MODEL N, INC.
Form 10-Q
August 10, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2015

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission File Number: 001-35840

Model N, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware **(State or Other Jurisdiction of** **Incorporation or Organization)**	**77-0528806** **(I.R.S. Employer** **Identification No.)**
1600 Seaport Boulevard, Suite 400 **Pacific Shores Center-Building 6** **South 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 x 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 x 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 ¨	Accelerated filer x
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 x

As of July 31, 2015 the registrant had 26,443,275 shares of common stock issued and outstanding.

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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, 2015	As of September 30, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 93,811	$ 101,006
Accounts receivable, net	20,853	15,203
Deferred cost of implementation services, current portion	504	251
Prepaid expenses	2,716	2,092
Other current assets	121	322
Total current assets	118,005	118,874
Property and equipment, net	7,657	6,889
Goodwill	1,509	1,509
Intangible assets, net	378	587
Other assets	1,790	1,272
Total assets	$ 129,339	$ 129,131
Liabilities And Stockholders Equity		
Current liabilities:		
Accounts payable	$ 3,405	$ 1,369
Accrued employee compensation	9,051	9,194
Accrued liabilities	3,611	1,998
Deferred revenue, current portion	26,344	23,943
Total current liabilities	42,411	36,504
Deferred revenue, net of current portion	1,907	2,585
Other long-term liabilities	993	1,078
Total liabilities	45,311	40,167
Commitments and contingencies		

Stockholders equity:		
Common Stock, $0.00015 par value; 200,000 shares authorized; 26,423 and 25,085 shares issued and outstanding at June 30, 2015 and September 30, 2014, respectively	4	4
Preferred Stock, $0.00015 par value; 5,000 shares authorized; no shares issued and outstanding		
Additional paid-in capital	182,067	172,245
Accumulated other comprehensive loss	(363)	(289)
Accumulated deficit	(97,680)	(82,996)
Total stockholders equity	84,028	88,964
Total liabilities and stockholders equity	$ 129,339	$ 129,131

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

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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,	
	2015	2014	2015	2014
Revenues:				
License and implementation	$ 8,359	$ 8,073	$ 27,781	$ 27,449
SaaS and maintenance	15,251	11,196	40,606	34,029
Total revenues	23,610	19,269	68,387	61,478
Cost of revenues:				
License and implementation	4,020	3,812	11,806	12,955
SaaS and maintenance	6,928	5,302	18,228	15,917
Total cost of revenues	10,948	9,114	30,034	28,872
Gross profit	12,662	10,155	38,353	32,606
Operating expenses:				
Research and development	4,438	4,814	13,178	14,362
Sales and marketing	7,657	6,664	22,254	18,293
General and administrative	6,267	5,403	17,145	14,518
Restructuring		(43)		26
Total operating expenses	18,362	16,838	52,577	47,199
Loss from operations	(5,700)	(6,683)	(14,224)	(14,593)
Interest income, net		(3)	(6)	(10)
Other expenses, net	6	24	59	111
Loss before income taxes	(5,706)	(6,704)	(14,277)	(14,694)
Provision for income taxes	80	96	407	261
Net loss	$ (5,786)	$ (6,800)	$ (14,684)	$ (14,955)
Net loss per share attributable to common stockholders :				
Basic and diluted	$ (0.22)	$ (0.27)	$ (0.57)	$ (0.62)
Weighted average number of shares used in computing net loss per share attributable to common stockholders:				
Basic and diluted	26,317	24,794	25,837	24,214

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

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MODEL N, INC.

Condensed Consolidated Statements of Comprehensive Loss

(in thousands)

(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2015	2014	2015	2014
Net loss	$ (5,786)	$ (6,800)	$ (14,684)	$ (14,955)
Foreign currency translation (loss) gain, net of taxes	(6)	4	(74)	79
Unrealized loss on marketable securities, net of tax				(1)
Other comprehensive (loss) income, net	(6)	4	(74)	78
Total comprehensive loss	$ (5,792)	$ (6,796)	$ (14,758)	$ (14,877)

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

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MODEL N, INC.

Condensed Consolidated Statements of Cash Flows

(in thousands)

(Unaudited)

	Nine Months Ended June 30, 2015	2014
Cash flows from operating activities:		
Net loss	$ (14,684)	$ (14,955)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	2,787	2,543
Amortization of intangible assets	209	248
Stock-based compensation	7,412	7,450
Other non cash charges, net	187	29
Changes in assets and liabilities:		
Accounts receivable	(5,667)	(1,806)
Prepaid expenses and other assets	(753)	128
Deferred cost of implementation services	(436)	265
Accounts payable	2,174	(212)
Accrued employee compensation	(73)	(2,342)
Other accrued and long-term liabilities	1,278	(906)
Deferred revenue	1,723	6,106
Net cash used in operating activities	(5,843)	(3,452)
Cash flows from investing activities:		
Purchases of property and equipment	(1,748)	(1,503)
Capitalization of software development costs	(1,883)	
Net cash used in investing activities	(3,631)	(1,503)
Cash flows from financing activities:		
Proceeds from exercise of stock options and employee stock purchase plan	2,300	5,049
Payments for deferred offering costs		(6)
Principal payments on capital lease obligations		(292)
Net cash provided by financing activities	2,300	4,751
Effect of exchange rate changes on cash and cash equivalents	(21)	24
Net decrease in cash and cash equivalents	(7,195)	(180)
Cash and cash equivalents		
Beginning of period	101,006	103,350

End of period	$ 93,811	$ 103,170
Supplemental Disclosure of Cash Flow Data:		
Noncash Investing and Financing Activities:		
Capitalized stock options in software development costs	109	
Deferred offering costs not yet paid		6

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

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MODEL N, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. The Company and Significant Accounting Policies and Estimates

Model N, Inc. (Company) was incorporated in Delaware on December 14, 1999. The Company is a provider of revenue management solutions for the life science and technology industries. The Company s solutions enable its customers to maximize revenues and reduce revenue compliance risk by transforming their revenue life cycle from a series of tactical, disjointed operations into a strategic end-to-end process, which enables them to manage the strategy and execution of pricing, contracting, incentives and rebates. The Company s corporate headquarters are located in Redwood City, California, with additional offices in the United States, India, the United Kingdom and Switzerland.

Fiscal Year

The Company s fiscal year ends on September 30. References to fiscal year 2015, for example, refer to the fiscal year ending September 30, 2015.

Basis for Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP) and applicable rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Annual Report on Form 10-K for the fiscal year ended September 30, 2014. There have been no changes in the significant accounting policies from those that were disclosed in the audited consolidated financial statements for the fiscal year ended September 30, 2014 included in the Annual Report on Form 10-K.

In the opinion of management, the unaudited interim consolidated financial statements includes all the normal recurring adjustments necessary to present fairly the condensed consolidated balance sheet as of June 30, 2015; the condensed consolidated statements of operations for the three and nine months ended June 30, 2015 and 2014; the condensed consolidated statements of comprehensive loss for the three and nine months ended June 30, 2015 and 2014; and the condensed consolidated statements of cash flows for the nine months ended June 30, 2015 and 2014. The results of operations for the three and nine months ended June 30, 2015 were not necessarily indicative of the operating results for the full fiscal year 2015 or any future periods.

The Company s condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated upon consolidation.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amounts of revenues and expenses during the reporting periods. Significant items subject to such estimates include revenue recognition, legal contingencies, income taxes, stock-based compensation, software development costs and valuation of intangibles. These estimates and assumptions are based on management s best estimates and judgment. Management regularly evaluates its estimates and assumptions using historical experience and other factors. However, actual results could differ significantly from these estimates.

Revenue Recognition

Revenues are comprised of license and implementation revenues and Software as a Service (SaaS) and maintenance revenues.

License and Implementation

License and implementation revenues include revenues from the sale of perpetual software licenses for the Company s solutions and the related implementation services. Based on the nature and scope of the implementation services, the Company has concluded that generally the implementation services are essential to its customers use of the on-premise solutions, and therefore, the Company recognizes revenues from the sale of software licenses for its on-premise solutions and the related implementation services on a percentage-of-completion basis over the expected implementation period. The Company estimates the length of this period based on a number of factors, including the number of licensed applications and the scope and complexity of the customer s deployment requirements. The percentage-of-completion computation is measured as the hours expended on the implementation during the reporting period as a percentage of the total estimated hours needed to complete the implementation.

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SaaS and Maintenance

SaaS and maintenance revenues primarily include subscription and the related implementation fees from customers accessing the Company s cloud-based solutions and revenues associated with maintenance and support contracts from customers using on-premise solutions. Also included in SaaS and maintenance revenues are other revenues, including revenues related to application support, training and customer-reimbursed expenses.

In SaaS arrangements where subscription fees and implementation services have a standalone value, the Company allocates revenue to each element in the arrangement based on a selling price hierarchy. The selling price for a deliverable is based on its vendor-specific objective evidence (VSOE), if available, third-party evidence (TPE), if VSOE is not available, or best estimated selling price (BESP), if neither VSOE nor TPE is available. As the Company has been unable to establish VSOE or TPE for the elements of its SaaS arrangements, the Company established the BESP for each element by considering company-specific factors such as existing pricing and discounting. The total arrangement fee for a multiple element arrangement is allocated based on the relative BESP of each element. The consideration allocated to subscription fees is recognized as revenue ratably over the contract period. The consideration allocated to implementation services is recognized as revenue as services are performed.

