VEEVA SYSTEMS INC
Form 10-Q
December 07, 2018
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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, 2018

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 incorporation or organization)	(IRS Employer Identification No.)

4280 Hacienda Drive	
Pleasanton, California	94588
(Address of principal executive offices)	(Zip Code)

(Registrant's telephone number, including area code) (925) 452-6500

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

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

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

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

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 30, 2018, there were 125,133,660 shares of the Registrant's Class A common stock outstanding and 20,167,850 shares of the Registrant's Class B common stock outstanding.

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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, potential growth opportunities and product capabilities, 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 “aim,” “anticipates,” “believes,” “could,” “estimates,” “expects,” “goal,” “intends,” “may,” “plans,” “potential,” “predicts,” “projects,” “strive,” “will,” “would” or similar 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,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” 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,” the “Company,” “Registrant,” “we,” “us,” and “our” mean Veeva Systems Inc. and its subsidiaries unless the context indicates otherwise.

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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, 2018 (Unaudited)	January 31, 2018 *As adjusted
Assets		
Current assets:		
Cash and cash equivalents	$467,643	$320,183
Short-term investments	584,283	441,779
Accounts receivable, net of allowance for doubtful accounts of $491 and $345, respectively	90,053	224,668
Unbilled accounts receivable	19,989	13,348
Prepaid expenses and other current assets	21,226	12,443
Total current assets	1,183,194	1,012,421
Property and equipment, net	53,614	52,284
Deferred costs, net	28,035	30,306
Goodwill	95,804	95,804
Intangible assets, net	26,188	31,490
Deferred income taxes, noncurrent	3,468	2,222
Other long-term assets	6,978	5,806
Total assets	$1,397,281	$1,230,333
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$10,859	$6,944
Accrued compensation and benefits	14,515	17,054
Accrued expenses and other current liabilities	12,091	13,152
Income tax payable	3,092	2,080
Deferred revenue	196,159	266,939
Total current liabilities	236,716	306,169
Deferred income taxes, noncurrent	14,143	10,949
Other long-term liabilities	8,117	6,977
Total liabilities	258,976	324,095
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Class A common stock, $0.00001 par value; 800,000,000 shares authorized,	1	1

124,897,004 and 117,246,735 issued and outstanding at October 31, 2018 and January 31, 2018, respectively		
Class B common stock, $0.00001 par value; 190,000,000 shares authorized, 20,171,413 and 24,822,661 issued and outstanding at October 31, 2018 and January 31, 2018, respectively	—	—
Additional paid-in capital	591,497	515,272
Accumulated other comprehensive income	(1,239)	1,600
Retained earnings	548,046	389,365
Total stockholders' equity	1,138,305	906,238
Total liabilities and stockholders' equity	$ 1,397,281	$ 1,230,333

See Notes to Condensed Consolidated Financial Statements.

*See note 1 of the notes to the condensed consolidated financial statements for a summary of adjustments.

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VEEVA SYSTEMS INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, except per share data)

	Three months ended October 31,		Nine months ended October 31,	
	2018	2017 *As adjusted	2018	2017 *As adjusted
Revenues:				
Subscription services	$178,214	$142,802	$503,809	$407,483
Professional services and other	46,517	34,206	126,078	97,092
Total revenues	224,731	177,008	629,887	504,575
Cost of revenues(1):				
Cost of subscription services	28,335	27,758	87,394	80,696
Cost of professional services and other	33,039	25,476	93,361	71,815
Total cost of revenues	61,374	53,234	180,755	152,511
Gross profit	163,357	123,774	449,132	352,064
Operating expenses(1):				
Research and development	40,001	34,035	116,024	95,024
Sales and marketing	37,699	31,892	110,306	94,103
General and administrative	22,563	15,352	62,934	43,512
Total operating expenses	100,263	81,279	289,264	232,639
Operating income	63,094	42,495	159,868	119,425
Other income, net	4,606	1,359	10,087	4,808
Income before income taxes	67,700	43,854	169,955	124,233
Provision for income taxes	3,615	8,929	11,274	13,710
Net income	$64,085	$34,925	$158,681	$110,523
Net income attributable to Class A and Class B common stockholders, basic and diluted	$64,085	$34,925	$158,681	$110,523
Net income per share attributable to Class A and Class B common stockholders:				
Basic	$0.44	$0.25	$1.10	$0.79
Diluted	$0.41	$0.23	$1.02	$0.72
Weighted-average shares used to compute net income per share attributable to Class A and Class B common stockholders:				
Basic	144,737	140,857	143,765	139,858
Diluted	156,025	154,256	155,706	153,409
Other comprehensive income:				

Net change in unrealized gain (losses) on available-for-sale investments	$33	$(243)	$695	$(315)
Net change in cumulative foreign currency translation gain (loss)	(1,153)	(6)	(3,534)	1,226
Comprehensive income	$62,965	$34,676	$155,842	$111,434

(1) Includes stock-based compensation as follows:

Cost of revenues:				
Cost of subscription services	$405	$377	$1,166	$1,095
Cost of professional services and other	2,782	2,288	7,767	6,110
Research and development	5,820	4,765	16,282	12,916
Sales and marketing	4,825	4,130	13,743	12,150
General and administrative	6,086	2,458	17,689	6,915
Total stock-based compensation	$19,918	$14,018	$56,647	$39,186

See Notes to Condensed Consolidated Financial Statements.

