ASPEN TECHNOLOGY INC /DE/
Form 10-Q
April 24, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2019
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 ý 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 ý No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý		Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o
		Emerging growth company	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act): Yes o No ý
As of April 17, 2019, there were 68,964,073 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 30th, and references to a specific fiscal year are to the twelve months ended June 30th of such year (for example, "fiscal 2019" refers to the year ending June 30, 2019).

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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 March 31,		Nine Months Ended March 31,	
	2019	2018 As Adjusted	2019	2018 As Adjusted
	(Dollars in Thousands, Except per Share Data)			
Revenue:				
License	$98,493	$79,073	$255,616	$214,938
Maintenance	41,878	40,897	125,955	121,890
Services and other	7,613	7,788	21,005	22,947
Total revenue	147,984	127,758	402,576	359,775
Cost of revenue:				
License	1,658	1,279	5,142	3,743
Maintenance	4,962	4,259	14,241	13,061
Services and other	7,740	7,238	22,943	20,793
Total cost of revenue	14,360	12,776	42,326	37,597
Gross profit	133,624	114,982	360,250	322,178
Operating expenses:				
Selling and marketing	27,410	25,246	80,532	72,690
Research and development	20,520	21,584	61,893	60,863
General and administrative	14,863	14,533	46,246	49,188
Total operating expenses	62,793	61,363	188,671	182,741
Income from operations	70,831	53,619	171,579	139,437
Interest income	6,835	6,304	21,389	18,849
Interest (expense)	(2,350)	(1,485)	(6,328)	(3,952)
Other (expense), net	(34)	(104)	(485)	(958)
Income before income taxes	75,282	58,334	186,155	153,376
Provision for (benefit from) income taxes	13,695	13,829	27,286	(63,681)
Net income	$61,587	$44,505	$158,869	$217,057
Net income per common share:				
Basic	$0.89	$0.62	$2.26	$3.00
Diluted	$0.88	$0.61	$2.23	$2.97
Weighted average shares outstanding:				
Basic	69,423	71,828	70,286	72,402
Diluted	70,160	72,663	71,142	73,136

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 March 31,		Nine Months Ended March 31,	
	2019	2018 As Adjusted	2019	2018 As Adjusted
	(Dollars in Thousands)			
Net income	$61,587	$44,505	$158,869	$217,057
Other comprehensive income (loss):				
Foreign currency translation adjustments	1,159	924	(159)	2,398
Total other comprehensive income (loss)	1,159	924	(159)	2,398
Comprehensive income	$62,746	$45,429	$158,710	$219,455

See accompanying Notes to these unaudited consolidated financial statements.

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ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2019	June 30, 2018 As Adjusted
	(Dollars in Thousands, Except Share Data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$65,592	$96,165
Accounts receivable, net	45,293	41,810
Current contract assets	314,745	304,378
Contract costs	24,325	20,500
Prepaid expenses and other current assets	11,124	10,509
Prepaid income taxes	1,573	2,601
Total current assets	462,652	475,963
Property, equipment and leasehold improvements, net	7,589	9,806
Computer software development costs, net	1,452	646
Goodwill	73,534	75,590
Intangible assets, net	31,756	35,310
Non-current contract assets	358,709	340,622
Deferred tax assets	1,696	11,090
Other non-current assets	1,279	1,297
Total assets	$938,667	$950,324
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$4,023	$4,230
Accrued expenses and other current liabilities	42,746	39,515
Income taxes payable	35,582	1,698
Borrowings under credit agreement	220,000	170,000
Current deferred revenue	24,415	15,150
Total current liabilities	326,766	230,593
Non-current deferred revenue	19,312	12,354
Deferred income taxes	154,901	214,125
Other non-current liabilities	12,403	17,068
Commitments and contingencies (Note 16)		
Series D redeemable convertible preferred stock, $0.10 par value— Authorized— 3,636 shares as of March 31, 2019 and June 30, 2018 Issued and outstanding— none as of March 31, 2019 and June 30, 2018	—	—
Stockholders' equity:		
Common stock, $0.10 par value— Authorized—210,000,000 shares Issued— 103,478,590 shares at March 31, 2019 and 103,130,300 shares at June 30, 2018 Outstanding— 69,108,515 shares at March 31, 2019 and 71,186,701 shares at June 30, 2018	10,348	10,313
Additional paid-in capital	730,830	715,475

