

VEEVA SYSTEMS INC
Form 10-Q
December 11, 2014

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 October 31, 2014

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)	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 November 28, 2014, there were 59,042,145 shares of the Registrant's Class A common stock outstanding and 71,552,834 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 Stockholders' Equity</u>	3
	<u>Condensed Consolidated Statements of Cash Flows</u>	4
	<u>Notes to Condensed Consolidated Financial Statements</u>	5
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	28
Item 4.	<u>Controls and Procedures.</u>	29

PART II. OTHER INFORMATION 30

Item 1.	<u>Legal Proceedings</u>	30
Item 1A.	<u>Risk Factors</u>	31
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	48
Item 3.	<u>Defaults Upon Senior Securities</u>	48
Item 4.	<u>Mine Safety Disclosures</u>	48
Item 5.	<u>Other Information</u>	48
Item 6.	<u>Exhibits</u>	49

SIGNATURES 50

EXHIBIT INDEX 51

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)

	October 31, 2014 (Unaudited)	January 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 132,135	\$ 262,507
Short-term investments	260,731	25,625
Accounts receivable, net of allowance for doubtful accounts of \$269 and \$305, respectively	45,241	58,433
Deferred income taxes	2,151	2,075
Income tax receivable	4,734	1,389
Other current assets	4,524	3,703
Total current assets	449,516	353,732
Property and equipment, net	27,613	2,445
Capitalized internal-use software, net	1,301	1,585
Goodwill	4,850	4,850
Intangible assets, net	5,314	6,551
Other long-term assets	3,959	1,145
Total assets	\$ 492,553	\$ 370,308
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 2,147	\$ 2,117
Accrued compensation and benefits	7,002	8,750
Accrued expenses and other liabilities	12,348	7,931
Income tax payable	1,595	439
Deferred revenue	84,668	67,380
Total current liabilities	107,760	86,617
Deferred income taxes, noncurrent	1,698	1,698
Other long-term liabilities	1,888	1,897
Total liabilities	111,346	90,212
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Class A common stock, \$0.00001 par value; 800,000,000 shares authorized, 58,475,649 and 15,044,750 issued and outstanding at October 31, 2014 and January 31, 2014, respectively	—	—

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

71,933,469 and 109,746,795 issued and outstanding at October 31, 2014

and January 31, 2014, respectively	1	1
Additional paid-in capital	305,631	231,534
Accumulated other comprehensive income (loss)	(24)	19
Retained earnings	75,599	48,542
Total stockholders' equity	381,207	280,096
Total liabilities and stockholders' equity	\$ 492,553	\$ 370,308

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		Nine Months Ended	
	October 31,		October 31,	
	2014	2013	2014	2013
	(Unaudited)			
Revenues:				
Subscription services	\$61,435	\$38,935	\$166,528	\$100,935
Professional services and other	22,390	16,044	59,682	46,413
Total revenues	83,825	54,979	226,210	147,348
Cost of revenues ⁽¹⁾ :				
Cost of subscription services	14,409	9,511	39,795	24,409
Cost of professional services and other	16,007	11,881	44,707	33,835
Total cost of revenues	30,416	21,392	84,502	58,244
Gross profit	53,409	33,587	141,708	89,104
Operating expenses ⁽¹⁾ :				
Research and development	10,635	6,585	29,414	18,469
Sales and marketing	14,251	11,467	40,875	28,739
General and administrative	8,582	5,550	22,136	13,900
Total operating expenses	33,468	23,602	92,425	61,108
Operating income	19,941	9,985	49,283	27,996
Other income (expense), net	(989)	125	(1,120)	(439)
Income before income taxes	18,952	10,110	48,163	27,557
Provision for income taxes	8,694	3,585	21,106	10,189
Net income	\$10,258	\$6,525	\$27,057	\$17,368
Net income attributable to Class A and Class B common stockholders:				
Basic	\$10,198	\$2,339	\$26,851	\$4,613
Diluted	\$10,198	\$6,387	\$26,851	\$16,937
Net income per share attributable to Class A and Class B common stockholders:				
Basic	\$0.08	\$0.07	\$0.21	\$0.16
Diluted	\$0.07	\$0.05	\$0.19	\$0.13
Weighted-average shares used to compute earnings per share attributable to Class A and Class B common stockholders:				
Basic	129,212	35,802	126,836	28,519
Diluted	144,289	131,963	144,082	129,601
Other comprehensive income:				
Net change in unrealized gains on available-for-sale investments	\$97	\$8	\$29	\$6
Net change in cumulative foreign currency translation gain	(15)	—	(72)	—
Comprehensive income	\$10,340	\$6,533	\$27,014	\$17,374

(1)

Includes stock-based compensation as follows:

Cost of revenues:				
Cost of subscription services	\$74	\$49	\$181	\$58
Cost of professional services and other	549	230	1,711	458
Research and development	942	429	2,703	895
Sales and marketing	754	488	2,290	970
General and administrative	1,266	890	3,356	1,655
Total stock-based compensation	\$3,585	\$2,086	\$10,241	\$4,036

See Notes to Condensed Consolidated Financial Statements.

