

MODEL N, INC.
Form 10-Q
February 08, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2016

OR

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

For the transition period from _____ to _____

Commission File Number: 001-35840

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	94063

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Redwood City, California
(Address of Principal Executive Offices) (Zip Code)

(650) 610-4600

(Registrant's Telephone Number, Including Area Code)

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

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter time period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of January 27, 2017, the registrant had 28,173,684 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 December 31, 2016	As of September 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$52,446	\$66,149
Accounts receivable, net of allowance for doubtful accounts of \$0 as of December 31, 2016 and September 30, 2016	19,263	19,925
Deferred cost of implementation services, current portion	1,201	1,630
Prepaid expenses	4,093	4,845
Other current assets	376	283
Total current assets	77,379	92,832
Property and equipment, net	5,748	6,141
Goodwill	6,939	6,939
Intangible assets, net	5,320	5,684
Other assets	5,715	1,371
Total assets	\$101,101	\$112,967
Liabilities And Stockholders' Equity		
Current liabilities:		
Accounts payable	\$3,793	\$3,334
Accrued employee compensation	7,403	8,349
Accrued liabilities	2,324	3,707
Deferred revenue, current portion	25,591	28,854
Total current liabilities	39,111	44,244
Deferred revenue, net of current portion	926	1,924
Other long-term liabilities	663	597
Total liabilities	40,700	46,765
Commitments and contingencies		
Stockholders' equity:		
Common Stock, \$0.00015 par value; 200,000 shares authorized; 28,144 and 27,891 shares issued and outstanding at December 31, 2016 and September 30, 2016, respectively	4	4

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Preferred Stock, \$0.00015 par value; 5,000 shares authorized; no shares issued and outstanding	—	—
Additional paid-in capital	204,419	202,506
Accumulated other comprehensive loss	(676)	(562)
Accumulated deficit	(143,346)	(135,746)
Total stockholders' equity	60,401	66,202
Total liabilities and stockholders' equity	\$101,101	\$112,967

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

MODEL N, INC.

Condensed Consolidated Statements of Operations

(in thousands, except per share data)

(Unaudited)

	Three Months Ended December 31,	
	2016	2015
Revenues:		
License and implementation	\$ 5,423	\$ 4,562
SaaS and maintenance	22,640	19,925
Total revenues	28,063	24,487
Cost of revenues:		
License and implementation	3,614	3,417
SaaS and maintenance	10,208	9,012
Total cost of revenues	13,822	12,429
Gross profit	14,241	12,058
Operating expenses:		
Research and development	5,975	5,284
Sales and marketing	8,734	7,707
General and administrative	7,185	6,720
Total operating expenses	21,894	19,711
Loss from operations	(7,653)	(7,653)
Interest income	33	1
Other (income) expenses, net	(154)	57
Loss before income taxes	(7,466)	(7,709)
Provision for income taxes	134	90
Net loss	\$ (7,600)	\$ (7,799)
Net loss per share attributable to common stockholders:		
Basic and diluted	\$ (0.27)	\$ (0.29)
Weighted average number of shares used in computing net		
loss per share attributable to common stockholders:		
Basic and diluted	28,008	26,827

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

MODEL N, INC.

Condensed Consolidated Statements of Comprehensive Loss

(in thousands)

(Unaudited)

	Three Months Ended December 31,	
	2016	2015
Net loss	\$ (7,600)	\$ (7,799)
Other comprehensive (loss) income, net		
Change in foreign currency translation adjustment	(114)	(25)
Total comprehensive loss	\$ (7,714)	\$ (7,824)

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

MODEL N, INC.

Condensed Consolidated Statements of Cash Flows

(in thousands)

(Unaudited)

	Three Months Ended December 31,	
	2016	2015
Cash flows from operating activities:		
Net loss	\$ (7,600)	\$ (7,799)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	1,094	1,319
Stock-based compensation	1,895	2,550
Other non-cash charges	49	46
Changes in assets and liabilities, net of acquisition:		
Accounts receivable	655	(4,984)
Prepaid expenses and other assets	843	84
Deferred cost of implementation services	701	(85)
Accounts payable	591	(222)
Accrued employee compensation	(898)	(1,425)
Other accrued and long-term liabilities	(1,298)	496
Deferred revenue	(4,261)	2,730
Net cash used in operating activities	(8,229)	(7,290)
Cash flows from investing activities:		
Purchases of property and equipment	(194)	(357)
Acquisition of business	—	(12,615)
Capitalization of software development costs	(275)	(532)
Cash held in escrow	(5,000)	—
Net cash used in investing activities	(5,469)	(13,504)
Cash flows from financing activities:		
Proceeds from exercise of stock options	17	135
Net cash provided by financing activities	17	135
Effect of exchange rate changes on cash and cash equivalents	(22)	(7)
Net decrease in cash and cash equivalents	(13,703)	(20,666)
Cash and cash equivalents		
Beginning of period	66,149	91,019
End of period	\$ 52,446	\$ 70,353
Supplemental Disclosure of Cash Flow Data:		
Non-cash Investing and Financing Activities:		
Capitalized stock compensation expense in software development costs	—	—

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

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 2017, for example, refer to the fiscal year ending September 30, 2017.

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, 2016. 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, 2016 included in the Annual Report on Form 10-K.

In the opinion of management, the unaudited interim consolidated financial statements include all the normal recurring adjustments necessary to present fairly the condensed consolidated financial statements. The results of operations for the three months ended December 31, 2016 were not necessarily indicative of the operating results for the full fiscal year 2017 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, and valuation of goodwill and 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.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued a new standard, Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, as amended, which will supersede nearly all existing revenue recognition guidance. Under ASU 2014-09, an entity is required to recognize revenue upon transfer of promised goods or services to customers in an amount that reflects the expected consideration received in exchange for those goods or services. ASU No. 2014-09 defines a five-step process in order to achieve this core principle, which may require the use of judgment and estimates, and also requires expanded qualitative and quantitative disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, including significant judgments and estimates used.

MODEL N, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

The FASB has recently issued several amendments to the new standard, including clarification on accounting for licenses of intellectual property and identifying performance obligations. The amendments include ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606)—Principal versus Agent Considerations, which was issued in March 2016, and clarifies the implementation guidance for principal versus agent considerations in ASU 2014-09, and ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606)—Identifying Performance Obligations and Licensing, which was issued in April 2016, and amends the guidance in ASU No. 2014-09 related to identifying performance obligations and accounting for licenses of intellectual property.

The new standard permits adoption either by using (i) a full retrospective approach for all periods presented in the period of adoption or (ii) a modified retrospective approach with the cumulative effect of initially applying the new standard recognized at the date of initial application and providing certain additional disclosures. The new standard is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted for annual reporting periods beginning after December 15, 2016. We do not plan to early adopt, and accordingly, we will adopt the new standard effective October 1, 2018.

We are currently evaluating the adoption approach. Our final determination will depend on a number of factors, such as the significance of the impact of the new standard on our financial results, system readiness, and our ability to accumulate and analyze the information necessary to assess the impact on prior period financial statements and our ability to maintain two sets of financials under current and new standards if we were to adopt the full retrospective approach.

We are in the initial stages of our evaluation of the impact of the new standard on our accounting policies, processes, and system requirements. We have assigned internal resources in addition to the engagement of third party service providers to assist in the evaluation. Furthermore, we have made and will continue to make investments in systems to enable timely and accurate reporting under the new standard. While we continue to assess all potential impacts under the new standard, there is the potential for significant impacts to the timing of recognition of subscription revenue and professional services revenue.

For certain SaaS arrangements prior to fiscal year 2016, we have historically concluded that we did not have standalone value to the customer without the implementation services. The entire arrangement consideration, including subscription fees and related implementation services fees, were accounted for as a single unit of accounting and recognized ratably beginning the day the customer was provided access to the subscription service through the end of the contractual period. During fiscal year 2016, the Company concluded that the SaaS deliverable has standalone value to the customer without the implementation services, primarily due to the number of third-party consulting companies that have the know-how to be able to independently perform the implementation services. Under the new standard, subscription service and professional services, are distinct performance obligations and, therefore, should be separately recognized over time. We estimate the potential impact would be an acceleration of revenue in general. However, we are still in the early stages of the assessment.

As part of our preliminary evaluation, we have also considered the impact of the guidance in ASC 340-40, Other Assets and Deferred Costs; Contracts with Customers, and the interpretations of the FASB Transition Resource Group for Revenue Recognition (TRG) from their November 7, 2016 meeting with respect to capitalization and amortization of incremental costs of obtaining a contract.

The Company recently announced the acquisition of Revitas, Inc. (see footnote # 9. Subsequent Event for detail) and we plan to evaluate the impact related to its various revenue streams under the new standard in the next few months.

While we continue to assess the potential impacts of the new standard, including the areas described above, and anticipate this standard could have a material impact on our consolidated financial statements, we do not know or cannot reasonably estimate quantitative information related to the impact of the new standard on our financial statements at this time.

In August 2014, the FASB issued ASU No. 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern" that requires management to evaluate whether there are conditions and events that raise substantial doubt about the Company's ability to continue as a going concern within one year after the financial statements are issued on both an interim and annual basis. Management is required to provide certain footnote disclosures if it concludes that substantial doubt exists or when its plans alleviate substantial doubt about the Company's ability to continue as a going concern. ASU 2014-15 becomes effective for annual periods beginning after December 15, 2016 and for interim reporting periods thereafter. The Company does not expect the adoption of this ASU to have a material impact on the Company's disclosures in the footnotes to its consolidated financial statements.

MODEL N, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

In February 2016, the FASB issued ASU 2016-02, guidance on the recognition and measurement of leases. Under the new guidance, lessees are required to recognize a lease liability, which represents the discounted obligation to make future minimum lease payments, and a corresponding right-of-use asset on the balance sheet for most leases. The guidance retains the current accounting for lessors and does not make significant changes to the recognition, measurement, and presentation of expenses and cash flows by a lessee. Enhanced disclosures will also be required to give financial statement users the ability to assess the amount, timing and uncertainty of cash flows arising from leases. The guidance will require modified retrospective application at the beginning of the Company's first quarter of fiscal 2020, with optional practical expedients, but permits adoption in an earlier period. The Company is currently evaluating the impact this standard will have on its consolidated financial statements.

In March 2016, FASB issued ASU 2016-9, guidance related to stock-based compensation, which includes the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flow. The guidance becomes effective for the Company at the beginning of its first quarter of fiscal 2018 but permits adoption in an earlier period. The Company is currently evaluating the impact this standard will have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flow (Topic 230), amended the existing accounting standards for the statement of cash flows. The amendments provide guidance on how companies present and classify certain cash receipts and cash payments in the statement of cash flows. The guidance becomes effective for the Company at the beginning of its first quarter of fiscal 2019. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact this standard will have on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Restricted Cash (Topic 230), clarifying the classification and presentation of restricted cash in the statement of cash flows. The standard requires that restricted cash and restricted cash equivalents are included in the cash and cash equivalent balance in the statement of cash flows. Further, reconciliation between the balance sheet and statement of cash flows is required when the balance sheet includes more than one line item for cash, cash equivalents, restricted cash, and restricted cash equivalents. Therefore, transfers between these balances should no longer be presented as a cash flow activity. The guidance becomes effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The Company is currently evaluating the impact this standard will have on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Business Combination (Topic 805): clarifying the definition of a business. The amendments in this guidance change the definition of a business to assist with evaluating when a set of transferred assets and activities is a business. The guidance becomes effective for the Company at the beginning of its first quarter of fiscal 2019. Early adoption is permitted. The Company is currently evaluating the impact this standard will have on its consolidated financial statements.

