

VEEVA SYSTEMS INC
Form 10-Q
June 04, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended April 30, 2015

or

☐ 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: 001-36121

Veeva Systems Inc.

(Exact name of registrant as specified in its charter)

Delaware 20-8235463
(State or other jurisdiction of (IRS Employer

incorporation or organization) Identification No.)

4637 Chabot Drive, Suite 210

Pleasanton, California 94588

(Address of principal executive offices)

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(925) 452-6500

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 ☒ No ☐

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 ☒ No ☐

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 definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

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

As of May 27, 2015, there were 71,900,022 shares of the Registrant's Class A common stock outstanding and 59,842,893 shares of the Registrant's Class B common stock outstanding.

VEEVA SYSTEMS INC.

FORM 10-Q

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1.	<u>Financial Statements.</u>	1
	<u>Condensed Consolidated Balance Sheets</u>	1
	<u>Condensed Consolidated Statements of Comprehensive Income</u>	2
	<u>Condensed Consolidated Statements of Cash Flows</u>	3
	<u>Notes to Condensed Consolidated Financial Statements</u>	4
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	27
Item 4.	<u>Controls and Procedures.</u>	28

PART II. OTHER INFORMATION 29

Item 1.	<u>Legal Proceedings</u>	29
Item 1A.	<u>Risk Factors</u>	30
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	46
Item 3.	<u>Defaults Upon Senior Securities</u>	46
Item 4.	<u>Mine Safety Disclosures</u>	46
Item 5.	<u>Other Information</u>	46
Item 6.	<u>Exhibits</u>	47

SIGNATURES 48

EXHIBIT INDEX 49

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that are based on our beliefs and assumptions and on information currently available to us. Forward-looking statements include information concerning our possible or assumed future results of operations and expenses, business strategies and plans, trends, market sizing, competitive position, industry environment and potential growth opportunities, among other things. Forward-looking statements include all statements that are not historical facts and, in some cases, can be identified by terms such as “anticipates,” “believes,” “could,” “estimates,” “expects,” “intends,” “may,” “plans,” “potential,” “predicts,” “projects,” “seeks,” “should,” “will,” “would” and other expressions and the negatives of those terms.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements, including those described in “Risk Factors” and elsewhere in this report. Given these uncertainties, you should not place undue reliance on these forward-looking statements.

Any forward-looking statement made by us in this report speaks only as of the date on which it is made. Except as required by law, we disclaim any obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

As used in this report, the terms “Veeva,” “Registrant,” “we,” “us,” and “our” mean Veeva Systems Inc. and its subsidiaries unless the context indicates otherwise.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

VEEVA SYSTEMS INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except number of shares and par value)

	April 30, 2015 (Unaudited)	January 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 107,561	\$ 129,253
Short-term investments	320,947	268,620
Accounts receivable, net of allowance for doubtful accounts of \$404 and \$413, respectively	70,217	92,661
Deferred income taxes	4,815	4,815
Other current assets	6,235	6,488
Total current assets	509,775	501,837
Property and equipment, net	35,173	28,203
Capitalized internal-use software, net	1,075	1,240
Goodwill	11,075	4,850
Intangible assets, net	7,790	4,904
Other long-term assets	3,775	3,856
Total assets	\$ 568,663	\$ 544,890
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 5,288	\$ 3,886
Accrued compensation and benefits	6,347	6,497
Accrued expenses and other current liabilities	8,409	8,939
Income tax payable	5,823	3,241
Deferred revenue	111,276	112,960
Total current liabilities	137,143	135,523
Other long-term liabilities	2,570	2,534
Total liabilities	139,713	138,057
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Class A common stock, \$0.00001 par value; 800,000,000 shares authorized, 71,381,462 and 64,729,479 issued and outstanding at April 30, 2015 and January 31, 2015, respectively		
	1	—

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Class B common stock, \$0.00001 par value; 190,000,000 shares authorized,

60,255,819 and 66,338,146 issued and outstanding at April 30, 2015 and

January 31, 2015, respectively	—	1
Additional paid-in capital	327,027	317,881
Accumulated other comprehensive income	15	26
Retained earnings	101,907	88,925
Total stockholders' equity	428,950	406,833
Total liabilities and stockholders' equity	\$ 568,663	\$544,890

See Notes to Condensed Consolidated Financial Statements.

