ASPEN TECHNOLOGY INC /DE/
Form 10-Q
February 08, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2010

or

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

For the transition period from to

Commission File Number: 000-24786

ASPEN TECHNOLOGY, INC.

(Exact name of registrant as specified in its charter)

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

(781) 221-6400

(Registrant s telephone number, including area code)

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

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

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

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

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

As of January 31, 2011, there were 93,593,331 shares of the registrant s common stock (par value $0.10 per share) outstanding.

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

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Condensed Consolidated Financial Statements (unaudited)

ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited and in thousands, except per share data)

	Three Months Ended December 31, 2010	Three Months Ended December 31, 2009	Six Months Ended December 31, 2010	Six Months Ended December 31, 2009
Revenue:				
Subscription	$ 11,847	$ 1,214	$ 21,503	$ 1,239
Software	13,486	8,976	22,797	20,058
Total subscription and software	25,333	10,190	44,300	21,297
Services and other	24,475	32,496	48,608	61,185
Total revenue	49,808	42,686	92,908	82,482
Cost of revenue:				
Subscription and software	1,972	1,677	4,094	3,450
Services and other	11,583	14,792	22,709	30,488
Total cost of revenue	13,555	16,469	26,803	33,938
Gross profit	36,253	26,217	66,105	48,544
Operating expenses:				
Selling and marketing	19,954	23,757	40,305	44,309
Research and development	12,096	12,515	24,671	23,409
General and administrative	13,425	19,228	29,982	34,642
Restructuring charges	78	32	155	303
Total operating expenses	45,553	55,532	95,113	102,663
Loss from operations	(9,300)	(29,315)	(29,008)	(54,119)
Interest income	3,534	5,083	7,236	10,532
Interest expense	(1,653)	(2,480)	(2,897)	(4,891)
Other (expense) income, net	(735)	(222)	1,929	2,047
Loss before income taxes	(8,154)	(26,934)	(22,740)	(46,431)
Provision for income taxes	2,115	3,723	2,997	5,288
Net loss	$ (10,269)	$ (30,657)	$ (25,737)	$ (51,719)
Loss per common share:				
Basic	$ (0.11)	$ (0.34)	$ (0.28)	$ (0.57)
Diluted	$ (0.11)	$ (0.34)	$ (0.28)	$ (0.57)
Weighted average shares outstanding:				
Basic	93,252	91,002	92,968	90,538
Diluted	93,252	91,002	92,968	90,538

See accompanying notes to these unaudited condensed consolidated financial statements.

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ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited and in thousands, except share data)

		December 31, 2010		June 30, 2010
ASSETS				
Current assets:				
Cash and cash equivalents	$	131,642	$	124,945
Accounts receivable, net of allowance for doubtful accounts of $3,757 and $4,685		28,708		31,738
Current portion of installments receivable, net of allowance for doubtful accounts of $998 and $1,119		45,292		51,729
Current portion of collateralized receivables		19,584		25,675
Unbilled services		1,225		1,860
Prepaid expenses and other current assets		6,072		5,236
Prepaid income taxes		332		7,468
Deferred tax assets		1,681		1,632
Total current assets		234,536		250,283
Non-current installments receivable, net of allowance for doubtful accounts of $1,157 and $1,196		65,636		76,869
Non-current collateralized receivables		22,053		25,755
Property, equipment and leasehold improvements, net of accumulated depreciation of $29,997 and $29,769		7,693		8,057
Computer software development costs, net of accumulated amortization of $68,011 and $67,251		2,028		2,367
Goodwill		18,161		17,361
Non-current deferred tax assets		11,746		11,597
Other non-current assets		2,786		2,424
Total assets	$	364,639	$	394,713
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Current portion of secured borrowing	$	23,817	$	30,424
Accounts payable		6,259		6,092
Accrued expenses and other current liabilities		32,275		49,890
Income taxes payable		2,005		1,161
Deferred revenue		71,775		67,852
Current deferred tax liability		434		398
Total current liabilities		136,565		155,817
Long-term secured borrowing		42,946		45,711
Long-term deferred revenue		30,684		19,427
Non-current deferred tax liability		953		956
Other non-current liabilities		31,315		31,832
Commitments and contingencies (Note 11)				
Series D redeemable convertible preferred stock, $0.10 par value Authorized 3,636 shares at December 31, 2010 and June 30, 2010 Issued and outstanding none at December 31, 2010 and June 30, 2010				
Stockholders equity:				
Common stock, $0.10 par value Authorized 210,000,000 shares Issued 93,784,765 shares at December 31, 2010 and 92,668,280 shares at June 30, 2010 Outstanding 93,455,071 shares at December 31, 2010 and 92,434,816 shares at June 30, 2010		9,378		9,267
Additional paid-in capital		523,082		515,729
Accumulated deficit		(416,775)		(391,038)
Accumulated other comprehensive income		8,246		7,525

