

MODEL N, INC.
Form 10-Q
August 08, 2014
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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 June 30, 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: 001-35840

Model N, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of	77-0528806 (I.R.S. Employer
Incorporation or Organization)	Identification No.)
1600 Seaport Boulevard, Suite 400	
Pacific Shores Center Building 6	
Redwood City, California (Address of Principal Executive Offices)	94063 (Zip Code)
(650) 610-4600	
(Registrant's Telephone Number, Including Area Code)	

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by checkmark 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 during the preceding 12 months (or for such shorter time 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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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 July 31, 2014, the registrant had 24,854,227 shares of common stock issued and outstanding.

Table of Contents**TABLE OF CONTENTS**

	Page
<u>PART I. FINANCIAL INFORMATION</u>	1
Item 1. <u>Financial Statements (Unaudited)</u>	1
<u>Condensed Consolidated Balance Sheets as of June 30, 2014 and September 30, 2013</u>	1
<u>Condensed Consolidated Statements of Operations for the Three and Nine months Ended June 30, 2014 and 2013</u>	2
<u>Condensed Consolidated Statements of Comprehensive (loss) income for the Three and Nine months Ended June 30, 2014 and 2013</u>	3
<u>Condensed Consolidated Statements of Cash Flows for the Nine months Ended June 30, 2014 and 2013</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>	13
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	23
Item 4. <u>Controls and Procedures</u>	23
<u>PART II. OTHER INFORMATION</u>	24
Item 1. <u>Legal Proceedings</u>	24
Item 1A. <u>Risk Factors</u>	25
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	43
Item 3. <u>Defaults Upon Senior Securities</u>	43
Item 4. <u>Mine Safety Disclosures</u>	43
Item 5. <u>Other Information</u>	43
Item 6. <u>Exhibits</u>	43
<u>Signatures</u>	

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements (Unaudited)****MODEL N, INC.****Condensed Consolidated Balance Sheets****(in thousands, except per share data)****(Unaudited)**

	As of June 30, 2014	As of September 30, 2013
Assets		
Current Assets:		
Cash and cash equivalents	\$ 103,170	\$ 103,350
Accounts receivable, net	17,946	16,140
Deferred cost of implementation services, current portion	249	491
Prepaid expenses	2,463	3,225
Other current assets	413	342
Total current assets	124,241	123,548
Property and equipment, net	6,801	7,871
Goodwill	1,509	1,509
Intangible assets, net	670	918
Other assets	1,256	626
Total assets	\$ 134,477	\$ 134,472
Liabilities And Stockholders Equity		
Current Liabilities:		
Accounts payable	\$ 255	\$ 468
Accrued employee compensation	11,532	13,941
Accrued liabilities	2,002	2,848
Deferred revenue, current portion	26,264	19,131
Capital lease obligations, current portion	26	318
Total current liabilities	40,079	36,706
Deferred revenue, net of current portion	2,480	3,507
Other long-term liabilities	678	641
Total liabilities	43,237	40,854

Commitments and contingencies		
Stockholders' Equity:		
Common Stock, \$0.00015 par value; 200,000 shares authorized; 24,854 and 22,999 shares issued and outstanding at June 30, 2014 and September 30, 2013, respectively	4	3
Preferred Stock, \$0.00015 par value; 5,000 shares authorized; no shares issued and outstanding		
Additional paid-in capital	168,530	156,032
Accumulated other comprehensive loss	(224)	(302)
Accumulated deficit	(77,070)	(62,115)
Total stockholders' equity	91,240	93,618
Total liabilities and stockholders' equity	\$ 134,477	\$ 134,472

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**MODEL N, INC.****Condensed Consolidated Statements of Operations****(in thousands, except per share data)****(Unaudited)**