VEEVA SYSTEMS INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, except per share data)

	Three Months Ended	
	April 30,	2014
	2015	
	(Unaudited)	
Revenues:		
Subscription services	\$68,894	\$48,521
Professional services and other	21,029	18,200
Total revenues	89,923	66,721
Cost of revenues ⁽¹⁾ :		
Cost of subscription services	15,873	12,040
Cost of professional services and other	16,112	13,910
Total cost of revenues	31,985	25,950
Gross profit	57,938	40,771
Operating expenses ⁽¹⁾ :		
Research and development	12,957	8,992
Sales and marketing	15,496	12,814
General and administrative	8,560	6,408
Total operating expenses	37,013	28,214
Operating income	20,925	12,557
Other income (expense), net	763	(30)
Income before income taxes	21,688	12,527
Provision for income taxes	8,706	5,306
Net income	\$12,982	\$7,221
Net income attributable to Class A and Class B common stockholders, basic		
and diluted	\$12,964	\$7,128
Net income per share attributable to Class A and Class B common		
stockholders:		
Basic	\$0.10	\$0.06
Diluted	\$0.09	\$0.05
Weighted-average shares used to compute net income per share attributable		
to Class A and Class B common stockholders:		
Basic	131,163	123,902
Diluted	144,734	142,849
Other comprehensive income:		
Net change in unrealized gains (losses) on available-for-sale investments	\$(3)	\$46
Net change in cumulative foreign currency translation gain (loss)	(8)	(34)
Comprehensive income	\$12,971	\$7,233

- (1) Includes stock-based compensation as follows:

Cost of revenues:		
Cost of subscription services	\$111	\$53
Cost of professional services and other	742	582
Research and development	1,383	887
Sales and marketing	1,120	776
General and administrative	1,443	958
Total stock-based compensation	\$4,799	\$3,256

See Notes to Condensed Consolidated Financial Statements.

VEEVA SYSTEMS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Three Months Ended	
	April 30,	2014
	2015	(Unaudited)
Cash flows from operating activities		
Net income	\$ 12,982	\$ 7,221
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,024	930
Amortization of premiums on short-term investments	763	312
Stock-based compensation	4,799	3,256
Bad debt expense (recovery)	(7)	28
Changes in operating assets and liabilities:		
Accounts receivable	23,536	(2,812)
Income taxes	2,862	(2,678)
Other current and long-term assets	33	(1,861)
Accounts payable	(760)	912
Accrued expenses and other current liabilities	(1,336)	5,318
Deferred revenue	(2,197)	7,492
Other long-term liabilities	92	12
Net cash provided by operating activities	41,791	18,130
Cash flows from investing activities		
Purchases of short-term investments	(100,837)	(135,116)
Maturities and sales of short-term investments	47,744	3,867
Purchases of property and equipment	(4,710)	(299)
Acquisitions, net of cash acquired	(9,987)	—
Capitalized internal-use software development costs	(22)	(220)
Payments for restricted cash and deposits	1	(3)
Net cash used in investing activities	(67,811)	(131,771)
Cash flows from financing activities		
Proceeds from early exercise of common stock options	8	—
Proceeds from exercise of common stock options	1,162	685
Net proceeds from offerings	—	34,994
Restricted stock units acquired to settle employee tax withholding liability	(4)	—
Excess tax benefits from employee stock plans	3,169	4,379
Net cash provided by financing activities	4,335	40,058
Effect of exchange rate changes on cash and cash equivalents	(7)	(36)
Net change in cash and cash equivalents	(21,692)	(73,619)
Cash and cash equivalents at beginning of period	129,253	262,507
Cash and cash equivalents at end of period	\$ 107,561	\$ 188,888
Supplemental disclosures of other cash flow information:		

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Cash paid for income taxes, net of refunds	\$2,642	\$3,918
Non-cash investing and financing activities:		
Changes in accounts payable and accrued liabilities related to property		
and equipment purchases	\$2,482	\$69
Vesting of early exercised stock options	\$17	\$119
Offering costs not yet paid	\$—	\$515

See Notes to Condensed Consolidated Financial Statements.

VEEVA SYSTEMS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Summary of Business and Significant Accounting Policies

Description of Business

Veeva is a leading provider of cloud-based software solutions for the global life sciences industry. We were founded in 2007 on the premise that industry-specific business problems would best be addressed by tailored cloud solutions, an approach referred to as industry cloud. All of our solutions are designed from the ground up to address the unique business and regulatory requirements of the life sciences industry. We enable life sciences companies to realize the benefits of a cloud delivery model and modern mobile applications for their most critical business functions with solutions that meet their specialized functional and compliance needs. Our fiscal year end is January 31.

Principles of Consolidation and Basis of Presentation

These unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (GAAP) and applicable rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting, and include the accounts of our wholly owned subsidiaries after elimination of intercompany accounts and transactions. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in Veeva's Annual Report on Form 10-K for the fiscal year ended January 31, 2015, filed on April 1, 2015. There have been no changes to our significant accounting policies described in the annual report that have had a material impact on our condensed consolidated financial statements and related notes.