MODEL N, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

2. Consolidated Balance Sheet Components

Components of property and equipment, and intangible assets consisted of the following:

Property and Equipment

	As of December 31, 2016	As of September 30, 2016
	(in thousands)	
Computer software and equipment	\$9,270	\$9,319
Furniture and fixtures	1,158	1,117
Leasehold improvements	1,251	1,240
Software development costs	8,254	8,254
Total property and equipment	19,933	19,930
Less: Accumulated depreciation and amortization	(15,253)	(14,582)
Property and equipment, net	4,680	5,348
Add: Capital projects in progress	1,068	793
Total property and equipment, net	\$5,748	\$6,141

Depreciation expense totaled \$0.7 million and \$1.0 million for the three months ended December 31, 2016 and 2015, respectively.

Intangible Assets

	Estimated Useful Life (in Years)	As of Gross Carrying Amount (in thousands)	As of December 31, 2016 Accumulated Amortization	Net Carrying Amount
Intangible Assets:				
Developed technology	5	\$5,313	\$ (3,107)	\$ 2,206
Backlog	5	280	(169)	111

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Customer relationships	3-10	4,419	(1,416)	3,003
Total		\$10,012	\$ (4,692)	\$ 5,320

	Estimated	As of September 30, 2016		
	Useful Life	Gross	Accumulated	Net
	(in Years)	Carrying	Amortization	Carrying
		Amount	Amount	Amount
		(in thousands)		
Intangible Assets:				
Developed technology	5	\$5,313	\$ (2,857) \$ 2,456
Backlog	5	280	(149) 131
Non-competition agreement	3	100	(100) —
Customer relationships	3-10	4,419	(1,331) 3,088
Trade name	1	110	(101) 9
Total		\$10,222	\$ (4,538) \$ 5,684

The Company recorded amortization expense related to the acquired intangible assets of \$0.4 million and \$0.3 million for the three months ended December 31, 2016 and 2015, respectively.

MODEL N, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Estimated future amortization expense for the intangible assets as of December 31, 2016 is as follows:

2017 (remaining 9 months)	\$892
2018	1,175
2019	1,120
2020	405
2021 and thereafter	1,728
Total future amortization	\$5,320

Other Assets

As of December 31, 2016, the Company had \$5.0 million included in other assets exclusively for the initial escrow deposit held with a third party in connection with the Revitas acquisition. See Note 9, "Subsequent Event", for further information about the acquisition of Revitas.

3. 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 regularly reviews its financial instruments portfolio to identify and evaluate such instruments that have indications of possible impairment. When there is no readily available market data, fair value estimates are made by the Company, which involves some level of management estimation and judgment and may not necessarily represent the amounts that could be realized in a current or future sale of these assets.

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 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.

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MODEL N, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

The table below sets forth the Company's cash equivalents as of December 31, 2016 and September 30, 2016, 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 December 31, 2016:				
Assets:				
Cash equivalents:				
Money market fund deposits	\$45,577	\$ —	\$ —	\$45,577
Total	\$45,577	\$ —	\$ —	\$45,577
As of September 30, 2016:				
Assets:				
Cash equivalents:				
Money market fund deposits	\$45,550	\$ —	\$ —	\$45,550
Total	\$45,550	\$ —	\$ —	\$45,550

The Company's cash equivalents as of December 31, 2016 and September 30, 2016 consisted of money market funds with original maturity dates of less than three months from the date of their respective purchase. Cash equivalents are classified as Level 1. The fair value of the Company's money market funds approximated amortized cost and, as such, there were no unrealized gains or losses on money market funds as of December 31, 2016 and September 30, 2016. As of December 31, 2016 and September 30, 2016, amounts of \$6.0 million and \$20.6 million, respectively, were held in bank deposits.

4. Stock-based Compensation

As of December 31, 2016, 5.5 million shares were available for future stock awards under the Company's equity plans. There were no stock options granted during three months ended December 31, 2016 and 2015, respectively.

The following table summarizes the stock option activity and related information under all equity plans:

	Number of	Weighted Average	Weighted Average Remaining	Aggregate
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	Shares (thousands)	Exercised Price	Contract Term (in Years)	Intrinsic Value (in thousands)
Balance at September 30, 2016	806	\$ 6.31	3.56	\$ 4,103
Granted	—	—	—	
Exercised	(9)	1.82	—	
Forfeited	—	—	—	
Expired	(4)	12.08	—	
Balance at December 31, 2016	793	\$ 6.36	3.23	\$ 2,707
Options exercisable as of December 31, 2016	792	\$ 6.35	3.22	\$ 2,707
Options vested and expected to vest as of				
December 31, 2016	793	\$ 6.36	3.23	\$ 2,707

MODEL N, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

The following table summarizes the Company's restricted stock and restricted stock units activity under all equity award plans:

	Restricted Stock Units Outstanding (in thousands)	Weighted Average Grant Date Fair Value
Balance at September 30, 2016	3,117	\$ 11.81
Granted	60	8.31
Released	(244)	8.81
Forfeited	(535)	10.67
Balance at December 31, 2016	2,398	\$ 12.28

Stock-based Compensation

Stock-based compensation recorded in the statements of operations is as follows:

	Three Months Ended December 31,	
	2016	2015
	(in thousands)	
Cost of revenues:		
License and implementation	\$ 234	\$ 200
SaaS and maintenance	246	226
Total stock-based compensation in cost of revenue	480	426
Operating expenses:		
Research and development	404	401
Sales and marketing	553	593
General and administrative	458	1,130
Total stock-based compensation in operating expense	1,415	2,124
Total stock-based compensation	\$ 1,895	\$ 2,550

5. Income Taxes

The Company recorded an income tax expense of \$134,000 and \$90,000, representing effective income tax rates of 2% and 1%, for the three months ended December 31, 2016 and 2015, 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. 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.

MODEL N, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

6. 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:

	Three Months Ended December 31,	
	2016	2015
	(in thousands, except per share data)	
Numerator:		
Basic and diluted:		
Net loss attributable to common stockholders	\$ (7,600)	\$ (7,799)
Denominator:		
Basic and diluted:		
Weighted Average Shares Used in Computing Net Loss per		
Share Attributable to Common Stockholders	28,008	26,827
Net Loss per Share Attributable to Common Stockholders:		
Basic and diluted	\$ (0.27)	\$ (0.29)

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:

	Three Months Ended December 31,	
	2016	2015
	(in thousands)	
Stock options	542	830
Performance-based restricted stock units and restricted stock units	784	599

7. Litigation and Contingencies

Legal Proceedings

We are not currently a party to any pending material legal proceedings. From time to time, we may become involved in legal proceedings arising in the ordinary course of our business. Regardless of outcome, litigation can have an adverse impact on us due to defense and settlement costs, diversion of management resources, negative publicity and reputational harm and other factors.

8. 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 9% and 8% of total revenues for the three months ended December 31, 2016 and 2015, respectively.

MODEL N, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Long-Lived Assets

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

	As of December 31, 2016	As of September 30, 2016
	(in thousands)	
United States	\$4,603	\$ 4,817
India	1,145	1,324
Total property and equipment, net	\$5,748	\$ 6,141

9. Subsequent Event

On December 12, 2016, the Company signed a definitive agreement with Sapphire Stripe Holdings, Inc., the parent company of Revitas, Inc. ("Revitas"), and LLR Equity Partners III, L.P. ("LLR"), as the stockholders' agent, to acquire Revitas. The acquisition of Revitas provides the Company with a broader portfolio of technology solutions for life science companies. The Company acquired Revitas, for cash consideration of \$52.8 million, \$42.8 million of which was paid at closing and \$10 million of which is payable 60 days following the closing absent an antitrust investigation (or at a later date if an antitrust investigation is subsequently resolved favorably). In addition, \$10 million was paid in the form of two promissory notes from LLR, one which matures 18 months after the closing and the other which mature 36 months after the closing. These notes bear interest at the rate of 3% per annum, and are subject to a right of set-off as partial security for the indemnification obligations of Revitas' stockholders under the merger agreement. The merger transaction closed on January 5, 2017. The accounting for the acquisition is in process, including the valuation of the acquired intangible assets.

On January 5, 2017, the Company borrowed \$50.0 million under a financing agreement that the Company entered into with various lenders to fund the cash portion of the acquisition of Revitas, Inc. The rate on the term loans is based on (i) the Base Rate (as defined in the financing agreement) plus 9.25% or (ii) the LIBOR Rate (as defined in the financing agreement) plus 8.25%, as selected by the Company. The term loan matures on January 5, 2022. The Company must repay 0.625% of the aggregate principal amount of the term loans on the last business day of each fiscal quarter, beginning with the fiscal quarter ending March 31, 2019. The Company may voluntarily prepay the terms loans, subject to a 3% premium during the first 24 months and 1% premium after the first 24 months and prior to 36 months.

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 and similar 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 solutions for life science and technology companies. Driving mission critical business processes such as configure, price and quote (CPQ), rebates management and regulatory compliance, our solutions transform 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 the world's leading brands in life science and technology companies across tens of thousands of users in more than 120 countries.

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

Revenue Enterprise Cloud—a broad set of transactional applications that serve as a system of record for, and automate the execution of, revenue management processes such as pricing, contracting, compliance, incentive and rebate management.

Revenue Intelligence Cloud—a broad set of intelligence applications that provide the analytical tools and insights to define and optimize revenue management strategies.

Revvy Revenue Management—a broad set of multi-tenant cloud applications natively built on the Salesforce1 Platform from salesforce.com.

We derive revenues primarily from the sale of our cloud-based and on premise solutions and related professional services, as well as maintenance and support and managed support services. 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 professional services. 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 and professional 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 December 31, 2016 and 2015, our total revenues were \$28.1 million and \$24.5 million, respectively, representing a year-over-year increase of approximately 15%, primarily due to past improvements in sales execution and new product offerings.

On December 12, 2016, the Company signed a definitive agreement with Sapphire Stripe Holdings, Inc., the parent company of Revitas, Inc. (Revitas), and LLR Equity Partners III, L.P., as the stockholders' agent, to acquire Revitas, a provider of life sciences revenue management software. The Company acquired Revitas, for cash consideration of \$52.8 million, \$42.8 million of which was paid at closing and \$10 million of which is payable 60 days following the closing absent an antitrust investigation (or at a later date if an antitrust investigation is subsequently resolved favorably). In addition, \$10 million was paid in the form of two promissory notes, one which matures 18 months after the closing and the other which matures 36 months after the closing. These notes bear interest at the rate of 3% per annum, and are subject to a right of set-off as partial security for the indemnification obligations of Revitas' stockholders under the merger agreement. The merger transaction closed on January 5, 2017.