* See note 1 of the notes to the condensed consolidated financial statements for a summary of adjustments.

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VEEVA SYSTEMS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Three months ended October 31,		Nine months ended October 31,	
	2018	2017 * As adjusted	2018	2017 * As adjusted
	(Unaudited)			
Cash flows from operating activities				
Net income	$64,085	$34,925	$158,681	$110,523
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	3,383	3,601	10,477	10,621
Amortization of premiums (accretion of discount) on short-term investments	(848)	365	(1,380)	1,207
Stock-based compensation	19,918	14,018	56,647	39,186
Amortization of deferred costs	4,595	4,203	13,697	12,338
Deferred income taxes	1,824	(44)	2,642	(987)
(Gain) Loss on foreign currency from market-to-market derivative	(19)	(134)	(182)	119
Bad debt expense (recovery)	84	(63)	262	(269)
Changes in operating assets and liabilities:				
Accounts receivable	21,658	23,323	134,353	110,472
Unbilled accounts receivable	(5,212)	(4,852)	(6,641)	(5,331)
Deferred costs	(4,504)	(4,170)	(11,426)	(11,933)
Income taxes	1,029	6,125	525	4,063
Prepaid expenses and other current and long-term assets	(6,018)	(390)	(9,527)	(1,550)
Accounts payable	2,982	1,473	3,520	1,717
Accrued expenses and other current liabilities	406	1,405	(3,698)	1,949
Deferred revenue	(62,860)	(47,735)	(70,616)	(42,574)
Other long-term liabilities	1,053	184	1,620	2,450
Net cash provided by operating activities	41,556	32,234	278,954	232,001
Cash flows from investing activities				
Purchases of short-term investments	(214,839)	(207,268)	(589,070)	(350,719)
Maturities and sales of short-term investments	130,137	74,806	447,947	203,183
Purchases of property and equipment	(4,163)	(1,635)	(5,558)	(8,130)
Capitalized internal-use software development costs	(495)	(301)	(1,009)	(1,334)
Net cash used in investing activities	(89,360)	(134,398)	(147,690)	(157,000)
Cash flows from financing activities				

Proceeds from exercise of common stock options	4,867	3,747	19,728	17,163
Net cash provided by financing activities	4,867	3,747	19,728	17,163
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(1,154)	(12)	(3,530)	1,228
Net change in cash, cash equivalents, and restricted cash	(44,091)	(98,429)	147,462	93,392
Cash, cash equivalents, and restricted cash at beginning of period	512,940	410,428	321,387	218,607
Cash, cash equivalents, and restricted cash at end of period	$468,849	$311,999	$468,849	$311,999
Cash, cash equivalents, and restricted cash at end of period:				
Cash and cash equivalents	$467,643	$310,796	$467,643	$310,796
Restricted cash included in other long-term assets	1,206	1,203	1,206	1,203
Total cash, cash equivalents, and restricted cash at end of period	$468,849	$311,999	$468,849	$311,999
Supplemental disclosures of other cash flow information:				
Cash paid for income taxes, net of refunds	$6,697	$2,106	$17,268	$8,142
Excess tax benefits from employee stock plans	$12,006	$8,654	$31,032	$37,329
Non-cash investing and financing activities:				
Changes in accounts payable and accrued expenses related to property and equipment purchases	$314	$(978)	$493	$(1,099)
Vesting of early exercised stock options	$—	$—	$—	$1

See Notes to Condensed Consolidated Financial Statements.

*See note 1 of the notes to the condensed consolidated financial statements for a summary of adjustments.

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 industry cloud solutions for the global life sciences industry. We were founded in 2007 on the premise that industry-specific cloud solutions could best address the operating challenges and regulatory requirements of life sciences companies. Our products are designed to meet the unique needs of our customers and their most strategic business functions—from research and development (R&D) to commercialization. Our products address a broad range of needs—including multichannel customer relationship management (CRM), content management, master data management, and data regarding healthcare professionals and organizations. Veeva is also offering its regulated content management solutions to a new set of customers in process and discrete manufacturing, consumer packaged goods, and highly regulated services industries. 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, 2018, filed on March 29, 2018. Except for the accounting policies for revenue recognition, unbilled accounts receivable, and deferred costs that were updated as a result of adopting Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers" (Topic 606), 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 condensed consolidated balance sheet as of January 31, 2018 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, 2019 or any other period.