SaaS arrangements include multiple elements, such as subscription fees and the related implementation services. In SaaS arrangements where implementation services are complex and do not have a stand-alone value to the customers, the Company considers the entire arrangement consideration, including subscription fees and related implementation services fees, as a single unit of accounting in accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2009-13, Revenue Recognition (Accounting Standards Codification (ASC) Topic 605) *Multiple-Deliverable Revenue Arrangements*. For such arrangements, the Company recognizes the revenues ratably beginning the day the customer is provided access to the subscription service through the longer of the initial contractual period or the expected term of the customer relationship.

Maintenance and support revenues include post-contract customer support and the right to unspecified software updates and enhancements on a when and if available basis. Application support revenues include supporting, managing and administering our software solutions, and providing additional end user support. Maintenance and support revenues and application support revenues are recognized ratably over the period in which the services are provided. The revenues from training and customer-reimbursed expenses are recognized as the Company delivers these services.

Revenue Recognition

The Company commences revenue recognition when all of the following conditions are satisfied: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable and collection is probable. However, determining whether and when some of these criteria have been satisfied often involves assumptions and judgments that can have a significant impact on the timing and amount of revenues the Company reports.

For multiple software element arrangements, the Company allocates the sales price among each of the deliverables using the residual method, under which revenue is allocated to undelivered elements based on their VSOE of fair value. VSOE is the price charged when an element is sold separately or a price set by management with the relevant authority. The Company has established VSOE for maintenance and support and training.

The Company does not offer any contractual rights of return or concessions. The Company s implementation projects generally have a term ranging from a few months to three years and may be terminated by the customer at any time.

Should a loss be anticipated on a contract, the full amount of the loss is recorded when the loss is determinable. The Company updates its estimates regarding the completion of implementations based on changes to the expected contract value and revisions to its estimates of time required to complete each implementation project. Amounts that may be payable to customers to settle customer disputes are recorded as a reduction in revenues or reclassified from deferred revenue to customer payables in accrued liabilities and other long-term liabilities.

New Accounting Pronouncements

In February 2015, the FASB issued ASU No. 2015-05 *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40):* The update provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change GAAP for a customer s accounting for service contracts. For public companies, the update is effective for the fiscal year and for the interim period beginning after December 15, 2015, with early application permitted. The Company is currently assessing the impact that adopting this update may have on its consolidated financial statements and footnote disclosures.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09) - *Revenue from Contracts with Customers*, which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount to which an entity expects to be entitled when products and services are transferred to customers. ASU 2014-09 was originally to be effective for the Company on October 1, 2017. In July 2015, the FASB affirmed a one-year deferral of the effective date of the new revenue standard. The new standard will become effective for the Company on October 1, 2018 and can be adopted either retrospectively to each prior reporting period presented or as a cumulative effect adjustment as of the date of adoption. Early application is permitted but not before the original effective date of annual periods beginning after December 15, 2016. The Company is currently evaluating the impact the adoption of ASU 2014-09 will have on the Company s consolidated financial statements.

2. Fair Value of Financial Instruments

The financial instruments of the Company consist primarily of cash and cash equivalents, accounts receivable, accounts payable and certain accrued liabilities. The Company considers all highly liquid investments with an original or remaining maturity of three months at date of purchase to be cash equivalents.

Fair value is defined as the exchange price that would be received for an asset or an exit price paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The current accounting guidance for fair value instruments defines a three-level valuation hierarchy for disclosures as follows:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 Input other than quoted prices included in Level 1 that are observable, unadjusted quoted prices in markets that are not active, or other inputs for similar assets and liabilities that are observable or can be corroborated by observable market data; and

Level 3 Unobservable inputs that are supported by little or no market activity, which requires the Company to develop its own models and involves some level of management estimation and judgment.

The Company s Level 1 assets consist of U.S. treasury bills and money market funds. These instruments are classified within Level 1 of the fair value hierarchy because they are valued based on quoted market prices in active markets.

The table below sets forth the Company s cash equivalents as of June 30, 2015 and September 30, 2014, which are measured at fair value on a recurring basis by level within the fair value hierarchy. The assets are classified based on the lowest level of input that is significant to the fair value measurement.

	Level 1	Level 2	Level 3	Total
		(in thousands)		
As of June 30, 2015:				
Assets:				
Cash equivalents:				
Money market fund deposits	$ 45,516	$	$	$ 45,516
U.S. treasury bills				
Total	$ 45,516	$	$	$ 45,516
As of September 30, 2014:				
Assets:				
Cash equivalents:				
Money market fund deposits	$ 11,463	$	$	$ 11,463
U.S. treasury bills	34,050			34,050
Total	$ 45,513	$	$	$ 45,513

Cash equivalents in the above table exclude $48.3 million and $55.5 million held in cash by the Company in its bank accounts as of June 30, 2015 and September 30, 2014, respectively. There were no transfers of assets measured at fair value between Level 1 and Level 2, or between Level 2 and Level 3, during the three and nine months ended June 30, 2015.

The following tables show the Company s available-for-sale securities adjusted cost, gross unrealized gains, gross unrealized losses and fair value recorded as cash equivalents:

	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value
		(in thousands)		
As of June 30, 2015:				
Cash equivalents:				
Money market fund deposits	$ 45,516	$	$	$ 45,516
U.S. treasury bills				
Total	$ 45,516	$	$	$ 45,516
As of September 30, 2014:				
Cash equivalents:				
Money market fund deposits	$ 11,463	$	$	$ 11,463
U.S. treasury bills	34,050			34,050
Total	$ 45,513	$	$	$ 45,513

3. Stock-based Compensation

Stock Plans

The Company s board of directors (Board) adopted the 2013 Equity Incentive Plan (2013 Plan) in February 2013, and the stockholders approved the 2013 Plan in March 2013. The 2013 Plan became effective on March 18, 2013 and will terminate in February 2023. The 2013 Plan serves as the successor equity compensation plan to the 2010 Equity Incentive Plan (2010 Plan). The 2013 Plan was approved with a reserve of 8.0 million shares, which consists of 2.5 million shares of the Company s common stock reserved for future issuance under the 2013 Plan and shares of common stock previously reserved but unissued under the 2010 Plan. In addition, any shares of common stock subject to outstanding awards under the 2010 Plan and 2000 Stock Plan (2000 Plan) that are issuable upon the exercise of options that expire without having been exercised in full, are forfeited or repurchased by the Company at the original purchase price or are used to pay the exercise price or withholding obligations related to any award will be available for future grant and issuance under the 2013 Plan. Additionally, the 2013 Plan provides for automatic increases in the number of shares available for issuance under it on October 1 of each of the first four calendar years during the term of the 2013 Plan by the lesser of 5% of the number of shares of common stock issued and outstanding on each September 30 immediately prior to the date of increase or the number determined by our board of directors. No further grants will be made under the 2010 Plan, and the balances under the 2010 Plan have been transferred to the 2013 Plan. The 2013 Plan provides for the grant of incentive stock options, nonqualified stock options, restricted stock awards, stock appreciation rights, performance stock awards, restricted stock units and stock bonuses. Awards generally vest over three to four years and expire ten years from the date of grant.

Employee Stock Purchase Plan

The 2013 Employee Stock Purchase Plan (ESPP) became effective on March 19, 2013. The ESPP allows eligible employees to purchase shares of the Company s common stock at a discount through payroll deductions of up to 15% of their eligible compensation, at not less than 85% of the fair market value, as defined in the ESPP, subject to any plan limitations. Except for the initial offering period, the ESPP provides for six-month offering periods, starting on February 20 and August 20 of each year.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2015	2014	2015	2014
Risk-free interest rate			0.06%-0.07%	0.08%
Dividend yield				
Volatility			33%-37%	30%
Expected term (in years)			0.50	0.50

Restricted Stock Awards Issued to Certain Employees in Connection with the LeapFrogRx Acquisition

In January 2012, the Company issued 200,000 shares of common stock, which vested based on future continued employment, to certain employees of LeapFrogRx in connection with the acquisition of LeapFrogRx. Of these shares, 36,818 shares were forfeited and all the remaining shares were fully vested through the period ended March 31, 2014. The total fair value of restricted stock awards vested during the nine months ended June 30, 2014 was $0.1 million.

Performance-based Restricted Stock Units

On December 6, 2013, the Compensation Committee of the Board approved initial grants of an aggregate of 280,000 performance-based restricted stock units to three of the Company s senior officers, including the Chief Executive Officer and the Chief Financial Officer. Under the terms of these grants, the actual number of shares released could be 0% to 250% of the initial grant based on the Company s total shareholder return (TSR) relative to the TSR of the Russell 3000 index (Index) over a three-year period. In any of the three years, no shares will be released if the TSR of the Company s common stock is below the 30th percentile relative to the Index; 100% of the initial grant will be released if the Company s TSR is at the 50th percentile relative to the Index; and 250% of the initial grant will be released if the Company s TSR is over the 90th percentile relative to the Index. These grants vest as to one-third on each annual anniversary of November 22, 2013, with a catch-up provision such that shares not earned in a prior year may be earned in a subsequent year subject to the Company s TSR achieving a certain level relative to the Index and exceeding the prior year s TSR. These grants have a ten-year term, subject to their earlier termination upon certain events including the awardee s termination of employment. As of June 30, 2015, approximately 43,000 of performance based restricted stock units were forfeited and 195,000 shares were released based on the Company s TSR relative to the Index.

The fair value of these grants with a market condition is recognized using the graded-vesting attribution method over the requisite service period. The Company used the Monte-Carlo simulation model to calculate the fair value of these awards on the grant date. The Monte-Carlo simulation model takes into account the same input assumptions as the Black-Scholes model; however, it also further incorporates into the fair value determination the possibility that the performance criteria may not be satisfied.

