ASPEN TECHNOLOGY INC /DE/
Form 10-Q
January 28, 2016
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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, 2015

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: 001-34630

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.)
20 Crosby Drive **Bedford, Massachusetts**	**01730**
(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 x No o

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

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

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

As of January 21, 2016, there were 83,389,335 shares of the registrant s common stock (par value $0.10 per share) outstanding.

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aspenONE is one of our registered trademarks. All other trade names, trademarks and service marks appearing in this Form 10-Q are the property of their respective owners.

Our fiscal year ends on June 30, and references to a specific fiscal year are to the twelve months ended June 30 of such year (for example, fiscal 2016 refers to the year ending June 30, 2016).

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Consolidated Financial Statements (unaudited)

ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2015	**2014**	**2015**	**2014**
	(Dollars in Thousands, Except per Share Data)			
Revenue:				
Subscription and software	$ 110,126	$ 98,716	$ 221,985	$ 197,459
Services and other	9,025	9,074	17,462	17,457
Total revenue	119,151	107,790	239,447	214,916
Cost of revenue:				
Subscription and software	4,967	5,208	10,209	10,409
Services and other	6,921	7,057	14,651	14,237
Total cost of revenue	11,888	12,265	24,860	24,646
Gross profit	107,263	95,525	214,587	190,270
Operating expenses:				
Selling and marketing	21,178	22,821	43,614	44,439
Research and development	15,981	15,957	32,578	32,225
General and administrative	13,805	10,226	26,667	22,451
Total operating expenses, net	50,964	49,004	102,859	99,115
Income from operations	56,299	46,521	111,728	91,155
Interest income	71	132	153	268
Interest expense	(13)	(4)	(14)	(7)
Other income (expense), net	(157)	(248)	739	(60)
Income before provision for income taxes	56,200	46,401	112,606	91,356
Provision for income taxes	19,517	15,937	39,152	31,924
Net income	$ 36,683	$ 30,464	$ 73,454	$ 59,432
Net income per common share:				
Basic	$ 0.44	$ 0.34	$ 0.88	$ 0.66
Diluted	$ 0.44	$ 0.34	$ 0.87	$ 0.65
Weighted average shares outstanding:				
Basic	83,315	89,942	83,596	90,562
Diluted	83,703	90,471	84,035	91,196

See accompanying Notes to these unaudited consolidated financial statements.

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ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2015	**2014**	**2015**	**2014**
	(Dollars in Thousands)			
Net income	$ 36,683	$ 30,464	$ 73,454	$ 59,432
Other comprehensive loss:				
Net unrealized gains (losses) on available for sale securities, net of tax effects of $8 and ($4) for the three and six months ended December 31, 2015, and $20 and $42 for the three and six months ended December 31, 2014	(15)	(39)	8	(78)
Foreign currency translation adjustments	(428)	(945)	(2,161)	(2,475)
Total other comprehensive loss	(443)	(984)	(2,153)	(2,553)
Comprehensive income	$ 36,240	$ 29,480	$ 71,301	$ 56,879

See accompanying Notes to these unaudited consolidated financial statements.

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ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	December 31, 2015	June 30, 2015
	(Dollars in Thousands, Except Share Data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 170,623	$ 156,249
Short-term marketable securities	29,946	59,197
Accounts receivable, net	14,777	30,721
Current portion of installments receivable, net	254	1,589
Unbilled services	668	1,108
Prepaid expenses and other current assets	7,310	8,055
Prepaid income taxes	538	542
Current deferred tax assets	6,110	6,169
Total current assets	230,226	263,630
Long-term marketable securities		3,047
Non-current installments receivable, net	258	253
Property, equipment and leasehold improvements, net	17,049	18,039
Computer software development costs, net	674	1,026
Goodwill	16,258	17,360
Non-current deferred tax assets	10,525	10,444
Other non-current assets	1,403	1,562
Total assets	$ 276,393	$ 315,361
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 3,924	$ 5,240
Accrued expenses and other current liabilities	29,996	38,483
Income taxes payable	4,548	1,775
Current deferred revenue	196,191	250,968
Total current liabilities	234,659	296,466
Non-current deferred revenue	33,870	37,919
Other non-current liabilities	30,060	29,522
Commitments and contingencies (Note 11)		
Series D redeemable convertible preferred stock, $0.10 par value		
Authorized 3,636 shares as of December 31, 2015 and June 30, 2015		
Issued and outstanding none as of December 31, 2015 and June 30, 2015		
Stockholders deficit:		
Common stock, $0.10 par value Authorized 210,000,000 shares		
Issued 101,832,152 shares at December 31, 2015 and 101,607,520 shares at June 30, 2015		
Outstanding 83,389,335 shares at December 31, 2015 and 84,504,202 shares at June 30, 2015	10,183	10,161
Additional paid-in capital	651,976	641,883
Accumulated deficit	(72,173)	(145,627)
Accumulated other comprehensive income	4,317	6,470
Treasury stock, at cost 18,442,817 shares of common stock at December 31, 2015 and 17,103,318 shares at June 30, 2015	(616,499)	(561,433)
Total stockholders deficit	(22,196)	(48,546)

Total liabilities and stockholders deficit	$	276,393	$	315,361

See accompanying Notes to these unaudited consolidated financial statements.