VEEVA SYSTEMS INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except share data)

(Unaudited)

	Class A & B Common Stock Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at January 31, 2014	124,791,545	\$ 1	\$ 231,534	\$ 48,542	\$ 19	\$ 280,096
Issuance of common stock upon exercise of						
stock options	3,815,493	—	4,314	—	—	4,314
Vesting of early exercised stock options	—	—	318	—	—	318
Stock-based compensation expense	—	—	10,288	—	—	10,288
Issuance of common shares under Employee						
Stock Purchase Plan	350,059	—	5,951	—	—	5,951
Issuance of common stock upon vesting of						
restricted stock units	62,021	—	—	—	—	—
Follow-on offering, net of issuance costs	1,390,000	—	34,495	—	—	34,495
Excess tax benefits from employee stock plans	—	—	18,731	—	—	18,731
Other comprehensive income	—	—	—	—	(43)	(43)
Net income	—	—	—	27,057	—	27,057
Balance at October 31, 2014	130,409,118	\$ 1	\$ 305,631	\$ 75,599	\$ (24)	\$ 381,207

See Notes to Condensed Consolidated Financial Statements.

VEEVA SYSTEMS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Three Months Ended		Nine Months Ended	
	October 31,	October 31,	October 31,	October 31,
	2014	2013	2014	2013
	(Unaudited)			
Cash flows from operating activities				
Net income	\$ 10,258	\$ 6,525	\$ 27,057	\$ 17,368
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	1,022	774	2,943	1,552
Amortization of premiums on short-term investments	611	98	1,344	276
Stock-based compensation	3,585	2,086	10,241	4,036
Deferred income taxes	(76)	(86)	(76)	(259)
Bad debt expense	(28)	(303)	41	(21)
Changes in operating assets and liabilities:				
Accounts receivable	16,684	(9,417)	13,151	(9,852)
Income taxes	769	(1,750)	(2,189)	(5,733)
Other current and long-term assets	(2,294)	(1,224)	(3,644)	(2,117)
Accounts payable	354	1,157	56	(946)
Accrued expenses and other current liabilities	4,017	1,720	2,791	5,859
Deferred revenue	(635)	5,254	17,288	14,607
Long-term liabilities	(11)	433	(9)	758
Net cash provided by operating activities	34,256	5,267	68,994	25,528
Cash flows from investing activities				
Purchases of short-term investments	(103,836)	(4,315)	(333,728)	(7,086)
Maturities and sales of investments	52,677	2,250	97,307	4,850
Purchases of property and equipment	(790)	(460)	(26,072)	(1,561)
Acquisitions, net of cash acquired	—	—	—	(12,149)
Payments for capitalized internal-use software	(81)	(720)	(301)	(1,013)
Proceeds from note receivable-related party	—	—	—	253
Payments for restricted cash and deposits	8	(5)	9	(2)
Net cash used in investing activities	(52,022)	(3,250)	(262,785)	(16,708)
Cash flows from financing activities				
Proceeds from early exercise of common stock options	—	158	—	225
Proceeds from exercise of common stock options	2,102	95	4,314	472
Proceeds from Employee Stock Purchase Plan	—	—	5,951	—
Net proceeds from offerings	—	216,263	34,495	215,734
Excess tax benefits from employee stock plans	7,698	—	18,731	—
Net cash provided by financing activities	9,800	216,516	63,491	216,431
Effect of exchange rate changes on cash and cash equivalents	(15)	—	(72)	—
Net change in cash and cash equivalents	(7,981)	218,533	(130,372)	225,251
Cash and cash equivalents at beginning of period	140,116	38,608	262,507	31,890

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Cash and cash equivalents at end of period	\$ 132,135	\$ 257,141	\$ 132,135	\$ 257,141
Supplemental disclosures of other cash flow information:				
Cash paid for income taxes	\$477	\$4,998	\$5,101	\$14,984
Non-cash investing and financing activities:				
Changes in accounts payable and accrued liabilities related to property and equipment purchases	\$191	\$(46)	\$170	\$(20)
Vesting of early exercised stock options	\$87	\$212	\$318	\$460
Offering costs not yet paid	\$—	\$805	\$—	\$1,473

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 provides industry-specific, cloud-based software solutions for the life sciences industry, which we refer to as Industry Cloud solutions. Our Industry Cloud solutions enable pharmaceutical and other life sciences companies to realize the benefits of modern cloud-based architectures and mobile applications for their most critical business functions, without compromising industry-specific functionality or regulatory compliance. Our customer relationship management solutions, Veeva CRM, and the applications that complement Veeva CRM, enable our customers to increase the productivity and compliance of their sales and marketing functions. Our regulated content management and collaboration solutions, Veeva Vault, enable our customers to manage a range of highly regulated, content-centric processes across the enterprise. The Veeva Vault applications address specific processes within the research and development and sales and marketing, or commercial, functions of life sciences companies. Our customer master solution, Veeva Network, which includes our proprietary database of healthcare provider and healthcare organization data, enables our customers to create and maintain accurate customer data. Our fiscal year end is January 31.

Follow-on Offering

On March 31, 2014, we closed our follow-on offering of 13,800,000 shares of Class A common stock (inclusive of 1,800,000 shares sold upon the full exercise of the over-allotment option granted to the underwriters), which included 1,390,000 shares sold by us and a total of 12,410,000 shares sold by certain selling stockholders. The public offering price of the shares sold in the offering was \$26.35 per share. We did not receive any proceeds from the sales of shares by the selling stockholders. Our proceeds from the offering were \$34.5 million after deducting underwriting discounts and commissions and total offering expenses.

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, 2014, filed on March 18, 2014. 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, 2014 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, 2015 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 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.

