalone renewal SMS.

Bookings represent the amount of contractually committed subscription and software fees, including any bundled software maintenance and support or SMS. Bookings do not include (a) the amount of fees for professional services, training and standalone renewal SMS or (b) the amount of subscription and software fees remaining under existing license agreements that are replaced prior to the scheduled expiration date.

Billings backlog represents the aggregate value of uninvoiced bookings from prior and current periods. Billings backlog is not reflected on our consolidated balance sheets.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Our fiscal year ends on June 30, and references to a specific fiscal year are to the twelve months ended June 30 of that year. For example, "fiscal 2010" refers to the year ended June 30, 2010.

Business Overview

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

We have more than 1,500 customers globally. Our customers include manufacturers in process industries such as energy, chemicals, pharmaceuticals, consumer packaged goods, power, metals and mining, pulp and paper, and biofuels, as well as engineering and construction firms that help design process manufacturing plants. As of June 30, 2010, our installed base included 19 of the 20 largest petroleum companies, all of the 20 largest chemical companies, and 15 of the 20 largest pharmaceutical companies. Customers outside the United States accounted for a majority of our total revenue in each of fiscal 2010, 2009 and 2008, and no single customer represented 10% or more of our total revenue in fiscal 2010, 2009 or 2008.

Transition to New aspenONE Licensing Model

Prior to fiscal 2010, we offered term or perpetual licenses to specific aspenONE products or specifically defined sets of aspenONE 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. We typically invoiced customers annually and recorded the net present value of uninvoiced payments as installments receivable. Customers typically received one year of SMS bundled with their license agreements and then could elect to renew SMS annually. Revenue from SMS was recognized ratably over the period during which the SMS was delivered.

On July 1, 2009, we began offering our aspenONE software under a new term licensing model, under which a customer can access all products within a licensed suite (aspenONE Engineering or aspenONE Manufacturing and Supply Chain). During the license term, a customer is entitled to receive SMS as well as any software products and upgrades introduced into the licensed suite. Revenue is recognized over the term of a license agreement on a subscription basis. We typically issue invoices annually, and we record each invoiced payment as deferred revenue and then recognize revenue from that payment over the applicable period. We also continue to offer our customers the ability to license point products, which in July 2009, we began licensing with SMS bundled for the entire term. Revenue is recognized on these arrangements over the contract term, as payments become due. Uninvoiced payments are not recorded on our consolidated balance sheet.

Our new aspenONE licensing model has not changed the method or timing of our customer billing or cash collections. Consequently, we do not expect any material change to net cash provided by operating activities as a result of the transition to our new licensing model. The principal accounting implications of the change in our licensing model are as follows:

The majority of our license revenue is no longer recognized on an upfront basis. As the result of the transition to our new aspenONE licensing model, our license revenue for fiscal 2010 was significantly less than the level achieved in the preceding fiscal years. We expect that our license revenue will increase as customers renew their licensing arrangements under our new licensing model. We do not expect to recognize levels of revenue comparable to prior fiscal years unless and until a significant majority of our existing license agreements have been renewed under our new licensing model. Because the timing of our incurrence of operating costs has not changed, the lower levels of revenue expected over the next few years will result in significant operating and net losses.

The amount of our installments receivable will decrease over time, as license agreements executed under our upfront revenue model reach the end of their terms.

The amount of our deferred revenue will increase over time, as installments for license transactions executed under our new licensing model are deferred and recognized on a subscription basis. We will not, however, realize a significant increase in deferred revenue until a substantial portion of the license agreements previously executed under our upfront revenue model has been renewed under our new licensing model.

For additional information about the recognition of revenue under the upfront revenue model and our new aspenONE licensing model, see " Revenue." Because of the accounting implications of our new aspenONE licensing model, we believe that, for the next several years, a number of performance indicators based on U.S. generally accepted accounting principles, or GAAP, will be of limited value in assessing our performance, growth and financial condition. Accordingly, we are focusing on a number of other business metrics, including those described under " Key Business Metrics."

Revenue

We generate revenue primarily from the following sources:

Software licenses. We provide integrated process optimization software solutions designed specifically for the process industries. We license our software products on a term or perpetual basis, and we offer extended payment options for our term license agreements that generally require annual payments.

SMS. Our SMS business consists primarily of providing customer technical support and access to software fixes and upgrades. We provide customer technical support services throughout the world by our three global call centers as well as via email and through our support website.

Professional services. We offer professional services that include implementing and integrating our software applications. Customers who use our professional services typically engage us to provide those services over periods of up to 24 months. We charge customers for professional services on a time-and-materials or fixed-price basis.

Before we can recognize revenue, the following four basic criteria generally must be met:

Persuasive evidence of an arrangement As evidence of the existence of an arrangement, we use a contract signed by the customer for software licenses and SMS and we use a signed contract and a statement of work for professional services.

Delivery of product Software and the corresponding access keys are generally delivered to customers via disk media with standard shipping terms of free carrier, our warehouse. Our software license agreements do not contain conditions for acceptance.

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Fee is fixed or determinable We assess whether a fee is fixed or determinable at the outset of the arrangement. In addition, we assess whether contract modifications to an existing term arrangement constitute a concession. Our software license agreements do not include a right of return or exchange.

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.

We have established vendor-specific objective evidence, or VSOE, of fair value for SMS and professional services, but not for our software products. Our VSOE determination is based upon the price charged to similarly situated customers when the elements are sold separately. 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.