Retained earnings	1,224,377	1,065,507
Accumulated other comprehensive income	1,229	1,388
Treasury stock, at cost—34,370,075 shares of common stock at March 31, 2019 and 31,943,599 shares at June 30, 2018	(1,541,499)	(1,316,499)
Total stockholders’ equity	425,285	476,184
Total liabilities and stockholders’ equity	$938,667	$950,324

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See accompanying Notes to these unaudited consolidated financial statements.

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ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock		Total Stockholders' Equity
	Number of Shares	$0.10 Par Value				Number of Shares	Cost	
	(Dollars in Thousands, Except Share Data)							
June 30, 2018, As Adjusted	103,130,300	$10,313	$715,475	$1,065,507	$ 1,388	31,943,599	$(1,316,499)	$476,184
Comprehensive income (loss):								
Net income	—	—	—	38,066	—	—	—	38,066
Other comprehensive (loss)	—	—	—	—	(423)			(423)
Exercise of stock options	90,009	9	3,702	—	—	—		3,711
Issuance of restricted stock units	58,829	6	(3,290)	—	—	—	—	(3,284)
Repurchase of common stock	—	—	—	—	—	473,376	(50,000)	(50,000)
Stock-based compensation	—	—	8,865	—	—	—	—	8,865
September 30, 2018	103,279,138	$10,328	$724,752	$1,103,573	$ 965	32,416,975	$(1,366,499)	$473,119
Comprehensive income (loss):								
Net income	—	—	—	59,217	—	—	—	59,217
Other comprehensive (loss)	—	—	—	—	(895)			(895)
Exercise of stock options	15,902	2	757	—	—	—		759
Issuance of restricted stock units	100,643	10	(6,351)	—	—	—	—	(6,341)
Repurchase of common stock	—	—	—	—	—	1,175,531	(100,000)	(100,000)
Stock-based compensation	—	—	6,335	—	—	—	—	6,335
December 31, 2018	103,395,683	$10,340	$725,493	$1,162,790	$ 70	33,592,506	$(1,466,499)	$432,194
Comprehensive income:								
Net income	—	—	—	61,587	—	—	—	61,587
Other comprehensive income	—	—	—	—	1,159			1,159

Exercise of stock options	39,303	4	1,444	—	—	—		1,448	
Issuance of restricted stock units	43,604	4	(2,361	)	—	—	—	—	(2,357	)
Repurchase of common stock	—	—	—	—	—	777,569	(75,000	)	(75,000	)
Stock-based compensation	—	—	6,254	—	—	—	—	6,254	
March 31, 2019	103,478,590	$10,348	$730,830	$1,224,377	$ 1,229	34,370,075	$(1,541,499)	$425,285	