Treasury stock, at cost 329,694 shares of common stock at December 31, 2010 and 233,464 at June 30, 2010		(1,755)		(513)
Total stockholders equity		122,176		140,970
Total liabilities and stockholders equity	$	364,639	$	394,713

See accompanying notes to these unaudited condensed consolidated financial statements.

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ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited and in thousands)

	Six Months Ended December 31, 2010	Six Months Ended December 31, 2009
Cash flows from operating activities:		
Net loss	$ (25,737)	$ (51,719)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	2,600	3,729
Net foreign currency (gain)	(1,648)	(126)
Stock-based compensation	5,042	11,532
Loss on the disposal of assets	415	43
Deferred income taxes	74	41
Provision for bad debts	97	(75)
Changes in assets and liabilities:		
Accounts receivable	3,009	14,467
Unbilled services	630	(1,565)
Prepaid expenses, other assets and prepaid income taxes	6,145	2,963
Installments and collateralized receivables	30,139	38,202
Income taxes payable	708	1,437
Accounts payable, accrued expenses and other liabilities	(15,304)	(8,421)
Deferred revenue	15,043	(5,862)
Net cash provided by operating activities	21,213	4,646
Cash flows from investing activities:		
Purchase of property, equipment and leasehold improvements	(1,876)	(1,592)
Capitalized computer software development costs	(380)	(265)
Net cash used in investing activities	(2,256)	(1,857)
Cash flows from financing activities:		
Exercise of stock options	3,420	3,652
Proceeds from secured borrowings	2,500	
Repayment of secured borrowings	(16,241)	(16,365)
Repurchases of common stock	(1,242)	
Payment of tax withholding obligations related to restricted stock	(998)	(2,694)
Net cash used in financing activities	(12,561)	(15,407)
Effects of exchange rate changes on cash and cash equivalents	301	(158)
Increase (decrease) in cash and cash equivalents	6,697	(12,776)
Cash and cash equivalents, beginning of period	124,945	122,213
Cash and cash equivalents, end of period	$ 131,642	$ 109,437
Supplemental disclosure of cash flow information:		
Interest paid	$ 3,071	$ 4,894
Income tax (refund) paid, net	(4,961)	4,629

See accompanying notes to these unaudited condensed consolidated financial statements.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Interim Unaudited Condensed Consolidated Financial Statements

The accompanying interim unaudited condensed consolidated financial statements (Interim Financial Statements) of Aspen Technology, Inc. and its subsidiaries have been prepared on the same basis as our annual consolidated financial statements. We condensed or omitted certain information and footnote disclosures normally included in our annual consolidated financial statements. Such Interim Financial Statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP), as defined in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 270, for interim financial information and with the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. It is suggested that these Interim Financial Statements be read in conjunction with the audited consolidated financial statements for the year ended June 30, 2010, which are contained in our Annual Report on Form 10-K, as previously filed with the U.S. Securities and Exchange Commission (SEC). In the opinion of management, all adjustments, consisting of normal and recurring adjustments, considered necessary for a fair presentation of the financial position, results of operations, and cash flows at the dates and for the periods presented have been included and all intercompany accounts and transactions have been eliminated in consolidation. The results of operations for the three and six months ended December 31, 2010 are not necessarily indicative of the results to be expected for subsequent quarters or for the full fiscal year.

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

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

2. Significant Accounting Policies

Revenue Recognition

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

Prior to fiscal 2010, we primarily executed software license arrangements with contractual provisions that resulted in the upfront recognition of license revenue upon delivery of the software products, provided all other revenue recognition requirements were met. Beginning in July 2009, we began offering our aspenONE suite of products on a subscription basis, which provides customers with access to all products within the aspenONE suite or suites they license. As part of the aspenONE subscription based offering, customers receive, for no additional fee, SMS for the term of the license and the right to unspecified future software products that may be introduced into the licensed suite during the term of the arrangement. Under the aspenONE subscription offering, we recognize revenue over the term of the agreement on a subscription, or daily ratable basis, beginning when the first payment is due, typically 30 days after signing the agreement, provided all other revenue recognition requirements are met. Beginning in July 2009, we also began bundling SMS for the full contract term on our point product license arrangements. Previously, SMS on our multi-year term point product arrangements was offered for an initial one-year period, and then renewed annually thereafter at the customers option (legacy term license arrangements).