The following customers individually exceeded 10% of total accounts receivable as of the dates shown:

	October 31, 2014	January 31, 2014
Customer 1	*	10%
Customer 2	12%	*
Customer 3	*	*

*Does not exceed 10%.

The following customers individually exceeded 10% of total revenues for the periods shown:

	Three Months Ended		Nine Months Ended	
				October
	October 31,	October 31,	October 31,	October 31,
	2014	2013	2014	2013
Customer 1 *	*	*	*	10%
Customer 2 *	*	*	*	*
Customer 3	10%	*	*	*

*Does not exceed 10%.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board 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 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. 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.

At October 31, 2014, 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	\$ 8,961	\$ —	\$ (2)	\$ 8,959
Corporate notes and bonds	50,356	8	(28)	50,336
U.S. agency obligations	190,170	61	(6)	190,225
U.S. treasury securities	11,199	12	—	11,211
Total available-for-sale securities	\$ 260,686	\$ 81	\$ (36)	\$ 260,731

At January 31, 2014, short-term investments consisted of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Corporate notes and bonds	\$ 10,499	\$ 9	\$ (1)	\$ 10,507
U.S. agency obligations	15,111	7	—	15,118
Total available-for-sale securities	\$ 25,610	\$ 16	\$ (1)	\$ 25,625

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):

	October 31, 2014	January 31, 2014
Due in one year or less	\$176,608	\$17,667
Due in greater than one year	84,123	7,958
Total	\$260,731	\$25,625

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 October 31, 2014 and January 31, 2014.

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The following table shows the fair values and the gross unrealized losses of these available-for-sale securities aggregated by investment category as of October 31, 2014 (in thousands):

	Fair Value	Gross Unrealized Losses
Asset-backed securities	\$6,754	\$ (2)
Corporate notes and bonds	33,490	(28)
U.S. agency obligations	34,215	(6)

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, 2014 (in thousands):

	Fair Value	Gross Unrealized Losses
Corporate notes and bonds	\$1,403	\$ (1)

Note 3. Property and Equipment, Net

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

	October 31, 2014	January 31, 2014
Land	\$3,040	\$—
Building	20,984	—
Equipment and computers	2,969	1,912
Furniture and fixtures	1,195	948
Leasehold improvements	1,135	858
Construction in progress	402	121
	29,725	3,839
Less accumulated depreciation	(2,112)	(1,394)
Total property and equipment, net	\$27,613	\$2,445

Total depreciation expense for the three and nine months ended October 31, 2014 was \$0.4 million and \$1.0 million, respectively, and \$0.2 million and \$0.6 million, for the three and nine months ended October 31, 2013, respectively. Land is not depreciated.

Acquisition of Corporate Headquarters Building

On July 22, 2014, we purchased land and a building for our new corporate headquarters located in Pleasanton, California for \$24.0 million. The headquarters will support the overall growth of our business, and we expect to occupy the building in spring 2015. The useful life for the building is expected to be 30 years and will be amortized on a straight-line basis.

Note 4. Capitalized Internal-Use Software

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

	October 31, 2014	January 31, 2014
Capitalized internal-use software development costs	\$3,182	\$2,834
Less accumulated amortization	(1,881)	(1,249)
Capitalized internal-use software development costs, net	\$1,301	\$1,585

During the three and nine months ended October 31, 2014, we capitalized \$0.1 million and \$0.3 million, respectively, for internal-use software development costs. During the three and nine months ended October 31, 2013, we capitalized \$0.8 million and \$1.1 million, respectively, for internal-use software development costs.

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Capitalized internal-use software amortization expense for the three and nine months ended October 31, 2014 was \$0.2 million and \$0.6 million, respectively, and \$0.1 million and \$0.3 million, for the three and nine months ended October 31, 2013, respectively.

Note 5. Intangible Assets

The following schedule presents the details of intangible assets as of October 31, 2014 (in thousands):

	October 31, 2014			
	Gross			Remaining
	Carrying	Accumulated		Useful
	Amount	Amortization	Net	Life
				(in years)
Data update technology	\$3,680	\$ (1,004)	\$2,676	3.7
Database	2,570	(876)	1,694	2.7
Customer relationships	1,020	(232)	788	4.7
Software	304	(148)	156	1.6
	\$7,574	\$ (2,260)	\$5,314	

The following schedule presents the details of intangible assets as of January 31, 2014 (in thousands):

	January 31, 2014			
	Gross			Remaining
	Carrying	Accumulated		Useful
	Amount	Amortization	Net	Life
				(in years)
Data update technology	\$3,680	\$ (452)	\$3,228	4.4
Database	2,570	(394)	2,176	3.4
Customer relationships	1,020	(104)	916	5.4
Software	304	(73)	231	2.3
	\$7,574	\$ (1,023)	\$6,551	

Amortization expense associated with acquired intangible assets for the three and nine months ended October 31, 2014 was \$0.4 million and \$1.2 million, respectively, and \$0.4 million and \$0.6 million for the three and nine months ended October 31, 2013.

Note 6. 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.

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.

