VEEVA SYSTEMS INC
Form 10-Q
December 08, 2016

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, 2016

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)

(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 25, 2016, there were 102,868,549 shares of the Registrant's Class A common stock outstanding and 34,293,850 shares of the Registrant's Class B common stock outstanding.

VEEVA SYSTEMS INC.

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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 and 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 “anticipates,” “believes,” “could,” “estimates,” “expects,” “intends,” “may,” “plans,” “potential,” “predicts,” “projects,” “seeks “would,” “tracking to,” “on track” 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,” “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, 2016 (Unaudited)	January 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 206,078	$ 132,179
Short-term investments	304,731	214,024
Accounts receivable, net of allowance for doubtful accounts of $651 and $542, respectively	65,648	144,798
Prepaid expenses and other current assets	13,372	9,963
Total current assets	589,829	500,964
Property and equipment, net	48,169	47,469
Goodwill	95,804	95,804
Intangible assets, net	41,333	47,500
Deferred income taxes, noncurrent	9,238	9,359
Other long-term assets	4,101	4,703
Total assets	$ 788,474	$ 705,799
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 5,048	$ 4,600
Accrued compensation and benefits	9,875	12,451
Accrued expenses and other current liabilities	10,794	11,059
Income tax payable	4,848	750
Deferred revenue	137,051	157,419
Total current liabilities	167,616	186,279
Deferred income taxes, noncurrent	9,535	10,622
Other long-term liabilities	5,418	3,649
Total liabilities	182,569	200,550
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Class A common stock, $0.00001 par value; 800,000,000 shares authorized, 102,446,478 and 87,359,026 issued and outstanding at October 31, 2016 and January 31, 2016, respectively	1	1

Class B common stock, $0.00001 par value; 190,000,000 shares authorized, 34,325,912 and 46,186,159 issued and outstanding at October 31, 2016 and January 31, 2016, respectively	—	—
Additional paid-in capital	415,103	361,691
Accumulated other comprehensive income	319	172
Retained earnings	190,482	143,385
Total stockholders' equity	605,905	505,249
Total liabilities and stockholders' equity	$ 788,474	$ 705,799

See Notes to Condensed Consolidated Financial Statements.

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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,	
	2016	2015	2016	2015
	(Unaudited)			
Revenues:				
Subscription services	$113,575	$81,736	$314,818	$225,910
Professional services and other	29,204	25,185	79,072	69,041
Total revenues	142,779	106,921	393,890	294,951
Cost of revenues[(1)]:				
Cost of subscription services	24,233	18,273	69,086	50,965
Cost of professional services and other	19,692	18,739	58,125	51,505
Total cost of revenues	43,925	37,012	127,211	102,470
Gross profit	98,854	69,909	266,679	192,481
Operating expenses[(1)]:				
Research and development	25,012	17,667	70,648	45,879
Sales and marketing	28,391	20,345	84,022	53,898
General and administrative	11,641	11,797	36,571	29,326
Total operating expenses	65,044	49,809	191,241	129,103
Operating income	33,810	20,100	75,438	63,378
Other income, net	525	110	1,910	428
Income before income taxes	34,335	20,210	77,348	63,806
Provision for income taxes	12,705	9,728	30,251	26,936
Net income	$21,630	$10,482	$47,097	$36,870
Net income attributable to Class A and Class B common stockholders, basic and diluted	$21,630	$10,473	$47,095	$36,832
Net income per share attributable to Class A and Class B common stockholders:				
Basic	$0.16	$0.08	$0.35	$0.28
Diluted	$0.15	$0.07	$0.32	$0.25
Weighted-average shares used to compute net income per share attributable to Class A and Class B common stockholders:				
Basic	135,624	132,413	135,144	131,731
Diluted	147,436	145,063	147,073	144,909
Other comprehensive income (loss):				
Net change in unrealized gains (losses) on available-for-sale	$(229)	$(34)	$43	$(113)

investments				
Net change in cumulative foreign currency translation gain	(321)	79	104	112
Comprehensive income	$21,080	$10,527	$47,244	$36,869

(1)

Includes stock-based compensation as follows:

Cost of revenues:				
Cost of subscription services	$294	$149	$791	$396
Cost of professional services and other	1,603	1,042	4,288	2,757
Research and development	3,237	2,021	8,443	5,047
Sales and marketing	3,592	1,932	9,389	4,807
General and administrative	2,229	1,547	6,201	4,094
Total stock-based compensation	$10,955	$6,691	$29,112	$17,101

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,	
	2016	2015	2016	2015
	(Unaudited)			
Cash flows from operating activities				
Net income	$21,630	$10,482	$47,097	$36,870
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	3,469	2,481	10,344	4,849
Amortization of premiums on short-term investments	481	693	1,370	2,206
Stock-based compensation	10,955	6,691	29,112	17,101
Deferred income taxes	(157)	(308)	(959)	(308)
Bad debt expense (recovery)	235	(35)	120	203
Changes in operating assets and liabilities:				
Accounts receivable	23,080	(2,689)	79,030	22,842
Income taxes	1,330	2,758	2,974	2,601
Prepaid expenses and other current and long-term assets	5,300	6,266	(2,776)	739
Accounts payable	(1,457)	1,074	414	874
Accrued expenses and other current liabilities	(1,663)	3,300	(2,768)	3,637
Deferred revenue	(38,667)	(11,567)	(19,368)	(15,415)
Other long-term liabilities	457	589	1,509	509
Net cash provided by operating activities	24,993	19,735	146,099	76,708
Cash flows from investing activities				
Purchases of short-term investments	(89,826)	(94,195)	(273,785)	(262,110)
Maturities and sales of short-term investments	53,575	180,785	181,751	297,537
Purchases of property and equipment	(1,456)	(4,556)	(4,372)	(19,048)
Acquisitions, net of cash acquired	—	(116,189)	—	(126,183)
Purchases of intangible assets	—	—	—	(568)
Capitalized internal-use software development costs	(32)	—	(241)	(194)
Changes in restricted cash and deposits	(1)	—	102	3
Net cash used in investing activities	(37,740)	(34,155)	(96,545)	(110,563)
Cash flows from financing activities				
Proceeds from early exercise of common stock options	—	—	—	10
Proceeds from exercise of common stock options	3,473	1,368	8,001	4,138
Restricted stock units acquired to settle employee tax withholding liability	(1)	—	(13)	(6)
Excess tax benefits from employee stock plans	5,309	1,817	16,249	8,968
Net cash provided by financing activities	8,781	3,185	24,237	13,110

Effect of exchange rate changes on cash and cash equivalents	(321)	53	108	86
Net change in cash and cash equivalents	(4,287)	(11,182)	73,899	(20,659)
Cash and cash equivalents at beginning of period	210,365	119,776	132,179	129,253
Cash and cash equivalents at end of period	$206,078	$108,594	$206,078	$108,594
Supplemental disclosures of other cash flow information:				
Cash paid for income taxes, net of refunds	$1,061	$273	$13,342	$16,265
Non-cash investing and financing activities:				
Changes in accounts payable and accrued expenses related to property and equipment purchases	$765	$(1,592)	$(22)	$1,023
Vesting of early exercised stock options	$—	$19	$26	$54

See Notes to Condensed Consolidated Financial Statements.

VEEVA SYSTEMS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Summary of Business and Significant Accounting Policies

Description of Business

Veeva is a leading provider of industry cloud software and data solutions for life sciences companies. We were founded in 2007 on the premise that industry-specific cloud solutions could best address the operating challenges and regulatory requirements of the global life sciences industry. Our solutions are designed to meet the unique needs of life sciences companies regardless of size and to address their most strategic business functions. From research and development to commercialization, our solutions are designed to help our customers bring products to market faster and more efficiently, market and sell more effectively and maintain compliance with government regulations. We provide multichannel customer relationship management, regulated content and information management, master data management and data and data services that meet the specialized functional and compliance needs of life sciences companies. Recently, we announced that we will begin selling certain of our regulated content and information management applications to companies in regulated industries adjacent to life sciences. 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, 2016, filed on March 31, 2016. 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, 2016 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, 2017 or any other period.