The grant date fair values of these awards were determined using the following assumptions:

Risk-free interest rate	0.63%
Dividend yield	
Volatility	39%

On March 9, 2015, the Compensation Committee of the Board of Directors granted an aggregate of 348,700 performance-based restricted stock units to members of the Company s executive team, including the Chief Executive Officer and the Chief Financial Officer. Under the terms of these grants, the actual number of shares that will vest and be released will range from 0% to 250% of the grant based on the performance of the Company s TSR relative to the TSR of the Index over a three-year period. No shares will vest and be released in the first year. In any of the two remaining years, no shares will vest and be released if the TSR of the Company s common stock is below the 30th percentile relative to the Index; 100% of the grant will vest and be released if the Company s TSR is at the 50th percentile relative to the Index; and 250% of the grant will vest and be released if the Company s TSR is over the 90th percentile relative to the Index. These grants vest over a three-year period with 50% vesting on each of the second and the third annual anniversary of the vesting commencing date of February 15, 2015. In addition, these grants have a catch-up provision such that if the Company s TSR relative to the Index for the three-year period exceeds that of the two-year period, additional shares for the two-year period will vest and be released based on the three-year achievement level. These grants have a ten-year term, subject to their earlier termination upon certain events including the awardee s termination of employment. During nine months ended June 30, 2015, none of performance-based restricted stock units were forfeited and no shares were released based on the Company s TSR relative to the Index.

The fair value of these grants with a market condition is recognized using the graded-vesting attribution method over the requisite service period. The Company used the Monte-Carlo simulation model to calculate the fair value of these awards on the grant date. The Monte-Carlo simulation model takes into account the same input assumptions as the Black-Scholes model; however, it also further incorporates into the fair value determination the possibility that the performance criteria may not be satisfied.

The grant date fair values of these awards were determined using the following assumptions:

Risk-free interest rate	1.10%
Dividend yield	
Volatility	32%

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Activities of Stock Options, Restricted Stock Units and Restricted Stock Awards

	Shares Available for Grant	Number of Stock Options	Weighted Average Exercise Price	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value
		Outstanding Awards			
	(in thousands, except exercise price and grant date fair value)				
Balance at September 30, 2014 [1]	3,044	1,881	$ 7.07	2,265	$ 12.46
Increase in shares reserved	1,254				
Granted [1]	(1,344)			1,344	11.30
Exercised/released [1]		(271)	4.32	(921)	11.22
Forfeited	586	(159)	12.01	(427)	11.73
Expired	157	(157)	12.28		
Balance at June 30, 2015 [1]	3,697	1,294	$ 6.40	2,261	$ 12.41

(1) Includes shares issuable as performance-based restricted stock units

Stock-based compensation is included in the results of operations as follows:

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Nine Months Ended June 30, 2015	Nine Months Ended June 30, 2014
	(in thousands)			
Cost of revenues:				
License and implementation	$ 189	$ 206	$ 493	$ 752
SaaS and maintenance	208	167	584	576
Total stock-based compensation in cost of revenue	397	373	1,077	1,328
Operating expenses:				
Research and development	353	310	947	972
Sales and marketing	899	721	2,273	1,931
General and administrative	1,087	1,258	3,115	3,219
Total stock-based compensation in operating expense	2,339	2,289	6,335	6,122
Stock-based compensation in operating loss	2,736	2,662	7,412	7,450
Stock-based compensation capitalized as software development cost			109	
Total stock-based compensation expenses	$ 2,736	$ 2,662	$ 7,521	$ 7,450

4. Income Taxes

The Company recorded an income tax expense of $80,000 and $96,000, representing effective income tax rates of (1)% and (1)%, for the three months ended June 30, 2015 and 2014, respectively; and $407,000 and $261,000, representing income rates of (3)% and (2)%, for the nine months ended June 30, 2015 and 2014, respectively. The Company s effective income-tax rates during these periods differ from the Company s federal statutory rate of 34% primarily due to permanent differences for stock-based compensation and the impact of state income taxes and foreign tax rate differences, and the Company realized no benefit for current period losses due to maintaining a full valuation allowance against the U.S. and foreign net deferred tax assets.

5. Net Loss per Share

The following table sets forth the computation of the Company s basic and diluted net loss per share attributable to common stockholders during the periods presented:

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	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Nine Months Ended June 30, 2015	Nine Months Ended June 30, 2014
	(in thousands, except per share data)			
Numerator:				
Basic and diluted:				
Net loss attributable to common stockholders	$ (5,786)	$ (6,800)	$ (14,684)	$ (14,955)
Denominator:				
Basic and diluted:				
Weighted Average Shares Used in Computing Net Loss per Share Attributable to Common Stockholders	26,317	24,794	25,837	24,214
Net Loss per Share Attributable to Common Stockholders:				
Basic and diluted	$ (0.22)	$ (0.27)	$ (0.57)	$ (0.62)

The following shares of common stock equivalents were excluded from the computation of diluted net loss per share attributable to common stockholders as the effect would have been anti-dilutive:

	Nine Months Ended June 30, 2015	Nine Months Ended June 30, 2014
Stock options	1,294	2,014
Restricted stock awards, performance-based restricted stock units and restricted stock units	2,261	2,106

This also excludes future common stock purchase obligations of the Company related to the ESPP.

6. Litigation and Contingencies

Legal Proceedings

On September 5, 2014 and January 22, 2015, purported securities class action lawsuits were filed in the Superior Court of the State of California, County of San Mateo, against the Company, certain of the Company s current and former directors and executive officers and underwriters of the initial public offering (IPO). The lawsuits were brought by purported stockholders of the Company seeking to represent a class consisting of all those who purchased the Company s stock pursuant and/or traceable to the Registration Statement and Prospectus issued in connection with the IPO. The lawsuits assert claims under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 and seek unspecified damages and other relief. On March 2, 2015, the Court entered an order consolidating the two class action lawsuits. Discovery in the case is ongoing.

The Company believes that the outcome of litigation is inherently uncertain and an adverse result could have a material effect on its financial statements. However, based on currently available information, the Company does not expect that the ultimate outcome of these unresolved matters will have a material adverse effect on its results of operations, cash flows or financial position.

7. Geographic Information

The Company has one operating segment with one business activity - developing and monetizing revenue management solutions.

Revenues from External Customers

Revenues from customers outside of the United States were 6% and 9% of total revenues for the three months ended June 30, 2015 and 2014 and 7% and 10% of total revenues for the nine months ended June 30, 2015 and 2014, respectively.

Long-Lived Assets

The following table sets forth the Company s property and equipment, net by geographic region:

	As of June 30, 2015	As of September 30, 2014
	(in thousands)	
United States	$ 6,305	$ 5,858
India	1,352	1,031
Total property and equipment, net	$ 7,657	$ 6,889

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations
Forward-Looking Statements

This report contains forward-looking statements regarding future events and our future results that are subject to the safe harbors created under the Securities Act of 1933 (Securities Act) and the Securities Exchange Act of 1934 (Exchange Act). All statements other than statements of historical facts are statements that could be deemed forward-looking statements. These statements are based on current expectations, estimates, forecasts and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as anticipates, goals, plans, believes, seeks, estimates, continues, may, will, variations of such words ar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances are forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. The events and circumstances reflected in the forward-looking statements may not be achieved or occur. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Forward-looking statements are based only on our current expectations and projections and are subject to risks, uncertainties, and assumptions that are difficult to predict, including those identified below under Part II, Item 1A. Risk Factors, and elsewhere in this report. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. We undertake no obligation to revise or update any forward-looking statements for any reason.

As used in this report, the terms we, us, our, and the Company mean Model N, Inc. and its subsidiaries unless the context indicates otherwise.

Overview

We are a leader in Revenue Management cloud solutions. We help our customers maximize their revenues by maximizing sell time, revenues per opportunity and number of opportunities. Our cloud solutions help manage the processes that impacts the customer s top line and transforms the revenue lifecycle from a series of disjointed operations into a strategic end-to-end process. With deep industry expertise, we support the unique business needs of life science and technology companies across more than 100 countries.

Our solutions are comprised of several complementary software applications: Revenue Management Enterprise, Revenue Management Intelligence and Revvy. Sales of our solutions range from individual applications to complete suites, and deployments may vary from specific divisions or territories to enterprise-wide implementations.

We primarily derive revenues from the sale of our on premise and cloud-based solutions and related implementation services, as well as maintenance and support and application support services. We are in the process of transforming our business model in order to increase the percentage of our business coming from cloud-based solutions and maintenance revenues. We price our solutions based on a number of factors, including revenues under management and number of users. Our license and implementation revenues are comprised of sales of perpetual license and related implementation services. License and implementation revenues are recognized over the implementation periods, which commence when implementation work begins and typically range from a few months to up to three years. Maintenance and support revenues are recognized ratably over the support period, which is typically one year. SaaS revenues for cloud-based solutions are derived from subscription fees from customers accessing our cloud-based solutions, as well as from associated implementation services. The actual timing of revenue recognition may vary based on our customers implementation requirements and availability of our services personnel.

We market and sell our solutions to customers in the life science and technology industries. While we have historically generated the substantial majority of our revenues from companies in the life science industry, we have also grown our base of technology customers and intend to continue to focus on increasing the revenues from customers in the technology industry. Our most significant customers in any given period generally vary from period to period due to the timing of implementation and related revenue recognition over those periods for larger projects.

For the three months ended June 30, 2015 and 2014, our revenues were $23.6 million and $19.3 million, respectively, representing a year-over-year increase of approximately 23%, primarily due to improvement in sales execution.