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The following table presents the fair value hierarchy for financial assets measured at fair value on a recurring basis as of October 31, 2014 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	\$43,059	\$—	\$ —	\$43,059
Commercial paper	—	2,100	—	2,100
U.S. agency obligations	—	7,933	—	7,933
Short-term investments				
Asset backed-securities	—	8,959	—	8,959
Corporate notes and bonds	—	50,336	—	50,336
U.S. agency obligations	—	190,225	—	190,225
U.S. treasury securities	—	11,211	—	11,211
Total	\$43,059	\$270,764	\$ —	\$313,823

The following table presents the fair value hierarchy for financial assets measured at fair value on a recurring basis as of January 31, 2014 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	\$170,235	\$—	\$ —	\$170,235
Commercial paper	—	9,999	—	9,999
U.S. treasury securities	—	33,153	—	33,153
Short-term investments:				
Corporate notes and bonds	—	10,507	—	10,507
U.S. agency obligations	—	15,118	—	15,118
Total	\$170,235	\$68,777	\$ —	\$239,012

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 7. Income Taxes

For the three months ended October 31, 2014 and 2013, our effective tax rates were 45.9% and 35.5%, respectively and for the nine months ended October 31, 2014 and 2013, our effective tax rates were 43.8% and 37.0%, respectively.. Our effective tax rate increased 10.4% and 6.8% during the three and nine months ended October 31, 2014, respectively, as compared to the same period in the prior fiscal year primarily due to the expiration of the

federal research and development tax credit and a reduction of the domestic production activities deduction caused by the increased stock option activity during the period.

In July 2013, the FASB ratified ASU 2013-11 “Presenting an Unrecognized Tax Benefit (“UTB”) When a Net Operating Loss Carryforward Exists” (“ASU 2013-11”). ASU 2013-02 provides that an UTB, or a portion thereof, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent that a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date to settle any additional income taxes that would result from disallowance of a tax position, or the tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, then the unrecognized tax benefit should be presented as a liability. This ASU was effective for reporting periods beginning after December 15, 2013, and may be applied retrospectively. We adopted this ASU on February 1, 2014, and the impact was not significant on our condensed consolidated results of operations and financial position.

Note 8. Stockholders' Equity
Common Stock

As of October 31, 2014, we had 58,475,649 shares of Class A common stock and 71,933,469 shares of Class B common stock outstanding, of which 559,437 shares of Class B common stock were unvested, resulting from employees exercising stock options prior to vesting.

As of January 31, 2014, we had 15,044,750 shares of Class A common stock and 109,746,795 shares of Class B common stock outstanding, of which 1,824,457 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 October 31, 2014 and January 31, 2014, there were unvested shares in the amount of 559,437 and 1,824,457, respectively, which were subject to repurchase at an aggregate price of approximately \$0.1 million and \$0.5 million, respectively.

Stock Option Activity

A summary of stock option activity for the nine months ended October 31, 2014 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, 2014	25,424,437	\$ 3.22	8.5	\$726,649,586
Options granted	526,667	26.64		
Options exercised	(3,832,160)	1.13		\$88,592,429
Options forfeited/cancelled	(1,140,985)	4.63		
Options outstanding at October 31, 2014	20,977,959	\$ 4.12	8.0	\$539,507,766
Options vested and exercisable at October 31, 2014	3,649,536	\$ 2.16	6.8	\$100,957,561
Options vested and exercisable at October 31, 2014 and expected to vest thereafter	19,694,277	\$ 4.09	8.0	\$507,063,583

The weighted average grant-date fair value of options granted during the three and nine months ended October 31, 2014 was \$14.19 and \$13.85, respectively, per share. The weighted average grant-date fair value of options granted during the three and nine months ended October 31, 2013 was \$6.98 and \$2.72, respectively, per share.

As of October 31, 2014, there was \$37.3 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 4.6 years.

As of October 31, 2014, we had authorized and unissued shares of common stock sufficient to satisfy exercises of stock options.

Our closing stock price as reported on the New York Stock Exchange as of October 31, 2014 was \$29.78. The total intrinsic value of options exercised was approximately \$26.1 million and \$88.6 million for the three and nine months ended October 31, 2014.

Restricted Stock Units

A summary of restricted stock unit (RSU) activity for the nine months ended October 31, 2014 is as follows:

	Unreleased Restricted Stock Units	Weighted average grant date fair value
Balance at January 31, 2014	156,050	\$ 36.52
RSUs granted	719,835	25.16
RSUs vested	(62,021)	30.04
RSUs forfeited/cancelled	(38,882)	31.52
Balance at October 31, 2014	774,982	\$ 26.74

During the three and nine months ended October 31, 2014, we issued RSUs under the 2013 EIP with a weighted-average grant date fair value of \$26.21 and \$25.16.

As of October 31, 2014, there was a total of \$19.7 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 3.6 years. We did not grant RSUs during the three and nine months ended October 31, 2013.

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 October 31,		Nine Months Ended October 31,	
	2014	2013	2014	2013
Volatility	49%	48% – 49%	48% – 50%	42% – 50%
Expected life (in years)	6.00	6.32 – 6.53	6.00 – 6.32	6.32 – 8.23
Risk-free interest rate	1.90%	1.73% – 2.09%	1.85% – 1.94%	1.03% – 2.09%
Dividend yield	—%	—%	—%	—%

Employee Stock Purchase Plan

The initial offering period for our Employee Stock Purchase Plan (ESPP) commenced on the date of our initial public offering and ended on June 15, 2014. During our initial ESPP offering period 350,059 shares of Class A Common Stock were purchased. We do not currently have an active, open offering period under our ESPP.