Use of Estimates

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

- the best estimate of selling price of the deliverables included in multiple-deliverable revenue arrangements;
- the collectibility of our accounts receivable;
- the fair value of assets acquired and liabilities assumed for business combinations;
- the valuation of short-term investments and the determination of other-than-temporary impairments;
- the realizability of deferred income tax assets and liabilities;
- 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 primarily from subscription services fees and professional services fees. Subscription services revenues consist of fees from customers accessing our cloud-based software solutions and subscription or license fees for our data solutions. In addition, our acquired Zinc Ahead business had a limited number of perpetual license agreements with accompanying maintenance and hosting fees. We have included such on-going maintenance and hosting fees in our subscription services revenues. Professional services and other revenues consist primarily of fees from implementation services, configuration, data services, training and managed services related to our solutions. 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-cancelable and do not provide for refunds to customers in the event of cancellations.

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. On-going maintenance and hosting fees for Zinc Ahead solutions are also recognized ratably over the accompanying maintenance and hosting term.

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 based on the proportional performance method. 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.

We enter into arrangements with multiple deliverables that generally include 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. If stand-alone value cannot be established for a delivered item in a multiple-element arrangement, the delivered item is accounted for as a combined unit of accounting with the undelivered item(s).

We have established stand-alone value with respect to all of our offerings except professional services for the acquired Zinc Ahead business. As a result, we account for multiple element arrangements that include Zinc Ahead professional services as a combined unit of accounting and recognize the revenues from such professional services ratably over the term of the associated 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 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 the estimated location of the resources performing the services for professional services.

We allocate consideration proportionately based on established BESP and then recognize the allocated revenue over the respective delivery periods for each element.

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, and is recognized as the revenue recognition criteria are met. We generally invoice our customers in annual or quarterly installments for the 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 in other long-term liabilities on the 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 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 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, such losses have not been material.

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

	October 31, 2016	January 31, 2016
Customer 1	*	16%
Customer 2	*	15
Customer 3	11%	*

*Does not exceed 10%.

No single customer represented over 10% of total revenues in the condensed consolidated financial statements for the three and nine months ended October 31, 2016 and 2015.

Recent Accounting Pronouncements

Stock-Based Compensation

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (“ASU”) 2016-09, “Compensation-Stock Compensation: Improvements to Employee Share-Based Payment”. The guidance simplifies the accounting for share-based transactions, including the income tax consequences, classification of awards as either equity or liabilities on the balance sheet, and classification of employee taxes paid on statement of cash flows when an employer withholds shares for tax-withholding purposes. The new standard is effective for interim and annual periods beginning after December 15, 2016, and early adoption is permitted. We will adopt this standard on February 1, 2017 and will elect an accounting policy to account for forfeitures when they occur. We expect the cumulative-effect adjustment in retained earnings to be immaterial on the adoption date.

Leases

In February 2016, the FASB issued ASU 2016-02, “Leases”. ASU 2016-02 requires that lease arrangements longer than twelve months result in an entity recognizing an asset and liability. The updated guidance is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. We are evaluating the impact of this new accounting standard on our consolidated financial statements and have not determined whether we will early adopt.

Financial Instruments

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments.” This guidance outlines the classification and measurement of financial instruments. The requirement to disclose the methods and significant assumptions used to estimate fair value is removed. In addition, financial assets and financial liabilities are to be presented separately in the notes to the financial statements, grouped by measurement category and form of financial asset. This standard will be effective for our fiscal year beginning in February 1, 2017, and early adoption is permitted. We do not expect this standard to have a material impact on our consolidated financial statements.

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers.” 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. ASU 2014-09 supersedes the existing revenue recognition guidance in “Revenue Recognition (Topic 605).” This update should be applied retrospectively either to each prior reporting period presented in the financial statements, or only to the most current reporting period presented in the financial statements with a cumulative effect adjustment recorded in the retained earnings. In August 2015, the FASB issued ASU 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date.” This update deferred the effective date of ASU 2014-09 for all entities by one year, although companies still have the option to begin applying the new guidance as of the original effective date. In accordance with the deferral, this guidance will be effective for our fiscal year beginning February 1, 2018. In May 2016, the FASB issued ASU 2016-12, “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients,” which clarifies implementation guidance in ASU 2014-09 on assessing collectibility, noncash consideration, presentation of sales tax and completed contracts and contract modifications at transition. We are evaluating the effect that these new accounting standards will have on our consolidated financial statements and related disclosures and have not selected a transition method yet. We have elected not to early adopt.