Over the next several years, we expect to transition substantially all of our customers to our aspenONE subscription offering or to point product arrangements with SMS bundled for the contract term. During this transition period, we may have arrangements where the software element will be recognized upfront, including perpetual licenses and amendments to existing legacy term arrangements. We do not expect revenue related to these sources to be significant in relation to our total revenue.

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

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

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

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

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

With the introduction of our aspenONE subscription offering and the changes to the licensing terms of our point product agreements sold on a fixed-term basis, we cannot assert that the fees in these arrangements are fixed or determinable because the rights provided to customers and the economics of the arrangements are not comparable to our historical transactions with other customers under the upfront revenue model. As a result, the amount of revenue recognized for these newer arrangements will be limited by the amount of customer payments that become due. For our aspenONE subscription transactions, this results in the fees being recognized ratably over the term of the contract. For our point product licenses sold with bundled SMS, this results in the license fee being recognized as each payment comes due, while the allocated portion of the SMS revenue is recognized ratably over its annual term.

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

We allocate the arrangement consideration among the elements included in our multi-element arrangements using the residual method. Under the residual method, the vendor specific objective evidence, or 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.

We have established VSOE of fair value for SMS and professional services, but not for our software products. We assess VSOE of fair value for SMS based on an analysis of standalone SMS renewals using the bell-shaped curve approach. We use the optional renewals of SMS on our legacy term license arrangements to support VSOE of fair value for SMS bundled in our new fixed-term point product arrangements. The license product offerings and the SMS in the legacy term license arrangements and the new point product arrangements are the same.

As we are increasingly transitioning our legacy term license customers to point product arrangements with bundled SMS for the entire term of the arrangement, and we no longer market legacy term license arrangements, we expect our population of standalone annual renewals to decrease over time. As a result, there will come a point in time where we will be unable to support VSOE of fair value of SMS in our point product arrangements based on our legacy term license SMS renewals. When this occurs, we will be required to recognize revenue related to the license component on our point product arrangements ratably, on a subscription basis in a manner similar to the current recognition of subscription arrangements under our aspenONE subscription offering. We expect the impact of a loss of VSOE of fair value for SMS to be immaterial to our results of operations, since we currently recognize license revenue on point product arrangements over the term of the arrangement, annually, as payments become due.

Subscription Revenue

When a customer elects to license our products under our aspenONE subscription offering, SMS is included for the entire term of the arrangement, and the customer receives for the term of the arrangement, the right to any new unspecified future software products that may be introduced into the licensed aspenONE software suite. These agreements combine the right to use all software products within a given product suite with SMS for the term of the arrangement. Due to our obligation to provide unspecified future software products, we are required to recognize the revenue ratably (that is, on a daily ratable basis) over the term of the license, once the four revenue recognition criteria noted above are met. License and SMS revenue for arrangements sold under our aspenONE subscription offering 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, it includes license revenue recognized under the upfront revenue model upon the delivery of the licensed products (i.e., both perpetual and term license arrangements); license revenue recognized over the term of the license agreements for fixed-term contracts including point product licenses with SMS bundled for the entire license term; 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.

The license fees derived from the sale of fixed-term point product arrangements with SMS included for the arrangement term are recognized under the residual method, as payments come due. The related SMS is recognized over the term of the SMS agreement beginning with the due date of the annual payment and is reported in services and other revenue on the consolidated statement of operations. Occasionally, we expect certain customers to elect upfront payment terms. For these arrangements with upfront payment, all of the license revenue will be recognized upfront by applying the residual method of accounting when the above four revenue recognition requirements have been met.

Perpetual license arrangements do not include the same rights as those provided to customers under the aspenONE subscription offering. Accordingly, the license fees for perpetual license agreements will continue to be recognized upon delivery of the software products using the residual method provided all other revenue recognition requirements are met. The revenue attributable to perpetual software licenses is recognized in software revenue in the consolidated statement of operations.