During active offering periods, our ESPP permits eligible employees to acquire shares of our common stock at 85% of the lower of the fair market value of our Class A common stock on the first day of the applicable offering period or the fair market value of our Class A common stock on the purchase date. Participants may purchase shares of common stock through payroll deductions of up to 15% of their eligible compensation, subject to any plan limitations.

The following table presents the weighted-average assumptions used to calculate our stock-based compensation for the stock purchases under the ESPP:

Volatility	44%
Expected life (in years)	0.58
Risk-free interest rate	0.10%
Dividend yield	—%

The amounts of stock-based compensation capitalized for internal-use software in the three and nine months ended October 31, 2014 and 2013 were immaterial.

Note 9. 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.

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.

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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 October 31, 2014		2013		Nine Months Ended October 31, 2014		2013	
	Class A	Class B	Class A	Class B	Class A	Class B	Class A	Class B
Basic								
Numerator								
Net income	\$4,358	\$5,900	\$328	\$6,197	\$8,630	\$18,427	\$365	\$17,003
Noncumulative dividends on								
convertible preferred stock	—	—	(6)	(119)	—	—	(8)	(396)
Undistributed earnings allocated to								
participating securities	(25)	(35)	(204)	(3,857)	(66)	(140)	(260)	(12,091)
Net income attributable to common								
stockholders, basic	\$4,333	\$5,865	\$118	\$2,221	\$8,564	\$18,287	\$97	\$4,516
Denominator								
Weighted average shares used in								
computing net income per share								
attributable to common								
stockholders, basic	54,897	74,315	1,800	34,002	40,454	86,382	600	27,919
Net income per share attributable to								
common stockholders, basic	\$0.08	\$0.08	\$0.07	\$0.07	\$0.21	\$0.21	\$0.16	\$0.16
Diluted								
Numerator								
Net income attributable to common								
stockholders, basic	\$4,333	\$5,865	\$118	\$2,221	\$8,564	\$18,287	\$97	\$4,516
Add back of:								
Noncumulative dividends on convertible								
preferred stock	—	—	6	119	—	—	8	396

Undistributed earnings allocated to								
participating securities	—	—	204	3,857	—	—	260	12,091
Reallocation as a result of conversion of								
Class B to Class A common stock:								
Net income attributable to common								
stockholders, basic	5,865	—	2,221	—	18,287	—	4,516	—
Noncumulative dividends on convertible								
preferred stock	—	—	119		—	—	396	
Undistributed earnings allocated to								
participating securities	—	—	3,857		—	—	12,091	
Reallocation of net income to Class B								
common stock	—	453	(138)	(138)	—	1,025	(431)	(431)
Net income attributable to common								
stockholders, diluted	\$10,198	\$6,318	\$6,387	\$6,059	\$26,851	\$19,312	\$16,937	\$16,572
Denominator								
Number of shares used for basic								
EPS computation	54,897	74,315	1,800	34,002	40,454	86,382	600	27,919
Conversion of Class B to Class A								
common stock	74,315	—	34,002	—	86,382	—	27,919	—
Effect of potentially dilutive								
common shares	15,077	15,077	19,639	19,639	17,246	17,246	18,939	18,939
Effect of conversion of preferred stock								
upon IPO	—	—	76,522	76,522	—	—	82,143	82,143
Weighted average shares used in	144,289	89,392	131,963	130,163	144,082	103,628	129,601	129,001
computing net income per share								

attributable to common
stockholders,

diluted

Net income per share
attributable to

common stockholders,
diluted

\$0.07	\$0.07	\$0.05	\$0.05	\$0.19	\$0.19	\$0.13	\$0.13
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Potential common share equivalents excluded where the inclusion would be anti-dilutive are as follows:

	Three Months Ended		Nine Months Ended	
	October 31, 2014		October 31, 2013	
Options to purchase shares not included in the computation of diluted net income per share because their inclusion would be anti-dilutive	767,413	35,304	332,458	38,714

Note 10. 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 August 6, 2013, Prolifiq Software, Inc. (Prolifiq) filed a lawsuit against us in the U.S. District Court for the Northern District of California, alleging that Veeva CRM Approved Email infringes U.S. Patent No. 7,634,556 held by Prolifiq. Prolifiq filed a First Amended Complaint on September 10, 2013, alleging that Veeva CRM Approved Email also infringes U.S. Patent Nos. 7,707,317, 8,296,378, 7,966,374 and 8,171,077 held by Prolifiq, in addition to U.S. Patent No. 7,634,556. The First Amended Complaint seeks unspecified monetary damages, attorneys' fees, costs and injunctive relief against us. We answered the First Amended Complaint on October 1, 2013. Prolifiq filed a Second Amended Complaint on October 10, 2013, asserting the same five patents. We answered the Second Amended Complaint on October 24, 2013. On January 31, 2014, Prolifiq's claims related to U.S. Patent Nos. 7,707,317, 7,966,374 and 8,171,077 were dismissed without prejudice pursuant to a stipulation of dismissal. On April 4, 2014, Prolifiq filed a Third Amended Complaint, in which, in addition to its remaining claims of patent infringement, Prolifiq sought to assert a cause of action for alleged trade secret misappropriation. We answered the Third Amended Complaint on June 10, 2014. The court issued a claim construction order on August 6, 2014, which, in addition to construing the claims, also held that several claims of the patents that Prolifiq asserted in the case were invalid as indefinite.