Software License Revenue

Upfront Revenue Model

Prior to fiscal 2010, we generally licensed point products pursuant to term or perpetual license agreements with contractual provisions intended to result in the "upfront" recognition of license revenue upon delivery of the point products, regardless of whether payment was made in period installments or at the outset of the arrangement. Under our upfront revenue model, we typically were able to demonstrate that the license fees were fixed or determinable for all arrangements, including those for term licenses containing extended payment terms, and we had an established history of collecting under the terms of these agreements without providing concessions to customers. A portion of the license fees generally was recorded as deferred revenue due to the inclusion of an undelivered element, SMS, and the amount of revenue allocated to SMS was based on the VSOE of fair value for SMS using the residual method. The net present value of the residual license fees typically was recognized upon delivery of the software.

License revenue recognized under the upfront revenue model upon the delivery of the licensed software (that is, both term and perpetual license agreements) typically is reported as software revenue in the consolidated statements of operations.

New aspenONE Licensing Model

In July 2009, we began offering our new aspenONE licensing model, which provides customers with access to all products within the aspenONE suite or suites they license rather than to only those point products the customers license. During the term of a license agreement, a customer is entitled to receive SMS as well as any software products and upgrades that may be introduced into the licensed suite. For purposes of recognizing revenue, the license fees under these agreements are not fixed or determinable, because the agreements provide rights to future unspecified software products for no additional fee and therefore the economics of the arrangements are not comparable to our historical transactions with customers under the upfront revenue model. As a result, the amount of revenue recognized is limited to the amount of customer payments currently due, which generally results in license revenue being recognized over the term of the agreement on a subscription basis, beginning when the first payment is due, which typically is 30 days after execution of the agreement.

We also offer our customers the ability to license point products. In July 2009 we began licensing point products on a term basis with SMS included for the full license term. Under these arrangements, license revenue cannot be recognized under the upfront revenue model, as the aggregate fees are not considered fixed or determinable because the agreements include SMS for the full term of the license and therefore the economics of the arrangements are not comparable to our historical transactions with customers under the upfront revenue model. License revenue for these arrangements generally will be recognized as payments become due over the term of the agreement.

We generally do not intend to enter into new or renewal term contracts that will qualify for revenue recognition upfront, upon delivery of the licensed software. We may, however, do so on a limited basis, as follows:

- The incremental revenue associated with amendments to existing term license agreements that was recognized under the upfront revenue model will continue to be accounted for on an upfront basis, provided all other revenue recognition requirements have been met. As customers increasingly transition to our new aspenONE licensing model, we expect that there will come a time at which we will be unable to support VSOE of fair value of SMS in our new point product arrangements based on our legacy term license SMS renewals and we therefore will be required to recognize all revenue related to the license component on our point product arrangements ratably, on a subscription basis.

- We expect that occasionally a customer will prefer to license point products under terms providing for payment in full at the outset of the arrangement. In this case, all of the license revenue generally will be recognized upon delivery of the software products using the residual method.

- We also anticipate that occasionally a customer may wish to license point products on a perpetual basis. If we agree to enter into a perpetual license agreement, the customer will not be entitled to receive software products that may be introduced and will receive SMS for only one year, subject to annual renewal at the election of the customer. Accordingly, we expect that the license fees for perpetual license agreements typically will continue to be recognized upon delivery of the software products using the residual method.

We do not anticipate that any of the foregoing arrangements will generate a significant portion of our license revenue in the future.

License and SMS revenue for arrangements sold under our new aspenONE licensing model are combined and presented together as subscription revenue in the consolidated statements of operations. License revenue from point product licenses with SMS bundled for the entire license term is reported as software revenue in the consolidated statements of operations. The revenue related to the SMS component of point product licenses for which we have established VSOE is reported in services and other revenue in the consolidated statements of operations.

SMS

Upfront Revenue Model

Prior to fiscal 2010, SMS typically was bundled with the license agreement for the initial year of the license term and then could be renewed, typically on an annual basis, at the election of the customer. The fair value of SMS was deferred and subsequently recognized over the term of the SMS arrangement.

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Revenue recognized with respect to SMS sold under the upfront model is reported as services and other revenue in the consolidated statements of operations.

New aspenONE Licensing Model

Since July 2009, license agreements executed under our new aspenONE licensing model or for point products include SMS bundled for the entire license term. The SMS revenue is recognized over the license term.

For arrangements sold under the new aspenONE licensing model, SMS revenue is combined with license revenue and reported as subscription revenue in the consolidated statements of operations. The revenue related to the SMS component of point product licenses for which we have established VSOE is reported in services and other revenue in the consolidated statements of operations.

Professional Services

We provide professional services on a time-and-materials or fixed-price basis. We recognize professional services fees for time-and-materials contracts based upon hours worked and contractually agreed-upon hourly rates. We recognize revenue from fixed-price engagements using the proportional performance method, based on the ratio of costs incurred, substantially all of which are labor-related, to the total estimated project costs. 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. All project costs are expensed as incurred. Reimbursable amounts received from customers for out-of-pocket expenses are recorded as revenue.

Upfront Revenue Model

We generally recognize revenue from professional services as the services are performed, assuming all other revenue recognition criteria have been met. Under the upfront model, professional services arrangements sold as a single arrangement with, or in contemplation of, a new license agreement were generally recognized as revenue as the services were performed.

Revenue recognized with respect to professional services is reported as services and other revenue in the consolidated statements of operations.

New aspenONE Licensing Model

Our practices and revenue recognition policies for professional services generally have not changed following our transition to our new aspenONE licensing model. 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 license term.

Revenue recognized with respect to professional services is reported as services and other revenue in the consolidated statements of operations.

Key Components of Operations

Revenue

Subscription Revenue. Subscription revenue relates to the licensing of our products under our new aspenONE licensing model, where SMS is included for the entire term of the arrangement and the customer receives the right to unspecified future software products that may be introduced during the term of the arrangement for no additional fee. License and SMS revenue for arrangements sold under

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our new aspenONE licensing model are combined and presented together as subscription revenue in the consolidated statements of operations.