On January 5, 2017, the Company borrowed \$50.0 million under a financing agreement that the Company entered into with various lenders to fund the cash portion of the acquisition of Revitas, Inc. The rate on the term loans is based on (i) the Base Rate plus 9.25% or (ii) the LIBOR Rate plus 8.25%, as selected by the Company. The term loan matures on January 5, 2022. The Company must repay 0.625% of the aggregate principal amount of the term loans on the last business day of each fiscal quarter, beginning with the fiscal quarter ending March 31, 2019. The Company may voluntarily prepay the terms loans, subject to a 3% premium for 24 months and 1% premium after 24 months and prior to 36 months.

Key Business Metric

In addition to the measures of financial performance presented in our Condensed Consolidated Financial Statements, we use adjusted EBITDA to evaluate and manage our business. We use this key metric internally to manage our business, and we believe it is useful for investors to compare key financial data from various periods. See "Adjusted EBITDA" below.

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 professional services. We expect our license and implementation revenues for the fiscal year 2017 to be lower both in absolute dollars and as a percentage of total revenue from those recorded in the fiscal year ended on September 30, 2016, due to increased focus on subscription revenues, which are included in SaaS and maintenance revenues, and which have been gaining wider acceptance as a delivery model by our customers.

SaaS and Maintenance

SaaS and maintenance revenues primarily include subscription and related professional 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 maintenance and support, managed support services, revenue management as a service, training and customer-reimbursed expenses. In previous years, 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 the SaaS model has gained wider acceptance as a delivery model. Accordingly, we expect that SaaS and maintenance revenues for the fiscal year 2017 will be higher both in absolute dollars and as a percentage of total revenues than fiscal year 2016 as we continue to acquire new SaaS customers and expand our SaaS offerings within our existing customers and convert our existing on-premise customers to Cloud based solutions.

Cost of Revenues

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, third-party contractors, 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 managed support services for our on-premise solutions, revenue management as a service, training and customer-reimbursed expenses. Cost of SaaS and maintenance revenues primarily consists of personnel-related costs including salary, bonus, stock-based compensation, royalty, facility expense, and depreciation related to server equipment and capitalized software, 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 and a percentage of the total revenues as we continue to sell more Cloud based products.

Operating Expenses

Research and Development

Our research and development expenses consist primarily of personnel-related costs including salary, bonus, stock-based compensation, third-party contractors. 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. 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, 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, audit and legal fees as well as third-party contractors, facilities, costs associated with business acquisitions and travel-related expenses.

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.

	Three Months Ended December 31,	
	2016	2015
	(in thousands)	
Consolidated Statements of Operations Data:		
Revenues:		
License and implementation	\$ 5,423	\$ 4,562
SaaS and maintenance	22,640	19,925
Total revenues	28,063	24,487
Cost of Revenues:		
License and implementation	3,614	3,417
SaaS and maintenance	10,208	9,012
Total cost of revenues	13,822	12,429
Gross profit	14,241	12,058
Operating Expenses:		
Research and development	5,975	5,284
Sales and marketing	8,734	7,707
General and administrative	7,185	6,720
Total operating expenses	21,894	19,711
Loss from operations	(7,653)	(7,653)
Interest income	33	1
Other (income) expenses, net	(154)	57
Loss before income taxes	(7,466)	(7,709)
Provision for income taxes	134	90
Net loss	\$ (7,600)	\$ (7,799)

Comparison of the Three Months Ended December 31, 2016 and 2015

Revenues

	Three Months Ended December 31,				Change	
	2016	2015	2016	2015	(\$)	(%)
	Amount	% of Total Revenues	Amount	% of Total Revenues		
	(in thousands, except percentages)					
Revenue:						
License and implementation	\$5,423	19 %	\$4,562	19 %	\$861	19 %
SaaS and maintenance	22,640	81 %	19,925	81 %	2,715	14 %
Total revenues	\$28,063	100 %	\$24,487	100 %	\$3,576	15 %

License and Implementation

License and implementation revenues increased by \$0.9 million, or 19% to \$5.4 million during the three months ended December 31, 2016 from \$4.6 million for the three months ended December 31, 2015. As a percentage of total revenue, license and implementation revenues were relatively unchanged as 19% for the three months ended December 31, 2016 and 2015. The increase in these revenues in absolute dollars was primarily due to one-time perpetual license sales.

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SaaS and Maintenance

SaaS and maintenance revenues increased by \$2.7 million, or 14%, to \$22.6 million for the three months ended December 31, 2016 from \$19.9 million for the three months ended December 31, 2015. As a percentage of total revenues, SaaS and maintenance revenues were relatively unchanged as 81%. Our SaaS and maintenance revenues was primarily driven by an increase in the number of subscription contracts and included a \$1.0 million increase in our SaaS subscription, an \$0.8 million increase in revenue from channel data management from the acquisition of Channelinsight, a \$0.2 million increase in revenues from RMaaS, and an \$0.8 million increase in our maintenance and support, and managed support services revenues, partially offset by \$0.1 million in our training and customer reimbursable expense. We intend to focus on growing our recurring revenue from SaaS subscriptions.

Cost of Revenues

	Three Months Ended December 31,		2015		Change	
	2016	% of	Amount	% of	(\$)	(%)
	Amount	Revenues	Amount	Revenues		
(in thousands, except percentages)						
Cost of revenues						
License and implementation	\$3,614	67	% \$3,417	75	% \$197	6 %
SaaS and maintenance	10,208	45	9,012	45	1,196	13
Total cost of revenues	\$13,822	49	% \$12,429	51	% \$1,393	11 %

License and Implementation

Cost of license and implementation revenues increased by \$0.2 million, or 6%, to \$3.6 million during the three months ended December 31, 2016 from \$3.4 million for the three months ended December 31, 2015. As a percentage of license and implementation revenues, cost of license and implementation revenues decreased from 75% to 67% during the three months ended December 31, 2016. The increase in the cost of license and implementation revenue was primarily related to the accelerated amortization of a prepaid royalty agreement resulting from our continued business model shift from perpetual license sales to SaaS.

SaaS and Maintenance

Cost of SaaS and maintenance revenues increased by \$1.2 million, or 13%, to \$10.2 million during the three months ended December 31, 2016 from \$9.0 million for the three months ended December 31, 2015. However, as a percentage of SaaS and maintenance revenues, cost of SaaS and maintenance revenues was relatively unchanged as 45% during the three months ended December 31, 2016 and 2015. The increase in the cost of SaaS and maintenance revenues was primarily driven by an increase in personnel and other related costs to support/generate the increase in our SaaS and maintenance revenues.

Operating Expenses

Three Months Ended December 31,		
2016	2015	Change

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(in thousands, except percentages)

Operating expenses:				
Research and development	\$ 5,975	\$ 5,284	\$ 691	13 %
Sales and marketing	8,734	7,707	1,027	13
General and administrative	7,185	6,720	465	7
Total operating expenses	\$ 21,894	\$ 19,711	\$ 2,183	11 %

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Research and Development

Research and development expenses increased by \$0.7 million, or 13%, to \$6.0 million during the three months ended December 31, 2016 from \$5.3 million for the three months ended December 31, 2015. This increase was primarily due to a \$0.2 million increase in consulting fees paid to third party contractors, a \$0.5 million increase in the costs that had been previously capitalized during the first quarter of 2016 in connection with the development of internally developed software and a \$0.3 million increase in software and equipment related costs, partially offset by \$0.3 million decrease in employee-related costs due to a decrease in headcount.

Sales and Marketing

Sales and marketing expenses increased by \$1.0 million, or 13%, to \$8.7 million during the three months ended December 31, 2016 from \$7.7 million for the three months ended December 31, 2015. This increase was primarily due to a \$0.5 million increase in marketing program expense, a \$0.3 million increase in employee and related cost, a \$0.2 million increase in consulting fees and other related ancillary expense.

General and Administrative

General and administrative expenses increased by \$0.5 million, or 7%, to \$7.2 million during the three months ended December 31, 2016 from \$6.7 million for the three months ended December 31, 2015. The increase was primarily due to a \$0.3 million increase in acquisition related expense and \$0.2 million increase in employee related costs.

Interest and Other (Income) Expense, Net

	Three Months Ended December 31,				
	2016	2015	Change		
	(in thousands, except percentages)				
Interest income	\$ 33	\$ 1	\$ 32	3,200	%
Other (income) expense, net	\$ (154)	\$ 57	\$ (211)	(370)	%

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

Other (income) expenses, net primarily due to currency fluctuation recorded for our foreign operations.

Provision for Income Taxes

	Three Months Ended December 31,				
	2016	2015	Change		
	(in thousands, except percentages)				
Provision for income taxes	\$ 134	\$ 90	\$ 44	49	%

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.

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Liquidity and Capital Resources

As of December 31, 2016, we had cash and cash equivalents of \$52.4 million. Based on our future expectations and historical usage, 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. 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.

Term Loans

In January 2017, we and certain of our subsidiaries entered into a financing agreement with Crystal Financial SPV, LLC, pursuant to which we borrowed an aggregate principal amount of \$50 million, which was used to fund the cash portion of the Revitas acquisition.

The term loans will bear interest at a rate of either (i) the Base Rate (as defined in the Financing Agreement) plus 9.25% or (ii) the LIBOR Rate (as defined in the Financing Agreement) plus 8.25%, as selected by us. The term loans mature on January 5, 2022. We must repay 0.625% of the aggregate principal amount, or \$312,500, of the term loans on the last business day of each fiscal quarter, beginning with the fiscal quarter ending March 31, 2019. We may voluntarily prepay the terms loans, subject to a 3% premium for 24 months and 1% premium after 24 months and prior to 36 months. Certain mandatory prepayments are required upon the sale of certain assets, the receipt of certain insurance or condemnation proceeds or extraordinary receipts, the issuance of certain securities or debt, the occurrence of excess cash flows and the occurrence of certain restrictions on the business of the combined company or certain divestitures.

The financing agreement requires us to maintain certain financial covenants, including achieving certain levels of revenue from specified sources, as outlined in the agreement, and maintaining cash and cash-equivalents of \$30.0 million for 60 days from the closing date and thereafter \$20.0 million net of accounts payable in excess of \$0.5 million 90 days overdue. The financing agreement also contains certain non-financial covenants, including restricting our ability to dispose of assets, changing our organizational documents or amending our material agreements in a manner adverse to the lender, changing a method of accounting, merging with or acquiring other entities, incurring other indebtedness and making certain investments.

Our subsidiary guarantors have jointly and severally guaranteed the payment in full of all obligations under the Financing Agreement. Our and our subsidiary guarantor obligations under the financing agreement are secured by substantially all of our and their assets and a pledge of certain of our and their subsidiaries' stock.

Cash Flows

Three Months Ended December 31,

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	2016	2015
Cash flows used in operating activities	\$ (8,229)	\$ (7,290)
Cash flows used in investing activities	(5,469)	(13,504)
Cash flows provided by financing activities	17	135

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Cash Flows from Operating Activities

Net cash used in operating activities during the three months ended December 31, 2016 was primarily the result of our net loss of \$7.6 million and \$3.7 million change in operating assets and liabilities, partially offset by \$3.0 million of non-cash adjustments comprised of \$1.9 million in stock-based compensation and \$1.1 million in depreciation and amortization. The net change in operating assets and liabilities consisted of a \$0.7 million decrease in accounts receivable primarily reflective of collections in excess of invoicing during the quarter, a \$0.7 million decrease in deferred cost of implementation services, a \$0.8 million decrease in prepaid expense and other assets, a \$4.3 million decrease in deferred revenue primarily due to timing of amount invoiced and revenue recognized, a \$1.3 million decrease in other accrued and long term liabilities, a \$0.9 million decrease in accrued employee compensation primarily due to payment of bonuses and other employee benefits, and a \$0.6 million increase in accounts payable.