Effective February 1, 2018, we adopted the requirements of Topic 606, ASU 2016-18, "Statement of Cash Flows, Restricted Cash," and ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," as discussed in this note. All amounts and disclosures set forth in this Form 10-Q for previously reported periods have also been updated to comply with the new standards, as indicated by the “as adjusted” tables in this footnote.

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 standalone selling price for each distinct performance obligation included in customer contracts with multiple performance obligations;
- the period of benefit for deferred costs;
- 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;

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- the realizability of deferred income tax assets and liabilities;
- the fair value of our stock-based awards; 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 primarily from subscription services and professional services. Subscription services revenues consist of fees from customers accessing our cloud-based software solutions and subscription or license fees for our data solutions. Professional services and other revenues consist primarily of fees from implementation services, configuration, data services, training and managed services related to our solutions. Revenues are recognized when control of these services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those services.

We determine revenue recognition through the following steps:

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

Our subscription services agreements are generally non-cancelable during the term, although customers typically have the right to terminate their agreements for cause in the event of material breach.

Subscription Services Revenues

Subscription services revenues are recognized ratably over the respective non-cancelable subscription term because of the continuous transfer of control 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 materials basis. Professional services revenues recognized on a time and materials 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 as services are rendered. Data services and training revenues are generally recognized as the services are performed.

Contracts with Multiple Performance Obligations

Some of our contracts with customers contain multiple performance obligations. For these contracts, we account for individual performance obligations separately when they are distinct. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. We determine the standalone selling prices based on our overall pricing objectives, taking into consideration market conditions and other factors, including other groupings such as customer type and geography.

Unbilled Accounts Receivable

Unbilled accounts receivable is a contract asset related to the delivery of our subscription services and professional services for which the related billings will occur in a future period. Unbilled accounts receivable consists of (i) revenue recognized for professional services performed but not yet billed and (ii) revenue recognized from non-cancelable, multi-year orders in which fees increase annually but for which we are not contractually able to invoice until a future period.

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Deferred Costs

Deferred costs include sales commissions associated with obtaining a contract with a customer. These costs are deferred and then amortized over a period of benefit that we have determined to be three years. We determined the period of benefit by taking into consideration our customer contracts, our technology and other factors. Amortization expense is included in sales and marketing expenses in the accompanying condensed consolidated statements of operations.

Deferred Revenue

Deferred revenue includes amounts billed to customers for which the revenue recognition criteria have not been met. Deferred revenue primarily consists of billings or payments received in advance of revenue recognition from our subscription services and, to a lesser extent, professional services and other revenues described above. Deferred revenue is recognized as we satisfy our performance obligations. We generally invoice our customers in annual or quarterly installments for subscription services. 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 and the remaining portion is recorded as noncurrent, which is included in other long-term liabilities on the condensed consolidated balance sheet.

Certain Risks and Concentrations of Credit Risk

Our revenues are derived from subscription services, professional services and other services delivered primarily to the 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 by established 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 significantly 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, losses related to lack of collectibility have not been material.

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

	October 31, 2018	January 31, 2018
Customer 1	*	18%
Customer 2	*	13%

*Does not exceed 10%.

No single customer represented over 10% of total revenues in the condensed consolidated statements of comprehensive income for the three and nine months ended October 31, 2018 and 2017.

New Accounting Pronouncements Adopted in Fiscal 2019

Income Taxes

In March 2018, the Financial Accounting Standards Board (FASB) issued ASU No. 2018-05, “Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118.” This standard amends ASC 740, Income Taxes, to provide accounting guidance for the tax effects of the Tax Cuts and Jobs Act of 2017 (Tax Act) pursuant to Staff Accounting Bulletin No. 118, which allows companies to complete the accounting under ASC 740 within a one-year measurement period from the Tax Act enactment date. This standard is effective upon issuance. We have applied the guidance in ASU 2018-05 (see note 8 of the notes to our condensed consolidated financial statements).

Stranded Tax Effects in Accumulated Other Comprehensive Income

In February 2018, the FASB issued ASU 2018-02, "Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This update allows reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Act.

ASU 2018-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those years. We early adopted this standard effective February 1, 2018. The impact on our condensed consolidated financial statements was immaterial.

Restricted Cash

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash, Restricted Cash,” which requires that amounts generally described as restricted cash or restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This standard is effective for our interim and annual reporting periods beginning after December 15, 2017. We adopted ASU 2016-18 retrospectively, effective February 1, 2018. As a result of including restricted cash with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts presented on the condensed consolidated statement of cash flows, the impact on net cash flows for the three and nine months ended October 31, 2018 was immaterial.