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ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended December 31, 2015	Six Months Ended December 31, 2014
	(Dollars in Thousands)	
Cash flows from operating activities:		
Net income	$ 73,454	$ 59,432
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,020	2,858
Net foreign currency gains	(1,444)	(1,379)
Stock-based compensation	7,935	7,666
Deferred income taxes (benefit)	(133)	21,773
Provision for bad debts	176	338
Tax benefits from stock-based compensation	1,831	7,684
Excess tax benefits from stock-based compensation	(1,831)	(7,684)
Other non-cash operating activities	271	782
Changes in assets and liabilities:		
Accounts receivable	15,720	18,519
Unbilled services	423	990
Prepaid expenses, prepaid income taxes, and other assets	231	2,914
Installments receivable	1,339	980
Accounts payable, accrued expenses, and other liabilities	(3,307)	(5,254)
Deferred revenue	(58,513)	(35,844)
Net cash provided by operating activities	39,172	73,775
Cash flows from investing activities:		
Purchases of marketable securities		(39,048)
Maturities of marketable securities	32,049	39,012
Purchases of property, equipment and leasehold improvements	(1,781)	(4,328)
Capitalized computer software development costs		(137)
Net cash provided by (used in) investing activities	30,268	(4,501)
Cash flows from financing activities:		
Exercises of stock options	2,445	1,515
Repurchases of common stock	(56,790)	(115,905)
Payments of tax withholding obligations related to restricted stock	(2,188)	(2,574)
Excess tax benefits from stock-based compensation	1,831	7,684
Net cash used in financing activities	(54,702)	(109,280)
Effect of exchange rate changes on cash and cash equivalents	(364)	(1,077)
Increase (decrease) in cash and cash equivalents	14,374	(41,083)
Cash and cash equivalents, beginning of period	156,249	199,526
Cash and cash equivalents, end of period	$ 170,623	$ 158,443
Supplemental disclosure of cash flow information:		
Income taxes paid, net	$ 34,497	$ 2,621
Supplemental disclosure of non-cash investing and financing activities:		
Change in landlord improvement allowance included in leasehold improvements and deferred rent liability	$	$ 6,064
Change in purchases of property, equipment and leasehold improvements included in accounts payable and accrued expenses	(295)	2,184
Change in common stock repurchases included in accrued expenses	(1,724)	1,712

See accompanying Notes to these unaudited consolidated financial statements.

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ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Interim Unaudited Consolidated Financial Statements

The accompanying interim unaudited consolidated financial statements of Aspen Technology, Inc. and its subsidiaries have been prepared on the same basis as our annual consolidated financial statements. We have omitted certain information and footnote disclosures normally included in our annual consolidated financial statements. Such interim unaudited consolidated financial statements have been prepared in conformity with U.S. Generally Accepted Accounting Principles (GAAP), as defined in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 270, *Interim Reporting*, for interim financial information and with the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. It is suggested that these unaudited consolidated financial statements be read in conjunction with the audited consolidated financial statements for the year ended June 30, 2015, 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, 2015 are not necessarily indicative of the results to be expected for the subsequent quarter or for the full fiscal year.

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

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

2. Significant Accounting Policies

(a) *Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of Aspen Technology, Inc. and our wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

(b) *Revenue Recognition*

Transition to the aspenONE Licensing Model

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

In fiscal 2010, we introduced the following changes to our licensing model:

(i) We began offering our software on a subscription basis, allowing our customers access to all products within a licensed suite (aspenONE Engineering or aspenONE Manufacturing and Supply Chain). SMS is included for the entire term of the arrangement and customers are entitled to any software products or updates introduced into the licensed suite. We refer to this license arrangement as our aspenONE licensing model.

(ii) We began to include SMS for the entire term on our point product term arrangements.

In fiscal 2012, we introduced Premier Plus SMS. As part of this offering, customers receive 24x7 support, faster response times, dedicated technical advocates and access to web-based training modules. Premier Plus SMS is exclusively available as a component of our term contract arrangements and we are unable to establish VSOE for this deliverable because we don t offer it on a stand-alone basis.

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Revenue related to our aspenONE licensing model and point product arrangements with Premier Plus SMS are both recognized over the term of the arrangement on a ratable basis. The changes to our licensing model resulted in a significant reduction to license revenue in fiscal 2010, as compared to fiscal periods preceding our licensing model changes. From fiscal 2010 through fiscal 2015, as customer license arrangements previously executed under the upfront revenue model reached the end of their terms, and were renewed under the aspenONE licensing model, we recognized increasing amounts of subscription revenue and deferred revenue. The value of our installed base of software licenses was also growing during this period which further contributed to growth in subscription and deferred revenue. Many of our license arrangements were five or six years in duration when the aspenONE licensing model was introduced at the start of fiscal 2010, and consequently, a number of arrangements executed under the upfront revenue model did not reach the end of their original term until the end of fiscal 2015. For fiscal 2016 and beyond, we do not expect the changes to our licensing model to have a material impact on subscription revenue or deferred revenue.

The changes to our licensing model introduced in fiscal 2010 did not change the method or timing of customer billings or cash collections. In addition, the changes to our licensing model did not impact the incurrence or timing of our expenses. Since there was no corresponding expense reduction to offset the lower revenue during fiscal years 2010-2015, operating income was lower than what would have been reported under a fully transitioned revenue model.