Net cash used in operating activities during three months ended December 31, 2015, was primarily the result of our net loss of \$7.8 million and a \$3.4 million change in operating assets and liabilities, partially offset by a \$3.9 million of non-cash adjustments comprised of \$2.6 million in stock-based compensation and \$1.3 million in depreciation and amortization. The net change in operating assets and liabilities consisted of a \$5.0 million increase in accounts receivable primarily reflective of invoicing in excess of collection during the quarter, a \$2.7 million increase in deferred revenue primarily due to timing of amount invoiced and revenue recognized, a \$1.4 million decrease in accrued employee compensation primarily due to payment of bonuses for fiscal 2015, a \$0.5 million increase in other accrued and long term liabilities and a \$0.2 million decrease in account payable.

Cash Flows from Investing Activities

Net cash used in investing activities for the three months ended December 31, 2016 was primarily due to \$5.0 million increase primarily due to cash held in escrow account related to the Revitas acquisition, \$0.3 million associated with capitalization of software development costs and purchases of property and equipment of \$0.2 million. Net cash used in investing activities for the three months ended December 31, 2015 was primarily due to cash paid for acquisition of Channelinsight of \$12.6 million, \$0.5 million associated with capitalization of software development costs and purchases of property and equipment of \$0.4 million

Cash Flows from Financing Activities

Net cash provided by financing activities for the three months ended December 31, 2016 and 2015 was from the exercises of stock options.

Off-Balance Sheet Arrangements

As of December 31, 2016, 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, 2016.

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: stock-based compensation expense, depreciation and amortization, acquisition and integration related expense, interest income, other (income) expenses, net, certain 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 Channelinsight and Revitas acquisition and integration related 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 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.

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

	Three Months Ended December 31,	
	2016	2015
	(in thousands)	
Reconciliation of Adjusted EBITDA:		
Net loss	\$ (7,600)	\$ (7,799)
Adjustments:		
Stock-based compensation expense	1,895	2,550
Depreciation and amortization	1,094	1,319
Acquisition and integration related expense	1,202	279
Interest income	(33)	(1)
Other (income) expenses, net	(154)	57
Legal expenses	—	305
Provision for income taxes	134	90
Adjusted EBITDA	\$ (3,462)	\$ (3,200)

Adjusted EBITDA was \$(3.5) million and \$(3.2) million, for the three months ended December 31, 2016 and 2015, respectively. The increase in our adjusted EBITDA for the three months ended December 31, 2016 as compared to the same period in fiscal year 2015 was primarily due to an increase in total revenues as we acquired new customers,

these increases were partially offset by an increase in personnel and other costs as we continued to hire more employees in order to facilitate the growth of our business.

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.

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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.

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 December 31, 2016. 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 December 31, 2016, 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.

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 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 December 31, 2016, 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.

ITEM 1A. Risk Factors

Our operating and financial results are subject to various risks and uncertainties. You should carefully consider the risks and uncertainties described below, 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 \$7.6 million and \$7.8 million for three months ended December 31, 2016 and 2015, respectively. As of December 31, 2016, we had an accumulated deficit of \$143.3 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 integrating the personnel, products, technologies and customers of Revitas. 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;
- our ability to expand and improve the productivity of our direct sales force;
- our ability to attract and retain new customers and to improve sales execution;
- the continued ability to transition from an on-premise to a cloud-based business model;
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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;

- our ability to successfully expand our business domestically and internationally ;
- costs related to the acquisition of Revitas, Inc., or Revitas;
- our ability to successfully integrate Revitas;
- disruptions in our relationships with partners;

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- the timing of new orders and revenue recognition for new and prior period orders;
- changes in the competitive landscape of our industry, including mergers or consolidation among our customers or competitors;
- 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;
- the mix of revenues in any particular period between license and implementation, and SaaS and maintenance;
- 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;
- 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;
- the amount and timing of our operating expenses and capital expenditures, and our ability to timely repay our debt;
- price competition;
- the rate of expansion and productivity of our direct sales force;
- 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;
- general economic conditions, both domestically and in our foreign markets; and
- entry of new competitors into our market.

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 decrease.

We must 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 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. We have experienced challenges in sales execution in recent fiscal quarters, and if we are unable to significantly improve our sales execution, increase the awareness of our solutions, create additional sales opportunities, expand our relationships with channel partners, leverage our relationship with strategic partners, such as Salesforce, 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 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 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 depend on our management team and our key sales and development and services personnel, and the loss of one or more key employees or groups could harm our business and prevent us from implementing our business plan in a timely manner.

Our success depends on the expertise, efficacy and continued services of our executive officers, who are geographically dispersed. We have in the past and may in the future continue to experience changes in our executive management team resulting from the hiring or departure of executives, which may be disruptive to our business. For example, in November 2016, Zack Rinat re-assumed the role of Chief Executive Officer, and in January 2017, we hired a new Senior Vice President and Chief Revenue Officer, who is tasked with implementing initiatives to develop

scalable sales processes. In addition, we hired four key executives in connection with the Revitas acquisition who now have leadership positions in the combined company. The impact of hiring new executives and implementing these initiatives may not be immediately realized. We are also substantially dependent on the continued service of our existing development and services personnel because of their familiarity with the inherent complexities of our solutions.

Our personnel do not have employment arrangements that require them to continue to work for us for any specified period and, therefore, they could terminate their employment with us at any time. We do not maintain key person life insurance policies on any of our employees. The loss of one or more of our key employees or groups could seriously harm our business.

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Our transition from an on-premise to a cloud-based business model is subject to numerous risks and uncertainties.

Our business model has shifted away from sales of on-premise software licenses to focus on sales of subscriptions for our cloud-based solutions, which provide our customers the right to access certain of our software in a hosted environment for a specified subscription period. This cloud-based strategy may give rise to a number of risks, including the following:

- if customers are uncomfortable with cloud-based solutions and desire only perpetual licenses, we may experience longer than anticipated sales cycles and sales of our cloud-based solutions may lag behind our expectations;
- our cloud-based strategy may raise concerns among our customer base, including concerns regarding changes to pricing over time, service availability, information security of a cloud-based solution and access to files while offline or once a subscription has expired;
 - we may be unsuccessful in maintaining our target pricing, adoption and projected renewal rates;
 - we may select a target price that is not optimal and could negatively affect our sales or earnings; and
 - we may incur costs at a higher than forecasted rate as we expand our cloud-based solutions.

Our cloud-based strategy may also require a considerable investment of technical, financial, legal and sales resources, and a scalable organization. Market acceptance of such offerings is affected by a variety of factors, including but not limited to: security, reliability, scalability, customization, performance, current license terms, customer preference, customer concerns with entrusting a third party to store and manage their data, public concerns regarding privacy and the enactment of restrictive laws or regulations. Whether our business model transition will prove successful and will accomplish our business and financial objectives is subject to numerous uncertainties, including but not limited to: customer demand, renewal rates, channel acceptance, our ability to further develop and scale infrastructure, our ability to include functionality and usability in such solutions that address customer requirements, tax and accounting implications, pricing and our costs. In addition, the metrics we use to gauge the status of our business may evolve over the course of the transition as significant trends emerge.

If we are unable to successfully establish our cloud-based strategy and navigate our business model transition in light of the foregoing risks and uncertainties, our results of operations could be negatively impacted.

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 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 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 agreements after the expiration of the initial term, and there can be no assurance 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.

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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, 2016, we had 122 customers. Although our largest customers typically change from period to period, for the fiscal year ended September 30, 2016, our 15 largest customers accounted for more than 58% of our total revenues, but no customer accounted for more than 10% of our total revenues in 2016. 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 in the life science and semiconductor industries, both of which are 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 also 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 acquisition of other companies could require significant management attention, disrupt our business, dilute stockholder value and adversely affect our operating results.

As part of our business strategy, we have in the past and may in the future make investments in other companies, solutions or technologies to, among other reasons, expand or enhance our product offerings. For example, in January 2017, we acquired Revitas, a provider of life sciences revenue management solutions, for an aggregate of \$52.8 million in cash and \$10 million in the form of two promissory notes. Revitas is larger and more complex than any previous acquisition we have made, and we may not be able to integrate Revitas's business into our business in a successful manner. In the future, any significant acquisition would require the consent of our lenders. Any failure to receive such consent could delay or prohibit us from acquiring companies that we believe could enhance our business.

We may not ultimately strengthen our competitive position or achieve our goals from the Revitas acquisition or any future acquisition, and any acquisitions we complete could be viewed negatively by users, customers, partners or investors. In addition, if we fail to integrate successfully such acquisitions, or the technologies associated with such acquisitions, into our company, the revenues and operating results of the combined company could be adversely affected. In addition, we may not be able to successfully retain the customers and key personnel of Revitas over the longer term, which could also adversely affect our business. The integration of Revitas's business or any future-acquired business will require significant time and resources, and we may not be able to manage the process successfully. We may not successfully evaluate or utilize the acquired technology and accurately forecast the financial impact of the acquisition, including accounting charges.

It is also possible that a governmental entity could initiate an antitrust investigation at any time. Among other things, an investigation that is resolved unfavorably to us could delay or prevent the completion of a transaction, require us to divest or sell the assets or businesses we acquired, limit the ability to realize the expected financial or strategic

benefits of a transaction or have other adverse effects on our current business and operations.

We may have to pay cash, incur debt or issue equity securities to pay for any acquisition, each of which could affect our financial condition or the value of our capital stock. For example, in connection with the Revitas acquisition, we borrowed \$50 million to fund the cash portion of the purchase price and issued two promissory notes with an aggregate value of \$10 million. To fund any future acquisition, we may issue equity, which would result in dilution to our stockholders, or incur more debt, which would result in increased fixed obligations and could subject us to additional covenants or other restrictions that would impede our ability to manage our operations.

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Our indebtedness could adversely affect our business and limit our ability to expand our business or respond to changes, and we may be unable to generate sufficient cash flow to satisfy our debt service obligations.

In January 2017, we incurred \$50 million of indebtedness to fund the cash portion of our Revitas acquisition. These term loans are secured by substantially all of our assets and mature in January 2022. We also issued two promissory notes for an aggregate of \$10 million. The incurrence of significant indebtedness could have adverse consequences, including the following:

- reducing the availability of our cash flow for our operations, capital expenditures, future business opportunities and other purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate; and
- increasing our vulnerability to general adverse economic and industry conditions.

We must repay 0.625% of the aggregate principal amount of the \$50 million term loans on the last business day of each fiscal quarter, beginning with the fiscal quarter ending March 31, 2019, and the term loans must be repaid in full in January 2022. Our promissory notes will mature in June 2018 and January 2020. Our ability to generate cash to repay our indebtedness is subject to the performance of our business, as well as general economic, financial, competitive and other factors that are beyond our control. If our business does not generate sufficient cash flow from operating activities or if future borrowings are not available to us in amounts sufficient to enable us to fund our liquidity needs, our operating results, financial condition and ability to expand our business may be adversely affected.