The consolidated balance sheet as of January 31, 2015 included herein was derived from the audited financial statements as of that date. These unaudited condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, our comprehensive income and cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for the full fiscal year ending January 31, 2016 or any other period.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires us to make estimates, judgments and assumptions that affect the condensed consolidated financial statements and the notes thereto. These estimates are based on information available as of the date of the condensed consolidated financial statements. On a regular basis, management evaluates these estimates and assumptions. Significant items subject to such estimates and assumptions include, but are not limited to:

- the best estimate of selling price of the deliverables included in multiple-deliverable revenue arrangements;
- the collectibility of our accounts receivable;
- the fair value of assets acquired and liabilities assumed for business combinations;
- the valuation of short-term investments and the determination of other-than-temporary impairments;
- the valuation of building and land;
- the realizability of deferred income tax assets;

the fair value of our stock-based awards and related forfeiture rates; and
the capitalization and estimated useful life of internal-use software development costs.
As future events cannot be determined with precision, actual results could differ significantly from those estimates.

Revenue Recognition

We derive our revenues from two sources: (i) subscription services revenues, which are comprised of subscription fees from customers accessing our enterprise cloud computing solutions, and (ii) related professional services and other revenues. Professional services and other revenues generally include consulting, data services and training. We commence revenue recognition when all of the following conditions are satisfied:

- there is persuasive evidence of an arrangement;
- the service has been or is being provided to the customer;
- the collection of the fees is reasonably assured; and
- the amount of fees to be paid by the customer is fixed or determinable.

Our subscription services arrangements are generally non-cancellable and do not provide for refunds to customers in the event of cancellations. We record revenues net of any sales taxes.

Subscription Services Revenues

Subscription services revenues are recognized ratably over the order term beginning when the solution has been provisioned to the customer. Our subscription arrangements are considered service contracts, and the customer does not have the right to take possession of the software.

Professional Services and Other Revenues

The majority of our professional services arrangements are recognized on a time and material basis. Professional services revenues recognized on a time and material basis are measured monthly based on time incurred and contractually agreed upon rates. Certain professional services revenues are based on fixed fee arrangements and revenues are recognized based on progress against input measures, such as hours incurred. In some cases the terms of our time and materials and fixed fee arrangements may require that we defer the recognition of revenue until contractual conditions are met. Data services and training revenues are generally recognized as the services are performed.

Multiple Element Arrangements

We apply the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2009-13, Multiple—Deliverable Revenue Arrangements, to allocate revenues based on relative best estimated selling price to each unit of accounting in multiple element arrangements, which generally include subscriptions and professional services. Best estimated selling price of each unit of accounting included in a multiple element arrangement is based upon management's estimate of the selling price of deliverables when vendor specific objective evidence or third-party evidence of selling price is not available.

Our multiple element arrangements contain non-software deliverables such as our subscription offerings and professional services. For these arrangements we must: (i) determine whether each deliverable has stand-alone value; (ii) determine the estimated selling price of each element using the selling price hierarchy of vendor-specific objective evidence (VSOE) of fair value, third-party evidence (TPE) or best estimated selling price (BESP), as applicable; and (iii) allocate the total price among the various deliverables based on the relative selling price method.

In determining whether professional services and other revenues have stand-alone value, we consider the following factors for each consulting agreement: availability of the consulting services from other vendors, the nature of the consulting services and whether the professional services are required in order for the customer to use the subscription services.

We have determined that we are not able to establish VSOE of fair value or TPE of selling price for any of our deliverables, and accordingly we use BESP for each deliverable in the arrangement. The objective of BESP is to estimate the price at which we would transact a sale of the service deliverables if the services were sold on a stand-alone basis. Revenue allocated to each deliverable is recognized when the basic revenue recognition criteria are met for each deliverable.

We determine BESP for our subscription services included in a multiple element subscription arrangement by considering multiple factors including, but not limited to, stated subscription renewal rates offered to the customer to renew the service and other major groupings such as customer type and geography.

BESP for professional services considers the discount of actual professional services sold compared to list price, the experience level of the individual performing the service and geography.

Deferred Revenue

Deferred revenue includes amounts billed to customers for which the revenue recognition criteria have not been met. The majority of deferred revenue primarily consists of billings or payments received in advance of revenue recognition from our subscription services described above and is recognized as the revenue recognition criteria are met. We generally invoice our customers in annual, quarterly or monthly installments for the subscription services, which are typically contracted for a term of one year or less. Accordingly, the deferred revenue balance does not generally represent the total contract value of a subscription arrangement. Deferred revenue that will be recognized during the succeeding 12-month period is recorded as current deferred revenue.

Certain Risks and Concentrations of Credit Risk

Our revenues are derived from subscription services, professional services and other services delivered primarily to the pharmaceutical and life sciences industry. We operate in markets that are highly competitive and rapidly changing. Significant technological changes, shifting customer needs, the emergence of competitive products or services with new capabilities and other factors could negatively impact our operating results.