Revenue Recognition

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

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

Persuasive evidence of an arrangement We use a signed contract as evidence of an arrangement for software licenses and SMS. For professional services we use a signed contract and a work proposal 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, our 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 a contract modification to an existing term arrangement constitutes a concession. In making this assessment, significant analysis is performed to ensure that no concessions are given. Our software license agreements do not include a 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.

We cannot assert that the fees under our aspenONE licensing model and point product arrangements with Premier Plus SMS are fixed or determinable because the rights provided to customers, and the economics of the arrangements, are not comparable to our transactions with other customers under the upfront revenue model. As a result, the amount of revenue recognized for these arrangements is limited by the amount of customer payments that become due.

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.

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Vendor-Specific Objective Evidence of Fair Value

We have established VSOE for certain SMS offerings, professional services, and training, but not for our software products or our Premier Plus SMS offering. We assess VSOE for SMS, professional services, and training, based on an analysis of standalone sales of the offerings using the bell-shaped curve approach. We do not have a history of selling our Premier Plus SMS offering to customers on a standalone basis, and as a result are unable to establish VSOE for this deliverable. As of July 1, 2014, we are no longer able to establish VSOE for legacy SMS offerings sold with our perpetual license arrangements. As a result, all perpetual license agreements that include legacy SMS entered into subsequent to June 30, 2014 will be recognized ratably over the legacy SMS service period. Loss of VSOE on legacy SMS offerings sold with our perpetual license arrangements did not have a material impact on our revenue in fiscal 2015 nor in the three and six months ended December 31, 2015 and is not expected to have a material impact on our revenue in future periods.

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 is recognized as revenue upon delivery of the software, assuming all other revenue recognition criteria are met. If VSOE does not exist for an undelivered element in an arrangement, revenue is deferred until such evidence does exist for the undelivered elements, or until all elements are delivered, whichever is earlier. Under the upfront revenue model, the residual license fee is recognized upon delivery of the software provided all other revenue recognition criteria were met.

Subscription and Software Revenue

Subscription and software revenue consists of product and related revenue from our (i) aspenONE licensing model; (ii) point product arrangements with our Premier Plus SMS offering included for the contract term; (iii) legacy arrangements including (a) amendments to existing legacy term arrangements, (b) renewals of legacy term arrangements and (c) legacy arrangements that are being recognized over time as a result of not previously meeting one or more of the requirements for recognition under the upfront revenue model; (iv) legacy SMS arrangements; and (v) perpetual arrangements.

When a customer elects to license our products under our aspenONE licensing model, our Premier Plus SMS offering is included for the entire term of the arrangement and the customer receives, for the term of the arrangement, the right to any new unspecified future software products and updates that may be introduced into the licensed aspenONE software suite. Due to our obligation to provide unspecified future software products and updates, we are required to recognize revenue ratably over the term of the arrangement, once the other revenue recognition criteria noted above have been met.

Our point product arrangements with Premier Plus SMS include SMS for the term of the arrangement. Since we do not have VSOE for our Premier Plus SMS offering, the SMS element of our point product arrangements is not separable. As a result, revenue associated with point product arrangements with Premier Plus SMS included for the contract term is recognized ratably over the term of the arrangement, once the other revenue recognition criteria have been met.

Perpetual and legacy term license arrangements do not include the same rights as those provided to customers under the aspenONE licensing model and point product arrangements with Premier Plus SMS. Legacy SMS revenue is generated from legacy SMS offerings provided in support of perpetual and legacy term license arrangements. Customers typically receive SMS for one year and then can elect to renew SMS annually. During fiscal 2014 and prior periods, we had VSOE for certain legacy SMS offerings sold with perpetual and term license arrangements and could therefore separate the undelivered elements. Accordingly, license fee revenue for perpetual and legacy term license arrangements was recognized upon delivery of the software products using the residual method, provided all other revenue recognition requirements were met. VSOE of fair value for the undelivered SMS component sold with our perpetual and term license arrangements was deferred and subsequently amortized into revenue ratably over the contractual term of the SMS arrangement. As of July 1, 2014, we are no longer able to establish VSOE for our legacy SMS offerings sold with our perpetual license arrangements. As a result, all perpetual license agreements that include legacy SMS entered into subsequent to June 30, 2014 will be recognized ratably over the legacy SMS service period. Loss of VSOE on legacy SMS offerings sold with our perpetual license arrangements did not have a material impact on our revenue in fiscal 2015 nor in the three and six months ended December 31, 2015 and is not expected to have a material impact on our revenue in future periods.

Services and Other Revenue

Professional Services Revenue

Professional services are provided to customers on a time-and-materials (T&M) or fixed-price basis. 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. Project costs are typically expensed as incurred. The use of the proportional performance method is dependent upon our ability to reliably estimate the costs to complete a project. We use historical experience as a basis for future estimates to complete current projects. Additionally, we believe that costs are the best available measure of performance. Out-of-pocket expenses which are reimbursed by customers are recorded as revenue.

In certain circumstances, professional services revenue may be recognized over a longer time period than the period over which the services are performed. 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 circumstances in which professional services are sold as a single arrangement with, or in contemplation of, a new aspenONE license or point product arrangement with Premier Plus SMS, revenue is deferred and recognized on a ratable basis over the longer of (i) the period the services are performed, or (ii) the license term. When 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 completed contract or percentage-of-completion method.