Key Business Metric

In addition to the measures of financial performance presented in our Condensed Consolidated Financial Statements, we use adjusted EBIDTA as a key metric to evaluate and manage our business. We believe it is also useful for investors to compare this key financial metric from various periods.

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Key Components of Results of Operations

Revenues

Revenues are comprised of license and implementation revenues and SaaS and maintenance revenues.

License and Implementation

License and implementation revenues are generated from the sale of software licenses for our on-premise solutions and related implementation services. We expect our license and implementation revenues for the fiscal year 2015 in absolute dollars to be relatively constant from those recorded in the fiscal year ended on September 30, 2014, due to increased focus on subscription revenues, which are covered in our SaaS and maintenance line, which began to gain wider acceptance as a delivery model.

SaaS and Maintenance

SaaS and maintenance revenues primarily include subscription and related implementation fees from customers accessing our cloud-based solutions and revenues associated with maintenance contracts from license customers. Also included in SaaS and maintenance revenues are other revenues, including revenues related to application support, training and customer-reimbursed expenses. In fiscal year 2014 and 2015, we took several steps to transform our business model in order to increase the percentage of our business from SaaS and maintenance revenues. We believe we have an opportunity to accelerate the shift in our business model to recurring revenues, as we believe the SaaS model is beginning to gain wider acceptance as a delivery model, particularly in the technology sector and with mid-market life science companies. We have started marketing and selling some of our products and services (such as our Revvy product suite and Revenue Management as a Service (RMaaS), which is Model N s subscription service for performing upgrades). Accordingly, we expect that SaaS and maintenance revenues for the fiscal year 2015 will be higher and will also increase as a percentage of total revenues as we continue to acquire new SaaS customers.

Cost of Revenues

Our total cost of revenues is comprised of the following:

License and Implementation

Cost of license and implementation revenues includes costs related to the implementation of our on-premise solutions. Cost of license and implementation revenues primarily consists of personnel-related costs including salary, bonus, stock-based compensation and overhead allocation as well as third-party contractors, royalty fees paid to third parties for rights to their intellectual property and other-related expenses. Cost of license and implementation revenues may vary from period to period depending on a number of factors, including the amount of implementation services required to deploy our solutions and the level of involvement of third-party contractors providing implementation services.

SaaS and Maintenance

Cost of SaaS and maintenance revenues includes those costs related to the implementation of our cloud-based solutions, maintenance and support and application support for our on-premise solutions and training. Cost of SaaS and maintenance revenues primarily consists of personnel-related costs including salary, bonus, stock-based compensation, LeapFrogRx compensation charges and overhead allocation as well as reimbursable expenses, third-party contractors and data center-related expenses. We believe that cost of SaaS and maintenance revenues will continue to increase in absolute dollars as we continue to focus on building infrastructure for our cloud-based solutions.

Operating Expenses

Our operating expenses consist of Research and development, Sales and marketing and General and administrative expenses.

Research and development

Our research and development expenses consist primarily of personnel-related costs including salary, bonus, stock-based compensation and overhead allocation as well as third-party contractors and travel-related expenses. Our software development costs for new software solutions and enhancements to existing software solutions are generally expensed as incurred. However, we capitalize development costs incurred in connection with the development of certain additional service offerings that will only be offered through the cloud. As of June 30, 2015, the net book value of capitalized software development costs was $4.3 million, of which $3.7 million was related to the software that was made available for use by our customers. The remaining $0.6 million related to the development of a product that was not completed as of June 30, 2015. We expect our research and development expenses to increase in absolute dollars as we continue to develop new applications and enhance our existing software solutions.

Sales and marketing

Our sales and marketing expenses consist primarily of personnel-related costs including salary, bonus, commissions, stock-based compensation, and overhead allocation as well as third-party contractors, travel-related expenses and marketing programs. We expect our sales and marketing expenses to increase in absolute dollars as we continue to invest in our sales and marketing organization, increase the number of sales and marketing employees and increase market program spend to grow business.

General and administrative

Our general and administrative expenses consist primarily of personnel-related costs including salary, bonus, stock-based compensation, and overhead allocation, audit and legal fees as well as third-party contractors and travel-related expenses. We expect to continue to incur significant accounting and legal costs related to being a public company, as well as insurance, investor relations and other costs.

LeapFrogRx Compensation Charges

In January 2012, we acquired certain assets and liabilities of LeapFrogRx for initial cash consideration of $3.0 million as well as potential additional payments to former LeapFrogRx stockholders totaling up to $8.3 million, which were incurred through January 2015. These additional payments were, among other things, subject to future continued employment and are therefore considered compensatory in nature and are being recognized as compensation expense (LeapFrogRx compensation charges) over the term of each component. We paid the final LeapFrogRx compensation charges of $1.0 million in January 2015. As of June 30, 2015, we had expensed an aggregate of $6.2 million of LeapFrogRx compensation charges.

Results of Operations

The following tables set forth our consolidated results of operations for the periods presented and as a percentage of our total revenues for those periods. The period-to-period comparison of financial results is not necessarily indicative of financial results to be achieved in future periods.

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	Three Months Ended June 30,		Nine Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Consolidated Statements of Operations Data:				
Revenues:				
License and implementation	$ 8,359	$ 8,073	$ 27,781	$ 27,449
SaaS and maintenance	15,251	11,196	40,606	34,029
Total revenues	23,610	19,269	68,387	61,478
Cost of Revenues:				
License and implementation [1]	4,020	3,812	11,806	12,955
SaaS and maintenance [1]	6,928	5,302	18,228	15,917
Total cost of revenues	10,948	9,114	30,034	28,872
Gross profit	12,662	10,155	38,353	32,606
Operating Expenses:				
Research and development [1]	4,438	4,814	13,178	14,362
Sales and marketing [1]	7,657	6,664	22,254	18,293
General and administrative [1]	6,267	5,403	17,145	14,518
Restructuring		(43)		26
Total operating expenses	18,362	16,838	52,577	47,199
Loss from operations	(5,700)	(6,683)	(14,224)	(14,593)
Interest income, net		(3)	(6)	(10)
Other expenses, net	6	24	59	111
Loss before income taxes	(5,706)	(6,704)	(14,277)	(14,694)
Provision for income taxes	80	96	407	261
Net loss	$ (5,786)	$ (6,800)	$ (14,684)	$ (14,955)

[1] Includes stock-based compensation expense as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Cost of Revenues:				

License and implementation	$ 189	$ 206	$ 493	$ 752
SaaS and maintenance	208	167	584	576
Research and development	353	310	947	972
Sales and marketing	899	721	2,273	1,931
General and administrative	1,087	1,258	3,115	3,219
Total stock-based compensation expense	$ 2,736	$ 2,662	$ 7,412	$ 7,450

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	Three Months Ended June 30,		Nine Months Ended June 30,	
	2015	2014	2015	2014
Revenues:				
License and implementation	35%	42%	41%	45%
SaaS and maintenance	65	58	59	55
Total revenues	100	100	100	100
Cost of revenues:				
License and implementation	17	20	17	21
SaaS and maintenance	29	27	27	26
Total cost of revenues	46	47	44	47
Gross profit	54	53	56	53
Operating expenses:				
Research and development	19	25	19	23
Sales and marketing	32	35	33	30
General and administrative	27	28	25	24
Restructuring				
Total operating expenses	78	88	77	77
Loss from operations	(24)	(35)	(21)	(24)
Interest income, net				
Other expenses, net				
Loss before income taxes	(24)	(35)	(21)	(24)
Provision for income taxes			1	
Net loss	(24)%	(35)%	(22)%	(24)%

Comparison of the Three months Ended June 30, 2015 and 2014

Revenues

	Three Months Ended June 30,				Change	
	2015		2014			
	Amount	% of Total Revenues	Amount	% of Total Revenues	($)	(%)
	(in thousands, except percentages)					
Revenue:						
License and implementation	$ 8,359	35%	$ 8,073	42%	$ 286	4%
SaaS and maintenance	15,251	65	11,196	58	4,055	36

Total revenues	$ 23,610	100%	$ 19,269	100%	$ 4,341	23%

License and Implementation

License and implementation revenues during the three months ended June 30, 2015 were relatively unchanged as compared to license and implementation revenues for the three months ended June 30, 2014. As a percentage of total revenue, license and maintenance revenue decreased from 42% to 35% due to increase in SaaS and maintenance revenues, as we continue to focus on our recurring revenue activities. Revenues generated from projects that closed after June 30, 2014 but prior to three months ended June 30, 2015 were offset by the revenues from projects started during the period.

SaaS and Maintenance

SaaS and maintenance revenues increased by $4.1 million, or 36%, to $15.3 million for the three months ended June 30, 2015 from $11.2 million for the three months ended June 30, 2014. The increase in SaaS and maintenance revenues of approximately $3.1 million was due to an increase in the number of subscription contracts. We intend to focus on growing our recurring revenue from SaaS and maintenance in future periods and also as a percentage of total revenues.

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Cost of Revenues

	Three Months Ended June 30,					
	2015		2014		Change	
	Amount	% of Revenues	Amount	% of Revenues	($)	(%)
	(in thousands, except percentages)					
Cost of revenues						
License and implementation	$ 4,020	48%	$ 3,812	47%	$ 208	5%
SaaS and maintenance	6,928	45	5,302	47	1,626	31
Total cost of revenues	$ 10,948	46%	$ 9,114	47%	$ 1,834	20%
Gross profit						
License and implementation	$ 4,339	52%	$ 4,261	53%	$ 78	2%
SaaS and maintenance	8,323	55	5,894	53	2,429	41
Total gross profit	$ 12,662	54%	$ 10,155	53%	$ 2,507	25%

License and Implementation

Cost of license and implementation revenues increased by approximately $0.2 million, or 5%, to $4.0 million during the three months ended June 30, 2015 from $3.8 million for the three months ended June 30, 2014. As a percentage of revenues, cost of license and implementation revenues increased marginally from 47% to 48% during the three months ended June 30, 2015. The increase cost of revenues is consistent with the increase in license and implementation revenues.