Financial Instruments

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments.” ASU 2016-01, among other things, requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income and clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity’s other deferred tax assets. This standard is effective for our interim and annual reporting periods beginning after December 15, 2017. We adopted ASU 2016-01 effective February 1, 2018. There was no impact to our condensed consolidated financial statements.

Revenue Recognition

In May 2014, the FASB issued Topic 606. This guidance outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model 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. Topic 606 supersedes the existing revenue recognition guidance in “Revenue Recognition (Topic 605)”.

We have adopted the requirements of the new standard as of February 1, 2018, utilizing the full retrospective transition method. Adoption of the new standard resulted in changes to our accounting policies for revenue recognition, unbilled accounts receivable, and deferred costs as detailed above in our description of Revenue Recognition. We applied a practical expedient provided by the new standard and are not disclosing the amount of consideration allocated to the remaining performance obligations for all reporting periods presented before the date of the initial application.

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The impact of adoption included the deferral of costs to obtain customer contracts, which is comprised of commissions on our subscription services arrangements. Such costs were expensed as incurred under Topic 605, whereas under Topic 606, they are generally capitalized and amortized over the costs' associated term of economic benefit. We have determined that the term of economic benefit of our costs to obtain customer contracts is three years.

Revenue for the majority of our subscription services customer contracts will continue to be recognized over time because of the continuous transfer of control to the customer; however, there is some impact to revenue primarily driven by (i) accounting for non-cancelable multi-year contracts, (ii) the removal of the current limitation on contingent revenue, which may result in revenue being recognized earlier for certain contracts, and (iii) allocation of revenue from subscription services to professional services.

We adjusted our condensed consolidated financial statements from amounts previously reported to reflect the adoption of Topic 606, ASU 2016-18, or ASU 2018-02. Select impacted condensed consolidated balance sheet line items, which reflect the adoption of the new standards are as follows (in thousands):

	January 31, 2018			
	As Reported	Adjustments		As adjusted
Assets				
Accounts receivable[1]	$233,731	(9,063)	a	$224,668
Unbilled accounts receivable[1]	—	13,348	a	13,348
Deferred costs, net	—	30,306	a	30,306
Deferred income taxes, non-current	3,490	(1,268)	a	2,222
Liabilities				
Deferred revenue	$275,446	$ (8,507)	a	$266,939
Deferred income taxes, non-current	3,828	7,121	a	10,949
Stockholders' equity:				
Accumulated other comprehensive income	$1,404	$ 196	b	$1,600
Retained earnings	354,850	34,515	a, b	389,365

(1) Unbilled accounts receivable was previously included in Accounts receivable before the adoption of Topic 606.
a Adjusted to reflect the adoption of ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)."

b Adjusted to reflect the adoption of ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income."

Select unaudited condensed consolidated statement of comprehensive income line items, which reflect the adoption of the new standards are as follows (in thousands):

	Three months ended October 31, 2017		
	As Reported	Adjustments	As adjusted
Revenues:			
Subscription services	$141,943	$ 859	a $142,802
Operating expenses:			
Sales and marketing	31,856	36	a 31,892
Operating income	41,668	827	a 42,495
Provision for income taxes	8,635	294	a 8,929
Net income	$34,393	$ 532	a $34,925
Net income per share attributable to Class A and Class B common stockholders:			
Basic	$0.24	$ 0.01	a $0.25
Diluted	$0.22	$ —	a $0.23

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	Nine months ended October 31, 2017		
	As Reported	Adjustments	As adjusted
Revenues:			
Subscription services	$403,560	$ 3,923	a $407,483
Operating expenses:			
Sales and marketing	93,683	420	a 94,103
Operating income	115,905	3,520	a 119,425
Provision for income taxes	12,454	1,256	a 13,710
Net income	$108,260	$ 2,263	a $110,523
Net income per share attributable to Class A and Class B common stockholders:			
Basic	$0.77	$ 0.02	a $0.79
Diluted	$0.71	$ 0.01	a $0.72

a Adjusted to reflect the adoption of ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)."

Select unaudited condensed consolidated statement of cash flows line items, which reflect the adoption of the new standards are as follows (in thousands):

	Three months ended October 31, 2017		
	As Reported	Adjustments	As adjusted
Cash flows from operating activities			
Net income	$34,393	$ 532	a $34,925
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of deferred costs	—	4,203	a 4,203
Changes in operating assets and liabilities:			
Accounts receivable	20,922	2,401	a 23,323
Unbilled accounts receivable	—	(4,852)	a (4,852)
Deferred costs	—	(4,170)	a (4,170)
Deferred revenue	(49,328)	1,593	a (47,735)

Net cash provided by operating activities	32,233	1	a	32,234
Change in restricted cash and deposits	—	—	b	—
Net cash used in investing activities	(134,398)	—	b	(134,398)
Net change in cash, cash equivalents and restricted cash	(98,430)	1	b	(98,429)
Cash, cash equivalents and restricted cash at the beginning of period	409,226	1,202	b	410,428
Cash, cash equivalents and restricted cash at the end of period	$310,796	$ 1,203	b	$311,999