We have occasionally been required to commit unanticipated additional resources to complete projects, which resulted in losses on those contracts. Provisions for estimated losses on contracts are made during the period in which such losses become probable and can be reasonably estimated.

Training Revenue

We provide training services to our customers, including on-site, Internet-based, public and customized training. Revenue is recognized in the period in which the services are performed. In circumstances in which training services are sold as a single arrangement with, or in contemplation of, a new aspenONE license or point product arrangement with Premier Plus SMS, revenue is deferred and recognized on a ratable basis over the longer of (i) the period the services are performed or (ii) the license term.

Deferred Revenue

Deferred revenue includes amounts billed or collected in advance of revenue recognition, including arrangements under the aspenONE licensing model, point product arrangements with Premier Plus SMS, legacy SMS arrangements, professional services, and training. Under the aspenONE licensing model and for point product arrangements with Premier Plus SMS, VSOE does not exist for the undelivered elements, and as a result, the arrangement fees are recognized ratably (i.e., on a subscription basis) over the term of the license. Deferred revenue is recorded as each invoice becomes due.

For arrangements under the upfront revenue model, a portion of the arrangement fee is generally recorded as deferred revenue due to the inclusion of an undelivered element, typically certain of our legacy SMS offerings or professional services. The amount of revenue allocated to undelivered elements is based on the VSOE for those elements using the residual method, and is earned and recognized as revenue as each element is delivered.

Other Licensing Matters

Our standard licensing agreements include a product warranty provision. We have not experienced significant claims related to software warranties beyond the scope of SMS support, which we are already obligated to provide, and consequently, we have not established reserves for warranty obligations.

Our agreements with our customers generally require us to indemnify the customer against claims that our software infringes third-party patent, copyright, trademark or other proprietary rights. Such indemnification obligations are generally limited in a variety of industry-standard respects, including our right to replace an infringing product. As of December 31, 2015 and June 30, 2015, we had not experienced any material losses related to these indemnification obligations and no claims with respect thereto were outstanding. We do not expect significant claims related to these indemnification obligations, and consequently, have not established any related reserves.

(c) Loss Contingencies

We accrue estimated liabilities for loss contingencies arising from claims, assessments, litigation and other sources when it is probable that a liability has been incurred and the amount of the claim, assessment or damages can be reasonably estimated. We believe that we have sufficient accruals to cover any obligations resulting from claims, assessments or litigation that have met these criteria. Please refer to Note 11 for discussion of these matters and related liability accruals.

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(d) Foreign Currency Transactions

Foreign currency exchange gains and losses generated from the settlement and remeasurement of transactions denominated in currencies other than the functional currency of our subsidiaries are recognized in our results of operations as incurred as a component of other income, net. Net foreign currency gains (losses) were ($0.2) million and $0.7 million during the three and six months ended December 31, 2015 and ($0.2) million and ($0.1) million during the three and six months ended December 31, 2014, respectively.

(e) Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers.* ASU No. 2014-09 was issued by the FASB as a part of the joint project with the International Accounting Standards Board (IASB) to clarify revenue recognition principles and develop a common revenue standard for the U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS).

ASU No. 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption of ASU No. 2014-09 is permitted but not before December 15, 2016. The amendments included within ASU No. 2014-09 should be applied by using one of the following methods:

Retrospectively to each prior reporting period presented. The entity may elect any of the practical expedients described in ASU No. 2014-09 when applying this method.

Retrospectively with the cumulative effect of initially applying ASU No. 2014-09 recognized at the date of initial application. In the reporting periods that include the date of the initial application of ASU No. 2014-09, the entity should disclose the amount by which each financial statement line item is affected by the application of ASU No. 2014-09 in the current reporting period as compared to the guidance that was in effect before the change.

We will adopt ASU No. 2014-09 during the first quarter of fiscal 2019. We are currently evaluating the impact of ASU No. 2014-09 on our financial position, results of operations and cash flows.

In April 2015, the FASB issued ASU No. 2015-05, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer s Accounting for Fees Paid in a Cloud Computing Arrangement*. The amendment provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If the arrangement does not include a software license, the customer should account for a cloud computing arrangement as a service contract. The amendment will be effective for annual reporting periods beginning on or after December 15, 2015. We are currently evaluating the impact of ASU No. 2015-05 on our financial position, results of operations and cash flows.

In April 2015, the FASB issued ASU No. 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 amends current presentation guidance by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Prior to the issuance of ASU No. 2015-03, debt issuance costs were required to be presented as an asset on the balance sheet. We adopted the provisions of ASU No. 2015-03 during the second quarter of fiscal 2016. Adjustments to prior periods to conform to the current period presentation was not required as we did not have deferred finance costs on the balance sheet in prior periods. The adoption of ASU No. 2015-03 did not impact our consolidated financial position, results of operations or cash flows.

In August 2015, the FASB issued ASU No. 2015-15, *Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements*. ASU No. 2015-15 codified clarification of the scope of ASU No. 2015-03 provided by the SEC. ASU No. 2015-15 states that debt issuance costs related to line of credit arrangements can be presented as an asset, similar to the treatment prior to the issuance of ASU No. 2015-03. The SEC staff guidance is effective upon adoption of ASU No. 2015-03, which we adopted in the second quarter of fiscal 2016. The adoption of ASU No. 2015-15 did not impact our consolidated financial position, results of operations or cash flows.