SaaS and Maintenance

Cost of SaaS and maintenance revenues increased by $1.6 million, or 31%, to $6.9 million during the three months ended June 30, 2015 from $5.3 million for the three months ended June 30, 2014. However, as a percentage of revenues, cost of SaaS and maintenance revenues decreased from 47% to 45% during the three months ended June 30, 2015, as we continued to improve gross margins due to increased efficiencies in our business due to relatively lower cost to deliver SaaS and maintenance revenues. The increase in the cost of SaaS and maintenance revenues was primarily due to increase in personnel costs of $0.9 million, a $0.5 million in consulting costs and a $0.2 million increase in software amortization.

Operating Expenses

	Three Months Ended June 30,			
	2015	2014	Change	
	Amount	Amount	($)	(%)

	(in thousands, except percentages)			
Operating expenses:				
Research and development	$ 4,438	$ 4,814	$ (376)	(8)%
Sales and marketing	7,657	6,664	993	15
General and administrative	6,267	5,403	864	16
Restructuring		(43)	43	(100)
Total operating expenses	$ 18,362	$ 16,838	$ 1,524	9%

Research and Development

Research and development expenses decreased by $0.4 million, or 8%, to $4.4 million during the three months ended June 30, 2015 as compared to $4.8 million for the three months ended June 30, 2014 primarily due to approximately $0.6 million of costs capitalized in connection with the development of certain internally-developed software, partially offset by a $0.2 million increase in third party contractor costs.

Sales and Marketing

Sales and marketing expenses increased by $1.0 million, or 15%, to $7.7 million during the three months ended June 30, 2015 as compared to $6.7 million for the three months ended June 30, 2014. This increase was primarily due to a $0.8 million increase in employee-related costs due to a 13% increase in headcount during the three months ended June 20, 2015, a $0.1 million increase in third party contractor costs and a $0.2 million increase in travel expense, partially offset by a $0.1 million decrease in marketing program expense. The increase in employee-related costs includes compensation costs of $0.6 million and $0.2 million of stock based compensation expense.

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General and Administrative

General and administrative expenses increased by $0.9 million, or 16%, to $6.3 million during the three months ended June 30, 2015 as compared to $5.4 million for the three months ended June 30, 2014. This increase was due primarily to an increase in professional fees of $1.3 million primarily as a result of higher legal expenses related to our litigation and an increase in facility expenses of $0.2 million, partially offset by a $0.6 million decrease in employee-related costs due to termination of certain employees.

Interest and Other (Income) Expense, Net

	Three Months Ended June 30,			
	2015	2014	Change	
	Amount	Amount	($)	(%)
	(in thousands, except percentages)			
Interest income, net	$	$ (3)	$ 3	(100)%
Other expense, net	$ 6	$ 24	$ (18)	(75)%

Interest income, net, primarily related to interest income earned from our invested cash, net of bank service charges.

Other expenses, net decreased primarily due to currency fluctuation gain recorded in the current quarter as against a currency fluctuation loss recorded in the same quarter of fiscal year 2014.

Provision for Income Taxes

	Three Months Ended June 30,			
	2015	2014	Change	
	Amount	Amount	($)	(%)
	(in thousands, except percentages)			
Provision for income taxes	$ 80	$ 96	$ (16)	(17)%

Provision for income taxes is primarily related to the state minimum tax and foreign tax on our profitable foreign operations. The change in income tax provision is primarily due to the change in income related to our foreign operations.

Comparison of the Nine months Ended June 30, 2015 and 2014

Revenues

Nine Months Ended June 30,				
2015		2014		Change
	% of Total		% of Total	

	Amount	Revenues	Amount	Revenues	($)	(%)
	(in thousands, except percentages)					
Revenue:						
License and implementation	$ 27,781	41%	$ 27,449	45%	$ 332	1%
SaaS and maintenance	40,606	59	34,029	55	6,577	19
Total revenues	$ 68,387	100%	$ 61,478	100%	$ 6,909	11%

License and Implementation

License and implementation revenues during the nine months ended June 30, 2015 were relatively unchanged as compared to license and implementation revenues for the nine months ended June 30, 2014, but decreased as percentage of total revenues due to the increase in SaaS and maintenance revenues as we continue to focus on our recurring revenue activities. Revenues generated from projects that closed during nine months period ended June 30, 2014 were offset by the revenues from projects started during the nine months period ended June 30, 2015.

SaaS and Maintenance

SaaS and maintenance revenues increased by $6.6 million, or 19%, to $40.6 million for the nine months ended June 30, 2015 from $34.0 million for the nine months ended June 30, 2014. Our SaaS, maintenance and support, and application support revenues increased in an aggregate by $6.8 million, partially offset by a reduction in training revenues of $0.3 million. The increase in SaaS and maintenance revenues of approximately $8.3 million was due to an increase in the number of subscription contracts partially offset by a decrease of $2.5 million for subscription contracts that ended during the period and not renewed by the customers. We intend to focus on growing our recurring revenue from SaaS and maintenance in the future periods and also as a percentage of total revenues.

Cost of Revenues

	Nine Months Ended June 30,					
	2015		2014		Change	
	Amount	% of Revenues	Amount	% of Revenues	($)	(%)
	(in thousands, except percentages)					
Cost of revenues						
License and implementation	$ 11,806	42%	$ 12,955	47%	$ (1,149)	(9)%
SaaS and maintenance	18,228	45	15,917	47	2,311	15
Total cost of revenues	$ 30,034	44%	$ 28,872	47%	$ 1,162	4%
Gross profit						
License and implementation	$ 15,975	58%	$ 14,494	53%	$ 1,481	10%
SaaS and maintenance	22,378	55	18,112	53	4,266	24
Total gross profit	$ 38,353	56%	$ 32,606	53%	$ 5,747	18%

License and Implementation

Cost of license and implementation revenues decreased by approximately $1.1 million, or 9%, to $11.8 million during the nine months ended June 30, 2015 from $13.0 million for the nine months ended June 30, 2014. As a percentage of revenues, cost of license and implementation revenues decreased from 47% to 42% during the nine months ended June 30, 2015. The decrease in the cost of license and implementation revenue was primarily the result of a reduction of $1.7 million in personnel costs, partially offset by a $0.6 million increase in royalties and license costs. Employee related costs decreased as a result of our revenue mix changing to license related activities from implementation, resulting from a higher number of customers going live during the period.

SaaS and Maintenance

Cost of SaaS and maintenance revenues increased by $2.3 million, or 15%, to $18.2 million during the nine months ended June 30, 2015 from $15.9 million for the nine months ended June 30, 2014. As a percentage of revenues, cost of SaaS and maintenance revenues decreased slightly from 47% to 45% during the nine months ended June 30, 2015, as we continued to improve gross margins due to increased efficiencies in our business due to relatively lower cost to deliver SaaS and maintenance revenues. The increase in the cost of SaaS and maintenance revenues was primarily due to a $1.6 million increase in personnel costs, a $0.5 million increase in third party contractors and a $0.2 million increase in software amortization.

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Operating Expenses

	Nine Months Ended June 30,			
	2015	2014	Change	
	Amount	Amount	($)	(%)
	(in thousands, except percentages)			
Operating expenses:				
Research and development	$ 13,178	$ 14,362	$ (1,184)	(8)%
Sales and marketing	22,254	18,293	3,961	22
General and administrative	17,145	14,518	2,627	18
Restructuring		26	(26)	(100)
Total operating expenses	$ 52,577	$ 47,199	$ 5,378	11%

Research and Development

Research and development expenses decreased by $1.2 million, or 8%, to $13.2 million during the nine months ended June 30, 2015 as compared to $14.4 million for the same period in fiscal year 2014. The decrease was primarily due to $1.9 million of costs capitalized in connection with the development of internally-developed software, partially offset by a $0.3 million increase in third party contractors and a $0.2 million increase in travel expense.

Sales and Marketing

Sales and marketing expenses increased by $4.0 million, or 22%, to $22.3 million during the nine months ended June 30, 2015 as compared to $18.3 million for the same period in fiscal year 2014. This increase was primarily due to a $2.3 million increase in employee-related costs due to a 13% increase in headcount during the three months ended June 20, 2015, a $0.4 million increase in marketing program expense due to rainmaker conference, a $0.3 million increase in third party contractors, a $0.5 million increase in travel and entertainment costs due to increase in sales activity and a $0.2 million increase in facility expense. The increase in employee-related costs includes salaries and benefits of $2.0 million and stock-based compensation of $0.3 million.

General and Administrative

General and administrative expenses increased by $2.6 million, or 18%, to $17.1 million during the nine months ended June 30, 2015 as compared to $14.5 million for the same period in fiscal year 2014. The increase was primarily due to a $1.7 million increase in professional fees primarily as a result of higher legal expenses related to our litigation, a $0.5 million increase in facility costs mainly due to higher rent for new head office lease and a $0.3 million increase in equipment costs.

Interest and Other (Income) Expense, Net

	Nine Months Ended June 30,

	2015 Amount	2014 Amount	Change ($)	Change (%)
	(in thousands, except percentages)			
Interest income, net	$ (6)	$ (10)	$ 4	(40)%
Other expense, net	$ 59	$ 111	$ (52)	(47)%

Interest income, net primarily related to interest income earned from our invested cash, net of bank service charges.