Our financial instruments that potentially subject us to concentration of credit risk consist primarily of cash and cash equivalents, short-term investments and trade accounts receivable. Our cash equivalents and short-term investments are held in safekeeping by large, credit-worthy financial institutions. We have established guidelines relative to credit ratings, diversification and maturities that seek to maintain safety and liquidity. Deposits in these financial institutions may exceed federally insured limits.

We do not require collateral from our customers and generally require payment within 30 to 60 days of billing. We periodically evaluate the collectibility of our accounts receivable and provide an allowance for doubtful accounts as necessary, based on historical experience. Historically, such losses have not been material.

No single customer represented over 10% of accounts receivable in the condensed consolidated financial statements as of April 30, 2015 or January 31, 2015. No single customer represented over 10% of total revenues in the condensed consolidated financial statements for the three months ended April 30, 2015 and 2014.

Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (FASB) issued new accounting guidance Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. This guidance is intended to help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement, primarily to determine whether the arrangement includes a sale or license of software. The new guidance is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. We have elected not to early adopt. The adoption of guidance is not expected to have a material impact on our condensed consolidated financial statements.

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers," which requires revenue to be recognized when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 supersedes the existing revenue recognition guidance in "Revenue Recognition (Topic 605)" and will be effective for our fiscal year beginning February 1, 2017. Early adoption is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU 2014-09 will have on our condensed consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

Note 2. Acquisition of Qforma CrowdLink

On March 31, 2015, we completed our acquisition of the key opinion leader, or KOL, business and products known as Qforma CrowdLink in an all-cash transaction. We expect this acquisition to support our entry into the key opinion leader business. Total closing consideration for the purchase was \$10.0 million in cash. Approximately 15% of the closing consideration has been placed into escrow to be held for 12 months following the close as security for losses incurred by us in the event of certain breaches of representations and warranties by the sellers and certain other losses. There are no contingent cash payments related to this transaction. As of April 30, 2015, we had incurred \$0.3 million in acquisition-related transaction costs. The assets, liabilities and operating results of Qforma CrowdLink have been reflected in our consolidated financial statements from the date of acquisition and have not been material.

Through the transaction we acquired the outstanding equity interests of Mederi AG, and the selected other KOL-related business assets and liabilities of Qforma, Inc. and other affiliated entities. Under the acquisition method of accounting, the total preliminary purchase price was allocated to Qforma CrowdLink's net tangible and intangible assets based upon their estimated fair values as of March 31, 2015. The total preliminary purchase price for Qforma CrowdLink was \$10.0 million of which \$6.2 million was

allocated to goodwill, \$3.3 million to identifiable intangible assets and \$0.5 million to net assets assumed. Goodwill represents the excess of the purchase price over the fair value of the underlying net tangible and intangible assets and represents the future economic benefits of the data technology contributions in support of our Veeva OpenData solution. Goodwill is not deductible for U.S. tax purposes.

The fair values assigned to assets acquired and liabilities assumed are based on management's best estimates and assumptions as of the reporting date and are considered preliminary pending finalization of valuation analyses pertaining to intangible assets assumed, liabilities assumed and tax liabilities assumed including calculation of deferred tax assets and liabilities. Changes to amounts recorded as assets or liabilities may result in corresponding adjustments to goodwill during the measurement period (up to one year from the acquisition date).

We did not record any in-process research and development in connection with the acquisition.

Each component of identifiable intangible assets acquired in connection with the above acquisition as of April 30, 2015 were as follows (dollar amounts in thousands):

	April 30, 2015	
	Estimated	Useful
	Estimated	Life
	Fair	
	Value	(in years)
Existing technology	\$200	5.0
Database	1,800	5.0
Customer relationships	800	4.0
Software	500	5.0
	\$3,300	

Amortization expense associated with acquired intangible assets associated with Qforma CrowdLink identifiable intangible assets for the three months ended April 30, 2015 were not recorded as the amounts for the period were immaterial.

Pro forma results of operations have not been presented because the effect of this acquisition was not material to the consolidated financial statements.

Note 3. Short-Term Investments

We classify short-term investments as available-for-sale at the time of purchase and reevaluate such classification as of each balance sheet date. All short-term investments are recorded at estimated fair value. Unrealized gains and losses for available-for-sale securities are included in accumulated other comprehensive income, a component of stockholders' equity. We evaluate our investments to assess whether those with unrealized loss positions are other than temporarily impaired. We consider impairments to be other than temporary if they are related to deterioration in credit risk or if it is likely we will sell the securities before the recovery of their cost basis. Realized gains and losses and declines in value judged to be other than temporary are determined based on the specific identification method and are reported in other income (expense), net, in the condensed consolidated statements of comprehensive income. Interest, amortization of premiums, and accretion of discount on all short-term investments classified as available for sale are also included as a component of other income (expense), net, in the condensed consolidated statements of comprehensive income.