Note 2. Acquisitions

Our acquisitions are accounted for as business combinations. In accordance with authoritative guidance on business combination accounting, the assets and liabilities of the acquired companies were recorded as of the acquisition date, at their respective fair values, and are included within our condensed consolidated financial statements. The results of operations related to each company acquired have been included in our condensed consolidated statements of operations from the date of acquisitions. All acquisition-related transaction costs are expensed and reflected in general and administrative expenses on our condensed consolidated statements of comprehensive income for the periods presented.

Goodwill represents the excess of the purchase price over the fair value of the underlying net tangible and intangible assets and represents the future economic benefits of the customer relationships and data technology contributions in support of our data-related offerings. Goodwill is not deductible for U.S. tax purposes.

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

Zinc Ahead

On September 29, 2015, we completed our acquisition of Mineral Newco Ltd., the ultimate parent company of Zinc Ahead Ltd, a company organized under the laws of the United Kingdom that is the ultimate parent company of Zinc Ahead Holdings Ltd, Zinc Ahead Ltd, Zinc Ahead Inc., Zinc Ahead PTY LTD and Zinc Ahead (Japan) KK (collectively, “Zinc Ahead”), in an all-cash transaction. Through a share purchase agreement our indirect subsidiary, Veeva U.K. Holdings Limited, acquired all of the share capital of Zinc Ahead. Under the acquisition method of accounting, the total purchase price was allocated to Zinc Ahead’s net tangible and intangible assets based upon their estimated fair values as of September 29, 2015.

The total closing consideration for the purchase was approximately $119.9 million in cash. In addition, the agreement, as revised, calls for an amount payable over three years at a rate of one-third per year to employee shareholders and option holders of Zinc Ahead who remain employed with us. The remaining portion of such potential future payments have been accounted for as deferred compensation in the amount of $4.8 million as of October 31, 2016, and will be recognized over the remaining service period. Zinc Ahead was a provider of commercial content management solutions. We expect this acquisition to support the continued growth of our commercial content management solutions. We have begun to and will seek to continue to convert the end users of the Zinc Ahead solutions to our Veeva Vault PromoMats application. In connection with the Zinc Ahead acquisition, we incurred $2.2 million in acquisition-related transaction costs which were reflected in general and administrative expenses on our condensed consolidated statements of comprehensive income in prior periods.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date (in thousands):

	Useful Lives of Intangible Assets	Fair Value
Purchase price		
Cash		$119,935
Allocation of purchase price		
Cash		$3,107
Accounts receivable		4,600
Other current and non-current assets		5,140
Deferred tax liabilities, net		(12,316)
Other current and non-current liabilities		(8,730)
Net liabilities		$(8,199)
Customer contracts and relationships	10 years	$31,823
Software	4.5 years	10,063
Brand	3.5 years	1,141
Purchased intangible assets		$43,027
Goodwill		$85,107
Total purchase price		$119,935

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

The following unaudited pro forma information for the three months ended October 31, 2015, presents the combined results of operations for the periods presented as if the acquisition had been completed on February 1, 2015, the beginning of the comparable prior annual reporting period. The unaudited pro forma results include the amortization associated with preliminary estimates for the acquired intangible assets, changes to interest income for cash used in the acquisition, and exclude acquisition-related transaction costs and the associated tax impact on these unaudited pro forma adjustments.