In September 2015, the FASB issued ASU No. 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period* Adjustments, which eliminates the requirement for an acquirer to retrospectively adjust the financial statements for measurement-period adjustments that occur in periods after a business combination is consummated. The ASU instead requires an acquirer to recognize a measurement-period adjustment during the period in which it determines the amount of the adjustment. The ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. We adopted ASU No. 2015-16 during the second quarter of fiscal 2016. The adoption of ASU No. 2015-16 did not impact our consolidated financial position, results of operations or cash flows.

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In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. The amendment requires entities with a classified balance sheet to present all deferred tax assets and liabilities as noncurrent. The ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2016. Early adoption is permitted. We are currently evaluating the impact of ASU No. 2015-05 on our financial position, results of operations and cash flows.

(f) 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, 2015.

3. Marketable Securities

The following table summarizes the fair value, the amortized cost and unrealized holding gains (losses) on our marketable securities as of December 31, 2015 and June 30, 2015:

	Fair Value	Cost	Unrealized Gains	Unrealized Losses
		(Dollars in Thousands)		
December 31, 2015:				
U.S. corporate bonds	$ 29,946	$ 29,967	$ 1	$ (22)
Total short-term marketable securities	$ 29,946	$ 29,967	$ 1	$ (22)
U.S. corporate bonds	$	$	$	$
Total long-term marketable securities	$	$	$	$
June 30, 2015:				
U.S. corporate bonds	$ 59,197	$ 59,223	$ 8	$ (34)
Total short-term marketable securities	$ 59,197	$ 59,223	$ 8	$ (34)
U.S. corporate bonds	$ 3,047	$ 3,055	$	$ (8)
Total long-term marketable securities	$ 3,047	$ 3,055	$	$ (8)

Our marketable securities were classified as available-for-sale and reported at fair value on the unaudited consolidated balance sheets. Net unrealized gains (losses) were reported as a separate component of accumulated other comprehensive income, net of tax. Realized gains (losses) on investments were recognized in earnings as incurred. Our investments consisted primarily of investment grade fixed income corporate debt securities with maturity dates ranging from January 2016 through August 2016 as of December 31, 2015 and from July 2015 through August 2016 as of June 30, 2015.

We review our marketable securities for impairment at each reporting period to determine if any of our securities have experienced an other-than-temporary decline in fair value in accordance with the provisions of ASC Topic 320, *Investments- Debt and Equity Securities*. We consider factors, such as the length of time and extent to which the market value has been less than the cost, the financial condition and near-term prospects of the issuer, our intent to sell, and whether it is more likely than not we will be required to sell the investment before recovery of its amortized cost basis. If we believe that an other-than-temporary decline in fair value has occurred, we write down the investment to fair value and recognize the credit loss in earnings and the non-credit loss in accumulated other comprehensive income. As of December 31, 2015 and 2014, our marketable securities were not considered other-than-temporarily impaired and, as such, we did not recognize impairment losses during the three and six month periods then ended. Unrealized losses were attributable to changes in interest rates.

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4. Goodwill

The changes in the carrying amount of goodwill for our subscription and software reporting unit during the six months ended December 31, 2015 and fiscal year ended June 30, 2015 were as follows:

		Amount (Dollars in Thousands)
Balance as of June 30, 2014:		
Goodwill	$	84,845
Accumulated impairment losses		(65,569)
	$	19,276
Effect of currency translation		(1,916)
Balance as of June 30, 2015:		
Goodwill	$	82,929
Accumulated impairment losses		(65,569)
	$	17,360
Effect of currency translation		(1,102)
Balance as of December 31, 2015:		
Goodwill	$	81,827
Accumulated impairment losses		(65,569)
	$	16,258

We test goodwill for impairment annually (or more often if impairment indicators arise), at the reporting unit level. We first assess qualitative factors to determine whether the existence of events or circumstances indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If we determine based on this assessment that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we perform the two-step goodwill impairment test. The first step requires us to determine the fair value of the reporting unit and compare it to the carrying amount, including goodwill, of such reporting unit. If the fair value exceeds the carrying amount, no impairment loss is recognized. However, if the carrying amount of the reporting unit exceeds its fair value, the goodwill of the unit may be impaired. The amount of impairment, if any, is measured based upon the implied fair value of goodwill at the valuation date.

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

We have elected December 31st as the annual impairment assessment date and perform additional impairment tests if triggering events occur. We performed our annual impairment test for the subscription and software reporting unit as of December 31, 2015 and, based upon the results of our qualitative assessment, determined that it was not likely that its fair value was less than its carrying amount. As such, we did not perform the two-step goodwill impairment test and did not recognize impairment losses as a result of our analysis. If an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value, goodwill will be evaluated for impairment between annual tests.

5. Income Taxes

The effective tax rate for the periods presented was primarily the result of income earned in the U.S., taxed at U.S. federal and state statutory income tax rates, income earned in foreign tax jurisdictions taxed at the applicable rates, as well as the impact of permanent differences between book and tax income.

