

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **August 10, 2017**

ASPEN TECHNOLOGY, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

0-24786
(Commission
File Number)

04-2739697
(IRS Employer
Identification No.)

20 Crosby Drive, Bedford, MA
(Address of principal executive offices)

01730
(Zip Code)

Registrant's telephone number, including area code: **(781) 221-6400**

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 or Rule 12b-2 of the Securities Exchange Act of 1934.

Emerging growth company

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.

Item 2.02 Events Results of Operations and Financial Condition.

On August 10, 2017, we issued a press release announcing financial results for the fourth quarter and fiscal year 2017 ended June 30, 2017. The full text of the press release issued in connection with this announcement is attached as Exhibit 99.1 to this Current Report on Form 8-K.

The information in this Item 2.02, including Exhibit 99.1, shall not be deemed “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934 except as expressly set forth by specific reference in such a filing.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

The following exhibit relating to Item 2.02 shall be deemed to be furnished, and not filed:

| <u>Exhibit No.</u> | <u>Description</u> |
|--------------------|--|
| 99.1 | Press release issued by Aspen Technology, Inc. on August 10, 2017. |

SIGNATURE

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

ASPEN TECHNOLOGY, INC.

Date: August 10, 2017

By: /s/ Karl E. Johnsen

Karl E. Johnsen

Senior Vice President and Chief Financial Officer

EXHIBIT INDEX

| Exhibit No. | Description |
|-------------|--|
| 99.1 | Press release issued by Aspen Technology, Inc. on August 10, 2017. |



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Aspen Technology Announces Financial Results for the Fourth Quarter and Fiscal Year 2017

Bedford, Mass. - August 10, 2017 - Aspen Technology, Inc. (NASDAQ: AZPN), the asset optimization software company, today announced financial results for its fourth quarter and fiscal year ended June 30, 2017.

“AspenTech reported fourth quarter and fiscal year 2017 financial results that exceeded expectations and were highlighted by a positive performance across all geographies and product suites,” said Antonio Pietri, President and Chief Executive Officer of AspenTech. “During the fourth quarter we made significant strides in bringing continued innovation to market. We successfully launched aspenONE v10, which will deliver increased value to our customers through enhanced functionality and capabilities. In addition, we saw positive momentum with our APM suite as we closed several transactions and continued to generate strong customer interest.”

Pietri added, “We believe AspenTech enters fiscal year 2018 with a strong and expanded product portfolio and a substantial growth opportunity, which positions us to execute successfully against our strategic objectives and continue to deliver significant long-term value to our shareholders.”

Fourth Quarter and Fiscal Year 2017 Business Highlights

- Annual spend, which the company defines as the annualized value of all term license and maintenance contracts at the end of the quarter, was \$460 million at the end of fiscal 2017, an increase of 1.8% from March 31, 2017 and 4.1% from the end of fiscal 2016.
- GAAP operating margin was 39.6% in the fourth quarter of fiscal 2017, compared to 43.1% in the fourth quarter of fiscal 2016. Non-GAAP operating margin was 46.1% in the fourth quarter of fiscal 2017, compared to 46.1% in the fourth quarter of fiscal 2016.
- GAAP operating margin was 43.9% for fiscal year 2017, compared to 44.8% for fiscal year 2016. Non-GAAP operating margin was 48.8% for fiscal year 2017, compared to 49.3% for fiscal year 2016.
- AspenTech repurchased approximately 1.3 million shares of our common stock for \$75.0 million in the fourth quarter of fiscal 2017.
- AspenTech repurchased approximately 7.3 million shares of common stock for \$375.0 million in fiscal year 2017.

Summary of Fourth Quarter Fiscal Year 2017 Financial Results

AspenTech's total revenue of \$123.7 million increased 8.8% from \$113.7 million in the fourth quarter of the prior fiscal year.

- **Subscription and software revenue** was \$115.4 million in the fourth quarter of fiscal 2017, an increase from \$106.7 million in the fourth quarter of fiscal 2016.
- **Services and other revenue** was \$8.2 million in the fourth quarter of fiscal 2017, an increase from \$7.0 million in the fourth quarter of fiscal 2016.