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At April 30, 2015, short-term investments consisted of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Asset-backed securities	\$ 11,075	\$ 2	\$ (3)) \$ 11,074
Commercial paper	3,396	—	—	3,396
Corporate notes and bonds	44,733	12	(14)) 44,731
U.S. agency obligations	248,678	76	(19)) 248,735
U.S. treasury securities	12,975	36	—	13,011
Total available-for-sale securities	\$ 320,857	\$ 126	\$ (36)) \$ 320,947

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At January 31, 2015, short-term investments consisted of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Asset-backed securities	\$ 9,323	\$ —	\$ (4)	\$ 9,319
Commercial paper	3,394	—	—	3,394
Corporate notes and bonds	45,990	18	(19)	45,989
U.S. agency obligations	199,822	92	(3)	199,911
U.S. treasury securities	9,999	8	—	10,007
Total available-for-sale securities	\$ 268,528	\$ 118	\$ (26)	\$ 268,620

We may sell our short-term investments at any time, without significant penalty, for use in current operations or for other purposes, even if they have not yet reached maturity. As a result, we classify our investments, including securities with maturities beyond 12 months, as current assets in the accompanying condensed consolidated balance sheets.

The following table summarizes the estimated fair value of our short-term investments, designated as available-for-sale and classified by the contractual maturity date of the securities as of the dates shown (in thousands):

	April 30, 2015	January 31, 2015
Due in one year or less	\$ 250,106	\$ 224,263
Due in greater than one year	70,841	44,357
Total	\$ 320,947	\$ 268,620

We have certain available-for-sale securities in a gross unrealized loss position, all of which have been in such position for less than 12 months. We review our debt securities classified as short-term investments on a regular basis to evaluate whether or not any security has experienced an other-than-temporary decline in fair value. We consider factors such as the length of time and extent to which the market value has been less than the cost, the financial position and near-term prospects of the issuer and our intent to sell, or whether it is more likely than not we will be required to sell the investment before recovery of the investment's amortized-cost basis. If we determine that an other-than-temporary decline exists in one of these securities, the respective investment would be written down to fair value. For debt securities, the portion of the write-down related to credit loss would be recognized to other income, net in our condensed consolidated statements of comprehensive income. Any portion not related to credit loss would be included in accumulated other comprehensive income. There were no impairments considered other-than-temporary as of April 30, 2015 and January 31, 2015.

The following table shows the fair values and the gross unrealized losses of these available-for-sale securities aggregated by investment category as of April 30, 2015 (in thousands):

	Fair Value	Gross Unrealized Losses
Asset-backed securities	\$6,288	\$ (3)
Corporate notes and bonds	32,560	(14)
U.S. agency obligations	49,511	(19)
U.S. treasury securities	999	—

The following table shows the fair values and the gross unrealized losses of these available-for-sale securities aggregated by investment category as of January 31, 2015 (in thousands):

	Fair Value	Gross Unrealized Losses
Asset-backed securities	\$9,319	\$ (4)
Corporate notes and bonds	23,239	(19)
U.S. agency obligations	18,398	(3)

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Note 4. Property and Equipment, Net

Property and equipment, net, consists of the following as of the dates shown (in thousands):

	April 30, 2015	January 31, 2015
Land	\$3,040	\$3,040
Building	20,984	20,984
Equipment and computers	3,679	3,103
Furniture and fixtures	1,279	1,207
Leasehold improvements	1,234	1,228
Construction in progress	7,463	980
	37,679	30,542
Less accumulated depreciation	(2,506)	(2,339)
Total property and equipment, net	\$35,173	\$28,203

Total depreciation expense for the three months ended April 30, 2015 and 2014 was \$0.4 million and \$0.3 million, respectively. Land is not depreciated.

Note 5. Capitalized Internal-Use Software

Capitalized internal-use software, net, consisted of the following as of the dates shown (in thousands):

	April 30, 2015	January 31, 2015
Capitalized internal-use software development costs	\$3,331	\$3,307
Less accumulated amortization	(2,256)	(2,067)
Capitalized internal-use software development costs, net	\$1,075	\$1,240

During the three months ended April 30, 2015, we capitalized an immaterial amount for internal-use software development costs. During the three months ended April 30, 2014, we capitalized \$0.3 million for internal-use software development costs.

Capitalized internal-use software amortization expense for the three months ended April 30, 2015 and 2014 was \$0.2 million and \$0.2 million, respectively.