Software Revenue. Software revenue consists of all license transactions that do not contain rights to future unspecified software products for no additional fee. Specifically, software revenue includes:

- license revenue recognized under the upfront revenue model upon the delivery of the licensed software (that is, both perpetual and term license agreements);
- license revenue recognized over the term of the license agreements for term agreements, including point product licenses with SMS bundled for the entire license term, but excluding license revenue from license agreements executed under our new aspenONE licensing model, which is recorded as subscription revenue; and
- other license revenue derived from transactions that are being recognized over time as the result of not previously meeting one or more of the requirements for recognition under the upfront revenue model.

Services and Other Revenue. Our services and other revenue consists primarily of revenue related to professional services, SMS (other than SMS bundled with license agreements executed under our new aspenONE licensing model, which is recorded as subscription revenue) and training. The amount and timing of this revenue depend on a number of factors, including:

- the number, value and rate per hour of service transactions booked during the current and preceding periods;
- the number and availability of service resources actively engaged on billable projects;
- the timing of milestone acceptance for engagements contractually requiring customer sign-off;
- the timing of negotiating and signing maintenance renewals;
- the timing of collection of cash payments when collectability is uncertain; and
- the size of the installed base of license contracts.

Cost of Revenue

Cost of Subscription and Software. The cost of subscription and software revenue consists of royalties, amortization of capitalized software costs, distributor fees, the costs of providing SMS related to our new aspenONE licensing model and costs related to delivery of software.

Cost of Services and Other. Our cost of services and other revenue consists primarily of personnel-related and external consultant costs associated with providing professional services, SMS on arrangements not licensed on a subscription basis and training to customers. The costs of providing SMS for our new aspenONE licensing model are included in cost of subscription and software.

Operating Expenses

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

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

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

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

Other Income and Expenses

Interest Income. Interest income is recorded for the accretion of interest on the installment payments of our term software license contracts when revenue is recognized upfront at net present value, and to a lesser extent from the investment of cash balances in short-term instruments.

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

Other Income (Expense), Net. Other income (expense), net is comprised primarily of foreign currency exchange gains (losses) generated from the settlement and remeasurement of transactions denominated in currencies other than the functional currency of our operating units. We may enter into foreign currency forward contracts to attempt to minimize the adverse impact related to unfavorable exchange rate movements, although we have not done so since fiscal 2008. Our foreign currency forward contracts have not been designated as hedging instruments and, therefore, do not qualify for fair value or cash flow hedge treatment under the criteria of Accounting Standards Codification, or ASC, Topic 815, *Derivatives and Hedging*. Therefore, any unrealized gains and losses on the foreign currency forward contracts, as well as the underlying transactions we are attempting to shield from exchange rate movements, are recognized as a component of other income (expense), net.

Provision for Income Taxes. Provision for income taxes is comprised of the taxes currently payable as a result of domestic and foreign operations and the net tax effects of book to tax timing differences. We record interest and penalties related to income tax matters as income tax expense. We expect the amount of income tax expense, if any, to vary each reporting period depending upon fluctuations in our taxable income and our availability of tax benefits from net loss carryforwards.

Key Business Metrics

Background

With the adoption of our new aspenONE licensing model, our revenue for fiscal 2010 was significantly less than in the preceding fiscal years. We expect that our revenue will increase as customers renew their licensing arrangements under our new licensing model. We do not expect to recognize levels of revenue comparable to prior fiscal years unless and until a significant majority of our existing license agreements have been renewed under our new licensing model. As a result, we believe that, for the next few years, a number of our performance indicators based on U.S. generally accepted accounting principles or GAAP, including revenue, gross profit, operating income (loss) and net income (loss), will be of limited value in assessing our performance, growth and financial condition. Accordingly, we instead are focusing on certain non-GAAP and other business metrics, including the key metrics set forth below, to track our business performance. None of these metrics should be considered as an alternative to any measure of financial performance calculated in accordance with GAAP.

To supplement our statements of cash flows presented on a GAAP basis, we use the non-GAAP measure of free cash flow to analyze cash flows generated from our operations. Management believes that this financial measure is useful to investors because it permits investors to view our performance

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

Total Term Contract Value

Total term contract value, or TCV, is an estimate of the renewal value, as of a specific date, of our active portfolio of term license agreements. TCV is calculated by multiplying the terminal annual payment for each active term license agreement by the original length of the existing license term, and then aggregating this amount for all active term license agreements. Accordingly, TCV represents the full renewal value of all of our term license agreements under the hypothetical assumption that all of those agreements are simultaneously renewed for the identical license terms and at the same terminal annual payment amounts as the terminal payment of the original contract.

TCV includes the value of SMS for any multi-year license agreements for which SMS is committed for the entire license term. TCV does not include any amounts for perpetual licenses, professional services, training or standalone renewal SMS. TCV is calculated using constant currency assumptions for agreements denominated in currencies other than U.S. dollars in order to remove the impact of currency fluctuations between comparison dates.

We believe TCV is a useful metric for analyzing our business performance, particularly while we are transitioning to our new aspenONE licensing model and revenue comparisons between fiscal periods do not reflect the actual growth rate of our business. Comparing TCV for different dates provides insight into the growth and retention rate of our business during the period between those dates. TCV increases as the result of:

- new term license agreements with new or existing customers;
- renewals or modifications of existing license agreements that result in higher license fees due to price escalation or an increase in the number of tokens or products licensed; and
- renewals of existing license agreements that increase the length of the license term.