Services and Other

SMS Revenue

For arrangements executed under the aspenONE subscription offering or where point product licenses are sold with SMS for the contract term, the customer commits to SMS for the entire term of the license arrangement. The revenue related to the SMS component of the aspenONE subscription offering is reported in subscription revenue in the consolidated statements of operations. The revenue related to the SMS component of point product licenses, for which we have VSOE, is reported in services and other revenue in the consolidated statement of operations.

Under the upfront revenue model, SMS is typically included with the license for the initial year of the license term. Under these arrangements, the fair value of SMS is deferred and subsequently amortized into services and other revenue in the consolidated statement of operations over the contractual term of the SMS arrangement. SMS renewals are at the option of the customer.

Professional Services

Professional services are provided to customers on a time-and-materials (T&M) or fixed-price basis and are generally recognized as the services are performed, assuming all other revenue recognition criteria have been met. We recognize professional services fees for our T&M contracts based upon hours worked and contractually agreed-upon hourly rates. Revenue from fixed-price engagements is recognized using the proportional performance method based on the ratio of costs incurred to the total estimated project costs. We believe that costs are the best available measure of performance. Professional services revenue is recognized within services and other revenue in the statement of operations. Project costs are based on standard rates, which vary by the consultant s professional level,

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plus all direct expenses incurred to complete the engagement that are not reimbursed by the client. All project costs are expensed as incurred. The use of the proportional performance method is dependent upon our ability to reliably estimate the costs to complete a project. We use historical experience as a basis for future estimates to complete current projects. Reimbursables received from customers for out-of-pocket expenses are recorded as revenue.

If the costs to complete a project are not estimable or the completion is uncertain, the revenue is recognized upon completion of the services. In those circumstances in which committed professional services arrangements are sold as a single arrangement with, or in contemplation of, a new license agreement, revenue is deferred and recognized on a ratable basis over the longer of the period the services are performed or the license term.

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

In the past, we have occasionally been required to commit unanticipated additional resources to complete projects, which have resulted in lower than anticipated income or losses on those contracts. We may experience similar situations in the future. Provisions for estimated losses on contracts are made during the period in which such losses become probable and can be reasonably estimated.

Installments Receivable

Installments receivable resulting from product sales under the upfront revenue model are discounted to present value at prevailing market rates (generally 8% to 9%) at the date the related contract is signed, based on the customers credit ranking. Finance fees are recognized using the effective interest method over the relevant license term and are classified as interest income. Installments receivable are split between current and non-current in our consolidated balance sheets based on the maturity date of the related installment. Non-current installments receivable consists of receivables with a due date greater than one year from the period-end date. Current installments receivable consists of invoices with a due date of less than one year but greater than 45 days from the period-end date. Once an installments receivable invoice is due within 45 days, it is reclassified as a trade accounts receivable on our consolidated balance sheet.

Our non-current installments receivable fall within the scope of Accounting Standards Update (ASU) No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. As our portfolio of financing receivables arise from the sale of our software licenses, the methodology for determining our allowance for doubtful accounts is based on the collective population and is not stratified by class or portfolio segment. We consider factors such as existing economic conditions, country risk, and customers past payment history in determining our allowance for doubtful accounts. We reserve against our installments receivable when the related trade accounts receivable has been past due for over a year, or when there is a specific risk of collectability. We write-off receivables when they have been deemed uncollectable, based on our judgment. In instances where we write off a given customers trade accounts receivables, we also write-off any related current and non-current installment receivables balances. We have not suspended the amortization of interest income for any of the installments receivable in our portfolio for uncollectability reasons.

The following table summarizes our current and non-current allowance for doubtful accounts for our installments receivable balances (in thousands):

	Current	Non-Current	Total
December 31, 2010			
Installments Receivable, gross	$ 46,290	$ 66,793	$ 113,083
Less: allowance for doubtful accounts	(998)	(1,157)	(2,155)
Installments Receivable, net	$ 45,292	$ 65,636	$ 110,928
June 30, 2010			
Installments Receivable, gross	$ 52,848	$ 78,065	$ 130,913
Less: allowance for doubtful accounts	(1,119)	(1,196)	(2,315)
Installments Receivable, net	$ 51,729	$ 76,869	$ 128,598

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

Deferred Revenue

Under the aspenONE subscription offering, customers receive SMS for the full contract term, and receive rights to unspecified future products for no additional fee. As VSOE does not exist for both of these undelivered elements, we are required to recognize the revenue ratably (i.e. on a subscription basis) over the term of the license. Therefore, deferred revenue is recorded as each payment comes due and revenue is recognized ratably over the associated license period.