The term loans bear interest at a variable rate of either a base rate plus 9.25% or LIBOR plus 8.25%, which exposes us to interest rate risk. Changes in economic conditions outside of our control could result in higher interest rates, thereby increasing our interest expense even though the amount borrowed remained the same.

Additionally, the financing agreement governing our term loans contains various restrictive covenants, including achieving certain levels of revenue from specified sources, as outlined in the agreement, and maintaining cash and cash-equivalents of \$30.0 million for 60 days from the closing date and thereafter \$20.0 million net of accounts payable in excess of \$0.5 million 90 days overdue, restricting our ability to dispose of assets, changing our organizational documents or amending our material agreements in a manner adverse to the lenders, changing a method of accounting, merging with or acquiring other entities, incurring other indebtedness, making investments. Our ability to comply with some of these restrictive covenants can be affected by events beyond our control, and we may be unable to do so. Upon the occurrence of an event of default, our lenders could elect to declare all amounts outstanding under our financing agreement to be immediately due and payable. If we are unable to repay that amount, our lenders could seize our assets securing the loans and our financial condition could be adversely affected.

We may face risks related to securities litigation that could result in significant legal expenses and settlement or damage awards.

We have been in the past and may in the future become subject to claims and litigation alleging violations of the securities laws or other related claims, which could harm our business and require us to incur significant costs. Significant litigation costs could impact our ability to comply with certain financial covenants under our financing agreement. We are generally obliged, to the extent permitted by law, to indemnify our current and former directors and officers who are named as defendants in these types of lawsuits. Regardless of the outcome, litigation may require significant attention from management and could result in significant legal expenses, settlement costs or damage awards that could have a material impact on our financial position, results of operations and cash flows.

If our solutions experience data security breaches, and there is unauthorized access to our customers' data, we may lose current or future customers, our reputation and business may be harmed and we may incur significant liabilities.

Our solutions are used by our customers to manage and store personally identifiable information, proprietary information and sensitive or confidential data relating to their business. Although we maintain security features in our solutions, our security measures may not detect or prevent hacker interceptions, break-ins, security breaches, the introduction of viruses or malicious code, such as “ransomware”, and other disruptions that may jeopardize the security of information stored in and transmitted by our solutions. Cyber-attacks and other malicious Internet-based activity continue to increase generally. A party that is able to circumvent our security measures in our solutions could misappropriate our or our customers’ proprietary or confidential information, cause interruption in their operations, damage or misuse their computer systems and misuse any information that they misappropriate. Because techniques used to obtain unauthorized access or sabotage systems change frequently and generally are not identified until they are launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures.

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There can be no assurance that limitation of liability provisions in our contracts would be applicable, enforceable or adequate in connection with a security breach, or would otherwise protect us from any such liabilities or damages with respect to any particular claim. We also cannot be sure that our existing general liability insurance coverage and coverage for errors or omissions will continue to be available on acceptable terms or will be available in sufficient amounts to cover one or more large claims, or that the insurer will not deny coverage as to any future claim. One or more large claims may be asserted against us that exceed our available insurance coverage, or changes in our insurance policies may occur, including premium increases or the imposition of large deductible or co-insurance requirements. If any compromise of the security of our solutions were to occur, we may be subject to litigation, indemnity obligations and other possible liabilities, and we may lose existing customers and the ability to attract future customers, any of which could harm our reputation, business, financial condition and results of operations and result in significant liability.

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 typically range from a few months to up to eighteen months, 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 Enterprise Cloud suite, and decreases in demand for our Revenue Enterprise Cloud 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 Enterprise Cloud suite, whether deployed as individual applications or as a complete suite. We expect our Revenue Enterprise Cloud suite to continue to generate a substantial majority of our total revenues for the foreseeable future. Declines and variability in demand for our Revenue Enterprise Cloud 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 Enterprise Cloud suite.

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.

If we are unable to enhance existing solutions and develop new applications that achieve market acceptance or that keep pace with technological developments, our business could be harmed.

Our ability to increase revenues from existing customers and attract new customers depends in large part on our ability to enhance and improve our existing solutions and to develop and introduce new applications. The success of any enhancement or new application depends on several factors, including timely completion, adequate quality testing, introduction and market acceptance. Any enhancement or new application that we develop (such as our Revvy solutions and Revenue Management as a Service) or acquire may not be introduced in a timely or cost-effective manner, may contain defects or may not achieve the broad market acceptance necessary to generate significant revenues. If we are unable to successfully enhance our existing solutions and develop new applications to meet customer requirements, our business and operating results will be adversely affected.

Because we designed our solutions to operate on a variety of network, hardware and software platforms, we will need to continuously modify and enhance our solutions to keep pace with changes in networking, internet-related hardware, and software, communication, browser and database technologies. If we are unable to respond in a timely manner to these rapid technological developments in a cost-effective manner, our solutions may become less marketable and less competitive or obsolete and our operating results may be negatively impacted.

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, and our recent acquisition of Revitas, which was also highly dependent upon the life science industry, increases our dependency. 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. Accordingly, our future operating results could be materially and adversely affected as a result of factors that affect the life science industry generally.

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 typically ranging between a few months to up to eighteen months 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.

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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 and develop additional expertise for new industries where we lack experience and 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.

The market for cloud-based solutions is at an early stage of acceptance relative to on premise solutions, and if it does not develop or develops more slowly than we expect, our business could be harmed.

Although gaining wider acceptance, the market for cloud-based solutions is at an early stage relative to on premise solutions, and these types of deployments may not achieve and sustain high levels of demand and market acceptance. We plan to accelerate the shift in our business model to recurring revenues, including revenues derived from our cloud-based solutions, by continuing to expand the implementation of our cloud-based solutions both within our current installed base of customers as well as new customers and additional markets in the future. Many companies have invested substantial personnel and financial resources to integrate traditional enterprise software into their businesses, and therefore may be reluctant or unwilling to migrate to a cloud-based solution. Other factors that may affect the market acceptance of cloud-based solutions include:

- perceived security capabilities and reliability;
- perceived concerns about ability to scale operations for large enterprise customers;
- concerns with entrusting a third party to store and manage critical data;
- the level of configurability or customizability of the solutions; and
- ability to perform at or near the capabilities of our on premise solutions.

If organizations do not perceive the benefits of our cloud-based solutions, or if our competitors or new market entrants are able to develop cloud-based solutions that are or are perceived to be more effective than ours, our plan to accelerate the shift in our business model to recurring revenues may not succeed or may develop more slowly than we expect, if at all, or may result in short-term declines in recognized revenue, any of which would adversely affect our business.

We rely on a small number of third-party service providers to host and deliver our cloud-based solutions, and any interruptions or delays in services from these third parties could impair the delivery of our cloud-based solutions and harm our business.

We currently operate our cloud-based solutions primarily through third party data centers. We do not control the operation of these facilities. These facilities are vulnerable to damage or interruption from natural disasters, fires, power loss, telecommunications failures and similar events. They are also subject to break-ins, computer viruses, sabotage, intentional acts of vandalism and other misconduct. The occurrence of a natural disaster or an act of terrorism, a decision to close the facilities without adequate notice or other unanticipated problems could result in lengthy interruptions, which would have a serious adverse impact on our business. Additionally, our data center agreements are of limited duration, subject to early termination rights in certain circumstances, may include inadequate indemnification and liability provisions, and the providers of our data centers have no obligation to renew their agreements with us on commercially reasonable terms, or at all.

If we continue to add data centers and add capacity in our existing data centers, we may transfer data to other locations. Despite precautions taken during this process, any unsuccessful data transfers may impair the delivery of our service. Interruptions in our service, data loss or corruption may subject us to liability to our customers, cause customers to terminate their agreements and adversely affect our renewal rates and our ability to attract new customers. Data transfers may also subject us to regional privacy and data protection laws that apply to the transmission of customer data across international borders.

We also depend on access to the Internet through third-party bandwidth providers to operate our cloud-based solution. If we lose the services of one or more of our bandwidth providers, or if these providers experience outages, for any reason, we could experience disruption in delivering our cloud-based solutions or we could be required to retain the services of a replacement bandwidth provider. Any Internet outages or delays could adversely affect our ability to provide our solutions to our customers. Our data center operations also rely heavily on the availability of electricity, which also comes from third-party providers. If we or the third-party data center facilities that we use to deliver our services were to experience a major power outage or if the cost of electricity were to increase significantly, our operations and financial results could be harmed. If we or our third-party data centers were to experience a major power outage, we or they would have to rely on back-up generators, which might not work properly or might not provide an adequate supply during a major power outage. Such a power outage could result in a significant disruption of our business.

Changes in privacy laws, regulations and standards may cause our business to suffer.

Personal privacy and data security have become significant issues in the United States, Europe and in many other jurisdictions where we offer our solutions. The regulatory framework for privacy and security issues worldwide is rapidly evolving and is likely to remain uncertain for the foreseeable future. For example, the Court of Justice of the European Union ruled in October 2015 that the US-EU Safe Harbor framework was invalid, and the framework's successor, the US-EU Privacy Shield, while adopted, has been criticized and challenged by multiple privacy advocacy groups. Furthermore, federal, state or foreign government bodies or agencies have in the past adopted, and may in the future adopt, laws and regulations affecting data privacy. Industry organizations also regularly adopt and advocate for new standards in this area. In the United States, these include rules and regulations promulgated under the authority of federal agencies and state attorneys general and legislatures and consumer protection agencies. Internationally, many jurisdictions in which we operate have established their own data security and privacy legal framework with which we or our customers must comply, including but not limited to, the Data Protection Directive (Directive) established in the European Union and data protection legislation of the individual member states subject to the Directive. The Directive will be replaced starting in 2018 with the recently adopted European General Data Protection Regulation, which will impose additional obligations and risks upon our business. In many jurisdictions, enforcement actions and consequences for noncompliance are also rising. In addition to government regulation, privacy advocates and industry groups may propose new and different self-regulatory standards that either legally or contractually applies to us.

Any inability to adequately address privacy and security concerns, even if unfounded, or comply with applicable privacy and data security laws, regulations and policies, could result in additional cost and liability to us, damage our reputation, inhibit sales and adversely affect our business. Furthermore, the costs of compliance with, and other burdens imposed by, the laws, regulations, and policies that are applicable to the businesses of our customers may limit the use and adoption of, and reduce the overall demand for, our solutions. Privacy and data security concerns, whether valid or not valid, may inhibit market adoption of our solutions, particularly in foreign countries. If we are not able to adjust to changing laws, regulations and standards related to privacy or security, our business may be harmed.

We license technology from third parties, and our inability to maintain those licenses could harm our business. Certain third-party technology that we use may be difficult to replace or could cause errors or failures of our service.

We incorporate technology that we purchase or license from third parties, including hardware and software, into our solutions. We cannot be certain that this technology will continue to be available on commercially reasonable terms, or at all. We cannot be certain that our licensors are not infringing the intellectual property rights of third parties or that our licensors have sufficient rights to the licensed intellectual property in all jurisdictions in which we may sell our solutions. Some of our agreements with our licensors may be terminated for convenience by them. If we are unable to continue to license any of this technology because of intellectual property infringement claims brought by third parties against our licensors or against us, or if we are unable to continue our license agreements or enter into new licenses on commercially reasonable terms, our ability to develop and sell solutions containing that technology would be severely limited and our business could be harmed. Additionally, if we are unable to license or obtain the necessary technology from third parties, we may be forced to acquire or develop alternative technology of lower quality or performance standards. This would limit and delay our ability to offer new or competitive solutions and increase our costs of production. In addition, errors or defects in third-party hardware or software used in our cloud-based solutions could result in errors or a failure of our cloud-based solutions, which could harm our business.