The unaudited pro forma results do not reflect any cost saving synergies from operating efficiencies or the effect of the incremental costs incurred in integrating the two companies. Accordingly, these unaudited pro forma results are presented for informational purpose only and are not necessarily indicative of what the actual results of operations of the combined company would have been if the acquisition had occurred at the beginning of the period presented, nor are they indicative of future results of operations:

Periods Ended October 31, 2015

(In thousands, except per share amounts, unaudited, pro forma)	Three Months	Nine Months
Pro forma revenues	$115,136	$316,176
Pro forma net income	$9,616	$30,965
Pro forma net income per share attributable to Class A and Class B common stockholders:		
Basic	$0.07	$0.23
Diluted	$0.07	$0.21

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Note 3. Short-Term Investments

At October 31, 2016, 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	$ 22,839	$ 15	$ (6)	$ 22,848
Commercial paper	22,888	7	(10)	22,885
Corporate notes and bonds	87,348	32	(73)	87,307
U.S. agency obligations	88,906	40	(15)	88,931
U.S. treasury securities	82,794	10	(44)	82,760
Total available-for-sale securities	$ 304,775	$ 104	$ (148)	$ 304,731

At January 31, 2016, 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	$ 5,456	$ —	$ (2)	$ 5,454
Commercial paper	5,970	—	—	5,970
Corporate notes and bonds	38,341	26	(40)	38,327
U.S. agency obligations	124,626	14	(54)	124,586
U.S. treasury securities	39,720	4	(37)	39,687
Total available-for-sale securities	$ 214,113	$ 44	$ (133)	$ 214,024

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, 2016	January 31, 2016
Due in one year or less	$ 198,245	$ 151,214
Due in greater than one year	106,486	62,810
Total	$ 304,731	$ 214,024

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 (loss). There were no impairments considered other-than-temporary as of October 31, 2016 and January 31, 2016.

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, 2016 (in thousands):

	Fair Value	Gross Unrealized Losses
Asset-backed securities	$12,108	$ (6)
Commercial paper	10,517	(10)
Corporate notes and bonds	60,122	(73)
U.S. agency obligations	20,493	(15)
U.S. treasury securities	61,156	(44)

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, 2016 (in thousands):

	Fair Value	Gross Unrealized Losses
Asset-backed securities	$2,249	$ (2)
Corporate notes and bonds	14,296	(40)
U.S. agency obligations	82,806	(54)
U.S. treasury securities	33,486	(37)

Note 4. Property and Equipment, Net

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

	October 31, 2016	January 31, 2016
Land	$3,040	$3,040
Building	20,984	20,984
Land improvements and building improvements	14,269	14,106
Equipment and computers	6,809	5,910
Furniture and fixtures	7,082	6,453
Leasehold improvements	1,993	1,323
Construction in progress	1,647	—
	55,824	51,816
Less accumulated depreciation	(7,655)	(4,347)
Total property and equipment, net	$48,169	$47,469

Total depreciation expense was $1.2 million and $3.6 million for the three and nine months ended October 31, 2016, respectively, and $1.1 million and $1.9 million for the three and nine months ended October 31, 2015, respectively. Land is not depreciated.

Note 5. Intangible Assets

The following schedule presents the details of intangible assets as of October 31, 2016 (dollar amounts in thousands):

	October 31, 2016			
	Gross Carrying Amount	Accumulated Amortization	Net	Remaining Useful Life (in years)
Existing technology	$3,880	$ (2,539)	$1,341	1.8
Database	4,939	(2,994)	1,945	2.5
Customer contracts and relationships	33,643	(4,352)	29,291	8.7
Software	10,867	(2,897)	7,970	3.4
Brand	1,141	(355)	786	2.4
	$54,470	$ (13,137)	$41,333	

The following schedule presents the details of intangible assets as of January 31, 2016 (dollar amounts in thousands):

	January 31, 2015			
	Gross Carrying Amount	Accumulated Amortization	Net	Remaining Useful Life (in years)
Existing technology	$3,880	$ (1,957)	$1,923	2.6
Database	4,939	(2,103)	2,836	3.0
Customer contracts and relationships	33,643	(1,693)	31,950	9.4
Software	10,867	(1,106)	9,761	4.2
Brand	1,141	(111)	1,030	3.2
	$54,470	$ (6,970)	$47,500	

Amortization expense associated with intangible assets was $2.1 million and $6.2 million for the three and nine months ended October 31, 2016, respectively, and $1.1 million and $2.2 million for the three and nine months ended October 31, 2015, respectively.