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	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock		Total Stockholders' Equity
	Number of Shares	$0.10 Par Value				Number of Shares	Cost	
	(Dollars in Thousands, Except Share Data)							
June 30, 2017, As Adjusted	102,567,129	$10,257	$687,479	$780,365	$ 1,459	29,145,976	$(1,116,499)	$363,061
Comprehensive income:								
Net income	—	—	—	40,521	—	—	—	40,521
Other comprehensive income	—	—	—	—	1,401			1,401
Exercise of stock options	66,567	6	2,404	—	—	—		2,410
Issuance of restricted stock units	58,398	6	(1,659)	—	—	—	—	(1,653)
Repurchase of common stock	—	—	—	—	—	839,159	(50,000)	(50,000)
Stock-based compensation	—	—	6,414	—	—	—	—	6,414
September 30, 2017, As Adjusted	102,692,094	$10,269	$694,638	$820,886	$ 2,860	29,985,135	$(1,166,499)	$362,154
Comprehensive income:								
Net income	—	—	—	132,031	—	—	—	132,031
Other comprehensive income	—	—	—	—	73			73
Exercise of stock options	36,767	4	1,129	—	—	—		1,133
Issuance of restricted stock units	47,058	5	(1,794)	—	—	—	—	(1,789)
Repurchase of common stock	—	—	—	—	—	756,349	(50,000)	(50,000)
Stock-based compensation	—	—	5,455	—	—	—	—	5,455
December 31, 2017, As Adjusted	102,775,919	$10,278	$699,428	$952,917	$ 2,933	30,741,484	$(1,216,499)	$449,057
Comprehensive income:								
Net income	—	—	—	44,505	—	—	—	44,505
Other comprehensive income	—	—	—	—	924			924
Exercise of stock options	112,972	11	3,815	—	—	—		3,826
Issuance of restricted stock units	47,714	5	(2,042)	—	—	—	—	(2,037)
Repurchase of common stock	—	—	—	—	—	649,479	(50,000)	(50,000)
	—	—	5,353	—	—	—	—	5,353

Stock-based compensation								
March 31, 2018, As Adjusted	102,936,605	$10,294	$706,554	$997,422	$ 3,857	31,390,963	$(1,266,499)	$451,628

See accompanying Notes to these unaudited consolidated financial statements.

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ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended March 31,	
	2019	2018 As Adjusted
	(Dollars in Thousands)	
Cash flows from operating activities:		
Net income	$158,869	$217,057
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,063	4,902
Net foreign currency losses	23	1,086
Stock-based compensation	21,454	17,222
Deferred income taxes	(49,847)	(123,443)
Provision for bad debts	474	1,373
Other non-cash operating activities	341	314
Changes in assets and liabilities:		
Accounts receivable	(4,183)	1,429
Contract assets	(27,397)	(7,767)
Contract costs	(3,825)	(651)
Prepaid expenses, prepaid income taxes, and other assets	201	4,908
Accounts payable, accrued expenses, income taxes payable and other liabilities	32,980	(4,448)
Deferred revenue	17,983	15,847
Net cash provided by operating activities	153,136	127,829
Cash flows from investing activities:		
Purchases of property, equipment and leasehold improvements	(206)	(217)
Payments for business acquisitions, net of cash	—	(33,700)
Payments for capitalized computer software costs	(1,094)	(299)
Net cash used in investing activities	(1,300)	(34,216)
Cash flows from financing activities:		
Exercises of stock options	5,881	7,402
Repurchases of common stock	(224,182)	(154,365)
Payments of tax withholding obligations related to restricted stock	(11,916)	(5,412)
Deferred business acquisition payments	(1,700)	(2,600)
Proceeds from credit agreement	50,000	30,000
Payments of credit agreement issuance costs	—	(351)
Net cash used in financing activities	(181,917)	(125,326)
Effect of exchange rate changes on cash and cash equivalents	(492)	834
Decrease in cash and cash equivalents	(30,573)	(30,879)
Cash and cash equivalents, beginning of period	96,165	101,954
Cash and cash equivalents, end of period	$65,592	$71,075
Supplemental disclosure of cash flow information:		
Income taxes paid, net	$39,123	$38,662
Interest paid	5,728	3,456
Supplemental disclosure of non-cash investing and financing activities:		
Change in purchases of property, equipment and leasehold improvements included in accounts payable and accrued expenses	$10	$(31)

Change in repurchases of common stock included in accounts payable and accrued expenses	818	(4,365)

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, 2018, 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 nine months ended March 31, 2019 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) Significant Accounting Policies

Our significant accounting policies are described in Note 2 to the consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2018. We adopted Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers ("Topic 606") and ASU No. 2017-01, Business Combinations (Topic 805) - Clarifying the Definition of a Business effective July 1, 2018. Refer to Note 2 (f), “New Accounting Pronouncements Adopted in Fiscal 2019,” for further information regarding the adoption of Topic 606 and ASU No. 2017-01. There were no other material changes to our significant accounting policies during the three and nine months ended March 31, 2019.