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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;
- sales credits or refunds to our customers;
- loss of customers;
- diversion of development and customer service resources; and
- injury to our reputation.

The costs incurred in correcting any material defects or errors might be substantial and could adversely affect our operating results. Because our customers often use our solutions as a system of record and many of our customers are subject to regulation of pricing of their products or otherwise have complex pricing commitments and revenue recognition policies, errors could result in an inability to process sales or lead to a violation of pricing requirements or misreporting of revenues by our customers that could potentially expose them to fines or other substantial claims or penalties. Accordingly, we could face increased exposure to product liability and warranty claims, litigation and other disputes and claims, resulting in potentially material losses and costs. Our limitation of liability provisions in our customer agreements may not be sufficient to protect us against any such claims.

Given the large amount of data that our solutions collect and manage, it is possible that failures or errors in our software could result in data loss or corruption, or cause the information that we collect to be incomplete or contain inaccuracies that our customers regard as significant. We may be required to issue credits or refunds or indemnify or otherwise be liable to our customers or third parties for damages they may incur resulting from certain of these events.

Our insurance may be inadequate or may not be available in the future on acceptable terms, or at all. In addition, our policy may not cover any claim against us for claims related to any product defects or errors or other indirect or consequential damages and defending a suit, regardless of its merit, could be costly and divert management's attention.

The market in which we participate is highly competitive, and if we do not compete effectively, our operating results could be harmed.

The market for revenue management solutions is highly competitive, fragmented and subject to rapid changes in technology. We face competition from spreadsheet-assisted manual processes, internally developed solutions, large integrated systems vendors, providers of business process outsourcing services and smaller companies that offer point solutions.

Companies lacking IT resources often resort to spreadsheet-assisted manual processes or personal database applications. In addition, some potential customers, particularly large enterprises, may elect to develop their own internal solutions, including custom-built solutions that are designed to support the needs of a single organization. Companies with large investments in packaged ERP or CRM applications, which do not typically provide revenue management capabilities, may extend these horizontal applications with configurations or point solution applications in order to address one or a small set of revenue management sub processes or drivers. Common horizontal applications that customers attempt to configure for this purpose in the life science and technology industries include large integrated systems vendors like SAP AG and Oracle Corporation. We also encounter competition from small independent companies, which compete on the basis of price, unique product features or functions and custom

developments.

Many of our competitors have greater name recognition, larger sales and marketing budgets and greater resources than we do and may have pre-existing relationships with our potential customers, including relationships with, and access to, key decision makers within these organizations, and major distribution agreements with consultants and system integrators. Moreover, many software vendors could bundle solutions or offer them at a low price as part of a larger product sale.

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With the introduction of new technologies and market entrants, we expect competition to intensify in the future. We also expect enterprise software vendors that focus on enterprise resource planning or back-office applications to enter our market with competing products. In addition, we expect sales force automation vendors to acquire or develop additional solutions that may compete with our solutions. If we fail to compete effectively, our business will be harmed. In addition, pricing pressures and increased competition generally could result in reduced sales, reduced margins, losses or the failure of our solutions to achieve or maintain more widespread market acceptance, any of which could harm our business.

If we are not able to maintain and enhance our brand, our business and operating results may be adversely affected.

We believe that maintaining and enhancing the “Model N” brand identity is critical to our relationships with our customers and partners and to our ability to attract new customers and partners. The successful promotion of our brand will depend largely upon our marketing efforts, our ability to continue to offer high-quality solutions and our ability to successfully differentiate our solutions from those of our competitors. Our brand promotion activities may not be successful or yield increased revenues. In addition, independent industry analysts often provide reviews of our solution, as well as those of our competitors, and perception of our solution in the marketplace may be significantly influenced by these reviews. If these reviews are negative, or less positive as compared to those of our competitors’ products and services, our brand may be adversely affected.

The promotion of our brand requires us to make substantial expenditures, and we anticipate that the expenditures will increase as our market becomes more competitive and as we expand into new verticals within the life science and technology industries. To the extent that these activities yield increased revenues, these revenues may not offset the increased expenses we incur. If we do not successfully maintain and enhance our brand, our business may not grow, we may have reduced pricing power relative to competitors with stronger brands and we could lose customers and partners, all of which would adversely affect our business operations and financial results.

Our organization continues to grow and experience rapid changes. If we fail to manage our growth, we may be unable to execute our business plan, maintain high levels of service or adequately address competitive challenges, and our business and operating results could be adversely affected.

We have experienced and may continue to experience growth in our headcount and operations, which has placed and will continue to place significant demands on our management and our operational and financial infrastructure. For example, in connection with the Revitas acquisition, we hired 145 employees from Revitas. As we grow, we must effectively integrate, develop and motivate a significant number of new employees, while maintaining the effectiveness of our business execution and the beneficial aspects of our corporate culture. In particular, we intend to continue to make directed and substantial investments to expand our research and development, sales and marketing, and general and administrative organizations, as well as our international operations. Failure to effectively manage organizational changes as well as integrating and training new sales and marketing personnel, could result in attrition of existing employees and difficulties in executing on our business plan, implementing customer requests, declines in quality or customer satisfaction, increases in costs and difficulties in introducing new features or other operational difficulties, and any of these difficulties could adversely impact our business performance and results of operations.

Additionally, our growth could require significant capital expenditures and may divert financial resources from other projects, such as the development of new solutions or enhancements to existing solutions. For example, since it may take as long as six months to hire and train a new member of our implementation services staff, we make decisions regarding the size of our implementation services staff based upon our expectations with respect to customer demand for our solutions. If these expectations are incorrect, and we increase the size of our implementation services organization without experiencing an increase in sales of our solutions, we will experience reductions in our gross and operating margins and net income.

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To effectively manage growth, we must continue to improve our operational, financial and management controls, and our reporting systems and procedures by, among other things:

- improving our key business applications, processes and IT infrastructure to support our business needs;
 - enhancing information and communication systems to ensure that our employees and offices around the world are well-coordinated and can effectively communicate with each other and our growing base of customers;
 - enhancing our internal controls to ensure timely and accurate reporting of all of our operations and financial results;
- and
- appropriately documenting our IT systems and our business processes.

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If we are unable to maintain successful relationships with system integrators, our business operations, financial results and growth prospects could be adversely affected.

Our relationships with system integrators are generally non-exclusive, which means they may recommend to their customers the solutions of several different companies, including solutions that compete with ours, and they may also assist in the implementation of software or systems that compete with ours. If our system integrators do not choose to continue to refer our solutions, assist in implementing our solutions, choose to use greater efforts to market and sell their own solutions or those of our competitors, or fail to meet the needs of our customers, our ability to grow our business and sell our solutions may be adversely affected. The loss of a substantial number of our system integrators, our possible inability to replace them or the failure to recruit additional system integrators could harm our business.

Our ability to achieve revenue growth in the future will depend in part on our success in maintaining successful relationships with our system integrators and in helping our system integrators enhance their ability to independently market and implement our solutions. Our growth in revenues, particularly in international markets, will be influenced by the development and maintenance of relationships with these companies. Although we have established relationships with some of the leading system integrators, our solutions compete directly against the solutions of other leading system integrators. We are unable to control the resources that our system integrators commit to implementing our solutions or the quality of such implementation. If they do not commit sufficient resources to these activities, or if we are unable to maintain our relationships with these system integrators or otherwise develop and expand our indirect distribution channel, our business, results of operations, financial condition or cash flows could be adversely affected.

Any failure to offer high-quality customer support services may adversely affect our relationships with our customers and harm our financial results.

Once our solutions are implemented, our customers use our support organization to resolve technical issues relating to our solutions. In addition, we also believe that our success in selling our solutions is highly dependent on our business reputation and on favorable recommendations from our existing customers. Any failure to maintain high-quality customer support, or a market perception that we do not maintain high-quality support, could harm our reputation, adversely affect our ability to maintain existing customers or sell our solutions to existing and prospective customers, and harm our business, operating results and financial condition.

We may be unable to respond quickly enough to accommodate short-term increases in customer demand for support services. Increased customer demand for these services, without corresponding revenues, could also increase costs and adversely affect our operating results.

If our solutions do not interoperate with our customers' IT infrastructure, sales of our solutions could be negatively affected, which would harm our business.

Our solutions must interoperate with our customers' existing IT infrastructure, which often have different specifications, complex configuration, utilize multiple protocol standards, deploy products from multiple vendors and contain multiple generations of products that have been added over time. As a result, when problems occur in a network, it may be difficult to identify the sources of these problems. If we find errors in the existing products or defects in the hardware used in our customers' IT infrastructure or problematic network configurations or settings, we may have to modify our solutions or platform so that our solutions will interoperate with our customers' IT infrastructure. Any delays in identifying the sources of problems or in providing necessary modifications to our solutions could have a negative impact on our reputation and our customers' satisfaction with our solutions, and our ability to sell solutions could be adversely affected.

Incorrect or improper implementation or use of our solutions could result in customer dissatisfaction and negatively affect our business, operations, financial results and growth prospects.

Our customers and third-party partners may need training in the proper use of and the variety of benefits that can be derived from our solutions to maximize their potential. If our solutions are not implemented or used correctly or as intended, inadequate performance may result. Since our customers rely on our solutions and customer support to manage key areas of their businesses, the incorrect or improper implementation or use of our solutions, our failure to train customers on how to efficiently and effectively use our solutions or our failure to provide services to our customers, may result in negative publicity, failure of customers to renew their SaaS or maintenance agreements or potentially make legal claims against us. Also, as we continue to expand our customer base, any failure by us to properly provide these services will likely result in lost opportunities for follow-on sales of our solutions.

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Competition for our target employees is intense, and we may not be able to attract and retain the quality employees we need to support our planned growth.

Our future success depends, in part, upon our ability to recruit and retain key management, technical, sales, marketing, finance, and other critical personnel. Competition for qualified management, technical and other personnel is intense, and we may not be successful in attracting and retaining such personnel. If we fail to attract and retain qualified employees, including internationally, our ability to grow our business could be harmed. Competition for people with the specific skills that we require is significant. In order to attract and retain personnel in a competitive marketplace, we believe that we must provide a competitive compensation package, including cash and equity-based compensation. Volatility in our stock price may from time to time adversely affect our ability to recruit or retain employees. If we are unable to hire and retain qualified employees, or conversely, if we fail to manage employee performance or reduce staffing levels when required by market conditions, our business and operating results could be adversely affected.

Our significant international operations subject us to additional risks that can adversely affect our business, results of operations and financial condition.

We have significant international operations, including in emerging markets such as India, and we are continuing to expand our international operations as part of our growth strategy. As of September 30, 2016, approximately 48% of our total employees were located in India, where we conduct a portion of our research and development activities, implementation services and support services. Our current international operations and our plans to expand our international operations have placed, and will continue to place, a strain on our employees, management systems and other resources.