	Nine months ended October 31, 2017			
	As Reported	Adjustments		As adjusted
Cash flows from operating activities				
Net income	$108,260	$ 2,263	a	$110,523
Adjustments to reconcile net income to net cash provided by operating activities:				
Amortization of deferred costs	—	12,338	a	12,338
Changes in operating assets and liabilities:				
Accounts receivable	106,791	3,681	a	110,472
Unbilled accounts receivable	—	(5,331)	a	(5,331)
Deferred costs	—	(11,933)	a	(11,933)
Deferred revenue	(40,301)	(2,273)	a	(42,574)
Net cash provided by operating activities	232,001	—	a	232,001
Change in restricted cash and deposits	(202)	202	b	—
Net cash (used in) provided by investing activities	(157,202)	202	b	(157,000)
Net change in cash, cash equivalents and restricted cash	93,190	202	b	93,392
Cash, cash equivalents and restricted cash at the beginning of period	217,606	1,001	b	218,607
Cash, cash equivalents and restricted cash at the end of period	$310,796	$ 1,203	b	$311,999

a Adjusted to reflect the adoption of ASU 2014-09, “Revenue from Contracts with Customers (Topic 606).”

b Adjusted to reflect the adoption of ASU 2016-18, “Statement of Cash Flows, Restricted Cash.”

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Future periods may or may not have the same impact as those set forth above.

Note 2. Short-Term Investments

At October 31, 2018, short-term investments consisted of the following (in thousands):

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Available-for-sale securities:				
Certificates of deposits	$9,540	$ 8	$ (1)	$9,547
Asset-backed securities	80,663	3	(502)	80,164
Commercial paper	4,969	—	—	4,969
Corporate notes and bonds	172,815	30	(758)	172,087
Foreign government bonds	3,001	—	(20)	2,981
Mortgage backed securities	6,133	—	(14)	6,119
U.S. agency obligations	35,744	—	(21)	35,723
U.S. treasury securities	272,910	—	(217)	272,693
Total available-for-sale securities	$585,775	$ 41	$ (1,533)	$584,283

At January 31, 2018, 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	$67,875	$ —	$ (424)	$67,451
Commercial paper	19,926	—	(12)	19,914
Corporate notes and bonds	160,499	1	(759)	159,741
Foreign government bonds	1,504	—	(18)	1,486
Mortgage backed securities	11,555	—	(75)	11,480
U.S. agency obligations	71,206	1	(76)	71,131
U.S. treasury securities	110,707	5	(136)	110,576
Total available-for-sale securities	$443,272	$ 7	$ (1,500)	$441,779

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, 2018	January 31, 2018
Due in one year or less	$409,337	$308,172
Due in greater than one year	174,946	133,607
Total	$584,283	$441,779

We have certain available-for-sale securities in a gross unrealized loss position, some of which have been in that position for more 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, our financial position and near-term prospects 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, we would write down the respective investment to fair value. For debt securities, the portion of the write-down related to credit loss would be recognized as 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, 2018 and January 31, 2018.

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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, 2018 (in thousands):

	Fair value	Gross unrealized losses
Certificates of deposits	$999	$ (1)
Asset-backed securities	77,636	(502)
Commercial paper	4,968	—
Corporate notes and bonds	144,369	(758)
Foreign government bonds	2,981	(20)
Mortgage backed securities	5,638	(14)
U.S. agency obligations	35,723	(21)
U.S. treasury securities	248,754	(217)

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, 2018 (in thousands):

	Fair value	Gross unrealized losses
Asset-backed securities	$65,690	$ (424)
Commercial paper	19,914	(12)
Corporate notes and bonds	155,419	(759)
Foreign government bonds	1,485	(18)
Mortgage backed securities	11,481	(75)
U.S. agency obligations	66,655	(76)
U.S. treasury securities	82,147	(136)

Note 3. Deferred Costs

Deferred costs, which consist of deferred sales commissions, were $28.0 million and $30.3 million as of October 31, 2018 and January 31, 2018, respectively. For the three and nine months ended October 31, 2018, amortization expense for the deferred costs was $4.6 million and $13.7 million, respectively. For the three and nine months ended October 31, 2017, amortization expense for the deferred costs was $4.2 million and $12.3 million, respectively. There has been no impairment loss recorded in relation to the costs capitalized for any period presented.