Other (income) expenses, net decreased primarily due to currency fluctuation gain recorded for nine months ended June 30, 2015 as against a loss recorded in the nine months ended June 30, 2014.

Provision for Income Taxes

	Nine Months Ended June 30,			
	2015 Amount	2014 Amount	Change ($)	Change (%)
	(in thousands, except percentages)			
Provision for income taxes	$ 407	$ 261	$ 146	56%

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Provision for income taxes is primarily related to the state minimum tax and foreign tax on our profitable foreign operations. The change in income tax provision is primarily due to the change in income related to our foreign operations.

Liquidity and Capital Resources

As of June 30, 2015, we had cash and cash equivalents of $93.8 million. Since inception, we have financed our operations primarily through proceeds from the issuance of capital stock and, since 2006, through cash flows from operations. In addition, in March 2013, upon the closing of our IPO, we received aggregate net proceeds of $101.1 million, net of underwriting discounts and commissions.

We believe our current cash and cash equivalents are sufficient to meet our operating cash flow needs for at least the next twelve months. Our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our sales and marketing activities, the timing and extent of spending to support research and development efforts and expansion of our business, and capital expenditures for the purchase of computer hardware and software. To the extent that existing cash and cash equivalents and cash from operations are insufficient to fund our future activities, we may elect to raise additional capital through the sale of additional equity or debt securities, obtain a credit facility or sell certain assets. If additional funds are raised through the issuance of debt securities, these securities could have rights, preferences and privileges senior to holders of common stock, and terms of any debt could impose restrictions on our operations. The sale of additional equity or convertible debt securities could result in additional dilution to our stockholders and additional financing may not be available in amounts or on terms acceptable to us. We may also seek to invest in or acquire complementary businesses or technologies, any of which could also require us to seek additional equity or debt financing. Additional funds may not be available on terms favorable to us or at all.

Cash Flows

	Nine Months Ended June 30,	
	2015	**2014**
Cash flows used in operating activities	$ (5,843)	$ (3,452)
Cash flows used in investing activities	(3,631)	(1,503)
Cash flows provided by financing activities	2,300	4,751

Cash Flows from Operating Activities

Net cash used in operating activities was $5.8 million for the nine months ended June 30, 2015. Net cash used in operating activities for nine months ended June 30, 2015 was primarily the result of our net loss of $14.7 million and a net change of $1.8 million in operating assets and liabilities, partially offset by $10.6 million of non-cash adjustments primarily comprised of $7.4 million in stock-based compensation and $2.8 million in depreciation and amortization. The significant component of assets and liabilities changes include an increase of $5.7 million in accounts receivables, primarily reflective of billings in excess of collections, an increase in accounts payable of $2.2 million mainly due to timing of payments, an increase $1.3 million in other accrued and long term liabilities, an increase in deferred revenue of $1.7 million due to timing of amount invoiced and revenue recognized and a $0.7 million increase in prepaid and other assets.

Net cash used in operating activities for the nine months ended June 30, 2014 was primarily the result of our net loss of $15.0 million, partially offset by $1.2 million increase in net cash provided by operating assets and liabilities and by $10.3 million of non-cash adjustments comprised of $7.5 million in stock-based compensation and $2.8 million in depreciation and amortization. The net cash increase provided by operating assets and liabilities consists of a $6.1 million increase in deferred revenue associated with arrangements for which revenues were initially deferred at the outset of the arrangements, a $0.3 million increase in deferred cost of implementation services and a decrease of $0.1 million in prepaid expenses and other assets. These were partially offset by an increase of $1.8 million in accounts receivables, primarily reflective of billings in excess of collections, and decreases of $2.3 million in accrued employee compensation primarily reflecting the purchases made under the ESPP, payment of bonus and LeapFrogRx compensation charges and accrued restructuring charges, and $0.9 million in other accrued and long-term liabilities mainly in relation to cash payments made for operating expenses.

Cash Flows from Investing Activities

Net cash used in investing activities was $3.6 million for the nine months ended June 30, 2015, compared to $1.5 million for the same period in fiscal year 2014.

Net cash used in investing activities for the nine months ended June 30, 2015 was primarily due to purchases of property and equipment of $1.7 million and $1.9 million associated with capitalization of software development costs. Net cash used in investing activities for the nine months ended June 30, 2014 was primarily due to the purchase of property and equipment of $1.5 million.

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Cash Flows from Financing Activities

Net cash provided by financing activities was $2.3 million for the nine months ended June 30, 2015, compared to net cash of $4.8 million provided for the nine months ended June 30, 2014.

Net cash provided by financing activities for the nine months ended June 30, 2015 was primarily from the exercises of stock options and purchase made under ESPP. Net cash provided by financing activities for the nine months ended June 30, 2014 primarily consisted of $5.0 million from exercises of stock options and purchases made under the ESPP, partially offset by $0.3 million of payments made under the capital lease obligations.

Off-Balance Sheet Arrangements

As of June 30, 2015, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Critical Accounting Policies and Estimates

We prepare our condensed consolidated financial statements in accordance with generally accepted accounting principles in the United States. The preparation of condensed consolidated financial statements also requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ significantly from the estimates made by our management. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected. We believe that the accounting policies referred below are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management s judgments and estimates.

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our most recent Annual Report filed on Form 10-K for the fiscal year ended September 30, 2014.

Non-GAAP Financial Measure:

Adjusted EBITDA

Adjusted EBITDA is a financial measure that is not calculated in accordance with generally accepted accounting principles in the United States (U.S. GAAP). We define adjusted EBITDA as net loss before items discussed below, including: LeapFrogRx compensation charges, stock-based compensation expense, depreciation and amortization, restructuring charges, interest income, net, other expenses, net, legal expenses and provision for income taxes. We believe adjusted EBITDA provides investors with consistency and comparability with our past financial performance and facilitates period-to-period comparisons of our operating results and our competitors operating results. We also use this measure internally to establish budgets and operational goals to manage our business and evaluate our performance.

We understand that, although adjusted EBITDA is frequently used by investors and securities analysts in their evaluations of companies, adjusted EBITDA has limitations as an analytical tool, and it should not be considered in isolation or as a substitute for analysis of our results of operations as reported under the U.S. GAAP. These limitations include:

adjusted EBITDA does not include the effect of the LeapFrogRx compensation charges, which are a cash expense;

adjusted EBITDA does not reflect stock-based compensation expense;

depreciation and amortization are non-cash charges, and the assets being depreciated or amortized will often have to be replaced in the future; adjusted EBITDA does not reflect any cash requirements for these replacements;

adjusted EBITDA does not reflect restructuring expense;

adjusted EBITDA does not reflect legal expense related to class action lawsuits;

adjusted EBITDA does not reflect cash requirements for income taxes and the cash impact of other income or expense; and

other companies in our industry may calculate adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

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The following tables provide a reconciliation of adjusted EBITDA to net loss:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Reconciliation of Adjusted EBITDA:				
Net loss	$ (5,786)	$ (6,800)	$ (14,684)	$ (14,955)
Adjustments:				
Stock-based compensation expense	2,736	2,662	7,412	7,450
Depreciation and amortization	1,113	912	2,996	2,791
LeapFrogRx Compensation charges		80	91	381
Restructuring		(43)		26
Interest income, net		(3)	(6)	(10)
Other expenses, net	6	24	59	111
Legal expenses	853		1,095	
Provision for income taxes	80	96	407	261
Adjusted EBITDA	$ (998)	$ (3,072)	$ (2,630)	$ (3,945)

Adjusted EBITDA was $(1.0) million, $(3.1) million, $(2.6) million and $(3.9) million for the three months ended June 30, 2015 and 2014 and nine months ended June 30, 2015 and 2014, respectively. The increase in our adjusted EBITDA for the three and nine months ended June 30, 2015 as compared to the same periods in fiscal 2014 was primarily due to a decrease in net loss due to an increase in our revenues and an increase in our expense primarily for legal expense related to stockholder litigation.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risks in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of fluctuations in interest rates and foreign currency exchange rates. We do not hold or issue financial instruments for trading purposes.

Interest Rate Sensitivity

Our exposure to market risk for changes in interest rates relates primarily to our cash and cash equivalents. Our primary exposure to market risk is interest income and expense sensitivity, which is affected by changes in the general level of the interest rates in the United States. However, because of the short-term nature of our interest-bearing securities, a 10% change in market interest rates would not be expected to have a material impact on our consolidated financial condition or results of operations.

Foreign Currency Exchange Risk

Our customers typically pay us in U.S. dollars, however in foreign jurisdictions, our expenses are typically denominated in local currency. Our expenses and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Indian Rupee. The volatility of exchange rates depends on many factors that we cannot forecast with reliable accuracy. However, we believe that a 10% change in foreign exchange rates would not have a material impact on our results of operations. To date, we have not entered into foreign currency hedging contracts, but may consider entering into such contracts in the future. As our international operations grow, we will continue to reassess our approach to manage our risk relating to fluctuations in currency rates.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2015. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of June 30, 2015, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, believes that our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives and are effective at the reasonable assurance level. However, our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are involved in various legal proceedings arising from the normal course of our business activities. We are presently involved in litigation arising from our initial public offering (IPO). We accrue a liability when management believes that it is both probable that a liability has been incurred and the amount of loss can be reasonably estimated. As of June 30, 2015, it was not reasonably possible that any material loss had been incurred. We review these matters at least quarterly and adjust our accruals to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to the cases discussed below.