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

Legal fees and contingencies

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

Other

For further information with regard to our   Significant Accounting Policies,   please refer to Note 2 of our Consolidated Financial Statements and Notes thereto included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2010.

3. Goodwill

The changes in the carrying amount of goodwill by reporting unit for the first half of fiscal 2011 were as follows (in thousands):

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	Reporting Unit			
	License	Professional Services	Maintenance and Training	Total
Asset Class				
Balance as of June 30, 2010				
Goodwill	$ 68,059	$ 5,102	$ 14,871	$ 88,032
Accumulated impairment losses	(65,569)	(5,102)		(70,671)
	$ 2,490	$	$ 14,871	$ 17,361
Effect of changes in currency translation	12		466	478
Balance as of September 30, 2010				
Goodwill	$ 68,071	$ 5,102	$ 15,337	$ 88,510
Accumulated impairment losses	(65,569)	(5,102)		(70,671)
	$ 2,502	$	$ 15,337	$ 17,839
Effect of changes in currency translation	(2)		324	322
Balance as of December 31, 2010				
Goodwill	$ 68,069	$ 5,102	$ 15,661	$ 88,832
Accumulated impairment losses	(65,569)	(5,102)		(70,671)
	$ 2,500	$	$ 15,661	$ 18,161

We test goodwill for impairment annually at the reporting unit level using a fair value approach in accordance with the provisions of ASC 350, *Intangibles Goodwill and Other*. We conduct our annual impairment test in the second fiscal quarter of each year. The initial step requires us to determine the fair value of each reporting unit and compare it to the carrying value, including goodwill, of such reporting unit. If the fair value exceeds the carrying value, no impairment loss is recognized. However, if the carrying value of the reporting unit exceeds its fair value, the goodwill of the unit may be impaired. The amount of impairment, if any, is then measured based upon the estimated fair value of goodwill at the valuation date. We performed our annual impairment test for each reporting unit as of December 31, 2010, and determined that the estimated fair values substantially exceeded the carrying values. As such, no impairment losses were recognized as a result of the analysis.

4. Income Taxes

Deferred income taxes are recognized based on temporary differences between the financial statement and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using the statutory tax rates and laws expected to apply to taxable income in the years in which the temporary differences are expected to reverse. Valuation allowances are provided against net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and the timing of the temporary differences becoming deductible. Management considers, among other available information, scheduled reversals of deferred tax liabilities, projected future taxable income, limitations of availability of net operating loss carryforwards, and other matters in making this assessment.

We do not provide deferred taxes on unremitted earnings of foreign subsidiaries since we intend to indefinitely reinvest either currently or sometime in the foreseeable future. Unrecognized provisions for taxes on undistributed earnings of foreign subsidiaries, which are considered indefinitely reinvested, are not material to our consolidated financial position or results of operations. We are continuously subject to examination by the IRS, as well as various state and foreign jurisdictions. The IRS and other taxing authorities may challenge certain deductions and credits reported by us on our income tax returns. In July 2006, the FASB issued FIN 48, *Accounting for Uncertain Tax Positions*, (currently included as provisions of ASC Topic 740), which clarifies the criteria for recognition and measurement of benefits from uncertain tax positions. Under this guidance, an entity should recognize a tax benefit when it is more likely than not, based on the technical merits, that the position would be sustained upon examination by a taxing authority. The amount to be recognized, if the more likely than not threshold is passed, should be measured as the largest amount of tax benefit that is greater than 50 percent likely to be realized upon the ultimate settlement with a taxing authority that has full knowledge of all relevant information. Furthermore, any change in the recognition, de-recognition or measurement of a tax position should be recorded in the period in which the change

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occurs. We account for interest and penalties related to uncertain tax positions as part of the provision for income taxes.

5. Fair Value

Cash equivalents of $112.0 million are reported at fair value utilizing quoted market prices in identical markets, or Level 1 Inputs .

Financial instruments not measured or recorded at fair value in the accompanying financial statements consist of accounts receivable, installments receivable, collateralized receivables, accounts payable and secured borrowings. The estimated fair value of accounts receivable, installments receivable, collateralized receivables and accounts payable approximates the carrying value. The estimated fair value of secured borrowings exceeds the carrying value by $2.9 million as of December 31, 2010. The fair value of secured borrowings was calculated using the market approach, utilizing interest rates that were indirectly observable in markets for similar liabilities, or Level 2 Inputs .

6. Supplementary Balance Sheet Information