(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.

(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 (expense), net. Net foreign currency exchange losses were $(0.1) million and $(0.5) million during the three and nine months ended March 31, 2019, respectively, and $(0.1) million and $(1.0) million during the three and nine months ended March 31, 2018, respectively.

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(e) Research and Development Expense

We charge research and development expenditures to expense as the costs are incurred. Research and development expenses consist primarily of personnel expenses related to the creation of new products, enhancements and engineering changes to existing products and costs of acquired technology prior to establishing technological feasibility.

We acquired no technology during the three and nine months ended March 31, 2019 and 2018, respectively, that was expensed as research and development expense.

(f) New Accounting Pronouncements Adopted in Fiscal 2019

In May 2014, the FASB issued Topic 606, which supersedes the revenue recognition requirements in Revenue Recognition (Topic 605), and requires entities to recognize revenue when they transfer promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under the new guidance, an entity is required to evaluate revenue recognition through a five-step process. In applying the principles of Topic 606, more judgment and estimates are required within the revenue recognition process than were required under previous U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price, and allocating the transaction price to each separate performance obligation.

We adopted Topic 606 effective July 1, 2018 using the full retrospective method, which required us to adjust the prior periods presented. The adoption of Topic 606 impacted the timing of the license portion of the revenue recognized from our term contracts. Under the new standard, for arrangements that include term-based software licenses bundled with maintenance and support, we are now required to recognize as revenue a portion of the arrangement fee upon delivery of the software license. We recognize as revenue a portion of the arrangement fee related to maintenance and support, professional services, and training over time as the services are provided. Additionally, under the new standard, we capitalize certain direct and incremental commission costs to obtain a contract and amortize such costs over the expected period of benefit, rather than expensing them as incurred in the period that the commissions are earned. See Note 3, "Revenue from Contracts with Customers," to our Unaudited Consolidated Financial Statements for more information on our accounting policies as a result of the adoption of Topic 606.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805) - Clarifying the Definition of a Business. The amendment changes the definition of a business to assist entities in evaluating when a set of transferred assets and activities constitutes a business. We adopted ASU No. 2017-01 effective July 1, 2018. The adoption of ASU No. 2017-01 did not have a material effect on our consolidated financial statements or related disclosures.

In March 2018, the FASB issued ASU No. 2018-05, Income Taxes (Topic 740) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118. The amendment provides guidance on accounting for the impact of the Tax Cuts and Jobs Act (the "Tax Act") and allows entities to complete the accounting under ASC 740 within a one-year measurement period from the Tax Act enactment date. This standard is effective upon issuance. The Tax Act has several significant changes that impact all taxpayers, including a transition tax, which is a one-time tax charge on accumulated, undistributed foreign earnings. The calculation of accumulated foreign earnings requires an analysis of each foreign entity's financial results going back to 1986. We have concluded that we will not be subject to the transition tax associated with our accumulated, undistributed foreign earnings.

In August 2018, the FASB issued ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40) - Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract. The amendment aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendment. The ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2019. We adopted ASU No. 2018-15 effective October 1, 2018. The adoption of ASU

No. 2018-15 did not have a material effect on our consolidated financial statements or related disclosures.

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(g) Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). Under the amendment, lessees will be required to recognize virtually all of their leases on the balance sheet, by recording a right-of-use asset and lease liability. The ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted. We are currently evaluating the impact of ASU No. 2016-02 on our consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820) - Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. The amendment modifies, removes, and adds certain disclosure requirements on fair value measurements. The ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted. We are currently evaluating the impact of ASU No. 2018-13 on our consolidated financial statements.