Note 6. Intangible Assets and Goodwill

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The following schedule presents the details of intangible assets as of April 30, 2015 (in thousands):

	April 30, 2015			
	Gross			Remaining
	Carrying	Accumulated		Useful
	Amount	Amortization	Net	Life
				(in years)
Existing technology	\$3,880	\$ (1,372)	\$2,508	3.3
Database	4,370	(1,198)	3,172	3.8
Customer relationships	1,820	(317)	1,503	4.1
Software	804	(197)	607	4.3
	\$10,874	\$ (3,084)	\$7,790	

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The following schedule presents the details of intangible assets as of January 31, 2015 (in thousands):

	January 31, 2015			
	Gross			Remaining
	Carrying	Accumulated		Useful
	Amount	Amortization	Net	Life
				(in years)
Data update technology	\$3,680	\$ (1,188)	\$2,492	3.4
Database	2,570	(1,037)	1,533	2.3
Customer relationships	1,020	(274)	746	4.3
Software	304	(171)	133	1.3
	\$7,574	\$ (2,670)	\$4,904	

Amortization expense associated with acquired intangible assets for the three months ended April 30, 2015 and 2014 was \$0.4 million and \$0.4 million, respectively.

The estimated amortization expense for intangible assets, for the next five years and thereafter is as follows (in thousands):

Period	Estimated Amortization Expense
Remainder of fiscal 2016	\$ 1,826
Fiscal 2017	2,282
Fiscal 2018	1,854
Fiscal 2019	1,154
Fiscal 2020	596
Thereafter	78
Total	\$ 7,790

The following schedule presents the details of goodwill as of April 30, 2015 (in thousands):

Goodwill	
Balance as of	
January 31, 2015	\$ 4,850
Goodwill from	
Qforma CrowdLink	
acquisition	6,225
Balance as of April	
30, 2015	\$ 11,075

Note 7. Accrued Expenses

Accrued expenses consisted of the following as of the dates shown (in thousands):

	April 30, 2015	January 31, 2015
Accrued commissions	\$887	\$1,309
Accrued bonus	1,593	1,901
Accrued other compensation and benefits	3,867	3,287
Total accrued compensation and benefits	\$6,347	\$6,497
Accrued fees paid to salesforce.com	3,651	3,395
Early exercise of stock options	77	87
Sales taxes payable	925	1,666
Other accrued expenses	3,756	3,791
Total accrued expenses and other current liabilities	\$8,409	\$8,939

Note 8. Fair Value Measurements

The carrying amounts of accounts receivable and other current assets, accounts payable and accrued liabilities approximate fair value due to their short-term nature.

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Financial assets and financial liabilities recorded at fair value in the condensed consolidated financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, which are directly related to the amount of subjectivity associated with the inputs to the valuation of these assets or liabilities are as follows:

Level 1—Observable inputs, such as quoted prices in active markets for identical assets or liabilities.

Level 2—Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Financial assets and financial liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires management to make judgments and considers factors specific to the asset or liability.

The following table presents the fair value hierarchy for financial assets measured at fair value on a recurring basis as of April 30, 2015 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	\$21,672	\$—	\$ —	\$21,672
U.S. agency obligations	—	1,675	—	1,675
Short-term investments				
Asset-backed securities	—	11,074	—	11,074
Commercial paper	—	3,396	—	3,396
Corporate notes and bonds	—	44,731	—	44,731
U.S. agency obligations	—	248,735	—	248,735
U.S. treasury securities	—	13,011	—	13,011
Total	\$21,672	\$322,622	\$ —	\$344,294

The following table presents the fair value hierarchy for financial assets measured at fair value on a recurring basis as of January 31, 2015 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	\$41,861	\$—	\$ —	\$41,861
U.S. agency obligations	—	3,595	—	3,595
Short-term investments				
Asset-backed securities	—	9,319	—	9,319
Commercial paper	—	3,394	—	3,394

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Corporate notes and bonds	—	45,989	—	45,989
U.S. agency obligations	—	199,911	—	199,911
U.S. treasury securities	—	10,007	—	10,007
Total	\$41,861	\$272,215	\$ —	\$314,076

We determine the fair value of our security holdings based on pricing from our pricing vendors. The valuation techniques used to measure the fair value of financial instruments having Level 2 inputs were derived from non-binding consensus prices that are corroborated by observable market data or quoted market prices for similar instruments. Such market prices may be quoted prices in active markets for identical assets (Level 1 inputs) or pricing determined using inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs). We perform procedures to ensure that appropriate fair values are recorded such as comparing prices obtained from other sources.

Note 9. Income Taxes

For the three months ended April 30, 2015 and 2014, our effective tax rates were 40% and 42%, respectively. Our effective tax rate decreased 2% during the three months ended April 30, 2015 as compared to the prior year period primarily due to an increase in the Section 199 domestic production activities deduction for Fiscal 2016.