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

Period	Estimated Amortization Expense

Fiscal 2017	$	2,056
Fiscal 2018		7,793
Fiscal 2019		6,963
Fiscal 2020		6,062
Fiscal 2021		3,629
Thereafter		14,830
Total	$	41,333

Note 6. Accrued Expenses
Accrued expenses consisted of the following as of the dates shown (in thousands):

	October 31, 2016	January 31, 2016
Accrued commissions	$1,831	$2,798
Accrued bonus	2,266	2,957
Deferred compensation associated with Zinc Ahead	139	1,120
Accrued vacation	2,204	1,457
Accrued other compensation and benefits	3,435	4,119
Total accrued compensation and benefits	$9,875	$12,451
Accrued fees payable to salesforce.com	4,503	4,222
Accrued third-party professional services subcontractors' fees	956	1,152
Sales taxes payable	1,412	1,597
Other accrued expenses	3,923	4,088
Total accrued expenses and other current liabilities	$10,794	$11,059

Note 7. 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.

The following table presents the fair value hierarchy for financial assets measured at fair value on a recurring basis as of October 31, 2016 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$20,607	$—	$ —	$20,607
Commercial paper	—	—	—	—
Corporate notes and bonds	—	1,100	—	1,100
U.S. agency obligations	—	—	—	—
Short-term investments				
Asset-backed securities	—	22,848	—	22,848
Commercial paper	—	22,885	—	22,885
Corporate notes and bonds	—	87,307	—	87,307
U.S. agency obligations	—	88,931	—	88,931
U.S. treasury securities	—	82,760	—	82,760
Total	$20,607	$305,831	$ —	$326,438

The following table presents the fair value hierarchy for financial assets measured at fair value on a recurring basis as of January 31, 2016 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$28,087	$—	$ —	$28,087
Corporate notes and bonds	—	11,396	—	11,396
U.S. agency obligations	—	3,002	—	3,002
Short-term investments				
Asset-backed securities	—	5,454	—	5,454
Commercial paper	—	5,970	—	5,970
Corporate notes and bonds	—	38,327	—	38,327
U.S. agency obligations	—	124,586	—	124,586
U.S. treasury securities	—	39,687	—	39,687
Total	$28,087	$228,422	$ —	$256,509

We determine the fair value of our security holdings based on pricing from our service provider 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.

Note 8. Income Taxes

For the three months ended October 31, 2016 and 2015, our effective tax rates were 37.0% and 48.1%, respectively. During the three months ended October 31, 2016 as compared to the prior year period, our effective tax rate decreased primarily due to the benefit of the permanent reenactment of the U.S. research and development tax credit, an increase in domestic production activities deduction for the current fiscal year, and the release of unrecognized tax benefits due to the expiration of the statute of limitations.

For the nine months ended October 31, 2016 and 2015, our effective tax rates were 39.1% and 42.2%, respectively. During the nine months ended October 31, 2016 as compared to the prior year period, our effective tax rate decreased primarily due to the benefit of the permanent reenactment of the U.S. research and development tax credit, an increase in domestic production activities deduction for the current fiscal year, and the release of unrecognized tax benefits due to the expiration of the statute of limitations.

Note 9. Stockholders' Equity
Stock Option Activity

A summary of stock option activity for the nine months ended October 31, 2016 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, 2016	18,549,702	$ 5.01	6.8	$359,306,108
Options granted	1,265,000	27.51		
Options exercised	(2,537,421)	3.15		
Options forfeited/cancelled	(232,919)	4.34		
Options outstanding at October 31, 2016	17,044,362	$ 6.97	6.5	$543,566,597
Options vested and exercisable at October 31, 2016	5,673,711	$ 5.06	5.9	$191,721,450
Options vested and exercisable at October 31, 2016 and expected to vest thereafter	16,439,091	$ 6.90	6.5	$525,406,590

During the three and nine months ended October 31, 2016, we granted 190,000 and 1,265,000 stock options, respectively, under the 2013 EIP. The weighted average grant-date fair value of options granted was $17.94 and $12.89 for the three and nine months ended October 31, 2016.

As of October 31, 2016, there was $37.1 million in unrecognized compensation cost, net of estimated forfeitures, related to unvested stock options granted under the 2007 Plan, 2012 Equity Incentive Plan and 2013 Equity Incentive Plan (2013 EIP). This cost is expected to be recognized over a weighted average period of 3.5 years.