Note 4. Property and Equipment, Net

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

	October 31, 2018	January 31, 2018
Land	$3,040	$3,040
Building	20,984	20,984
Land improvements and building improvements	20,172	20,073
Equipment and computers	7,667	7,732
Furniture and fixtures	10,483	9,619
Leasehold improvements	4,952	3,637
Construction in progress	1,469	36
	68,767	65,121
Less accumulated depreciation	(15,153)	(12,837)
Total property and equipment, net	$53,614	$52,284

Total depreciation expense was $1.5 million and $4.7 million for the three and nine months ended October 31, 2018, respectively, and $1.6 million and $4.3 million for the three and nine months ended October 31, 2017, respectively. Land is not depreciated.

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Note 5. Intangible Assets

The following schedule presents the details of intangible assets as of October 31, 2018 (dollar amounts in thousands):

	October 31, 2018			
	Gross carrying amount	Accumulated amortization	Net	Remaining useful life (in years)
Existing technology	$3,880	$ (3,823)	$57	1.7
Database	4,939	(4,431)	508	1.7
Customer contracts and relationships	33,643	(11,455)	22,188	7.1
Software	10,867	(7,567)	3,300	1.7
Brand	1,141	(1,006)	135	0.7
	$54,470	$ (28,282)	$26,188	

The following schedule presents the details of intangible assets as of January 31, 2018 (dollar amounts in thousands):

	January 31, 2018			
	Gross carrying amount	Accumulated amortization	Net	Remaining useful life (in years)
Existing technology	$3,880	$ (3,509)	$371	0.8
Database	4,939	(4,091)	848	2.0
Customer contracts and relationships	33,643	(8,798)	24,845	7.5
Software	10,867	(5,820)	5,047	2.2
Brand	1,141	(762)	379	1.2
	$54,470	$ (22,980)	$31,490	

Amortization expense associated with intangible assets was $1.7 million and $5.3 million for the three and nine months ended October 31, 2018, respectively, and $1.9 million and $5.9 million for the three and nine months ended October 31, 2017, respectively.

The estimated amortization expense for intangible assets, for the next five years and thereafter is as follows as of October 31, 2018 (in thousands):

Period	Estimated amortization expense
Fiscal 2019	$ 1,667
Fiscal 2020	6,062
Fiscal 2021	3,629
Fiscal 2022	3,182
Fiscal 2023	3,182
Thereafter	8,466
Total	$ 26,188

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Note 6. Accrued Expenses

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

	October 31, 2018	January 31, 2018
Accrued commissions	$1,875	$3,565
Accrued bonus	3,174	3,068
Accrued vacation	3,252	2,608
Payroll tax payable	3,463	3,580
Accrued other compensation and benefits	2,751	4,233
Total accrued compensation and benefits	$14,515	$17,054
Accrued fees payable to salesforce.com	5,120	4,929
Accrued third-party professional services subcontractors' fees	1,309	1,614
Taxes payable	2,168	3,009
Other accrued expenses	3,494	3,600
Total accrued expenses and other current liabilities	$12,091	$13,152

Note 7. Fair Value Measurements

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

Financial assets and 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 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 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, 2018 (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents:				
Money market funds	$6,868	$—	$ —	$6,868
Commercial paper	—	1,846	—	1,846
Corporate notes and bonds	—	1,045	—	1,045
U.S. treasury securities	—	22,271	—	22,271
Short-term investments:				
Certificates of deposits	—	9,547	—	9,547
Asset-backed securities	—	80,164	—	80,164
Commercial paper	—	4,968	—	4,968
Corporate notes and bonds	—	172,087	—	172,087
Foreign government bonds	—	2,981	—	2,981
Mortgage backed securities	—	6,119	—	6,119
U.S. agency obligations	—	35,723	—	35,723
U.S. treasury securities	—	272,694	—	272,694
Foreign currency derivative contracts	—	35	—	35
Total	$6,868	$609,480	$ —	$616,348
Liabilities				
Foreign currency derivative contracts	—	117	—	117
Total	$—	$117	$ —	$117

The following table presents the fair value hierarchy for financial assets measured at fair value on a recurring basis as of January 31, 2018 (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents:				
Money market funds	$25,820	$—	$ —	$25,820
Commercial paper	—	1,999	—	1,999
Corporate notes and bonds	—	2,080	—	2,080
U.S. treasury securities	—	8,000	—	8,000
Short-term investments:				
Asset-backed securities	—	67,451	—	67,451
Commercial paper	—	19,914	—	19,914
Corporate notes and bonds	—	159,741	—	159,741

Foreign government bonds	—	1,486	—	1,486
Mortgage backed securities	—	11,480	—	11,480
U.S. agency obligations	—	71,131	—	71,131
U.S. treasury securities	—	110,576	—	110,576
Foreign currency derivative contracts	—	127	—	127
Total	$25,820	$453,985	$ —	$479,805
Liabilities				
Foreign currency derivative contracts	—	391	—	391
Total	$—	$391	$ —	$391

We determine the fair value of our security holdings based on pricing from our service providers and market prices from industry-standard independent data providers. 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.