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
Revenues:				
License and implementation	\$ 8,073	\$ 16,419	\$ 27,449	\$ 43,362
SaaS and maintenance	11,196	10,828	34,029	30,785
Total revenues	19,269	27,247	61,478	74,147
Cost of Revenues:				
License and implementation	3,812	7,527	12,955	19,887
SaaS and maintenance	5,302	4,865	15,917	14,169
Total cost of revenues	9,114	12,392	28,872	34,056
Gross profit	10,155	14,855	32,606	40,091
Operating Expenses:				
Research and development	4,814	4,063	14,362	12,665
Sales and marketing	6,664	5,256	18,293	16,362
General and administrative	5,403	3,883	14,518	11,518
Restructuring	(43)		26	
Total operating expenses	16,838	13,202	47,199	40,545
(Loss) income from operations	(6,683)	1,653	(14,593)	(454)
Interest (income) expense, net	(3)	85	(10)	326
Other expenses (income), net	24	(48)	111	664
(Loss) income before income taxes	(6,704)	1,616	(14,694)	(1,444)
Provision for income taxes	96	81	261	230
Net (loss) income	\$ (6,800)	\$ 1,535	\$ (14,955)	\$ (1,674)
Net (loss) income per share attributable to common stockholders:				
Basic	\$ (0.27)	\$ 0.07	\$ (0.62)	\$ (0.12)
Diluted	\$ (0.27)	\$ 0.06	\$ (0.62)	\$ (0.12)

Weighted average number of shares used in computing net (loss) income per share attributable to common stockholders:				
Basic	24,794	22,798	24,214	13,647
Diluted	24,794	26,072	24,214	13,647

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**MODEL N, INC.****Condensed Consolidated Statements of Comprehensive (Loss) Income****(in thousands)****(Unaudited)**

	Three Months Ended		Nine Months	
	June 30,		Ended	
	2014	2013	2014	2013
Net (loss) income	\$ (6,800)	\$ 1,535	\$ (14,955)	\$ (1,674)
Foreign currency translation gain (loss), net of taxes	4	(98)	79	(122)
Unrealized loss on marketable securities, net of tax			(1)	
Other comprehensive income (loss), net	4	(98)	78	(122)
Total comprehensive (loss) income	\$ (6,796)	\$ 1,437	\$ (14,877)	\$ (1,796)

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**MODEL N, INC.****Condensed Consolidated Statements of Cash Flows****(in thousands)****(Unaudited)**

	Nine Months Ended June 30,	
	2014	2013
Cash Flows From Operating Activities:		
Net loss	\$ (14,955)	\$ (1,674)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	2,543	1,414
Amortization of intangible assets	248	247
Stock-based compensation	7,450	3,306
Loss on disposal of property and equipment		2
Amortization of debt discount		81
Changes in fair value of preferred stock warrant liability		671
Provision for doubtful accounts		9
Deferred income taxes	29	90
Changes in assets and liabilities:		
Accounts receivable	(1,806)	(7,767)
Prepaid expenses and other assets	128	(1,861)
Deferred cost of implementation services	265	305
Accounts payable	(212)	1,899
Accrued employee compensation	(2,342)	2,699
Other accrued and long-term liabilities	(906)	1,271
Deferred revenue	6,106	(1,376)
Net cash used in operating activities	(3,452)	(684)
Cash Flows From Investing Activities:		
Purchases of property and equipment	(1,503)	(811)
Capitalization of software development costs		(2,698)
Net sale (purchase) of short-term investments		(63)
Net cash used in investing activities	(1,503)	(3,572)
Cash Flows From Financing Activities:		
Proceeds from initial public offering, net of offering costs of \$7.6 million		101,064
Proceeds from exercise of stock options and employee stock purchase plan	5,049	768
Payments for deferred offering costs	(6)	(2,562)
Principal payments on capital lease obligations	(292)	(442)
Principal payments on loan		(5,208)

Edgar Filing: MODEL N, INC. - Form 10-Q

Net cash provided by financing activities	4,751	93,620
Effect of exchange rate changes on cash and cash equivalents	24	(54)
Net increase (decrease) in cash and cash equivalents	(180)	89,310
Cash and cash equivalents		
Beginning of the period	103,350	15,768
End of the period	\$ 103,170	\$ 105,078
Noncash Investing and Financing Activities:		
Capitalized stock options in software development costs	\$	104
Net settlement for exercise of common stock warrant		300
Deferred offering costs not yet paid		385
Conversion of convertible preferred stock to common stock		41,776
Conversion of preferred stock warrant to common stock warrant		