On November 21, 2014, we entered into a Confidential Settlement and Cross-License Agreement ("Settlement Agreement") with Prolifiq resolving all outstanding legal disputes between us, including patent infringement and trade secret misappropriation claims asserted by Prolifiq against us. Pursuant to the Settlement Agreement, Prolifiq agreed to dismiss the lawsuit described above, granted us a license to all five of the Prolifiq patents asserted against us over the course of the lawsuit (and any patents claiming priority to the applications that led to those patents), and agreed not to sue us with respect to any additional patents that may be issued to Prolifiq for a period of time set forth in the Settlement Agreement. Prolifiq, in turn, will receive a one-time payment from us and a license to certain future patents of ours that may be issued from our patent applications filed over a period of time set forth in the Settlement Agreement. The financial terms of the Settlement Agreement are reflected in our financial results for the period ended October 31, 2014. Amounts allocated to the settlement of the litigation were recorded as general and administrative expenses in our Condensed Consolidated Statement of Comprehensive Income for the three and nine months ended October 31, 2014, and amounts allocated to the license acquired from Prolifiq were recorded as other current assets and other long-term assets in our Condensed Consolidated Balance Sheet as of October 31, 2014. In connection with the Settlement Agreement, on November 25, 2014, the parties filed a stipulated Dismissal of the Action with Prejudice. Also, in connection with the Settlement Agreement, the parties jointly terminated the Inter Partes Review proceedings that we initiated which challenges the patentability of each of the five patents Prolifiq asserted against

Veeva over the course of the lawsuit.

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 results, cash flows or financial position. Regardless of the outcome, such proceedings can have an adverse impact on us because of defense and settlement costs, diversion of resources and other factors, and there can be no assurances that favorable outcomes will be obtained.

Value-Added Reseller Agreement

We have a value-added reseller agreement with salesforce.com, inc. for our use of the Salesforce Platform in combination with our developed technology to deliver our Veeva CRM solution, including hosting infrastructure and data center operations provided by salesforce.com. On March 3, 2014, we extended the term of the Value-Added Reseller Agreement for an additional ten years through September 1, 2025 and amended our minimum order commitments. As of October 31, 2014, we remained obligated to pay fees of at least \$474.8 million prior to September 1, 2025 in connection with this agreement.

Note 11. Information about Geographic Areas

We track and allocate revenues by the principal geographic region of our customers' end users rather than by individual country, which makes it impractical to disclose revenues for the United States or other specific foreign countries. Revenues by geographic area, as measured by the estimated location of the end users for subscription services revenues and the estimated location of the users for which the services were performed for professional services revenues, were as follows for the periods shown below (in thousands):

	Three Months Ended		Nine Months Ended	
	October 31,		October 31,	
	2014	2013	2014	2013
Revenues by geography				
North America	\$46,056	\$33,217	\$125,399	\$88,752
Europe and other	22,326	12,515	58,919	34,985
Asia Pacific	15,443	9,247	41,892	23,611
Total revenues	\$83,825	\$54,979	\$226,210	\$147,348

Long-lived assets by geographic area are as follows as of the date shown (in thousands):

	October 31, 2014	January 31, 2014
Long-lived assets by geography		
North America	\$26,541	\$1,341
Europe and other	531	509
Asia Pacific	541	595
Total long-lived assets	\$27,613	\$2,445

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our condensed consolidated financial statements and notes thereto appearing elsewhere in this report. In addition to historical condensed consolidated financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results could differ materially from those anticipated by these forward-looking statements as a result of many factors. We discuss factors that we believe could cause or contribute to these differences below and elsewhere in this report, including those set forth under "Risk Factors" and "Special Note Regarding Forward-Looking Statements."

Overview

Veeva provides industry-specific, cloud-based software solutions for the life sciences industry, which we refer to as Industry Cloud solutions. Our Industry Cloud solutions enable pharmaceutical and other life sciences companies to realize the benefits of modern cloud-based architectures and mobile applications for their most critical business functions, without compromising industry-specific functionality or regulatory compliance. Our customer relationship management solution, Veeva CRM, and the applications that complement Veeva CRM, enable our customers to increase the productivity and compliance of their sales and marketing functions. Our regulated content management and collaboration solutions, Veeva Vault, enable our customers to manage a range of highly regulated, content-centric processes across the enterprise. The Veeva Vault applications address specific processes within the research and development and sales and marketing, or commercial, functions of life sciences companies. Our customer master solution, Veeva Network, which includes our proprietary database of healthcare provider and healthcare organization data, enables our customers to create and maintain accurate customer data.

Veeva CRM was our first commercially available solution and has made up the vast majority of our revenue historically. For instance, in our fiscal year ended January 31, 2014, we derived approximately 95% of our subscription services revenues from our Veeva CRM and Veeva CRM complementary solutions. The contribution of revenues associated with Veeva Vault and Veeva Network is expected to increase as a percentage of total revenue going forward. In the quarter ended October 31, 2014, total revenues associated with our Veeva Vault and Veeva Network solutions, comprised in excess of 15% of our total revenues. However, we have less experience selling Veeva Vault, Veeva Network and our newer commercial applications that complement Veeva CRM. To the extent that these more recently introduced solutions do not achieve significant market acceptance, our business and results of operations may be adversely affected. In particular, certain of our Veeva Vault solutions are offered to segments of the life sciences industry to which we have less experience marketing, including the research and development organizations of life sciences companies and emerging biotechnology companies. We must be successful in marketing to these and other potential newer industry segments. We intend to increase the adoption of our solutions by increasing the size of our sales force. However, the timing and effectiveness of any increase in our sales organization is difficult to predict.