Operating in international markets requires significant resources and management attention and will subject us to regulatory, economic and political risks and competition that are different from those in the United States. Because of our limited experience with international operations, we cannot assure that our international expansion efforts will be successful or that returns on such investments will be achieved in the future. In addition, our international operations may fail to succeed due to other risks inherent in operating businesses internationally, including:

- our lack of familiarity with commercial and social norms and customs in international countries which may adversely affect our ability to recruit, retain and manage employees in these countries;
- difficulties and costs associated with staffing and managing foreign operations;
- the potential diversion of management's attention to oversee and direct operations that are geographically distant from our U.S. headquarters;
- compliance with multiple, conflicting and changing governmental laws and regulations, including employment, tax, privacy and data protection laws and regulations;
- legal systems in which our ability to enforce and protect our rights may be different or less effective than in the United States and in which the ultimate result of dispute resolution is more difficult to predict;
- greater difficulty collecting accounts receivable and longer payment cycles;
- higher employee costs and difficulty in terminating non-performing employees;
- differences in workplace cultures;
- unexpected changes in regulatory requirements;
- the need to adapt our solutions for specific countries;
- our ability to comply with differing technical and certification requirements outside the United States;
- tariffs, export controls and other non-tariff barriers such as quotas and local content rules;
- more limited protection for intellectual property rights in some countries;
- adverse tax consequences, including as a result of transfer pricing adjustments involving our foreign operations;
- fluctuations in currency exchange rates;
- anti-bribery compliance by us or our partners;

restrictions on the transfer of funds; and
new and different sources of competition.

Our failure to manage any of these risks successfully could harm our existing and future international operations and seriously impair our overall business.

We are exposed to fluctuations in currency exchange rates, which could negatively affect our financial condition and operating results.

Our sales contracts are primarily denominated in U.S. dollars, and therefore, substantially all of our revenues are not subject to foreign currency risk. However, a strengthening of the U.S. dollar could increase the real cost of our solutions to our customers outside of the United States, which could adversely affect our financial condition and operating results. In addition, an increasing portion of our operating expenses are incurred in India, are denominated in Indian Rupees and are subject to fluctuations due to changes in foreign currency exchange rates.

We may be sued by third parties for alleged infringement of their proprietary rights which could result in significant costs and harm our business.

There is considerable patent and other intellectual property development activity in our industry. Our success depends upon us not infringing upon the intellectual property rights of others. Companies in the software and technology industries, including some of our current and potential competitors, own large numbers of patents, copyrights, trademarks and trade secrets and frequently enter into litigation based on allegations of infringement, misappropriation or other violations of intellectual property rights. In addition, many of these companies have the capability to dedicate substantially greater resources to enforce their intellectual property rights and to defend claims that may be brought against them. The litigation may involve patent holding companies or other adverse patent owners who have no relevant product revenue and against whom our potential patents may provide little or no deterrence. We have received, and may in the future receive, notices that claim we have infringed, misappropriated or otherwise violated other parties' intellectual property rights. To the extent we gain greater visibility, we face a higher risk of being the subject of intellectual property infringement claims, which is not uncommon with respect to software technologies in general and information security technology in particular. There may be third-party intellectual property rights, including issued or pending patents that cover significant aspects of our technologies or business methods. Any intellectual property claims, with or without merit, could be very time consuming, could be expensive to settle or litigate and could divert our management's attention and other resources. These claims could also subject us to significant liability for damages, potentially including treble damages if we are found to have willfully infringed patents or copyrights. These claims could also result in our having to stop using technology found to be in violation of a third party's rights. We might be required to seek a license for the intellectual property, which may not be available on reasonable terms or at all. Even if a license were available, we could be required to pay significant royalties, which would increase our operating expenses. As a result, we may be required to develop alternative non-infringing technology, which could require significant effort and expense. If we cannot license or develop technology for any infringing aspect of our business, we would be forced to limit or stop sales of one or more of our solutions or features of our solutions and may be unable to compete effectively. Any of these results would harm our business, operating results and financial condition.

In addition, our agreements with customers and partners include indemnification provisions under which we agree to indemnify them for losses suffered or incurred as a result of claims of intellectual property infringement and, in some cases, for damages caused by us to property or persons. Large indemnity payments could harm our business, operating results and financial condition.

Our use of open source and third-party technology could impose limitations on our ability to commercialize our solutions.

We use open source software in our solutions and in our services engagements on behalf of customers. As we increasingly handle configured implementation of our solutions on behalf of customers, we use additional open source software that we obtain from all over the world. Although we try to monitor our use of open source software, the terms of many open source licenses have not been interpreted by U.S. courts, and there is a risk that such licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to market our solutions. In such event, we could be required to seek licenses from third parties in order to continue offering our solutions, to re-engineer our technology or to discontinue offering our solutions in the event re-engineering cannot be accomplished on a timely basis, any of which could cause us to breach contracts, harm our reputation, result in customer losses or claims, increase our costs or otherwise adversely affect our business, operating results and financial condition.

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Some open source licenses contain requirements that we make available source code for modifications or derivative works we create based upon the type of open source software we use. If we combine our proprietary software with open source software in a certain manner, we could, under certain open source licenses, be required to release the source code of our proprietary software to the public. This would allow our competitors to create similar solutions with lower development effort and time and ultimately could result in a loss of product sales for us.

Any failure to protect our intellectual property rights could impair our ability to protect our proprietary technology and our brand, which would substantially harm our business and operating results.

The success of our business and the ability to compete depend in part upon our ability to protect and enforce our patents, trade secrets, trademarks, copyrights and other intellectual property rights. We primarily rely on patent, copyright, trade secret and trademark laws, trade secret protection and confidentiality or license agreements with our employees, customers, partners and others to protect our intellectual property rights. However, the steps we take to protect our intellectual property rights may be inadequate or we may be unable to secure intellectual property protection for all of our solutions. Any of our copyrights, trademarks or other intellectual property rights may be challenged by others or invalidated through administrative process or litigation. Competitors may independently develop technologies or solutions that are substantially equivalent or superior to our solutions or that inappropriately incorporate our proprietary technology into their solutions. Competitors may hire our former employees who may misappropriate our proprietary technology or misuse our confidential information. Although we rely in part upon confidentiality agreements with our employees, consultants and other third parties to protect our trade secrets and other confidential information, those agreements may not effectively prevent disclosure of trade secrets and other confidential information and may not provide an adequate remedy in the event of misappropriation of trade secrets or unauthorized disclosure of confidential information. In addition, others may independently discover our trade secrets and confidential information, and in such cases we could not assert any trade secret rights against such parties.

In order to protect our intellectual property rights, we may be required to spend significant resources to monitor and protect these rights. Litigation to protect and enforce our intellectual property rights could be costly, time-consuming and distracting to management and could result in the impairment or loss of portions of our intellectual property. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights. Any litigation, whether or not it is resolved in our favor, could result in significant expense to us and divert the efforts of our technical and management personnel, which may adversely affect our business, operating results and financial condition. Certain jurisdictions may not provide adequate legal infrastructure for effective protection of our intellectual property rights. Changing legal interpretations of liability for unauthorized use of our solutions or lessened sensitivity by corporate, government or institutional users to refraining from intellectual property piracy or other infringements of intellectual property could also harm our business.

It is possible that innovations for which we seek patent protection may not be protectable. Additionally, the process of obtaining patent protection is expensive and time consuming, and we may not be able to prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. Given the cost, effort, risks and downside of obtaining patent protection, including the requirement to ultimately disclose the invention to the public, we may not choose to seek patent protection for certain innovations. However, such patent protection could later prove to be important to our business. Even if issued, there can be no assurance that any patents will have the coverage originally sought or adequately protect our intellectual property, as the legal standards relating to the validity, enforceability and scope of protection of patent and other intellectual property rights are uncertain. Any patents that are issued may be invalidated or otherwise limited, or may lapse or may be abandoned, enabling other companies to better develop products that compete with our solutions, which could adversely affect our competitive business position, business prospects and financial condition.

We cannot assure you that the measures we have taken to protect our intellectual property will adequately protect us, and any failure to protect our intellectual property could harm our business.

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We may not be able to enforce our intellectual property rights throughout the world, which could adversely impact our international operations and business.

The laws of some foreign countries do not protect intellectual property rights to the same extent as federal and state laws in the United States. Many companies have encountered significant problems in protecting and enforcing intellectual property rights in certain foreign jurisdictions. The legal systems of certain countries, particularly certain developing countries, do not favor the enforcement of patents and other intellectual property protection. This could make it difficult for us to stop the infringement or misappropriation of our intellectual property rights. Proceedings to enforce our proprietary rights in foreign jurisdictions could result in substantial costs and divert our efforts and attention from other aspects of our business. Accordingly, our efforts to enforce our intellectual property rights in such countries may be inadequate to obtain a significant commercial advantage from the intellectual property that we develop, which could have a material adverse effect on our business, financial condition and results of operations.

Additional government regulations may reduce the size of market for our solutions, harm demand for our solutions, force us to update our solutions or implement changes in our services and increase our costs of doing business.

Any changes in government regulations that impact our customers or their end customers could have a harmful effect on our business by reducing the size of our addressable market, forcing us to update the solutions we offer or otherwise increasing our costs. For example, with respect to our life science customers, regulatory developments related to government-sponsored entitlement programs or U.S. Food and Drug Administration or foreign equivalent regulation of, or denial, withholding or withdrawal of approval of, our customers' products could lead to a lack of demand for our solutions. Other changes in government regulations, in areas such as privacy, export compliance or anti-bribery statutes, such as the U.S. Foreign Corrupt Practices Act, could require us to implement changes in our solutions, services or operations that increase our cost of doing business and thereby adversely affecting our financial performance.

Failure to comply with certain certifications and standards pertaining to our solutions, as may be required by governmental authorities or other standards-setting bodies could harm our business. Additionally, failure to comply with governmental laws and regulations could harm our business.

Customers may require our solutions to comply with certain security or other certifications and standards, which are promulgated by governmental authorities or other standards-setting bodies. The requirements necessary to comply with these certifications and standards are complex and often change significantly. If our solutions are late in achieving or fail to achieve compliance with these certifications and standards, including when they revised or otherwise change, or our competitors achieve compliance with these certifications and standards, we may be disqualified from selling our solutions to such customers, or at a competitive disadvantage, which would harm our business, operating results and financial condition.

We are subject to governmental export and import controls that could subject us to liability or impair our ability to compete in international markets.

Certain of our solutions are subject to U.S. export controls and may be exported outside the United States only with the required export license or through an export license exception. Additionally, we incorporate encryption technology into our solutions, which may require additional filings prior to export. If we were to fail to comply with U.S. export licensing requirements, U.S. customs regulations, U.S. economic sanctions or other laws, we could be subject to substantial civil and criminal penalties, including fines, incarceration for responsible employees and managers, and the possible loss of export or import privileges. Obtaining the necessary export license for a particular sale may be time-consuming and may result in the delay or loss of sales opportunities. Furthermore, U.S. export control laws and economic sanctions prohibit the shipment of certain products to U.S. embargoed or sanctioned countries, governments

and persons. Even though we take precautions to ensure that our channel partners comply with all relevant regulations, any failure by our channel partners to comply with such regulations could have negative consequences, including reputational harm, government investigations and penalties.