On September 5, 2014 and January 22, 2015, purported securities class action lawsuits were filed in the Superior Court of the State of California, County of San Mateo, against us, certain of our current and former directors and executive officers and underwriters of our IPO. The lawsuits were brought by purported stockholders of our company seeking to represent a class consisting of all those who purchased our stock pursuant and/or traceable to the Registration Statement and Prospectus issued in connection with our IPO. The lawsuits assert claims under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 and seek unspecified damages and other relief. On March 2, 2015, the Court entered an order consolidating the two class action lawsuits. Discovery in the case is ongoing. We believe that the claims are without merit and intend to defend the lawsuits vigorously.

ITEM 1A. Risk Factors

Our operating and financial results are subject to various risks and uncertainties including those described below. You should carefully consider the following risk factors, together with all of the other information in this report, including the Consolidated Financial Statements and the related notes included elsewhere in this report, before deciding whether to invest in shares of our common stock. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business. If any of the following risks or others not specified below actually occurs, our business, financial condition, results of operations, and future prospects could be materially and adversely affected. In that event, the market price of our common stock could decline, and you could lose part or all of your investment.

Risks Related to Our Business

We have incurred losses in the past, and we may not be profitable in the future.

We have incurred net losses of $14.7 million and $15.0 million for nine months ended June 30, 2015 and 2014, respectively. As of June 30, 2015, we had an accumulated deficit of $97.7 million. We expect that our expenses will increase in future periods as we implement additional initiatives designed to grow our business, including, among other things, increasing sales to existing customers, expanding our customer base, introducing new applications, enhancing existing solutions, extending into the mid-market, continuing to penetrate the technology industry and pursuing selective acquisitions. Increased operating expenses related to personnel costs such as salary, bonus, commissions and stock-based compensation as well as third-party contractors, travel-related expenses and marketing programs, will also increase our expenses in future periods. In the near-term, we do not expect that our revenues will be sufficient to offset these expected increases in operating expenses, and we expect that we will incur losses. Additionally, we may encounter unforeseen expenses, difficulties, complications, delays and other unknown factors that may result in losses in future periods. We cannot assure you that we will again obtain and maintain profitability in the future. Any failure to return to profitability may materially and adversely affect our business, results of operations and financial condition.

Our operating results are likely to vary significantly from period to period and be unpredictable, which could cause the trading price of our common stock to decline.

Our operating results have historically varied from period to period, and we expect that this trend will continue as a result of a number of factors, many of which are outside of our control and may be difficult to predict, including:

- our ability to increase sales to and renew agreements with our existing customers;
- the timing of new orders and revenue recognition for new and prior period orders;
- our ability to attract and retain new customers and to improve sales execution;
- the complexity of implementations and the scheduling and staffing of the related personnel, each of which can affect the timing and duration of revenue recognition;
- issues related to changes in customers   business requirements, project scope, implementations or market needs;

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the mix of revenues in any particular period between license and implementation, and SaaS and maintenance;

the timing and volume of incremental customer purchases of our cloud-based solutions, which may vary from period to period based on a customer s needs at a particular time;

the timing of upfront recognition of sales commission expense relative to the deferred recognition of our revenues;

the timing of recognition of payment of royalties;

the timing of our annual payment and recognition of employee non-equity incentive and bonus payments;

the budgeting cycles and purchasing practices of customers;

changes in customer requirements or market needs;

delays or reductions in information technology spending and resulting variability in customer orders from quarter to quarter;

delays or difficulties encountered during customer implementations, including customer requests for changes to the implementation schedule;

the timing and success of new product or service introductions by us or our competitors;

the amount and timing of any customer refunds or credits;

our ability to accurately estimate the costs associated with any fixed bid projects;

deferral of orders from customers in anticipation of new solutions or solution enhancements announced by us or our competitors;

changes in the competitive landscape of our industry, including consolidation among our competitors or customers;

- the length of time for the sale and implementation of our solutions to be complete, and our level of upfront investments prior to the period we begin generating revenues associated with such investments;
- our ability to successfully expand our business domestically and internationally;
- the amount and timing of our operating expenses and capital expenditures;
- price competition;
- the rate of expansion and productivity of our direct sales force;
- disruptions in our relationships with partners;
- regulatory compliance costs;
- sales commissions expenses related to large transactions;
- technical difficulties or interruptions in the delivery of our cloud-based solutions;
- seasonality or cyclical fluctuations in our industries;
- future accounting pronouncements or changes in our accounting policies;
- increases or decreases in our expenses caused by fluctuations in foreign currency exchange rates, as a significant portion of our expenses are incurred and paid in currencies other than the U.S. dollar; and
- general economic conditions, both domestically and in our foreign markets.

Any one of the factors above or discussed elsewhere in this report or the cumulative effect of some of the factors referred to above may result in significant fluctuations in our financial and other operating results. This variability and unpredictability could result in our failure to meet expectations of investors for our revenues or other operating results for a particular period. If we fail to meet or exceed such expectations for these or any other reasons, the market price of our common stock could fall.

Our sales cycles are time-consuming, and it is difficult for us to predict when or if sales will occur and when we will begin to recognize the revenues from our future sales.

Our sales efforts are often targeted at larger enterprise customers, and as a result, we face greater costs, must devote greater sales support to individual customers, have longer sales cycles and have less predictability in completing some of our sales. Also, sales to large enterprises often require us to provide greater levels of education regarding the use and benefits of our solutions. We believe that our customers view the purchase of our solutions as a significant and strategic decision. As a

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result, customers carefully evaluate our solutions, often over long periods with a variety of internal constituencies. In addition, the sales of our solutions may be subject to delays if the customer has lengthy internal budgeting, approval and evaluation processes, which are quite common in the context of introducing large enterprise-wide technology solutions. As a result it is difficult to predict the timing of our future sales.

We must continue to improve our sales execution and increase our sales channels and opportunities in order to grow our revenues, and if we are unsuccessful, our operating results may be adversely affected.

We must continue to improve our sales execution in order to, among other things, increase the number of our sales opportunities and grow our revenue. We must improve the market awareness of our solutions and expand our relationships with our channel partners in order to increase our revenues. Further, we believe that we must continue to develop our relationships with new and existing customers and partners, and create additional sales opportunities to effectively and efficiently extend our geographic reach and market penetration. Our efforts to improve our sales execution could result in a material increase in our sales and marketing expense and general and administrative expense, and there can be no assurance that such efforts will be successful. While we have made progress in improving our sales execution over recent fiscal quarters, we may not be able to sustain such improvement at the current level, or at all, and short-term improvement in sales execution may not result in increased revenues. If we are unable to significantly improve our sales execution, increase the awareness of solutions, create additional sales opportunities, expand our relationships with channel partners, or effectively manage the costs associated with these efforts, our operating results and financial condition could be materially and adversely affected.

Failure to adequately expand and train our direct sales force will impede our growth.

We rely almost exclusively on our direct sales force to sell our solutions. We believe that our future growth will depend, to a significant extent, on the continued development of our direct sales force and its ability to manage and retain our existing customer base, expand the sales of our solutions to existing customers and obtain new customers. Because our software is complex and often must interoperate with complex computing requirements, it can take longer for our sales personnel to become fully productive compared to other software companies. Our ability to achieve significant growth in revenues in the future will depend, in large part, on our success in recruiting, training and retaining a sufficient number of direct sales personnel. New hires require significant training and may, in some cases, take more than a year before becoming fully productive, if at all. If we are unable to hire and develop sufficient numbers of productive direct sales personnel, and if these sales personnel are unable to achieve full productivity, sales of our solutions will suffer and our growth will be impeded.

Our implementation cycle is lengthy and variable, depends upon factors outside our control and could cause us to expend significant time and resources prior to earning associated revenues.

The implementation and testing of our solutions may range from a few months to up to three years, and unexpected implementation delays and difficulties can occur. Implementing our solutions typically involves integration with our customers systems, as well as adding their data to our system. This can be complex, time-consuming and expensive for our customers and can result in delays in the implementation and deployment of our solutions. The lengthy and variable implementation cycle may also have a negative impact on the timing of our revenues, causing our revenues and results of operations to vary significantly from period to period.

A substantial majority of our total revenues have come from our Revenue Management Enterprise suite, and decreases in demand for our Revenue Management Enterprise suite could adversely affect our results of operations and financial condition.

Historically, a substantial majority of our total revenues has been associated with our Revenue Management Enterprise suite, whether deployed as individual applications or as a complete suite. We expect our Revenue Management Enterprise suite to continue to generate a substantial majority of our total revenues for the foreseeable future. Declines and variability in demand for our Revenue Management Enterprise suite could occur for a number of reasons, including improved products or product versions being offered by competitors, competitive pricing pressures, failure to release new or enhanced versions on a timely basis, technological changes that we are unable to address or that change the way our customers utilize our solutions, reductions in technology spending, export restrictions or other regulatory or legislative actions that could limit our ability to sell those products to key customer or market segments. Our business, results of operations, financial condition and cash flows would be adversely affected by a decline in demand for our Revenue Management Enterprise suite.

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Our revenues are dependent on our ability to maintain and expand existing customer relationships and our ability to attract new customers.

The continued growth of our revenues is dependent in part on our ability to expand the use of our solutions by existing customers and attract new customers. Likewise, it is also important that customers using our on premise solutions renew their maintenance agreements and that customers using our cloud-based solutions renew their subscription agreements with us. Our customers have no obligation to renew their maintenance or subscription agreements after the expiration of the initial term, and we cannot assure you that they will do so. We have had in the past and may in the future have disputes with customers regarding our solutions, which may impact such customers decisions to continue to use our solutions and pay for maintenance and support in the future.