Our solutions are accessed through an internet connection and a web browser, or using our proprietary applications for mobile devices, such as the iPad. We market our solutions and services primarily through our global direct sales force. We currently operate in three principal regions: North America, Europe and Asia Pacific and are expanding our sales and services coverage for the Latin America region. The majority of our revenues from international sales are invoiced from and collected by our U.S. entity and recognized as a component of income before taxes in the United States as opposed to a foreign jurisdiction. However, we measure our revenues by geographic area on the basis of the estimated location of the end users for subscription services revenues and the estimated location of the users for which the services were performed for professional services revenues.

The primary purpose of our professional services organization is to promote customer success and effective deployments of our Industry Cloud solutions. This component of our revenues can vary period to period depending on a number of factors, including the requirements, complexity and timing of our customer's implementation projects, and in certain circumstances, the timing of revenue recognition for our professional services engagements. Historically,

professional services revenues have represented a material portion of our total revenues. For example, professional services revenues were 30% of total revenues in the fiscal year ended January 31, 2014.

For the nine months ended October 31, 2014 and 2013, total revenues were \$226.2 million and \$147.3 million, respectively, representing period-over-period growth of 54%. For the nine months ended October 31, 2014 and 2013, our subscription services revenues were \$166.5 million and \$100.9 million, respectively, representing period-over-period growth of 65%. We generated net income of \$27.1 million and \$17.4 million for the nine months ended October 31, 2014 and 2013, respectively.

Key Factors Affecting Our Performance

Investment in Growth. We have invested and intend to continue to invest aggressively in expanding the breadth and depth of our Industry Cloud for life sciences. We expect to invest in research and development to expand existing and build new solutions, sales and marketing to promote our solutions to new and existing customers and in existing and expanded geographies, professional services to ensure the success of our customers' implementations of our solutions, and other operational and administrative functions

to support our expected growth and the requirements associated with being a public company. We anticipate that our headcount will increase as a result of these investments. We expect our total operating expenses will increase over time, and, in some cases, have short-term negative impacts on our operating margin.

Adoption of Our Solutions by Existing and New Customers. Most of our customers initially deploy our solutions to a limited number of users within a division or geography and may only initially deploy a limited set of our available solutions. Our future growth is dependent upon our existing customers' continued success and renewals of subscriptions to our solutions, deployment of our solutions to additional users around the world, and the purchase of subscriptions to additional solutions. Our growth is also dependent on the adoption of our solutions by new customers. In particular, our Veeva Vault solutions are offered to segments of the life sciences industry to which we have less experience marketing, including the research and development organizations of life sciences companies as well as emerging biotechnology companies, and we must be successful in marketing to these and other potential new segments.

Subscription Services Revenue Retention Rate. A key factor to our success is the renewal and expansion of our existing subscription agreements with our customers. We calculate our annual subscription services revenue retention rate for a particular fiscal year by dividing (i) annualized subscription revenue as of the last day of that fiscal year from those customers that were also customers as of the last day of the prior fiscal year by (ii) the annualized subscription revenue from all customers as of the last day of the prior fiscal year. Annualized subscription revenue is calculated by multiplying the daily subscription revenue recognized on the last day of the fiscal year by 365. This calculation includes the impact on our revenues from customer non-renewals, deployments of additional users or decreases in users, deployments of additional solutions or discontinued use of solutions by our customers, and price changes for our solutions. Historically, the impact of price changes on our subscription services revenue retention rate has been minimal. For our fiscal years ended January 31, 2014, 2013 and 2012, our subscription services revenue retention rate was 166%, 187% and 159%, respectively.

Mix of Subscription and Professional Services Revenues. We believe our investments in professional services have driven customer success and facilitated the further adoption of our solutions by our customers. During the initial period of deployment by a customer, we generally provide a greater amount of configuration, implementation and training than later in the deployment. At the same time, many of our customers have historically purchased subscriptions for only a limited set of their total potential users during their initial deployments. As a result of these factors, the proportion of total revenues for a customer associated with professional services is relatively high during the initial deployment period. Over time, as the need for professional services associated with user deployments decreases and the number of users often increases, we have observed and continue to expect the mix of total revenues to shift more toward subscription services revenues. As a result, we expect the proportion of our total revenues from subscription services to increase over time.

Components of Results of Operations

Revenues

We derive our revenues primarily from subscription services fees and professional services fees. Subscription services revenues consist of fees from customers accessing our Industry Cloud solutions. Professional services revenues consist primarily of fees from implementation services, configuration, data services, training and managed services related to our solutions. For the nine months ended October 31, 2014, subscription services revenues constituted 74% of total revenues and professional services and other revenues constituted 26% of total revenues.

New subscription orders typically have a one-year term and automatically renew unless notice of cancellation is provided in advance. If a customer adds users or solutions to an existing order, such additional orders will generally be coterminous with the initial order, and as a result, orders for additional users or solutions will commonly have an initial term of less than one year. Subscription orders are generally billed at the subscription commencement date in

annual or quarterly increments. Because the term of orders for additional users or solutions is commonly less than one year and payment terms may be quarterly, the annualized value of the orders we enter into with our customers will not be completely reflected in deferred revenue at any single point in time. Accordingly, we do not believe that change in deferred revenue or calculated billings, a metric commonly cited by financial analysts that is the sum of the change in deferred revenue plus revenue, are accurate indicators of future revenues for any given period of time.