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Our effective tax rate for the three months ended December 31, 2015 was 34.7% as compared to 34.3% for the corresponding period of the prior fiscal year. Our effective tax rate for the six months ended December 31, 2015 was 34.8% as compared to 34.9% for the corresponding period of the prior fiscal year. During the three and six months ended December 31, 2015 and 2014, our income tax expense was driven primarily by pre-tax profitability in our domestic and foreign operations and the impact of permanent items, predominately a U.S. domestic production activity deduction, slightly offset by non-deductible stock-based compensation expense. Our effective tax rate for the three and six months ended December 31, 2015 and 2014 differs from the U.S. federal statutory income tax rate primarily as a result of the impact of the permanent items.

We use the with and without ordering approach to calculate our tax provision. This methodology requires us to utilize all other tax attributes before recognizing excess tax benefits. Excess tax benefits are generated when the deductible value of stock-based compensation for income tax purposes exceeds the value recognized for financial statement purposes. Excess tax benefits are not included as a component of deferred tax assets. When realized, excess tax benefits reduce income taxes payable and increase additional paid in capital. In our unaudited consolidated statements of cash flows, the excess tax benefits of $1.8 million and $7.7 million were reported as sources of cash flows from financing activities with offsetting reductions to cash flows from operating activities during the six months ended December 31, 2015 and 2014, respectively.

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 those earnings 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.

6. Fair Value

We determine fair value by utilizing a fair value hierarchy that ranks the quality and reliability of the information used in its determination. Fair values determined using Level 1 inputs utilize unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access. Fair values determined using Level 2 inputs utilize data points that are observable, such as quoted prices, interest rates and yield curves for similar assets and liabilities.

Cash equivalents of $127.8 million and $130.2 million as of December 31, 2015 and June 30, 2015, respectively, were reported at fair value utilizing quoted market prices in identical markets, or Level 1 inputs. Our cash equivalents consist of short-term, highly liquid investments with remaining maturities of three months or less when purchased.

Marketable securities of $29.9 million and $62.2 million as of December 31, 2015 and June 30, 2015, respectively, were reported at fair value calculated in accordance with the market approach, utilizing market consensus pricing models with quoted prices that were directly or indirectly observable, or Level 2 inputs.

Financial instruments not measured or recorded at fair value in the accompanying unaudited consolidated financial statements consist of accounts receivable, installments receivable and accounts payable. The estimated fair value of these financial instruments approximates their carrying value.

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7. Supplementary Balance Sheet Information

Our accounts receivable, net of the related allowance for doubtful accounts, were as follows as of December 31, 2015 and June 30, 2015.

	Gross	Allowance (Dollars in Thousands)	Net
December 31, 2015:			
Accounts receivable	$ 16,698	$ 1,921	$ 14,777
	$ 16,698	$ 1,921	$ 14,777
June 30, 2015:			
Accounts receivable	$ 32,357	$ 1,636	$ 30,721
	$ 32,357	$ 1,636	$ 30,721

Property, equipment and leasehold improvements in the accompanying unaudited consolidated balance sheets consisted of the following:

	December 31, 2015	June 30, 2015
	(Dollars in Thousands)	
Property, equipment and leasehold improvements - at cost:		
Computer equipment	$ 11,260	$ 11,614
Purchased software	23,385	23,338
Furniture & fixtures	6,724	6,653
Leasehold improvements	12,139	12,225
Accumulated depreciation	(36,459)	(35,791)
Property, equipment and leasehold improvements - net	$ 17,049	$ 18,039

Accrued expenses and other current liabilities in the accompanying unaudited consolidated balance sheets consist of the following:

	December 31, 2015	June 30, 2015
	(Dollars in Thousands)	
Royalties and outside commissions	$ 3,035	$ 2,879
Payroll and payroll-related	12,117	18,965
Other	14,844	16,639
Total accrued expenses and other current liabilities	$ 29,996	$ 38,483

Other non-current liabilities in the accompanying unaudited consolidated balance sheets consist of the following:

	December 31, 2015	June 30, 2015
	(Dollars in Thousands)	
Deferred rent	$ 6,013	$ 5,273
Other (1)	24,047	24,249
Total other non-current liabilities	$ 30,060	$ 29,522

(1) Other was comprised primarily of our reserve for uncertain tax positions of $22.5 million and $22.6 million as of December 31, 2015 and June 30, 2015, respectively.

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8. Stock-Based Compensation

Stock Compensation Plans and General Award Terms

We have issued stock options and restricted stock units (RSUs) to our employees and outside directors, pursuant to our 2005 Stock Incentive Plan (the 2005 Plan) and our 2010 Equity Incentive Plan (the 2010 Plan). The 2005 Plan was approved by the stockholders on May 26, 2005 and expired on March 31, 2015.

Option awards are granted with an exercise price equal to the market closing price of our stock on the trading day prior to the grant date; those options generally vest over four years and expire within 7 or 10 years of grant. RSUs generally vest over four years. Historically, our practice has been to settle stock option exercises and RSU vesting through newly-issued shares.

Stock-Based Compensation Accounting

We recognize stock-based compensation expense on a straight-line basis, net of forfeitures, over the requisite service period for time-vested awards. Our share-based awards are accounted for as equity instruments. Our policy is to issue new shares upon the exercise of stock awards.