Note 10. Stockholders' Equity

Common Stock

As of April 30, 2015, we had 71,381,462 shares of Class A common stock and 60,255,819 shares of Class B common stock outstanding, of which 172,000 shares of Class B common stock were unvested, resulting from employees exercising stock options prior to vesting.

As of January 31, 2015, we had 64,729,479 shares of Class A common stock and 66,338,146 shares of Class B common stock outstanding, of which 195,833 shares of Class B common stock were unvested, resulting from employees exercising stock options prior to vesting.

Early Exercise of Employee Options

We historically have allowed for the early exercise of options granted under the 2007 Stock Plan (2007 Plan) prior to vesting. The 2007 Plan allows for such exercises by means of cash payment, surrender of already outstanding common stock, a same day broker assisted sale or through any other form or method consistent with applicable laws, regulations and rules. Historically, all exercises have been through cash payment. The unvested shares are subject to our repurchase right at the original purchase price. The proceeds initially are recorded as an accrued liability from the early exercise of stock options, and reclassified to common stock as our repurchase right lapses. At April 30, 2015 and January 31, 2015, there were unvested shares in the amount of 172,000 and 195,833, respectively, which were subject to repurchase at an aggregate price of approximately \$0.1 million and \$0.1 million, respectively.

Stock Option Activity

A summary of stock option activity for the three months ended April 30, 2015 is as follows:

	Number of shares	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value
Options outstanding at January 31, 2015	20,233,620	\$ 4.18	7.7	\$498,862,568
Options granted	20,800	24.49		
Options exercised	(508,216)	2.30		\$13,003,851
Options forfeited/cancelled	(68,085)	4.31		
Options outstanding at April 30, 2015	19,678,119	\$ 4.25	7.5	\$441,306,853
Options vested and exercisable at April 30, 2015	4,114,265	\$ 2.71	6.6	\$98,616,555
Options vested and exercisable at April 30, 2015 and expected to vest thereafter	18,637,618	\$ 4.23	7.5	\$418,360,021

The weighted average grant-date fair value of options granted during the three months ended April 30, 2015 and 2014 was \$11.25 and \$15.47, respectively, per share.

As of April 30, 2015, there was \$32.8 million in unrecognized compensation cost, net of estimated forfeitures, related to unvested stock options granted under the 2007 Plan, 2012 EIP and 2013 EIP. This cost is expected to be recognized over a weighted average period of 4.3 years.

As of April 30, 2015, we had authorized and unissued shares of common stock sufficient to satisfy exercises of stock options.

The total intrinsic value of options exercised was approximately \$13.0 million for the three months ended April 30, 2015.

12

Restricted Stock Units

A summary of restricted stock unit (RSU) activity for the three months ended April 30, 2015 is as follows:

	Unreleased Restricted Stock Units	Weighted average grant date fair value
Balance at January 31, 2015	965,972	\$ 27.48
RSUs granted	666,150	26.53
RSUs vested	(64,913)	27.58
RSUs forfeited/cancelled	(38,376)	25.03
Balance at April 30, 2015	1,528,833	\$ 27.12

During the three months ended April 30, 2015 and 2014, we issued RSUs under the 2013 EIP with a weighted-average grant date fair value of \$26.53 and \$27.17, respectively.

As of April 30, 2015, there was a total of \$39.6 million in unrecognized compensation cost, net of estimated forfeitures, related to unvested RSUs. This cost is expected to be recognized over a weighted-average period of approximately 3.5 years.

Stock-Based Compensation

The following table presents the weighted-average assumptions used to estimate the fair value of options granted during the periods presented:

	Three Months Ended	
	April 30, 2015	2014
Volatility	46%	48%
Expected term (in years)	6.11	6.27
	1.76%	
Risk-free interest rate	— 1.83%	1.85%
Dividend yield	—%	—%

The amounts of stock-based compensation capitalized for internal-use software in the three months ended April 30, 2015 and 2014 were immaterial.

Note 11. Net Income per Share Attributable to Common Stockholders

We compute net income per share of Class A and Class B common stock using the two-class method required for participating securities. Prior to the date of our IPO in October 2013, we considered all series of our convertible preferred stock to be participating securities due to their non-cumulative dividend rights. Immediately prior to the completion of our IPO, all outstanding shares of convertible preferred stock converted to Class B common stock. Additionally, we consider unvested shares issued upon the early exercise of options to be participating securities as the holders of these shares have a non-forfeitable right to dividends in the event of our declaration of a dividend for common shares.

Under the two-class method, net income attributable to common stockholders is determined by allocating undistributed earnings, calculated as net income, less (i) current period convertible preferred stock non-cumulative dividends and (ii) earnings attributable to participating securities.