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

We estimate that TCV was $1.2 billion as of June 30, 2010. Our portfolio of active license agreements as of June 30, 2010 reflected a mix of (a) license agreements that include SMS for the entire license term and (b) legacy license agreements that did not include SMS. We estimate that TCV was $1.0 billion as of June 30, 2009. SMS was not included as part of our term license arrangements prior to fiscal 2010, and no SMS was included in estimated TCV as of June 30, 2009. For comparability purposes, we estimated "license-only" TCV growth for fiscal 2010 by removing the SMS portion of

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TCV as of June 30, 2010, using our established VSOE rate of fair value for SMS. On this comparable "license-only" basis, we estimate that TCV grew by approximately 10% during fiscal 2010, principally as the result of an increase in the number of tokens or products licensed. Overall, we estimate that TCV, with SMS included as of June 30, 2010, increased by approximately 17% during fiscal 2010.

Bookings

Bookings represent the amount of contractually committed subscription and software fees, including any bundled SMS. Bookings do not include (a) the amount of fees for professional services, training or standalone renewal SMS or (b) the amount of subscription and software fees remaining under pre-existing license agreements that were replaced prior to the scheduled expiration date.

Bookings are a measure of the business closed during a period. The contractual arrangements that contribute to bookings represent binding payment commitments by customers over periods that typically range from five to six years, although individual customer commitments can be for longer or shorter periods. The amount of bookings in a period is affected by the volume, duration and value of contracts renewed during that period. The timing and value of contract renewals can have a significant impact on quarter-over-quarter and year-over-year comparisons of bookings. Therefore, short-term bookings trends may not be indicative of the growth of the business. Accordingly, we also focus on bookings' contribution to growth in TCV and to growth in billings backlog and future cash collections.

The following table presents our bookings for the four quarters of fiscal 2010, following the introduction of our new aspenONE licensing model:

	Year Ended	Three Months Ended			
	June 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009
	(In thousands)				
Bookings	$ 365,948	$ 137,750	$ 93,916	$ 95,255	$ 39,027

We have experienced favorable customer adoption of our new aspenONE licensing model since its introduction. Our bookings historically have been stronger in our second and fourth fiscal quarters and lowest in our first fiscal quarter, although there can be significant variation in this pattern. During the first quarter of fiscal 2010, we experienced lower-than-normal bookings due to the sales cycle start-up time associated with the introduction of our new licensing model. As customers became more familiar with our new licensing model and our sales team had additional time to educate customers and complete licensing transactions, we experienced significantly higher bookings in the second half of fiscal 2010.

Fiscal 2010 bookings benefited principally from (a) early renewals by customers that elected to adopt our new aspenONE licensing model prior to the expiration of their existing license agreements and (b) growth driven by customers increasing the number of tokens or products licensed, which accounted for a significant portion of the growth in TCV during fiscal 2010 (as described above under "   Total Term Contract Value").

Future Cash Collections and Billings Backlog

Future cash collections is the sum of billings backlog, accounts receivable, undiscounted installments receivable and undiscounted collateralized receivables. *Billings backlog* represents the aggregate value of uninvoiced bookings from prior and current periods.

Prior to the introduction of our new aspenONE licensing model, the majority of bookings was recognized as revenue in the period booked and reflected on our balance sheet as installments receivable, or if sold, as collateralized receivables. Installments receivable and collateralized receivables were discounted to net present value at prevailing market rates at the time of the transaction. Amounts

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collected for collateralized receivables are applied to pay the related secured borrowings and are not available for any other expenditures.

Under our new aspenONE licensing model, extended contractual payments are not considered fixed or determinable and, as a result, are not included in installments receivable or collateralized receivables. These future payments are included in billings backlog, which is not reflected on our consolidated balance sheets. We believe future cash collections is a useful metric because it provides insight into the cash generation capability of our business. Under the upfront revenue model, we did not previously monitor billings backlog or future cash collections since we believe that accounts receivable, installments receivable, collateralized receivables and certain other measures were appropriate indicators of estimated cash generation.

Because a substantial majority of our future bookings will reflect arrangements under our new aspenONE licensing model, we expect billings backlog to grow over time and expect installments receivable and collateralized receivables to decline. When our transition to the new aspenONE licensing model is complete, the only sources of cash excluded from future cash collections will be amounts attributable to professional services, training and any remaining standalone SMS renewals.

The following table provides our future cash collections as of the dates presented:

	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009
			(In thousands)		
Billings backlog	$ 389,354	$ 270,293	$ 206,499	$ 128,252	$ 100,499
Accounts receivable, net	31,738	28,612	35,507	36,568	49,882
Installments receivable, undiscounted (non-GAAP)(1)	147,315	167,643	180,671	197,053	208,204
Collateralized receivables, undiscounted (non-GAAP)(1)	56,461	70,068	88,722	103,072	107,750
Future cash collections	$ 624,868	$ 536,616	$ 511,399	$ 464,945	$ 466,335

(1) Excludes unamortized discount.

The growth in billings backlog and future cash collections in fiscal 2010 reflected our customers' adoption of our new aspenONE licensing model. We expect that billings backlog and future cash collections will continue to grow steadily as we convert and renew existing customers to multi-year contracts, which now include SMS for the full term of the arrangement. In addition, we are actively engaged in transitioning customers from perpetual license arrangements to our new licensing model. Prior to fiscal 2008, we licensed our aspenONE Manufacturing and Supply Chain suite primarily on a perpetual basis, and as we convert these customers to our new licensing model, their licensing fees and SMS will become part of billings backlog and future cash collections.