If we are unable to expand our customers use of our solutions, sell additional solutions to our customers, maintain our renewal rates for maintenance and subscription agreements and expand our customer base, our revenues may decline or fail to increase at historical growth rates, which could adversely affect our business and operating results. In addition, if we experience customer dissatisfaction with customers in the future, we may find it more difficult to increase use of our solutions within our existing customer base and it may be more difficult to attract new customers, or we may be required to grant credits or refunds, any of which could negatively impact our operating results and materially harm our business.

The loss of one or more of our key customers could slow our revenue growth or cause our revenues to decline.

A substantial portion of our total revenues in any given period may come from a relatively small number of customers. As of September 30, 2014, we had 80 customers across the life science and technology industries, excluding five divisions or subsidiaries of certain of our customers. Although our largest customers typically change from period to period, for the fiscal year ended September 30, 2014, our 15 largest customers accounted for more than 69% of our total revenues, and one customer, Johnson and Johnson, accounted for approximately 15% of our total revenues. We expect that we will continue to depend upon a relatively small number of customers for a significant portion of our total revenues for the foreseeable future. The loss of any of our significant customers or groups of customers for any reason, or a change of relationship with any of our key customers may cause a significant decrease in our total revenues.

Additionally, mergers or consolidations among our customers, especially those in the life science industry, which is currently undergoing significant consolidation, could reduce the number of our customers and could adversely affect our revenues and sales. In particular, if our customers are acquired by entities that are not our customers, that do not use our solutions or that have more favorable contract terms and choose to discontinue, reduce or change the terms of their use of our solutions, our business and operating results could be materially and adversely affected.

Our customers often require significant configuration efforts to match their complex business processes. The failure to meet their requirements could result in customer disputes, loss of anticipated revenues and additional costs, which could harm our business.

Our customers often require significant configuration services to address their unique business processes. Supporting such a diversity of configured settings and implementations could become difficult as the number of customers we serve grows. In addition, supporting our customers could require us to devote significant development services and support personnel and strain our personnel resources and infrastructure. We have had in the past and may in the future have disputes with customers regarding the performance and implementation of our solutions. If we are unable to address the needs of our customers in a timely fashion, our customers may decide to seek to terminate their relationship, renew on less favorable terms, not renew their maintenance agreements or subscriptions, fail to purchase additional solutions or services or assert legal claims against us. If any of these were to occur, our revenues may decline or we may be required to refund amounts to customers and our operating results may be harmed.

Our future growth is, in large part, dependent upon the increasing adoption of revenue management solutions.

Revenue management is at an early stage of market development and adoption, and the extent to which revenue management solutions will become widely adopted remains uncertain. It is difficult to predict customer adoption rates, customer demand for revenue management solutions, including our solutions in particular, the future growth rate and size of this market and the timing of the introduction of additional competitive solutions. Any expansion of the revenue management market depends on a number of factors, including the cost, performance and perceived value associated with revenue management solutions. For example, many companies have invested substantial personnel, infrastructure and financial resources in other revenue management infrastructure and therefore may be reluctant to implement solutions such as ours. Additionally, organizations that use legacy revenue management products may believe that these products sufficiently address their revenue management needs. Because this market is relatively undeveloped, we must spend considerable time educating customers as to the benefits of our solutions. If revenue management solutions do not achieve widespread adoption, or if there is a reduction in demand for revenue management solutions caused by a lack of customer acceptance, technological challenges, competing technologies and products, decreases in corporate spending or otherwise, it could result in lower sales, reduced renewal and upsell rates and decreased revenues and our business could be adversely affected.

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We are highly dependent upon the life science industry, and factors that adversely affect this industry could also adversely affect us.

Our future growth depends, in large part, upon continued sales to companies in the life science industry. Demand for our solutions could be affected by factors that adversely affect demand for the underlying life science products and services that are purchased and sold pursuant to contracts managed through our solutions. The life science industry is affected by certain factors, including the emergence of large group purchasing and managed care organizations and integrated healthcare delivery networks, increased customer and channel incentives and rebates, the shift of purchasing influence from physicians to economic buyers, increased spending on healthcare by governments instead of commercial entities and increased scope of government mandates, frequency of regulatory reporting and audits, and fines. In addition, the life science industry has been adversely affected by the recent economic downturn and has experienced periods of considerable consolidation. Accordingly, our future operating results could be materially and adversely affected as a result of factors that affect the life science industry generally.

The revenues we recognize from our software licenses and implementation services are based to a certain extent upon our ability to reasonably estimate the time and resources required to complete our implementation projects, which may be difficult to do.

We recognize a substantial portion of our revenues from the sale of software licenses for our on premise solutions and related implementation services over the period during which such services are performed using the percentage-of-completion method. We estimate the length of this period based on a number of factors, including the number of licensed applications and the scope and complexity of the customer s deployment requirements. Under the percentage-of-completion method, the revenues we recognize during a reporting period are based on the resources expended during the reporting period as compared to the estimated total resources required to implement our solutions. If we are unable to reasonably estimate the overall total personnel resources required to implement our solutions, the timing of our revenues could be materially and adversely affected. In addition, changes in customer requirements or scope of the engagement could impact the timing of our revenue recognition. Any change in the timing of revenue recognition could adversely impact our quarterly or annual operating results.

Our efforts to expand the adoption of our solutions in the technology industry will be affected by our ability to provide solutions that adequately address trends in that industry.

We are attempting to expand the use of our solutions by companies in the technology industry, and our future growth depends in part on our ability to increase sales of solutions to customers in this industry and potentially other industries. The technology industry is affected by many factors, including shortening of product lifecycles, core technology products being sold into different end markets with distinct pricing, increasing complexity of multi-tiered global distribution channels, changing financial reporting requirements due to channel complexity and increasing use of off-invoice discounting. If our solutions are not perceived by existing or potential customers in the technology industry as capable of providing revenue management tools that will assist them in adequately addressing these trends, then our efforts to expand the adoption of our solutions in this industry may not be successful, which would adversely impact our business and operating results.

Most of our implementation contracts are on a time and materials basis and may be terminated by the customer.

The contracts under which we perform most of our implementation services may have a term ranging between a few months to up to three years and are on a time and materials basis and may be terminated by the customer at any time. If an implementation project is terminated sooner than we anticipated or a portion of the implementation is delayed, we would lose the anticipated revenues that we might not be able to replace or it may take significant time to replace the lost revenues with other work or we may be unable to eliminate the associated costs. Consequently, we may recognize fewer revenues than we anticipated or incur unnecessary costs, and our results of operations in subsequent periods could be materially lower than expected.

Because we recognize a majority of our SaaS and maintenance revenues from our customers over the term of their agreements, downturns or upturns in sales of our cloud-based solutions may not be immediately reflected in our operating results.

SaaS and maintenance revenues primarily include subscription and related implementation fees from customers accessing our cloud-based solutions and revenues associated with maintenance contracts from license customers. We recognize a majority of our SaaS and maintenance revenues over the terms of our customer agreements, which are typically one year or longer in some cases. As a result, most of our quarterly SaaS and maintenance revenues result from agreements entered into during previous quarters. Consequently, a shortfall in sales of our cloud-based solutions or renewal of maintenance and support agreements in any quarter may not significantly reduce our SaaS and maintenance revenues for that quarter but would negatively affect SaaS and maintenance revenues in future quarters. Accordingly, the effect of significant downturns in sales of our cloud-based solutions or renewals of our maintenance and support agreements may not be fully reflected in our results

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of operations until future periods. We may be unable to adjust our cost structure to compensate for this potential shortfall in SaaS and maintenance revenues. Our revenue recognition model for our cloud-based solutions and maintenance and support agreements also makes it difficult for us to rapidly increase our revenues through additional sales in any period, as a significant amount of our revenues are recognized over the applicable agreement term. As a result, changes in the volume of sales of our cloud-based solutions or the renewals of our maintenance and support agreements in a particular period would not be fully reflected in our revenues until future periods.

Our efforts to expand our solutions into other verticals within the life science and technology industries or other industries may not succeed and may reduce our revenue growth rate. Even if we are successful in doing so, such efforts may be costly and may impact our ability to achieve profitability.

Our solutions are currently designed primarily for customers in certain verticals of the life science and technology industries and potentially into other industries outside of the life science and technology industries. Our ability to attract new customers and increase our revenues depends in part on our ability to enter into new industries and verticals. Developing and marketing new solutions to serve other industries and verticals will require us to devote substantial additional resources in advance of consummating new sales or realizing additional revenues. Our ability to leverage the expertise we have developed in the life science and technology industries into new industries is unproven and it is likely that we will be required to hire additional personnel, partner with additional third parties and incur considerable research and development expense in order to gain such expertise.

Our efforts to expand our solutions beyond the verticals within the life science and technology industries in which we have already developed expertise may not be successful and may reduce our revenue growth rate. Any early stage interest in our solutions in areas beyond the industries we already address may not result in long term success or significant revenues for us. Even if we achieve long-term success in expanding our solutions into other industries and verticals, the costs associated with such expansion may be high, which may impact our ability to achieve profitability.

If our solutions fail to perform properly, our reputation and customer relationships could be harmed, our market share could decline and we could be subject to liability claims.

Our solutions are inherently complex and may contain material defects or errors. Any defects in solution functionality or that cause interruptions in availability could result in:

- lost or delayed market acceptance and sales;
- reductions in current-period total revenues;
- breach of warranty or other contract breach or misrepresentation claims;