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Balance Sheet Hedges

During the three months ended October 31, 2018, we entered into foreign currency forward contracts (the “Forward Contracts”) in order to hedge our foreign currency exposure. A Forward Contract is a commitment to deliver a certain amount of currency at a certain price on a specific date in the future. By entering into Forward Contracts and holding them to maturity, we are locked into a future currency exchange rate in an amount equal to and for the terms of the Forward Contracts. We account for derivative instruments at fair value with changes in the fair value recorded as a component of other income, net in our condensed consolidated statements of comprehensive income. Cash flows from such forward contracts are classified as operating activities. We recognized immaterial realized foreign currency losses during the three and nine months ended October 31, 2018 on hedging, and losses of $0.3 million and $3.1 million during the three and nine months ended October 31, 2017 on hedging, respectively.

The fair value of our outstanding derivative instruments is summarized below (in thousands):

	October 31, 2018	January 31, 2018
Notional amount of foreign currency derivative contracts	$(9,931)	$36,266
Fair value of foreign currency derivative contracts	(9,849)	36,531

Details on outstanding balance sheet hedges are presented below as of the date shown below (in thousands):

		October 31, 2018	January 31, 2018
Derivative Assets	Balance Sheet Location		
Derivatives not designated as hedging instruments:			
Foreign currency derivative contracts	Prepaid expenses and other current assets	$ 35	$ 127
Derivative Liabilities			
Derivatives not designated as hedging instruments:			
Foreign currency derivative contracts	Accrued expenses	$ 117	$ 391

Note 8. Income Taxes

For the three months ended October 31, 2018 and 2017, our effective tax rates were 5.3% and 20.4%, respectively. During the three months ended October 31, 2018 as compared to the prior year period, our effective tax rate decreased primarily due to the reduction in the federal tax rate as a result of the Tax Act, an increase in U.S. research and development tax credits, and an increase in excess tax benefits related to equity compensation. We recognized excess tax benefits in our provision for income taxes of $12.0 million and $8.6 million for the three months ended October 31, 2018 and 2017, respectively.

For the nine months ended October 31, 2018 and 2017, our effective tax rates were 6.6% and 11.0%, respectively. During the nine months ended October 31, 2018 as compared to the prior year period, our effective tax rate decreased primarily due to the reduction in the federal tax rate as a result of the Tax Act and an increase in U.S. research and development tax credits, partially offset by a decrease in excess tax benefits related to equity compensation. We recognized excess tax benefits in our provision for income taxes of $31.0 million and $37.3 million for the nine months ended October 31, 2018 and 2017, respectively.

On May 1, 2018 the Internal Revenue Service (IRS) issued a closing audit notice related to the income tax return for fiscal year ended January 31, 2015. The completion of the IRS audit resulted in an immaterial impact to our financial statements. We are in the process of filing our federal and state income tax returns for the fiscal year ended January 31, 2018 and expect to recognize a benefit during the fourth quarter of our fiscal year ending January 31, 2019 related to tax credits.

The SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (SAB 118), which allows companies the ability to record provisional amounts during a measurement period not to extend more than one year beyond the Tax Act enactment date. Since the Tax Act was passed late in 2017 and further guidance and accounting interpretations are expected during the measurement period, our provisional estimate on the effect of the Tax Act in our financial statements remains subject to change. We have not made any material changes to our provisional estimates from the prior period.

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Note 9. Deferred Revenue and Performance Obligations

We recognized $142.7 million and $240.4 million of subscription services revenue during the three and nine months ended October 31, 2018, respectively, and $113.9 million and $185.9 million during the three and nine months ended October 31, 2017, respectively, that was included in the deferred revenue balances at the beginning of the respective periods. Professional services revenue recognized in the same periods from deferred revenue balances at the beginning of the respective periods was immaterial.

Transaction Price Allocated to the Remaining Performance Obligations

Transaction price allocated to the remaining performance obligations represents contracted revenue that has not yet been recognized, which includes deferred revenue and non-cancelable amounts that will be invoiced and recognized as revenues in future periods. We applied the practical expedient in accordance with Topic 606 to exclude the amounts related to professional services contracts that are on a time-and-material basis. Revenue from remaining performance obligations for professional services contracts as of October 31, 2018 was immaterial.

As of October 31, 2018, approximately $439.8 million of revenue is expected to be recognized from remaining performance obligations for subscription services contracts. We expect to recognize revenue on approximately $294.0 million of these remaining performance obligations over the next 12 months, with the balance recognized thereafter.