Installments and collateralized receivables are shown at net present value on our consolidated balance sheets. Future cash collections excludes the unamortized discount on installment and collateralized receivables. Amounts collected for collateralized receivables are applied to pay the related secured borrowings and are not available for any other expenditures. We are providing the following reconciliation for the periods presented to reconcile to undiscounted installment and

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collateralized receivables, as included in our future cash collections metric, with GAAP installment receivables, net and GAAP collateralized receivables, net:

	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009
			(In thousands)		
Installments receivable, undiscounted (non-GAAP)	$ 147,315	$ 167,643	$ 180,671	$ 197,053	$ 208,204
Unamortized discount	(18,717)	(21,304)	(24,122)	(27,320)	(30,283)
Installments receivable, net	$ 128,598	$ 146,339	$ 156,549	$ 169,733	$ 177,921
Collateralized receivables, undiscounted (non-GAAP)	$ 56,461	$ 70,068	$ 88,722	$ 103,072	$ 107,750
Unamortized discount	(5,031)	(6,562)	(8,241)	(10,092)	(11,384)
Collateralized receivables, net	$ 51,430	$ 63,506	$ 80,481	$ 92,980	$ 96,366

Adjusted Total Costs

The following table presents our total cost of revenue and total operating expenses, as adjusted for stock-based compensation expense, for the indicated periods:

	Year Ended June 30,		
	2010	2009	2008
		(In thousands)	
Total cost of revenue	$ 66,110	$ 75,820	$ 84,993
Total operating expenses	209,604	191,826	207,983
Total expenses	275,714	267,646	292,976
Less:			
Stock-based compensation	(15,260)	(4,670)	(10,600)
Adjusted total costs (non-GAAP)	$ 260,454	$ 262,976	$ 282,376

In fiscal 2010, 2009 and 2008, we incurred significant expenses in conjunction with our efforts to become current in our SEC filings. Our external financial consultant and audit expenses totaled $16.6 million in fiscal 2010, $24.7 million in fiscal 2009, and $14.3 million in fiscal 2008. We significantly reduced our external financial consultant and audit expenses in the latter portion of fiscal 2010. We expect to maintain this lower level of financial consultant and audit expense into fiscal 2011. In addition, we expect the transition to our new aspenONE licensing model will provide us with a significant opportunity to standardize and further improve our sales and administrative processes. Overall, we expect costs to remain relatively flat for fiscal 2011.

Free Cash Flow

Free cash flow is calculated as net cash provided by operating activities less the sum of (a) purchase of property, equipment, and leasehold improvements and (b) capitalized computer software development costs.

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

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The following table provides a reconciliation of net cash flow to free cash flow provided by operating activities for the periods presented:

	Year Ended June 30,		
	2010	2009	2008
	(In thousands)		
Net cash provided by operating activities	$ 38,622	$ 33,032	$ 71,464
Purchase of property, equipment and leasehold improvements	(2,652)	(2,972)	(9,424)
Capitalized computer software development costs	(699)	(2,382)	(780)
Free cash flow (non-GAAP)	$ 35,271	$ 27,678	$ 61,260

The lower levels of net cash provided by operating activities since fiscal 2008 are primarily attributable to decreases in cash received for prepaid license transactions. As part of our historical contract arrangements, customers could elect to pay for their term licenses upfront rather than over the contract term. The upfront payment would normally be equal to the net present value of the annual cash payments, typically discounted at an 8% rate. As the global economy deteriorated in 2009, some of our customers changed from paying upfront to paying in installments. Additionally, during this period we started selling our aspenONE for Manufacturing and Supply Chain suite predominantly on a term basis rather than on a perpetual basis, enabling our customers to pay in annual installments rather than upfront. Going forward, we expect free cash flow to increase as the impact of prior period license prepayments moderates and customers renew contracts that were previously paid upfront. In addition, we believe we will realize improved free cash flow as we benefit from the continued growth of our portfolio of term license contracts and our focused cost structure management.

Although we received less cash from customer prepayments in fiscal 2010 and 2009, we continued to reduce our secured borrowings while maintaining our cash balance:

	Year Ended June 30,		
	2010	2009	2008
	(In thousands)		
Consolidated Balance Sheet Data			
Cash and cash equivalents	$ 124,945	$ 122,213	$ 134,048
Secured borrowings	76,135	112,096	147,207

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Results of Operations

Comparison of Fiscal 2010 to Fiscal 2009

The following table sets forth the results of operations, percentage of net revenue and the period-to-period percentage change in certain financial data for fiscal 2010 and 2009:

	Year Ended June 30,				
	2010		2009		% Change
	(Dollars in thousands)				
Revenue:					
Subscription	$ 11,071	6.7%	$	%	*%
Software	42,920	25.8	179,591	57.6	(76.1)
Total subscription and software(1)	53,991	32.5	179,591	57.6	(69.9)
Service and other	112,353	67.5	131,989	42.4	(14.9)
Total revenue	166,344	100.0	311,580	100.0	(46.6)
Cost of revenue:					
Subscription and software	6,437	3.9	12,409	4.0	(48.1)
Services and other	59,673	35.9	63,411	20.4	(5.9)
Total cost of revenue	66,110	39.7	75,820	24.3	(12.8)
Gross profit	100,234	60.3	235,760	75.7	(57.5)
Operating expenses:					
Selling and marketing(2)	97,002	58.3	84,126	27.0	15.3
Research and development(2)	48,228	29.0	46,375	14.9	4.0
General and administrative(2)	63,246	38.0	58,256	18.7	8.6
Restructuring charges	1,128	0.7	2,446	0.8	(53.9)
Impairment of goodwill and intangible assets			623	0.2	*
Total operating expenses	209,604	126.0	191,826	61.6	9.3
(Loss) income from operations	(109,370)	(65.7)	43,934	14.1	(348.9)
Interest income	19,324	11.6	22,698	7.3	(14.9)
Interest expense	(8,455)	(5.1)	(10,516)	(3.4)	(19.6)
Other (expense) income, net	(2,407)	(1.4)	(1,824)	(0.6)	32.0
(Loss) income before provision for taxes	(100,908)	(60.7)	54,292	17.4	(285.9)
Provision for income taxes	(6,537)	(3.9)	(1,368)	(0.4)	*
Net (loss) income	$ (107,445)	(64.6)%	$ 52,924	17.0%	(303.0)%

**Not meaningful.*

(1) In July 2009 we introduced our aspenONE licensing model under which license revenue is recognized over the term of a license contract. We previously recognized a substantial majority of our license revenue upfront, upon shipment of software. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Transition to New aspenONE Licensing Model."