The net income per share attributable to common stockholders is allocated based on the contractual participation rights of the Class A common stock and Class B common stock as if the income for the year has been distributed. As the liquidation and dividend rights are identical, the net loss attributable to common stockholders is allocated on a proportionate basis.

Basic net income per share of common stock is computed by dividing the net income attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period. All participating securities are excluded from the basic weighted-average shares of common stock outstanding. Unvested shares of common stock resulting from the early exercises of stock options are excluded from the calculation of the weighted-average shares of common stock until they vest as they are subject to repurchase until they are vested.

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Diluted net income per share attributable to common stockholders is computed by dividing net income attributable to common stockholders by the weighted-average shares outstanding, including potentially dilutive shares of common stock assuming the dilutive effect of potential shares of common stock for the period determined using the treasury stock method.

Undistributed net income for a given period is apportioned to participating securities based on the weighted-average shares of each class of common stock outstanding during the applicable period as a percentage of the total weighted-average shares outstanding during the same period.

For purposes of the diluted net income per share attributable to common stockholders calculation, unvested shares of common stock resulting from the early exercises of stock options and unvested options to purchase common stock are considered to be potentially dilutive shares of common stock. In addition, the computation of the fully diluted net income per share of Class A common stock assumes the conversion from Class B common stock, while the fully diluted net income per share of Class B common stock does not assume the conversion of those shares.

The numerators and denominators of the basic and diluted EPS computations for our common stock are calculated as follows (in thousands, except per share data):

	Three Months Ended April 30,			
	2015		2014	
	Class A	Class B	Class A	Class B
Basic				
Numerator				
Net income	\$6,837	\$6,145	\$1,258	\$5,963
Undistributed earnings allocated to participating securities	(9)	(9)	(16)	(77)
Net income attributable to common stockholders, basic	\$6,828	\$6,136	\$1,242	\$5,886
Denominator				
Weighted average shares used in computing net income per				
share attributable to common stockholders, basic	69,078	62,085	21,589	102,313
Net income per share attributable to common stockholders, basic	\$0.10	\$0.10	\$0.06	\$0.06
Diluted				
Numerator				
Net income attributable to common stockholders, basic	\$6,828	\$6,136	\$1,242	\$5,886
Reallocation as a result of conversion of Class B to Class A				
common stock:				
Net income attributable to common stockholders, basic	6,136	—	5,886	—
Reallocation of net income to Class B common stock	—	640	—	165
Net income attributable to common stockholders, diluted	\$12,964	\$6,776	\$7,128	\$6,051
Denominator				
Number of shares used for basic EPS computation	69,078	62,085	21,589	102,313
Conversion of Class B to Class A common stock	62,085	—	102,313	—
Effect of potentially dilutive common shares	13,571	13,571	18,947	18,947
Weighted average shares used in computing net income per				
share attributable to common stockholders, diluted	144,734	75,656	142,849	121,260
Net income per share attributable to common stockholders,	\$0.09	\$0.09	\$0.05	\$0.05

diluted

Potential common share equivalents excluded where the inclusion would be anti-dilutive are as follows:

	Three Months Ended	
	April 30, 2015	2014
Options to purchase shares and awards not included in the computation of diluted		
net income per share because their inclusion would be anti-dilutive	643,638	600,920

Note 12. Commitments and Contingencies
Litigation

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment or remediation can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

On April 30, 2015, a complaint was filed against us in the U.S. District Court for the Southern District of New York (IMS Health Technology Solutions France SASU et al. v. Veeva Systems Inc., 15CV03379). The complaint alleges that our use of the term “OpenKey” in our “Veeva OpenKey” product name constitutes infringement of the plaintiffs’ trademark, “OneKey.” The complaint also alleges unfair competition, dilution and other federal and state claims arising from our use of the term “OpenKey.” The complaint seeks injunctive relief, unspecified monetary damages and an award of plaintiffs’ attorney fees. We engaged in discussions with plaintiffs following the filing of the lawsuit but no settlement has been reached. On or about May 26, 2015, in an effort to amicably resolve the dispute, we voluntarily discontinued use of and replaced the term “OpenKey” in our product names with the term “OpenData.” On May 26, 2015, plaintiffs nonetheless served us with a copy of the previously filed complaint regarding our use of the term “OpenKey.” We intend to defend ourselves vigorously against this action. In light of, among other things, the early stage of the litigation, we are unable to predict the outcome of this matter and are unable to estimate the amount or range of loss, if any, that could result from an unfavorable outcome.

From time to time, we may be involved in other legal proceedings and subject to claims incident to the ordinary course of business. Although the results of such legal proceedings and claims cannot be predicted with certainty, we believe we are not currently a party to any legal proceedings, other than as set forth above, the outcome of which, if determined adversely to us, would individually or taken together have a material adverse effect on our business, operating result