Subscription services revenues are recognized ratably over the order term beginning when the solution has been provisioned to the customer. Our subscription services agreements are generally non-cancellable during the term, although customers typically have the right to terminate their agreements for cause in the event of material breach. Subscription services revenues are affected primarily by the number of customers, the number of users (or other subscription usage metric) at each customer that uses our solutions and the number of solutions subscribed to by each customer.

We utilize our own professional services personnel and, in certain cases, third-party subcontractors to perform our professional services engagements with customers. Our professional services engagements are primarily billed on a time and materials basis and revenues are typically recognized as the services are rendered. 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. In those circumstances, revenue recognition may be sporadic, based upon the achievement of such contractual conditions. Professional services revenues are affected primarily by our customers' demands for implementation services, configuration, data services, training and managed services in connection with our solutions.

Cost of Revenues

Cost of subscription services revenues primarily consists of fees paid to salesforce.com, inc. for our use of the Salesforce Platform and the associated hosting infrastructure and data center operations that are provided by salesforce.com, other third-party expenses related to data center capacity, personnel related costs associated with hosting our subscription services and providing support, operating lease expense associated with computer equipment and software and allocated overhead, amortization expense associated with capitalized internal-use software related to our subscription services and amortization expense associated with purchased intangibles related to our subscription services. Cost of subscription services revenues for our Veeva Vault and Veeva Network solutions do not include fees to salesforce.com because the Salesforce Platform is not used in those solutions. We intend to continue to invest additional resources in our subscription services to broaden our product offerings and increase our delivery capacity. For example, we may open additional data centers, expand our current data centers in the future and continue to make investments in the availability and security of our solutions. The timing of when we incur these additional expenses will affect our cost of revenues in absolute dollars in the affected periods.

Cost of professional services and other revenues consists primarily of employee-related expenses associated with providing these services, including salaries, benefits and stock-based compensation expense, the cost of third-party subcontractors, travel costs and allocated overhead. The cost of providing professional services is significantly higher as a percentage of the related revenues than for our subscription services due to the direct labor costs and costs of third-party subcontractors.

Operating Expenses

We accumulate certain costs such as office rent, utilities and other facilities costs and allocate them across the various departments based on headcount. We refer to these costs as "allocated overhead."

Research and Development. Research and development expenses consist primarily of employee-related expenses, third-party consulting fees and allocated overhead. We continue to focus our research and development efforts on adding new features and applications, increasing the functionality and enhancing the ease of use of our cloud-based applications.

Sales and Marketing. Sales and marketing expenses consist primarily of employee-related expenses, sales commissions, marketing program costs, travel-related expenses and allocated overhead. Sales commissions and other incremental costs to acquire contracts are expensed as incurred.

General and Administrative. General and administrative expenses consist of employee-related expenses for our executive, finance and accounting, legal, employee success, management information systems personnel and other administrative employees. In addition, general and administrative expenses include legal costs, professional fees, other corporate expenses and allocated overhead.

Other Expense, Net

Other expense, net consists primarily of interest income, amortization of investments and realized and unrealized gains or losses on foreign currency.

Provision for Income Taxes

Provision for income taxes consists of federal and state income taxes in the United States and income taxes in certain foreign jurisdictions. See Note 7 of the notes to our condensed consolidated financial statements.

Results of Operations

The following tables set forth selected condensed consolidated statements of operations data and such data as a percentage of total revenues for each of the periods indicated:

	Three Months Ended		Nine Months Ended	
	October 31, 2014 2013		October 31, 2014 2013	
	(in thousands)			
Consolidated Statements of Income Data:				
Revenues:				
Subscription services	\$61,435	\$38,935	\$166,528	\$100,935
Professional services and other	22,390	16,044	59,682	46,413
Total revenues	83,825	54,979	226,210	147,348
Cost of revenues ⁽¹⁾ :				
Cost of subscription services	14,409	9,511	39,795	24,409
Cost of professional services and other	16,007	11,881	44,707	33,835
Total cost of revenues	30,416	21,392	84,502	58,244
Gross profit	53,409	33,587	141,708	89,104
Operating expenses ⁽¹⁾ :				
Research and development	10,635	6,585	29,414	18,469
Sales and marketing	14,251	11,467	40,875	28,739
General and administrative	8,582	5,550	22,136	13,900
Total operating expenses	33,468	23,602	92,425	61,108
Operating income	19,941	9,985	49,283	27,996
Other income (expense), net	(989)	125	(1,120)	(439)
Income before income taxes	18,952	10,110	48,163	27,557
Provision for income taxes	8,694	3,585	21,106	10,189
Net income	\$10,258	\$6,525	\$27,057	\$17,368

(1) Includes stock-based compensation as follows:

	Three Months Ended		Nine Months Ended	
	October 31, 2014	2013	October 31, 2014	2013
	(in thousands)			
Cost of revenues:				
Cost of subscription services	\$74	\$49	\$181	\$58
Cost of professional services and other	549	230	1,711	458

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Research and development	942	429	2,703	895
Sales and marketing	754	488	2,290	970
General and administrative	1,266	890	3,356	1,655
Total stock-based compensation	\$3,585	\$2,086	\$10,241	\$4,036

Three Months Ended	Nine Months Ended
October 31, 2014	October 31, 2013

Consolidated Statements of Income Data:

Revenues:

Subscription services