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3. Revenue from Contracts with Customers

In accordance with Topic 606, we account for a customer contract when both parties have approved the contract and are committed to perform their respective obligations, each party's rights can be identified, payment terms can be identified, the contract has commercial substance, and it is probable that we will collect substantially all of the consideration to which we are entitled. Revenue is recognized when, or as, performance obligations are satisfied by transferring control of a promised product or service to a customer.

Nature of Products and Services

We generate revenue from the following sources: (1) License revenue; (2) Maintenance revenue; and (3) Services and other revenue. We sell our software products to end users primarily under fixed-term licenses. We license our software products primarily through a subscription offering which we refer to as our aspenONE licensing model, which includes software maintenance and support, known as our Premier Plus SMS offering, for the entire term. Our aspenONE products are organized into three suites: 1) engineering; 2) manufacturing and supply chain; and 3) asset performance management. The aspenONE licensing model provides customers with access to all of the products within the aspenONE suite(s) they license. 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.

We also license our software through point product term arrangements, which include our Premier Plus SMS offering for the entire term.

We determine revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as, we satisfy a performance obligation.

Term-based Arrangements: Term-based arrangements consist of on-premise term licenses as well as maintenance.

Term licenses

License revenue consists primarily of product and related revenue from our aspenONE licensing model and point product arrangements.

When a customer elects to license our products under our aspenONE licensing model, the customer receives, for the term of the arrangement, the right to all software products in the licensed aspenONE software suite. When a customer elects to license point products, the customer receives, for the term of the arrangement, the right to license specified products in the licensed aspenONE software suite. Revenue from initial product licenses is recognized upfront upon delivery.

Maintenance

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 updates that may be introduced into the licensed aspenONE software suite. When a customer elects to license point products, 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 updates that may be introduced related to the specified products licensed. Maintenance represents a stand-ready obligation and, due to our obligation to provide unspecified future software updates on a when-and-if available basis as well as telephone support services, we are required to recognize revenue ratably over the term of the arrangement.

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Services and Other Revenue

Professional Services Revenue

Professional services are provided to customers on a time-and-materials ("T&M") or fixed-price basis. The obligation to provide professional services is generally satisfied over time, with the customer simultaneously receiving and consuming the benefits as we satisfy our performance obligation. For professional services, revenue is recognized by measuring progress toward the completion of our obligations. 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. 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.

Training Revenue

We provide training services to our customers, including on-site, Internet-based, public and customized training. The obligation to provide training services is generally satisfied over time, with the customer simultaneously receiving and consuming the benefits as we satisfy our performance obligation. Revenue is recognized in the period in which the services are performed.

Contracts with Multiple Performance Obligations

Our contracts generally contain more than one of the products and services listed above, each of which is separately accounted for as a distinct performance obligation.

Allocation of consideration: We allocate total contract consideration to each distinct performance obligation in an arrangement on a relative standalone selling price basis. The standalone selling price reflects the price we would charge for a specific product or service if it was sold separately in similar circumstances and to similar customers.

If the arrangement contains professional services and other products or services, we allocate to the professional service obligation a portion of the total contract consideration based on the standalone selling price of professional services that is observed from consistently priced standalone sales.

The standalone selling price for term licenses, which are always sold with maintenance, is the price for the combined license and maintenance bundle. The amount assigned to the license and maintenance bundle is separated into license and maintenance amounts using the respective standalone selling prices represented by the value relationship between the software license and maintenance.

When two or more contracts are entered into at or near the same time with the same customer, we evaluate the facts and circumstances associated with the negotiation of those contracts. Where the contracts are negotiated as a package, we will account for them as a single arrangement and allocate the consideration for the combined contracts among the performance obligations accordingly.