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

The weighted average estimated fair value of option awards granted during the three months ended December 31, 2015 was $12.39. There were no option awards granted during the three months ended December 31, 2014. The weighted average estimated fair value of option awards granted during the six months ended December 31, 2015 and 2014 was $13.52 and $13.64, respectively.

We utilized the Black-Scholes option valuation model with the following weighted average assumptions:

	Six Months Ended December 31,	
	2015	**2014**
Risk-free interest rate	1.4%	1.5%

Expected dividend yield	0.0%	0.0%
Expected life (in years)	4.6	4.5
Expected volatility factor	34.1%	35.0%

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The stock-based compensation expense and its classification in the unaudited consolidated statements of operations for the three and six months ended December 31, 2015 and 2014 are as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2015	2014	2015	2014
	(Dollars in Thousands)			
Recorded as expenses:				
Cost of services and other	$ 350	$ 339	$ 707	$ 677
Selling and marketing	837	754	1,750	1,504
Research and development	848	973	1,672	1,964
General and administrative	1,477	1,396	3,806	3,521
Total stock-based compensation	$ 3,512	$ 3,462	$ 7,935	$ 7,666

A summary of stock option and RSU activity under all equity plans for the six months ended December 31, 2015 is as follows:

	Stock Options				Restricted Stock Units	
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in 000 s)	Shares	Weighted Average Grant Date Fair Value
Outstanding at June 30, 2015	1,214,257	$ 27.25	7.26	$ 22,232	542,432	$ 36.13
Granted	379,315	43.95			347,975	43.94
Settled (RSUs)					(164,812)	36.35
Exercised	(115,474)	21.14				
Cancelled / Forfeited	(85,970)	36.24			(93,238)	36.02
Outstanding at December 31, 2015	1,392,128	$ 31.75	7.54	$ 12,075	632,357	$ 40.39
Vested and exercisable at December 31, 2015	796,089	$ 24.95	6.51	$ 11,144		
Vested and expected to vest as of December 31, 2015	1,320,061	$ 31.26	7.46	$ 11,950	556,672	$ 40.40

The weighted average grant-date fair value of RSUs granted during the three months ended December 31, 2015 was $38.04. There were no RSUs granted during the three months ended December 31, 2014. The weighted average grant-date fair value of RSUs granted during the six months ended December 31, 2015 and 2014 was $43.94 and $43.44, respectively. During the three months ended December 31, 2015 and 2014, the total fair value of shares vested from RSU grants was $2.9 million and $3.5 million, respectively, and during the six months ended December 31, 2015 and 2014 was $6.3 million and $7.7 million, respectively.

At December 31, 2015, the total future unrecognized compensation cost related to stock options was $6.6 million and is expected to be recorded over a weighted average period of 2.9 years. At December 31, 2015, the total future unrecognized compensation cost related to RSUs was $22.1 million and is expected to be recorded over a weighted average period of 2.8 years.

The total intrinsic value of options exercised during the three months ended December 31, 2015 and 2014 was $1.4 million and $0.7 million, respectively. The total intrinsic value of options exercised during the six months ended December 31, 2015 and 2014 was $2.3 million and $3.0 million, respectively. We received $2.4 million and $1.5 million in cash proceeds from option exercises during the six months ended December 31, 2015 and 2014, respectively. We withheld $2.1 million and $2.7 million for withholding taxes on vested RSUs during the six months ended December 31, 2015 and 2014, respectively.

At December 31, 2015, common stock reserved for future issuance or settlement under equity compensation plans was 5.6 million shares.

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9. Stockholders Deficit

Stock Repurchases

On January 28, 2015, we publicly announced a share repurchase program for up to $450 million worth of our common stock and terminated the previous program that had been approved by the Board of Directors on April 23, 2014. The previous program had an authorized value of up to $200 million and remaining capacity of approximately $25.4 million when terminated. The timing and amount of any shares repurchased are based on market conditions and other factors. All shares of our common stock repurchased have been recorded as treasury stock under the cost method.

We repurchased 1,339,499 shares of our common stock for $55.1 million during the three months ended September 30, 2015. We did not repurchase shares of our common stock during the three months ended December 31, 2015. We repurchased 7,731,428 shares of our common stock for $298.3 million during fiscal 2015. As of December 31, 2015, the remaining dollar value under the stock repurchase program approved on January 28, 2015 was $246.3 million.

Accumulated Other Comprehensive Income

As of December 31, 2015, accumulated other comprehensive income was comprised of foreign translation adjustments of $4.3 million and net unrealized losses on available for sale securities of less than $0.1 million. As of December 31, 2014, accumulated other comprehensive income was comprised of foreign translation adjustments of $6.9 million and net unrealized losses on available for sale securities of $0.1 million.

As of June 30, 2015, accumulated other comprehensive income was comprised of foreign translation adjustments of $6.5 million and net unrealized losses on available for sale securities of less than $0.1 million. As of June 2014, accumulated other comprehensive income was comprised of foreign translation adjustments of $9.4 million and net unrealized gains on available for sale securities of less than $0.1 million.