(2)

Certain costs previously recorded as selling and marketing expense in fiscal 2009 and 2008 have been reclassified to research and development expense and general and administrative expense, as described in note 2(y) to the consolidated financial statements beginning on page F-1.

Revenue

Total revenue in fiscal 2010 decreased primarily due to our transition to the new aspenONE licensing model. Total revenue from customers outside the United States was $102.8 million, or 61.8%

of total revenue, and $213.9 million, or 68.7% of total revenue, for fiscal 2010 and 2009, respectively. The geographical mix of revenue can vary from period to period.

Subscription Revenue

	Year Ended June 30,		Period-to-period Change	
	2010	2009	$	%
	(Dollars in thousands)			
Subscription revenue	$ 11,071	$	$ 11,071	*
As a percent of revenue	6.7%	*		

Not meaningful.

Subscription agreements were not offered prior to fiscal 2010. The relatively small amount of subscription revenue recognized in the current year is a reflection of both the ratable recognition of these arrangements and the short time span that the new aspenONE licensing model has been available. We expect subscription revenue to increase as customers renew existing contracts under our new aspenONE licensing model and subscription contracts become a more significant portion of our term license portfolio.

Software Revenue

	Year Ended June 30,		Period-to-period Change	
	2010	2009	$	%
	(Dollars in thousands)			
Software revenue	$ 42,920	$ 179,591	$ (136,671)	(76.1)%
As a percent of revenue	25.8%	57.6%		

The decrease in software revenue was primarily attributable to the changes to our business model described above. Prior to July 2009, the substantial majority of our license revenue was recognized on an upfront basis. Going forward, we expect that most of our software revenue will be recognized over the contract term, either on a subscription basis or as payments become due. Of the total software revenue recorded in fiscal 2010, $6.9 million related to legacy arrangements that were both booked and recognized in fiscal 2010; $24.5 million related to legacy arrangements that had previously been deferred; $9.6 million related to point product arrangements under our new aspenONE licensing model; and, $1.9 million related to perpetual arrangements.

Services and Other Revenue

	Year Ended June 30,		Period-to-period Change	
	2010	2009	$	%
	(Dollars in thousands)			
Services and other revenue	$ 112,353	$ 131,989	$ (19,636)	(14.9)%
As a percent of revenue	67.5%	42.4%		

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Professional Services Revenue

	Year Ended June 30,		Period-to-period Change	
	2010	2009	$	%
	(Dollars in thousands)			
Professional services revenue	$ 37,491	$ 48,352	$ (10,861)	(22.5)%
As a percent of revenue	22.5%	15.5%		

Customer demand for professional services began to decline in the second quarter of fiscal 2009, coincident with the downturn in the global economic environment, and continued throughout fiscal 2010. We often compete with a number of qualified competitors when bidding for professional service contracts, particularly in developed markets where our products are well established. Having a robust network of providers that can provide professional services to support the deployment and utilization of our software is beneficial to our licensing and SMS businesses. However, this competitive environment can have an unfavorable impact on our professional services revenue. Although there were signs of increased customer demand in the fourth quarter of fiscal 2010, we cannot be certain that this higher level of activity will continue throughout fiscal 2011 or beyond. We expect to realize growth opportunities in developing markets, in particular the Middle East.

Under the new aspenONE licensing model, revenue from committed professional service arrangements that are sold as a single arrangement with, or in contemplation of, a new aspenONE licensing transaction is deferred and recognized on a ratable basis over the longer of (a) the period the services are performed and (b) the term of the related software arrangement. We expect professional services deferred revenue related to new aspenONE licensing transactions to grow in fiscal 2011.

SMS and Training Revenue

	Year Ended June 30,		Period-to-period Change	
	2010	2009	$	%
	(Dollars in thousands)			
SMS and training revenue(1)	$ 74,862	$ 83,637	$ (8,775)	(10.5)%
As a percent of revenue	45.0%	26.8%		

(1) Includes other revenue of $647 and $1,047 in fiscal 2010 and 2009, respectively, related to miscellaneous revenue.

The decrease in SMS and training revenue was primarily due to lower SMS revenue associated with customers transitioning to the new aspenONE licensing model and the continued trend of customers electing to replace perpetual license agreements with new term contracts. Under the new aspenONE licensing model, SMS revenue is included in subscription revenue, whereas it was included in services and other revenue under the prior licensing model. Additionally, the trend of moving customers from perpetual license agreements to term-based contracts has resulted in decreased SMS revenue for fiscal 2010. While the transition from perpetual to term-based contracts generally results in larger combined software license and SMS revenue for the business over the term of the arrangement, it results in decreased SMS revenue, because the SMS fee is calculated as a percentage of the license fee. Perpetual license arrangements typically have a larger initial license fee than term arrangements. We expect SMS and training revenue to continue to decrease as we transition our business to a predominantly subscription-based model.