For the quarter ended June 30, 2017, AspenTech reported income from operations of \$48.9 million, compared to income from operations of \$49.0 million for the quarter ended June 30, 2016.

Net income was \$54.4 million for the quarter ended June 30, 2017, leading to net income per share of \$0.73, compared to net income per share of \$0.41 in the same period last fiscal year.

Non-GAAP income from operations, which adds back stock-based compensation expense, amortization of intangibles associated with acquisitions, acquisition-related costs and non-capitalized acquired technology, was \$57.0 million for the fourth quarter of fiscal 2017, compared to non-GAAP income from operations of \$52.4 million in the same period last fiscal year. Non-GAAP net income was \$59.1 million, or \$0.79 per share, for the fourth quarter of fiscal 2017, compared to non-GAAP net income of \$35.5 million, or \$0.44 per share, in the same period last fiscal year.

During the quarter ended June 30, 2017, the company realized a \$19 million tax benefit primarily resulting from the release of contingent tax reserves. The tax benefit resulted in a \$0.26 per share benefit for both GAAP and non-GAAP net income per share in the quarter ended June 30, 2017.

AspenTech had cash and marketable securities of \$102.0 million at June 30, 2017, compared to \$101.7 million at the end of the prior quarter.

During the fourth quarter, the company generated \$73.3 million in cash flow from operations and \$76.8 million in free cash flow.

Summary of Fiscal Year 2017 Financial Results

AspenTech's total revenue of \$482.9 million increased 2.2% from \$472.3 million for fiscal year 2016.

- **Subscription and software revenue** was \$453.5 million, an increase from \$440.4 million for fiscal year 2016.
- **Services and other revenue** was \$29.4 million, compared to \$31.9 million for fiscal year 2016.

For the fiscal year ended June 30, 2017, AspenTech reported income from operations of \$212.0 million, an improvement from income from operations of \$211.4 million for fiscal year 2016.

Net income was \$162.2 million for the fiscal year ended June 30, 2017, leading to net income per share of \$2.11, compared to net income per share of \$1.68 for fiscal year 2016.

Non-GAAP income from operations was \$235.8 million for fiscal year 2017, an improvement compared to non-GAAP income from operations of \$232.7 million for fiscal year 2016. Non-GAAP net income was \$177.4 million, or \$2.30 per share, for fiscal year 2017, an improvement compared to non-GAAP net income of \$155.8 million, or \$1.87 per share, for fiscal year 2016.

For the fiscal year ended June 30, 2017, the company generated \$182.4 million in cash flow from operations and \$187.2 million in free cash flow.

Use of Non-GAAP Financial Measures

This press release contains “non-GAAP financial measures” under the rules of the U.S. Securities and Exchange Commission. Non-GAAP financial measures are not based on a comprehensive set of accounting rules or principles. This non-GAAP information supplements, and is not intended to represent a measure of performance in accordance with, disclosures required by generally accepted accounting principles, or GAAP. Non-GAAP financial measures should be considered in addition to, not as a substitute for or superior to, financial measures determined in accordance with GAAP. A reconciliation of GAAP to non-GAAP results is included in the financial tables included in this press release.

Management considers both GAAP and non-GAAP financial results in managing AspenTech’s business. As the result of adoption of new licensing models, management believes that a number of AspenTech’s performance indicators based on GAAP, including revenue, gross profit, operating income and net income, should be viewed in conjunction with certain non-GAAP and other business measures in assessing AspenTech’s performance, growth and financial condition. Accordingly, management utilizes a number of non-GAAP and other business metrics, including the non-GAAP metrics set forth in this press release, to track AspenTech’s business performance. None of these non-GAAP metrics should be considered as an alternative to any measure of financial performance calculated in accordance with GAAP.

Conference Call and Webcast

AspenTech will host a conference call and webcast today, August 10, 2017, at 4:30 p.m. (Eastern Time), to discuss the company’s financial results for the fourth quarter and fiscal year 2017 as well as the company’s business outlook.