Note 10. Stockholders' Equity

Stock Option Activity

A summary of stock option activity for the nine months ended October 31, 2018 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, 2018	16,024,146	$ 16.76	6.1	$738,648,507
Options granted	175,000	77.88		
Options exercised	(2,012,604)	9.58		
Options forfeited/cancelled	(254,019)	7.59		
Options outstanding at October 31, 2018	13,932,523	$ 18.74	5.5	$1,011,683,656
Options vested and exercisable at October 31, 2018	6,531,474	$ 5.20	4.2	$562,702,409
Options vested and exercisable at October 31, 2018 and expected to vest thereafter	13,932,523	$ 18.74	5.5	$1,011,683,656

During the nine months ended October 31, 2018, we granted 175,000 stock options under the 2013 Equity Incentive Plan (EIP). The weighted average grant-date fair value of options granted was $35.04 for the nine months ended October 31, 2018. We did not grant any stock options during the three months ended October 31, 2018.

As of October 31, 2018, there was $100.8 million in unrecognized compensation cost related to unvested stock options granted under the 2007 Stock Plan (2007 Plan), 2012 Equity Incentive Plan and 2013 EIP. This cost is expected to be recognized over a weighted average period of 3.8 years.

As of October 31, 2018, 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 $52.7 million and $144.0 million for the three and nine months ended October 31, 2018.

Restricted Stock Units

A summary of restricted stock unit (RSU) activity for the nine months ended October 31, 2018 is as follows:

	Unreleased restricted stock units	Weighted average grant date fair value
Balance at January 31, 2018	2,901,736	$ 38.14
RSUs granted	1,026,242	75.86
RSUs vested	(986,405)	37.32
RSUs forfeited/cancelled	(245,685)	44.67
Balance at October 31, 2018	2,695,888	$ 52.20

During the three and nine months ended October 31, 2018, we granted 194,228 and 1,026,242 RSUs under the 2013 EIP with a weighted-average grant date fair value of $92.32 and $75.86, respectively.

As of October 31, 2018, there was a total of $131.0 million in unrecognized compensation cost related to unvested RSUs. This cost is expected to be recognized over a weighted-average period of approximately 2.4 years.

Stock-Based Compensation

Compensation expense related to share-based transactions, including equity awards to employees and non-employee directors, is measured and recognized in the condensed consolidated financial statements based on fair value. The grant date fair value of each option award is estimated on the grant date using the Monte Carlo simulation or Black-Scholes option-pricing model. The stock-based compensation expense is recognized using a straight-line basis over the requisite service periods of the awards, which is generally four to nine years. For RSUs, the grant date fair value is based on the closing price of our common stock on the grant date.

Our option-pricing model requires the input of subjective assumptions, including the fair value of the underlying common stock, the expected term of the option, the expected volatility of the price of our common stock, risk-free interest rates, and the expected dividend yield of our common stock. The assumptions used in our option-pricing model represent management’s best estimates. These estimates involve inherent uncertainties and the application of management’s judgment. If factors change and different assumptions are used, our stock-based compensation expense could be materially different in the future.

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

	Three Months Ended October 31,	Nine Months Ended October 31,

	2018	2017	2018	2017
Volatility	—%	43%	41%	43% – 44%
Expected term (in years)	—	6.35	6.35	6.35
Risk-free interest rate	—%	1.86% – 1.90%	2.73%	1.86% – 2.17%
Dividend yield	—%	0%	—%	0%

(1) Note that we did not grant any stock options during the three months ended October 31, 2018.

For the three and nine months ended October 31, 2018 and 2017, we capitalized an immaterial amount of stock-based compensation as part of our internal-use software capitalization.

Note 11. Net Income per Share Attributable to Common Stockholders

We compute net income per share of our Class A and Class B common stock using the two-class method required for participating securities. 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 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. The unvested shares of common stock resulting from early exercises of stock options accounted for all of our participating securities.

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 equivalents outstanding during the period. The dilutive effect of potential shares of common stock are 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,				Nine Months Ended October 31,			
	2018		2017 *As adjusted		2018		2017 *As adjusted	
	Class A	Class B	Class A	Class B	Class A	Class B	Class A	Class B
Basic								
Numerator								
Net income	$54,592	$9,493	$28,463	$6,462	$133,568	$25,113	$87,791	$22,732
Undistributed earnings allocated to participating securities	—	—	—	—	—	—	—	—
Net income attributable to common stockholders, basic	$54,592	$9,493	$28,463	$6,462	$133,568	$25,113	$87,791	$22,732
Denominator								
Weighted average shares used in computing net income per share attributable to common stockholders, basic	123,297	21,440	114,794	26,063	121,013	22,752	111,093	28,765
Net income per share attributable to common stockholders, basic	$0.44	$0.44	$0.25	$0.25	$1.10	$1.10	$0.79	$0.79
Diluted								
Numerator								
Net income attributable to common stockholders, basic	$54,592	$9,493	$28,463	$6,462	$133,568	$25,113	$87,791	$22,732
Reallocation as a result of conversion of Class B to Class A common stock:								
Net income attributable to common stockholders, basic	9,493	—	6,462					