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Expenses

Overview

	Year Ended June 30,		Period-to-period Change	
	2010	2009	$	%
	(Dollars in thousands)			
Total cost of revenue	$ 66,110	$ 75,820	$ (9,710)	(12.8)%
Total operating expenses	209,604	191,826	17,778	9.3
Total expenses	275,714	267,646	8,068	3.0
Less:				
Stock-based compensation	15,260	4,670	10,590	226.8
Total expenses, excluding stock-based compensation	$ 260,454	$ 262,976	$ (2,522)	(1.0)%

The increase in total expenses, which consist of the cost of revenue and total operating expenses, was primarily the result of higher stock-based compensation in fiscal 2010 compared to fiscal 2009. During the period from mid-September 2007 until November 9, 2009 and from November 16, 2009 to December 21, 2009, we did not maintain our status as a timely filer with the SEC and we were unable to issue stock-based compensation to our directors and employees. On November 9, 2009, we were current with our filings and we issued 2.7 million restricted stock units and 0.3 million stock options to our directors and employees. A portion of these awards were vested upon issuance in consideration of the fact that we were unable to issue equity grants for the past two years. The stock-based compensation cost recognized during the second quarter of fiscal 2010 associated with the November grants represented $9.2 million of the total $15.3 million of expense recorded for fiscal 2010. These expenses are included in the cost of revenue and each of the respective operating expense lines of our consolidated statements of operations and materially impact the comparative analysis of the year-to-date amounts.

The decrease in comparative total expenses, adjusted to exclude stock-based compensation, principally consists of lower expenses for consultants and contractors of $9.1 million, royalties of $5.0 million, payroll and benefits of $3.1 million, and third-party commissions of $1.2 million. These expense decreases were partially offset by increased expenses for sales commissions of $6.9 million, legal and related expenses of $4.9 million and bonuses of $5.0 million. During fiscal 2010 we met all of our bonus criteria and accrued 100% of our bonus plan, as compared to 50% in fiscal 2009. Additionally, the current year bonus expense includes an additional 28% discretionary bonus for certain executives, which was granted in consideration for significantly exceeding current year bonus plan targets.

Cost of Subscription and Software Revenue

	Year Ended June 30,		Period-to-period Change	
	2010	2009	$	%
	(Dollars in thousands)			
Cost of subscription and software revenue	$ 6,437	$ 12,409	$ (5,972)	(48.1)%
Gross margin	88.1%	93.1%		

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The period-over-period reduction in cost of subscription and software revenue was primarily due to decreases of $4.9 million in royalty costs during the period related to our license products and lower capitalized software amortization charges of $1.7 million. Previously our royalty expense was correlated to the mix of products sold and was typically recognized in the period in which revenue for those products was recorded. As a result of the change to the new aspenONE licensing model, royalty expense is incurred evenly over the contractual term, consistent with the revenue recognition on the related customer arrangement. Amortization of capitalized software costs for fiscal 2010 decreased $1.7 million compared to fiscal 2009 as a result of reduced cost capitalization in the current period and previously capitalized items reaching the end of their useful life in fiscal 2010. The decrease in cost of subscription and software revenue was partially offset by $0.7 million of costs associated with providing SMS for the aspenONE suite of products. These costs were not included in the cost of subscription and software prior to the transition to the new aspenONE licensing model in fiscal 2010.

Cost of Services and Other Revenue

	Year Ended June 30,		Period-to-period Change	
	2010	**2009**	**$**	**%**
	(Dollars in thousands)			
Cost of services and other revenue	$ 59,673	$ 63,411	$ (3,738)	(5.9)%
Gross margin	46.9%	52.0%		

Professional Services Revenue

The largest component of the reduction in cost of services and other revenue in fiscal 2010 pertained to our professional services business, which accounted for $4.4 million of the year-over-year decrease. The decrease was primarily related to our reduction of staffing levels by approximately 16% over the course of fiscal 2010 to better align our cost structure with the decreased demand for professional services.

SMS and Training Revenue

Costs associated with SMS and training revenue increased $0.1 million in fiscal 2010 as compared to fiscal 2009. As the subscription business grows, we expect the cost of SMS revenue to migrate from cost of services and other revenue to cost of subscription and software revenue. Currently it is not possible to predict the rate at which this migration will occur, because that rate will be a function of adoption of our new aspenONE licensing model. We do not have sufficient experience with the rate of adoption to provide a meaningful forecast of this change. Eventually, we expect the majority of our cost of SMS revenue to be accounted for in cost of subscription and software revenue.

Stock-based compensation expense related to cost of services and other revenue was $0.9 million higher in fiscal 2010 compared to fiscal 2009. We expect the reported gross profit margin of services and other revenue to continue to decline over the next several years, as SMS revenue is reclassified to subscription revenue, since SMS revenue has a high gross profit margin relative to the other revenue streams included in services and other revenue.

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Selling and Marketing Expense

	Year Ended June 30,		Period-to-period Change	
	2010	2009	$	%
	(Dollars in thousands)			
Selling and marketing expense	$ 97,002	$ 84,126	$ 12,876	15.3%
As a percent of revenue	58.3%	27.0%		

The increase in selling and marketing expense was predominantly the result of higher commissions of $6.9 million, stock-based compensation costs of $4.8 million and payroll and benefits expenses of $2.3 million. Commissions increased during fiscal 2010 as a result of increased bookings on a worldwide basis, as well as a greater number of sales personnel exceeding their sales targets as compared to fiscal 2009. Additionally, in fiscal 2010, bookings eligible for commissions included multi-year contractually committed SMS fees under the new aspenONE licensing model. Selling and marketing payroll and benefit expenses increased in fiscal 2010 due to increased headcount compared to fiscal 2009. These expense increases were partially offset by $1.2 million of reductions in third-party commissions. Previously, we accrued the entire amount of third-party commission costs related to a sale in the period in which revenue for those products was recorded. Since the introduction of our new product offerings, we expense the costs over the life of the agreement, on a basis consistent with the revenue recognized.