The live dial-in number is (866) 604-6127 or (443) 961-0460, conference ID code 60952917. Interested parties may also listen to a live webcast of the call by logging on to the Investor Relations section of AspenTech’s website, <http://www.aspentech.com/corporate/investor.cfm>, and clicking on the “webcast” link. A replay of the call will be archived on AspenTech’s website and will also be available via telephone at (855) 859-2056 or (404) 537-3406, conference ID code 60952917, through September 10, 2017.

About AspenTech

AspenTech is a leading software supplier for optimizing asset performance. Our products thrive in complex, industrial environments where it is critical to optimize the asset design, operation and maintenance lifecycle. AspenTech uniquely combines decades of process modeling expertise with big data machine-learning. Our purpose-built software platform automates knowledge work and builds sustainable competitive advantage by delivering high returns over the entire asset lifecycle. As a result, companies in capital-intensive industries can maximize uptime and push the limits of performance, running their assets faster, safer, longer and greener. Visit AspenTech.com to find out more.

Forward-Looking Statements

The second and third paragraphs of this press release contain forward-looking statements for purposes of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Actual results may vary significantly from AspenTech’s expectations based on a number of risks and uncertainties, including, without limitation: AspenTech’s failure to increase usage and product adoption of aspenONE offerings or grow the aspenONE APM business, and failure to continue to provide innovative, market-leading solutions; the demand for, or usage of, aspenONE software declines for any reason, including declines due to adverse changes in the capital-intensive process industries; unfavorable economic and market conditions or a lessening demand in the market for asset process optimization software; and other risk factors described from time to time in AspenTech’s periodic reports filed with the Securities and Exchange Commission. AspenTech cannot guarantee any future results, levels of activity, performance, or achievements. AspenTech expressly disclaims any obligation to update forward-looking statements after the date of this press release.

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Source: Aspen Technology, Inc.

ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited in thousands, except per share data)

| | Three Months Ended June 30, | | Twelve Months Ended June 30, | |
|---|--------------------------------|------------|---------------------------------|------------|
| | 2017 | 2016 | 2017 | 2016 |
| Revenue: | | | | |
| Subscription and software | \$ 115,435 | \$ 106,701 | \$ 453,512 | \$ 440,408 |
| Services and other | 8,247 | 6,979 | 29,430 | 31,936 |
| Total revenue | 123,682 | 113,680 | 482,942 | 472,344 |
| Cost of revenue: | | | | |
| Subscription and software | 5,285 | 4,901 | 21,051 | 20,376 |
| Services and other | 6,829 | 6,830 | 26,415 | 28,235 |
| Total cost of revenue | 12,114 | 11,731 | 47,466 | 48,611 |
| Gross profit | 111,568 | 101,949 | 435,476 | 423,733 |
| Operating expenses: | | | | |
| Selling and marketing | 26,510 | 24,832 | 92,633 | 91,536 |
| Research and development | 21,953 | 16,754 | 79,530 | 67,152 |
| General and administrative | 14,157 | 11,391 | 51,297 | 53,664 |
| Total operating expenses | 62,620 | 52,977 | 223,460 | 212,352 |
| Income from operations | 48,948 | 48,972 | 212,016 | 211,381 |
| Interest income | 143 | 198 | 808 | 441 |
| Interest (expense) | (1,066) | (868) | (3,787) | (1,212) |
| Other income (expense), net | 21 | 1,976 | 1,309 | 29 |
| Income before provision for income taxes | 48,047 | 50,278 | 210,346 | 210,639 |
| Provision for income taxes | (6,305) | 16,952 | 48,150 | 70,688 |
| Net income | \$ 54,352 | \$ 33,326 | \$ 162,196 | \$ 139,951 |
| Net income per common share: | | | | |
| Basic | \$ 0.73 | \$ 0.41 | \$ 2.12 | \$ 1.69 |
| Diluted | \$ 0.73 | \$ 0.41 | \$ 2.11 | \$ 1.68 |
| Weighted average shares outstanding: | | | | |
| Basic | 74,294 | 81,282 | 76,491 | 82,892 |
| Diluted | 74,830 | 81,599 | 76,978 | 83,309 |

ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited in thousands, except share data)

| | June 30, 2017 | June 30, 2016 |
|--|------------------|------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 101,954 | \$ 318,336 |
| Short-term marketable securities | — | 3,006 |
| Accounts receivable, net | 27,670 | 20,476 |
| Prepaid expenses and other current assets | 12,061 | 13,948 |
| Prepaid income taxes | 4,501 | 5,557 |
| Total current assets | 146,186 | 361,323 |
| Property, equipment and leasehold improvements, net | 13,400 | 15,825 |
| Computer software development costs, net | 667 | 720 |
| Goodwill | 51,248 | 23,438 |
| Intangible assets, net | 20,789 | 5,000 |
| Non-current deferred tax assets | 14,352 | 12,236 |
| Other non-current assets | 1,300 | 1,196 |
| Total assets | \$ 247,942 | \$ 419,738 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current liabilities: | | |
| Accounts payable | \$ 5,467 | \$ 3,559 |
| Accrued expenses and other current liabilities | 48,149 | 36,105 |
| Income taxes payable | 1,603 | 439 |
| Borrowings under credit agreement | 140,000 | 140,000 |
| Current deferred revenue | 272,024 | 252,520 |
| Total current liabilities | 467,243 | 432,623 |
| Non-current deferred revenue | 28,335 | 29,558 |
| Other non-current liabilities | 13,148 | 32,591 |
| Commitments and contingencies (Note 16) | | |
| Series D redeemable convertible preferred stock, \$0.10 par value—Authorized— 3,636 shares as of June 30, 2017 and 2016 | | |
| Issued and outstanding—none as of June 30, 2017 and 2016 | — | — |
| Stockholders' deficit: | | |
| Common stock, \$0.10 par value—Authorized—210,000,000 shares | | |
| Issued—102,567,129 shares at June 30, 2017 and 102,031,960 shares at June 30, 2016 | | |
| Outstanding—73,421,153 shares at June 30, 2017 and 80,177,950 shares at June 30, 2016 | 10,257 | 10,203 |
| Additional paid-in capital | 687,479 | 659,287 |
| Retained earnings (deficit) | 156,520 | (5,676) |
| Accumulated other comprehensive income | 1,459 | 2,651 |
| Treasury stock, at cost—29,145,976 shares of common stock at June 30, 2017 and 21,854,010 shares at June 30, 2016 | (1,116,499) | (741,499) |
| Total stockholders' deficit | (260,784) | (75,034) |
| Total liabilities and stockholders' deficit | \$ 247,942 | \$ 419,738 |

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

| | Three Months Ended June 30, | | Twelve Months Ended June 30, | |
|--|--------------------------------|-------------------|---------------------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Operating activities: | | | | |
| Net income | \$ 54,352 | \$ 33,326 | \$ 162,196 | \$ 139,951 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 1,412 | 1,542 | 6,405 | 6,061 |
| Net foreign currency losses (gains) | 984 | (5,087) | (1,036) | (3,666) |
| Stock-based compensation expense | 4,493 | 3,414 | 18,800 | 15,727 |
| Deferred income taxes | (5,455) | 1,804 | (4,286) | 2,499 |
| Provision for (recovery from) bad debts | (26) | 86 | 199 | 260 |
| Tax benefits from stock-based compensation | 3,621 | 330 | 5,965 | 2,208 |
| Excess tax benefits from stock-based compensation | (3,621) | (330) | (5,965) | (2,208) |
| Other non-cash operating activities | 172 | 64 | 602 | 321 |
| Changes in assets and liabilities, excluding initial effects of acquisitions: | | | | |
| Accounts receivable | 7,464 | 869 | (7,480) | 9,382 |
| Prepaid expenses, prepaid income taxes, and other assets | (6,069) | (9,552) | (2,421) | (6,106) |
| Accounts payable, accrued expenses, income taxes payable and other liabilities | (16,018) | 1,094 | (9,070) | (4,489) |
| Deferred revenue | 32,039 | 17,289 | 18,477 | (6,196) |
| Net cash provided by operating activities | 73,348 | 44,849 | 182,386 | 153,744 |
| Investing activities: | | | | |
| Purchases of marketable securities | — | — | (683,748) | — |
| Maturities of marketable securities | 17,130 | 6,008 | 686,346 | 58,973 |
| Purchase of property, equipment and leasehold improvements | (569) | (953) | (2,720) | (3,483) |
| Acquisition related deposits | — | 255,067 | — | — |
| Payments for business acquisitions, net of cash acquired | — | (8,000) | (36,171) | (8,000) |
| Payments for capitalized computer software costs | (279) | (269) | (405) | (269) |
| Net cash provided by (used in) investing activities | 16,282 | 251,853 | (36,698) | 47,221 |
| Financing activities: | | | | |
| Exercise of stock options | 1,381 | 1,062 | 9,273 | 3,924 |
| Repurchases of common stock | (75,849) | (75,476) | (371,491) | (178,604) |
| Payment of tax withholding obligations related to restricted stock | (1,418) | (1,076) | (5,764) | (4,480) |
| Excess tax benefits from stock-based compensation | 3,621 | 330 | 5,965 | 2,208 |
| Proceeds from credit agreement | — | — | — | 140,000 |
| Payments of credit agreement issuance costs | — | (120) | — | (1,707) |
| Net cash used in financing activities | (72,265) | (75,280) | (362,017) | (38,659) |
| Effect of exchange rate changes on cash and cash equivalents | 37 | 4 | (53) | (219) |
| Increase (decrease) in cash and cash equivalents | 17,402 | 221,426 | (216,382) | 162,087 |
| Cash and cash equivalents, beginning of year | 84,552 | 96,910 | 318,336 | 156,249 |
| Cash and cash equivalents, end of year | \$ 101,954 | \$ 318,336 | \$ 101,954 | \$ 318,336 |
| Supplemental disclosure of cash flow information: | | | | |
| Income tax paid, net | \$ 23,794 | \$ 17,416 | \$ 65,536 | \$ 69,028 |
| Interest paid | 945 | 619 | 3,444 | 963 |

ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES
Reconciliation of GAAP to Non-GAAP Results of Operations and Cash Flows
(Unaudited in thousands, except per share data)

| | Three Months Ended June 30, | | Twelve Months Ended June 30, | |
|--|--|-------------|---|-------------|
| | 2017 | 2016 | 2017 | 2016 |
| <u>Total expenses</u> | | | | |
| GAAP total expenses (a) | \$ 74,734 | \$ 64,708 | \$ 270,926 | \$ 260,963 |
| Less: | | | | |
| Stock-based compensation (b) | (4,493) | (3,414) | (18,800) | (15,727) |
| Non-capitalized acquired technology (e) | (1,900) | — | (2,250) | (250) |
| Amortization of intangibles | (434) | — | (950) | (147) |
| Acquisition related fees | (1,261) | — | (1,754) | (5,213) |
| Non-GAAP total expenses | \$ 66,646 | \$ 61,294 | \$ 247,172 | \$ 239,626 |
| <u>Income from operations</u> | | | | |
| GAAP income from operations | \$ 48,948 | \$ 48,972 | \$ 212,016 | \$ 211,381 |
| Plus: | | | | |
| Stock-based compensation (b) | 4,493 | 3,414 | 18,800 | 15,727 |
| Non-capitalized acquired technology (e) | 1,900 | — | 2,250 | 250 |
| Amortization of intangibles | 434 | — | 950 | 147 |
| Acquisition related fees | 1,261 | — | 1,754 | 5,213 |
| Non-GAAP income from operations | \$ 57,036 | \$ 52,386 | \$ 235,770 | \$ 232,718 |
| <u>Net income</u> | | | | |
| GAAP net income | \$ 54,352 | \$ 33,326 | \$ 162,196 | \$ 139,951 |
| Plus: | | | | |
| Stock-based compensation (b) | 4,493 | 3,414 | 18,800 | 15,727 |
| Non-capitalized acquired technology (e) | 1,900 | — | 2,250 | 250 |
| Amortization of intangibles | 434 | — | 950 | 147 |
| Acquisition related fees | 1,261 | — | 1,754 | 8,649 |
| Less: | | | | |
| Income tax effect on Non-GAAP items (c) | (3,303) | (1,229) | (8,551) | (8,918) |
| Non-GAAP net income | \$ 59,137 | \$ 35,511 | \$ 177,399 | \$ 155,806 |
| <u>Diluted income per share</u> | | | | |
| GAAP diluted income per share | \$ 0.73 | \$ 0.41 | \$ 2.11 | \$ 1.68 |
| Plus: | | | | |
| Stock-based compensation (b) | 0.05 | 0.05 | 0.24 | 0.19 |
| Non-capitalized acquired technology (e) | 0.03 | — | 0.03 | 0.01 |
| Amortization of intangibles | 0.01 | — | 0.01 | — |
| Acquisition related fees | 0.01 | — | 0.02 | 0.10 |
| Less: | | | | |
| Income tax effect on Non-GAAP items (c) | (0.04) | (0.02) | (0.11) | (0.11) |
| Non-GAAP diluted income per share | \$ 0.79 | \$ 0.44 | \$ 2.30 | \$ 1.87 |
| Shares used in computing Non-GAAP diluted income per share | 74,830 | 81,599 | 76,978 | 83,309 |