10. Net Income Per Share

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

The calculations of basic and diluted net income per share and basic and dilutive weighted average shares outstanding for the three and six months ended December 31, 2015 and 2014 are as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2015	2014	2015	2014
	(Dollars and Shares in Thousands, Except per Share Data)			
Net income	$ 36,683	$ 30,464	$ 73,454	$ 59,432
Weighted average shares outstanding	83,315	89,942	83,596	90,562
Dilutive impact from:				
Share-based payment awards	388	529	439	634
Dilutive weighted average shares outstanding	83,703	90,471	84,035	91,196
Income per share				
Basic	$ 0.44	$ 0.34	$ 0.88	$ 0.66
Dilutive	$ 0.44	$ 0.34	$ 0.87	$ 0.65

For the three and six months ended December 31, 2015 and 2014, certain employee equity awards were anti-dilutive based on the treasury stock method. Additionally, during the three and six months ended December 31, 2015, options to purchase 589,299 shares of our common stock were not included in the computation of dilutive weighted average shares outstanding, as of December 31, 2015, because their exercise prices ranged from $41.87 per share to $47.40 per share and were greater than the average market price of our common stock during the three and six months ended December 31, 2015. These options were outstanding as of December 31, 2015

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and expire at various dates through August 3, 2025.

The following employee equity awards were excluded from the calculation of dilutive weighted average shares outstanding because their effect would be anti-dilutive as of December 31, 2015 and 2014:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2015	2014	2015	2014
	(Shares in Thousands)			
Employee equity awards	1,108	832	1,072	640

11. Commitments and Contingencies

Operating Leases

We lease certain facilities under non-cancellable operating leases with terms in excess of one year. Rental expense on leased facilities under operating leases was approximately $2.1 million during the three months ended December 31, 2015 and 2014 and $4.1 million and $3.8 million during the six months ended December 31, 2015 and 2014, respectively.

In August 2015, we executed a lease amendment for our Houston, Texas, location. The amendment extended the original lease termination date from July 2016 until February 2023 and increased future non-cancelable lease payments from $1.8 million to $7.0 million ($9.9 million of base rent net of $2.9 million landlord incentive applied against base rent). Base annual rent under the amended lease ranges between $1.3 million and $1.5 million, excluding our pro-rata share of taxes and expenses.

In August 2015, we entered into a new lease agreement for our office location in Singapore. The initial term of the lease is for 60 months and approximately 11,343 square feet, commencing December 2015. Base annual rent is $0.6 million, excluding our proportionate share of taxes and other expenses. Subject to the terms and conditions of the lease, we may extend the lease for an additional 36 month term. Future minimum non-cancelable lease payments due over the term of the lease amount to approximately $3.1 million. Aggregate capital expenditures, including leasehold improvements, furniture and equipment, with respect to the leased premises amounted to approximately $1.0 million in fiscal 2016.

Standby letters of credit for $3.7 million as of December 31, 2015 secure our performance on professional services contracts, certain facility leases and potential liabilities. This is an increase from $2.2 million as of June 30, 2015. The letters of credit expire at various dates through fiscal 2025.

Legal Matters

In the ordinary course of business, we are, from time to time, involved in lawsuits, claims, investigations, proceedings and threats of litigation. These matters include an April 2004 claim by a customer that certain of our software products and implementation services failed to meet the customer s expectations. In March 2014, a judgment was issued in favor of the claimant customer against us in the amount of approximately 1.9 million Euro ( ) plus interest and a portion of legal fees. We subsequently filed an appeal of that judgment. In December 2015, the appellate court determined that we must pay damages in the amount of approximately 1.2 million plus interest, with the possibility of additional damages to be determined by the appellate court.

While the outcome of the proceedings and claims referenced above cannot be predicted with certainty, there were no such matters, as of December 31, 2015 that, in the opinion of management, are reasonably possible to have a material adverse effect on our financial position, results of operations or cash flows. Liabilities, if applicable, related to the aforementioned matters discussed in this Note have been included in our accrued liabilities at December 31, 2015, and are not material to our financial position for the period then ended. As of December 31, 2015, we do not believe that there is a reasonable possibility of a material loss exceeding the amounts already accrued for the proceedings or matters discussed above. However, the results of litigation (including the above-referenced appeal proceedings) and claims cannot be predicted with certainty; unfavorable resolutions are possible and could materially affect our results of operations, cash flows or financial position. In addition, regardless of the outcome, litigation could have an adverse impact on us because of attorneys fees and costs, diversion of management resources and other factors.

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12. Segment Information

Operating segments are defined as components of an enterprise that engage in business activities for which discrete financial information is available and regularly reviewed by the chief operating decision maker in deciding how to allocate resources and to assess performance. Our chief operating decision maker is our President and Chief Executive Officer.

The subscription and software segment is engaged in the licensing of process optimization software solutions and associated support services. The services segment includes professional services and training.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies (refer to Note 2 in the financial statements of our Form 10-K for the year ended June 30, 2015). We do not track assets or capital expenditures by operating segments. Consequently, it is not practical to present assets, capital expenditures, depreciation or amortization by operating segments.

The following table presents a summary of our reportable segments profits:

	Subscription and software	Services (Dollars in Thousands)	Total
Three Months Ended December 31, 2015			
Segment revenue	$ 110,126	$ 9,025	$ 119,151
Segment expenses (1)	(42,126)	(6,921)	(49,047)
Segment profit	$ 68,000	$ 2,104	$ 70,104
Three Months Ended December 31, 2014			
Segment revenue	$ 98,716	$ 9,074	$ 107,790
Segment expenses (1)	(43,986)	(7,057)	