Research and Development Expense

	Year Ended June 30,		Period-to-period Change	
	2010	2009	$	%
	(Dollars in thousands)			
Research and development expense	$ 48,228	$ 46,375	$ 1,853	4.0%
As a percent of revenue	29.0%	14.9%		

The increase in research and development expense was primarily the result of increased bonuses of $1.6 million, higher stock-based compensation expense of $1.4 million and increased expense related to a reduction in internal capitalized development costs of $1.4 million. In fiscal 2009, we capitalized significant costs related to the development and release of the aspenONE v7.1 product; we did not have similar levels of capitalizable costs in fiscal 2010. These cost increases were partially offset by reduced payroll and benefit expenses of $1.8 million and lower facility and IT-related costs of $1.1 million.

General and Administrative Expense

	Year Ended June 30,		Period-to-period Change	
	2010	2009	$	%
	(Dollars in thousands)			
General and administrative expense	$ 63,246	$ 58,256	$ 4,990	8.6%
As a percent of revenue	38.0%	18.7%		

The increase in general and administrative expense is primarily attributable to $4.9 million of higher legal and related costs, $3.5 million of stock-based compensation, $2.1 million of payroll and benefit expenses, $1.7 million of increased bonus and $1.4 million of bad debt expense, partially offset by $8.5 million in cost reductions related to financial consultants and contractors and decreases in recruiting and related expenses of $0.7 million. The increase in legal fees in fiscal 2010 as compared to

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fiscal 2009 was due to our increased use of external legal services during the fiscal year, as well as the impact of us reaching the maximum reimbursable limit of an insurance policy in the second quarter of fiscal 2010 under which certain legal costs were previously covered. During the second quarter of fiscal 2010, we reached the maximum reimbursable limit for the policy and as a result, our expenses increased in fiscal 2010. The $2.1 million increase in payroll and benefit expenses is related to increased average headcount, primarily within the finance organization. We hired full-time finance personnel throughout fiscal 2010 to replace and further reduce our reliance on more costly external consultants.

Restructuring Charges

	Year Ended June 30,		Period-to-period Change	
	2010	2009	$	%
	(Dollars in thousands)			
Restructuring charges	$ 1,128	$ 2,446	$ (1,318)	(53.9)%
As a percent of revenue	0.7%	0.8%		

The activity in restructuring charges was the result of accretion and adjustments to existing facilities-related restructuring plans for changes in estimates and sub-lease assumptions.

Interest Income

	Year Ended June 30,		Period-to-period Change	
	2010	2009	$	%
	(Dollars in thousands)			
Interest income	$ 19,324	$ 22,698	$ (3,374)	(14.9)%
As a percent of revenue	11.6%	7.3%		

The $3.4 million decrease in interest income consists of a $2.2 million decline in interest income from our collateralized and installment receivables portfolios and a $1.2 million decrease from lower interest earnings on our cash and cash equivalent balances. Under the new aspenONE licensing model, receivables are recorded when the payments become due and payable and we no longer record installment receivables. We expect interest income to decrease going forward.

Interest Expense

	Year Ended June 30,		Period-to-period Change	
	2010	2009	$	%
	(Dollars in thousands)			
Interest expense	$ (8,455)	$ (10,516)	$ 2,061	(19.6)%
As a percent of revenue	(5.1)%	(3.4)%		

The $2.1 million decrease in interest expense was primarily attributable to lower average secured borrowing balances, resulting from the continued pay-down of our existing arrangements. We expect interest expense to decrease going forward.

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Other (Expense) Income, Net

	Year Ended June 30,		Period-to-period Change	
	2010	2009	$	%
	(Dollars in thousands)			
Other (expense) income, net	$ (2,407)	$ (1,824)	$ (583)	32.0%
As a percent of revenue	(1.4)%	(0.6)%		

The change in other (expense) income, net was primarily due to foreign currency losses due to the further weakening of the Pound Sterling and Euro, offset by gains recognized from the strengthening of the Canadian dollar. The losses recorded in the prior fiscal year were primarily the result of the weakening of Pound Sterling and the Euro throughout the period.

Provision for Income Taxes

	Year Ended June 30,		Period-to-period Change	
	2010	2009	$	%
	(Dollars in thousands)			
Provision for income taxes	$ (6,537)	$ (1,368)	$ (5,169)	*
As a percent of revenue	(3.9)%	(0.4)%		

**Not meaningful.*

The increase in provision for income taxes was primarily due to an increase in foreign income tax offset by a release of certain tax contingencies in Canada. Cash payments, net of refunds for income taxes, totaled $2.5 million in fiscal 2010.

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Comparison of Fiscal 2009 to Fiscal 2008

The following table sets forth the results of operations, percentage of net revenue and the period-to-period percentage change in certain financial data for fiscal 2009 and 2008:

	Year Ended June 30,				
	2009		2008		% Change
	(Dollars in thousands)				
Revenue:					
Subscription	$	%	$	%	%
Software	179,591	57.6	168,404	54.0	6.6
Total subscription and software(1)	179,591	57.6	168,404	54.0	6.6
Service and other	131,989	42.4	143,209	46.0	(7.8)
Total revenue	311,580	100.0	311,613	100.0	(0.0)
Cost of revenue:					
Subscription and software	12,409	4.0	15,916	5.1	(22.0)
Services and other	63,411	20.4	69,077	22.2	(8.2)
Total cost of revenue	75,820	24.3	84,993	27.3	(10.8)
Gross profit	235,760	75.7	226,620	72.7	4.0
Operating expenses:					
Selling and marketing(2)	84,126	27.0	94,965	30.5	(11.4)
Research and development(2)	46,375	14.9	49,899	16.0	(7.1)
General and administrative(2)	58,256	18.7	54,496	17.5	6.9
Restructuring charges	2,446	0.8	8,623	2.8	(71.6)
Impairment of goodwill and intangible assets	623	0.2			
Total operating expenses	191,826	61.6	207,983	66.7	(7.8)
Income from operations	43,934	14.1	18,637	6.0	135.7
Interest income	22,698	7.3	23,784		