ASPEN TECHNOLOGY, INC. AND SUBSIDIARIES
Reconciliation of GAAP to Non-GAAP Results of Operations and Cash Flows
(Unaudited in thousands, except per share data)

| | Three Months Ended June 30, | | Twelve Months Ended June 30, | |
|--|--|------------------|---|-------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Free Cash Flow | | | | |
| GAAP cash flow from operating activities | \$ 73,348 | \$ 44,849 | \$ 182,386 | \$ 153,744 |
| Purchase of property, equipment and leasehold improvements | (569) | (953) | (2,720) | (3,483) |
| Capitalized computer software development costs | (279) | (269) | (405) | (269) |
| Non-capitalized acquired technology (e) | 1,400 | — | 2,246 | 1,250 |
| Excess tax benefits from stock-based compensation (d) | 3,621 | 330 | 5,965 | 2,208 |
| Acquisition related fee payments | — | 2,581 | 448 | 8,649 |
| Litigation related (receipts) payments | (721) | 960 | (721) | 3,040 |
| Free Cash Flow | \$ 76,800 | \$ 47,498 | \$ 187,199 | \$ 165,139 |

(a) GAAP total expenses

| | Three Months Ended June 30, | | Twelve Months Ended June 30, | |
|----------------------------|--|------------------|---|-------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Total costs of revenue | \$ 12,114 | \$ 11,731 | \$ 47,466 | \$ 48,611 |
| Total operating expenses | 62,620 | 52,977 | 223,460 | 212,352 |
| GAAP total expenses | \$ 74,734 | \$ 64,708 | \$ 270,926 | \$ 260,963 |

(b) Stock-based compensation expense was as follows:

| | Three Months Ended June 30, | | Twelve Months Ended June 30, | |
|---------------------------------------|--|-----------------|---|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Cost of services and other | \$ 371 | \$ 341 | \$ 1,477 | \$ 1,390 |
| Selling and marketing | 715 | 804 | 3,652 | 4,351 |
| Research and development | 1,629 | 880 | 5,806 | 3,423 |
| General and administrative | 1,778 | 1,389 | 7,865 | 6,563 |
| Total stock-based compensation | \$ 4,493 | \$ 3,414 | \$ 18,800 | \$ 15,727 |

(c) The income tax effect on non-GAAP items for the three and twelve months ended June 30, 2017 and 2016 is calculated utilizing the Company's estimated federal and state tax rate.

(d) Excess tax benefits are related to stock-based compensation tax deductions in excess of book compensation expense and reduce our income taxes payable. We have included the impact of excess tax benefits in free cash flow to be consistent with the treatment of other tax activity.

(e) In the twelve months ended June 30, 2017 and March 31, 2016, we acquired technology that did not meet the accounting requirements for capitalization and therefore the cost of the acquired technology was expensed as research and development. We have excluded the expense of the acquired technology from non-GAAP operating income to be consistent with transactions where the acquired assets were capitalized. In the twelve months ended June 30, 2017 and 2016, we have excluded payments of \$2.3 million and \$1.3 million, respectively, for the non-capitalized acquired technology (including \$0.5 million and \$1 million, respectively of final payments related to non-capitalized acquired technology from prior fiscal periods) from free cash flow to be consistent with the treatment of other transactions where the acquired assets were capitalized.