As of October 31, 2016, 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 $17.5 million and $75.5 million for the three and nine months ended October 31, 2016.

Restricted Stock Units

A summary of restricted stock unit (RSU) activity for the nine months ended October 31, 2016 is as follows:

	Unreleased Restricted Stock Units	Weighted average grant date fair value
Balance at January 31, 2016	2,219,425	$ 26.80
RSUs granted	2,219,333	28.79
RSUs vested	(690,642)	26.76
RSUs forfeited/cancelled	(301,950)	26.58
Balance at October 31, 2016	3,446,166	$ 28.11

During the three and nine months ended October 31, 2016, we issued 343,193 and 2,219,333 RSUs under the 2013 EIP with a weighted-average grant date fair value of $39.41and $28.79, respectively.

As of October 31, 2016, there was a total of $91.9 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 3.0 years.

Stock-Based Compensation

Compensation expense related to share-based transactions, including employee, consultant, and non-employee director stock option awards, is measured and recognized in the condensed consolidated financial statements based on fair value. The fair value of each option award is estimated on the grant date using the Black-Scholes option-pricing model. The stock-based compensation expense, net of forfeitures, is recognized using a straight-line basis over the requisite service periods of the awards, which is generally four to nine years. For restricted stock awards, 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,	
	2016	2015	2016	2015
Volatility	45%	—	45% – 46%	45% – 46%
Expected term (in years)	6.35	—	6.31 – 7.56	5.50 – 6.32
Risk-free interest rate	1.51% – 1.63%	—	1.48% – 1.67%	1.69% – 1.84%
Dividend yield	0%	—	0%	0%

For the three and nine months ended October 31, 2016, we capitalized an immaterial amount of stock-based compensation as part of our internal-use software capitalization. For the three and nine months ended October 31, 2015, there was no stock-based compensation capitalized for internal-use software.

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. Historically, all such early 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, 2016, the amount of unvested shares and the aggregate price for those shares that were subject to repurchase were immaterial. At January 31, 2016, there were 56,666 unvested shares which were subject to repurchase at an aggregate price of an immaterial amount.

Note 10. 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 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.

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,			
	2016		2015		2016		2015	
	Class A	Class B	Class A	Class B	Class A	Class B	Class A	Class B
Basic								
Numerator								
Net income	$16,190	$5,440	$6,156	$4,326	$33,637	$13,460	$20,545	$16,325
Undistributed earnings allocated to participating securities	—	—	(5)	(4)	(1)	(1)	(21)	(17)
Net income attributable to common stockholders, basic	$16,190	$5,440	$6,151	$4,322	$33,636	$13,459	$20,524	$16,308
Denominator								
Weighted average shares used in computing net income per share attributable to common stockholders, basic	101,514	34,110	77,759	54,654	96,521	38,623	73,405	58,326
Net income per share attributable to common stockholders, basic	$0.16	$0.16	$0.08	$0.08	$0.35	$0.35	$0.28	$0.28
Diluted								
Numerator								
Net income attributable to common stockholders, basic	$16,190	$5,440	$6,151	$4,322	$33,636	$13,459	$20,524	$16,308
Reallocation as a result of conversion of Class B to Class A common stock:								
Net income attributable to common stockholders, basic	5,440	—	4,322	—	13,459	—	16,308	—
	—	1,297	—	537	—	2,728	—	1,867

Reallocation of net income to Class B common stock								
Net income attributable to common stockholders, diluted	$21,630	$6,737	$10,473	$4,859	$47,095	$16,187	$36,832	$18,175
Denominator								
Number of shares used for basic EPS computation	101,514	34,110	77,759	54,654	96,521	38,623	73,405	58,326
Conversion of Class B to Class A common stock	34,110	—	54,654	—	38,623	—	58,326	—
Effect of potentially dilutive common shares	11,812	11,812	12,650	12,650	11,929	11,929	13,178	13,178
Weighted average shares used in computing net income per share attributable to common stockholders, diluted	147,436	45,922	145,063	67,304				