Standalone selling price: When available, we use directly observable transactions to determine the standalone selling prices for performance obligations. Generally, directly observable data is not available for term licenses and maintenance. When term licenses are sold together with maintenance in a bundled arrangement, we estimate a standalone selling price for these distinct performance obligations using relevant information, including our overall pricing objectives and strategies and historical pricing data, and taking into consideration market conditions and other factors, such as customer type and geography.

Other policies and judgments

Payment terms and conditions vary by contract type, although terms generally include a requirement of payment annually over the term of the license arrangement. Therefore, we generally receive payment from a customer after the performance obligation related to the license has been satisfied, and therefore, our contracts generally contain a significant financing component. The significant financing component is calculated utilizing an interest rate that derives the net present value of the performance obligations delivered on an upfront basis based on the allocation of consideration. We have instituted a customer portfolio approach in assigning interest rates. The rates are determined at contract inception and are based on the credit characteristics of the customers within each portfolio.

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Contract modifications

We sometimes enter into agreements to modify previously executed contracts, which constitute contract modifications. We assess each of these contract modifications to determine (i) if the additional products and services are distinct from the products and services in the original arrangement; and (ii) if the amount of consideration expected for the added products and services reflects the stand-alone selling price of those products and services, as adjusted for contract-specific circumstances. A contract modification meeting both criteria is accounted for as a separate contract. A contract modification not meeting both criteria is considered a change to the original contract and is accounted for on either (i) a prospective basis as a termination of the existing contract and the creation of a new contract or (ii) a cumulative catch-up basis. Generally, our contract modifications meet both criteria and are accounted for as a separate contract, as adjusted for contract-specific circumstances.

Disaggregation of Revenue

We disaggregate our revenue by region, type of performance obligation, timing of revenue recognition, and segment as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	2018 As Adjusted	2019	2018 As Adjusted
	(Dollars in Thousands)			
Revenue by region:				
United States	$54,022	$39,735	$134,774	$130,561
Europe	33,665	36,662	109,085	98,673
Other (1)	60,297	51,361	158,717	130,541
	$147,984	$127,758	$402,576	$359,775
Revenue by type of performance obligation:				
Term licenses	$98,493	$79,073	$255,616	$214,938
Maintenance	41,878	40,897	125,955	121,890
Professional services and other	7,613	7,788	21,005	22,947
	$147,984	$127,758	$402,576	$359,775
Revenue by segment:				
Subscription and software	$140,371	$119,970	$381,571	$336,828
Services and other	7,613	7,788	21,005	22,947
	$147,984	$127,758	$402,576	$359,775

(1) Other consists primarily of Asia Pacific, Canada, Latin America and the Middle East.

Contract Balances

The difference in the opening and closing balances of our contract assets and deferred revenue primarily results from the timing difference between our performance and the customer's payment. We fulfill our obligations under a contract with a customer by transferring products and services in exchange for consideration from the customer. We recognize a contract asset when we transfer products or services to a customer and the right to consideration is conditional on something other than the passage of time. Accounts receivable are recorded when the customer has been billed or the right to consideration is unconditional. We recognize deferred revenue when we have received consideration or an amount of consideration is due from the customer and we have a future obligation to transfer products or services.

Our contract assets and deferred revenue were as follows as of March 31, 2019 and June 30, 2018:

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	March 31, 2019	June 30, 2018 As Adjusted
	(Dollars in Thousands)	
Contract assets	$673,454	$645,000
Deferred revenue	(43,727)	(27,504)
	$629,727	$617,496

Contract assets and deferred revenue are presented net at the contract level for each reporting period.

The change in deferred revenue in the nine months ended March 31, 2019, excluding the impact of the netting of contract assets and deferred revenue, was primarily due to an increase in new billings in advance of revenue recognition, partially offset by $11.5 million of revenue recognized that was included in deferred revenue at June 30, 2018.

Contract Costs

We pay commissions for new product sales as well as for renewals of existing contracts. Commissions paid to obtain renewal contracts are not commensurate with the commissions paid for new product sales and therefore, a portion of the commissions paid for new contracts relate to future renewals.

We account for new product sales commissions using a portfolio approach and allocate the cost of commissions in proportion to the allocation of transaction price of license and maintenance performance obligations, including assumed renewals. Commissions allocated to the license and license renewal components are expensed at the time the license revenue is recognized. Commissions allocated to maintenance are capitalized and amortized on a straight-line basis over a period of four to eight years for new contracts, reflecting our estimate of the expected period that we will benefit from those commissions.

Amortization of capitalized contract costs is included in sales and marketing expenses in our Condensed Consolidated Statement of Operations.

Transaction Price Allocated to Remaining Performance Obligations

The following table includes the aggregate amount of the transaction price allocated as of March 31, 2019 to the performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period:

	Year Ended June 30,					
	2019	2020	2021	2022	2023	Thereafter
	(Dollars in Thousands)					
License	$24,904	$39,658	$30,468	$9,423	$2,502	$ 1,451
Maintenance	49,261	174,031	127,876	85,991	51,340	32,662
Services and other	32,248	11,834	853	651	381	91

Impact to Prior Period Information

The following table presents the effect of the adoption of Topic 606 on select consolidated statements of operations line items for the three and nine months ended March 31, 2018:

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	Three Months Ended March 31, 2018		
	As Previously Reported	Adjustments	As Adjusted
	(Dollars in Thousands, Except per Share Data)		
Consolidated Statements of Operations:			
License revenue	$—	$ 79,073	$ 79,073
Maintenance revenue	—	40,897	40,897
Subscription and software revenue	118,126	(118,126)	—
Services and other revenue	7,745	43	7,788
Total revenue	125,871	1,887	127,758
Gross profit	113,095	1,887	114,982
Selling and marketing expense	25,924	(678)	25,246
General and administrative expense	14,430	103	14,533
Total operating expenses	61,938	(575)	61,363
Income from operations	51,157	2,462	53,619
Interest income	23	6,281	6,304
Provision for income taxes	11,756	2,073	13,829
Net income	$ 37,835	$ 6,670	$ 44,505
Net income per common share:			
Basic	$ 0.53		$ 0.62
Diluted	$ 0.52		$ 0.61
Weighted average shares outstanding:			
Basic	71,828		71,828
Diluted	72,663		72,663

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	Nine Months Ended March 31, 2018		
	As Previously Reported	Adjustments	As Adjusted
	(Dollars in Thousands, Except per Share Data)		
Consolidated Statements of Operations:			
License revenue	$—	$ 214,938	$214,938
Maintenance revenue	—	121,890	121,890
Subscription and software revenue	351,540	(351,540)	—
Services and other revenue	22,014	933	22,947
Total revenue	373,554	(13,779)	359,775
Gross profit	335,957	(13,779)	322,178
Selling and marketing expense	73,875	(1,185)	72,690
General and administrative expense	42,284	6,904	49,188
Total operating expenses	177,022	5,719	182,741
Income from operations	158,935	(19,498)	139,437
Interest income	204	18,645	18,849
Provision for (benefit from) income taxes	43,561	(107,242)	(63,681)
Net income	$110,668	$ 106,389	$217,057
Net income per common share:			
Basic	$1.53		$3.00
Diluted	$1.51		$2.97
Weighted average shares outstanding:			
Basic	72,402		72,402
Diluted	73,136		73,136

The following table presents the effect of the adoption of Topic 606 on select consolidated balance sheet line items as of June 30, 2018:

	June 30, 2018		
	As Previously Reported	Adjustments	As Adjusted
	(Dollars in Thousands)		
Consolidated Balance Sheets:			
ASSETS			
Current contract assets	$—	$ 304,378	$304,378
Contract costs	—	20,500	20,500
Accounts receivable, net	21,910	19,900	41,810
Non-current contract assets	—	340,622	