In addition, various countries regulate the import of certain encryption technology, including through import permit and license requirements, and have enacted laws that could limit our ability to distribute our solutions or could limit our customers' ability to implement our solutions in those countries. Changes in our solutions or changes in export and import regulations may create delays in the introduction of our solutions into international markets, prevent our customers with international operations from deploying our solutions globally or, in some cases, prevent the export or import of our solutions to certain countries, governments or person's altogether. Any change in export or import regulations, economic sanctions or related legislation, shift in the enforcement or scope of existing regulations, or change in the countries, governments, persons or technologies targeted by such regulations, could result in decreased use of our solutions by, or in our decreased ability to export or sell our solutions to, existing or potential customers with international operations. Any decreased use of our solutions or limitation on our ability to export or sell our solutions would likely adversely affect our business, financial condition, and operating results.

If we are required to collect sales and use taxes on the solutions we sell, we may be subject to liability for past sales and our future sales may decrease.

State and local taxing jurisdictions have differing rules and regulations governing sales and use taxes, and these rules and regulations are subject to varying interpretations that may change over time. In particular, the applicability of sales taxes to our subscription services in various jurisdictions is unclear. Although we have historically collected and remitted sales tax in certain circumstances, it is possible that we could face sales tax audits and that our liability for these taxes could exceed our estimates as state tax authorities could still assert that we are obligated to collect additional amounts as taxes from our customers and remit those taxes to those authorities. We could also be subject to audits with respect to state and international jurisdictions for which we have not accrued tax liabilities. A successful assertion that we should be collecting additional sales or other taxes on our services in jurisdictions where we have not historically done so and do not accrue for sales taxes could result in substantial tax liabilities for past sales, discourage customers from purchasing our solutions or otherwise harm our business and operating results.

Uncertainty in global economic conditions may adversely affect our business, operating results or financial condition.

Our operations and performance depend on global economic conditions. Challenging or uncertain economic conditions make it difficult for our customers and potential customers to accurately forecast and plan future business activities, and may cause our customers and potential customers to slow or reduce spending, or vary order frequency, on our solutions. Furthermore, during challenging or uncertain economic times, our customers may face difficulties gaining timely access to sufficient credit and experience decreasing cash flow, which could impact their willingness to make purchases and their ability to make timely payments to us. Global economic conditions have in the past and could continue to have an adverse effect on demand for our solutions, including new bookings and renewal and upsell rates, on our ability to predict future operating results and on our financial condition and operating results. If global economic conditions remain uncertain or deteriorate, it may materially impact our business, operating results and financial condition.

Our business is subject to the risks of earthquakes, fire, power outages, floods and other catastrophic events, and to interruption by manmade problems such as terrorism.

Our corporate headquarters and facilities are located near known earthquake fault zones and are vulnerable to significant damage from earthquakes. The corporate headquarters and facilities are also vulnerable to damage or interruption from human error, intentional bad acts, earthquakes, hurricanes, floods, fires, war, terrorist attacks, power losses, hardware failures, systems failures, telecommunications failures and similar events. The occurrence of a natural disaster or an act of terrorism or vandalism or other misconduct or other unanticipated problems with our facilities could result in lengthy interruptions to our services. If any disaster were to occur, our ability to operate our business at our facilities could be seriously or completely impaired or destroyed. The insurance we maintain may not be adequate to cover our losses resulting from disasters or other business interruptions.

Our financial results may be adversely affected by changes in accounting principles generally accepted in the United States.

Generally accepted accounting principles in the United States (U.S. GAAP) is subject to interpretation by the Financial Accounting Standards Board (FASB), the American Institute of Certified Public Accountants, the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. For example, in May 2014, the FASB issued accounting standards update No. 2014-09 (Topic 606), Revenue from Contracts with Customers, which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. We will be required to implement this guidance in the first quarter of our fiscal year 2019. We have not yet determined the effect of the standard on our ongoing financial reporting. Any difficulties in implementing this guidance could cause us to fail to meet our financial

reporting obligations, which could result in regulatory discipline and harm investors' confidence in us. Additionally, the implementation of this guidance or a change in other principles or interpretations could have a significant effect on our financial results, and could affect the reporting of transactions completed before the announcement of a change.

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If our estimates or judgments relating to our critical accounting policies are based on assumptions that change or prove to be incorrect, our operating results could fall below expectations of securities analysts and investors, resulting in a decline in our stock price.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. For example, our revenue recognition policy is complex and we often must make estimates and assumptions that could prove to be inaccurate. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about revenue recognition, capitalized software, the carrying values of assets, taxes, liabilities, equity, revenues and expenses that are not readily apparent from other sources. Our operating results may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our operating results to fall below the expectations of securities analysts and investors, resulting in a decline in our stock price. Significant assumptions and estimates used in preparing our Consolidated Financial Statements include those related to revenue recognition, share-based compensation and income taxes.

We incur significant costs and devote substantial management time as a result of operating as a public company, which may increase when we are no longer an “emerging growth company.”

As a public company, we incur significant legal, accounting and other expenses. For example, we are required to comply with the requirements of the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley Act) and the Dodd Frank Wall Street Reform and Consumer Protection Act, as well as rules and regulations subsequently implemented by the SEC and the New York Stock Exchange, including the establishment and maintenance of effective disclosure and financial controls and changes in corporate governance practices. Despite reform made possible by the Jumpstart Our Business Startups Act (JOBS Act), which allows us to take advantage of certain exemptions from various reporting requirements as long as we remain an “emerging growth company,” compliance with these requirements results in legal and financial compliance costs and make some activities more time consuming.

Additionally, as of September 30, 2018, we will no longer be an emerging growth company and will need to comply with additional disclosure and reporting requirements, including an attestation report on internal control over financial reporting as of September 30, 2018 issued by our independent registered public accounting firm. We will also be required to include additional information regarding executive compensation in our 2019 proxy statement and hold a nonbinding advisory vote on executive compensation at our 2019 annual meeting of stockholders. These additional reporting requirements may increase our legal and financial compliance costs and cause management and other personnel to divert attention from operational and other business matters to devote substantial time to these public company requirements.

If we fail to maintain an effective system of internal controls, our ability to produce timely and accurate financial statements or comply with applicable regulations could be impaired.

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act and the rules and regulations of the applicable listing exchange. We expect that the requirements of these rules and regulations will continue to increase our legal, accounting and financial compliance costs, make some activities more difficult, time consuming and costly, and place significant strain on our personnel, systems and resources.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. We are continuing to develop and refine our disclosure controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file with the SEC is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms,

and that information required to be disclosed in reports under the Exchange Act is accumulated and communicated to our principal executive and financial officers.

Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business. For example, our recent acquisition of Revitas may present additional challenges as we integrate their business. Further, weaknesses in our internal controls may be discovered in the future. Any failure to develop or maintain effective controls, or any difficulties encountered in their implementation or improvement, could harm our operating results or cause us to fail to meet our reporting obligations and may result in a restatement of our financial statements for prior periods. Any failure to implement and maintain effective internal controls also could adversely affect the results of periodic management evaluations and, if applicable, annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting that we are required to include in our periodic reports we file with the SEC under Section 404 of the Sarbanes-Oxley Act. Ineffective disclosure controls and procedures and internal control over financial reporting could also cause investors to

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lose confidence in our reported financial and other information, which would likely have a negative effect on the trading price of our common stock.

In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, we have expended, and anticipate that we will continue to expend, significant resources, including accounting-related costs, and provide significant management oversight. Any failure to maintain the adequacy of our internal controls, or consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs and could materially impair our ability to operate our business. In the event that our internal controls are perceived as inadequate or that we are unable to produce timely or accurate financial statements, investors may lose confidence in our operating results and our stock price could decline. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed on the New York Stock Exchange.

Our independent registered public accounting firm is not required to formally attest to the effectiveness of our internal control over financial reporting until after we are no longer an emerging growth company. At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed or operating. Our remediation efforts may not enable us to avoid a material weakness in the future.

We may need additional capital, and we cannot be certain that additional financing will be available.

We may require additional financing in the future to operate or expand our business, acquire assets or repay or refinance our existing debt. Our ability to obtain financing will depend, among other things, on our development efforts, business plans, operating performance and condition of the capital markets at the time we seek financing. We cannot assure you that additional financing will be available to us on favorable terms when required, or at all. Additionally, under our financing agreement, we are restricted from incurring additional debt, subject to certain exceptions. If we raise additional funds through the issuance of equity, equity-linked or debt securities, those securities may have rights, preferences or privileges senior to the rights of our common stock or preferred stock, and our stockholders may experience dilution.

If we need additional capital and cannot raise it on acceptable terms, we may not be able to, among other things:

- develop or enhance our solutions;
- continue to expand our sales and marketing and research and development organizations;
- repay or refinance our existing debt;
- acquire complementary technologies, solutions or businesses;
- expand operations, in the United States or internationally;
- hire, train and retain employees; or
- respond to competitive pressures or unanticipated working capital requirements.

Our failure to do any of these things could seriously harm our business, financial condition, and operating results.

Our ability to use our net operating losses to offset future taxable income may be subject to certain limitations.

In general, under Section 382 of the U.S. Internal Revenue Code of 1986, as amended (Code), and similar state law provisions, a corporation that undergoes an “ownership change” is subject to limitations on its ability to utilize its pre-change net operating losses (NOLs) to offset future taxable income. If our existing NOLs are subject to limitations arising from ownership changes, our ability to utilize NOLs could be limited by Section 382 of the Code. Future changes in our stock ownership, some of which are outside of our control, also could result in an ownership change under Section 382 of the Code. There is also a risk that our NOLs could expire, or otherwise be unavailable to offset future income tax liabilities due to changes in the law, including regulatory changes, such as suspensions on the use of

NOLs or other unforeseen reasons. For these reasons, we may not be able to utilize a material portion of the NOLs, even if we attain profitability. For example, certain NOLs will begin to expire in 2016.

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Risks Related to the Ownership of Our Common Stock

Our stock price may be volatile, and you may be unable to sell your shares at or above your purchase price.

The market price of our common stock could be subject to wide fluctuations in response to, among other things, the factors described in this “Risk Factors” section or otherwise and other factors beyond our control, such as fluctuations in the valuations of companies perceived by investors to be comparable to us.

Furthermore, the stock markets have experienced price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market fluctuations, as well as general economic, systemic, political and market conditions, such as recessions, interest rate changes or international currency fluctuations, may negatively affect the market price of our common stock.

In the past, many companies that have experienced volatility in the market price of their stock have become subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management’s attention, which could harm our business.

If securities analysts do not publish research or reports or if they publish unfavorable or inaccurate research about our business and our stock, the price of our stock and the trading volume could decline.

We expect that the trading market for our common stock will be affected by research or reports that industry or financial analysts publish about us or our business. There are many large, well-established companies active in our industry and portions of the markets in which we compete, which may mean that we receive less widespread analyst coverage than our competitors. If one or more of the analysts who covers us downgrades their evaluations of our company or our stock, the price of our stock could decline. If one or more of these analysts cease coverage of our company, our stock may lose visibility in the market, which in turn could cause our stock price to decline.

Our restated certificate of incorporation and restated bylaws and Delaware law could prevent a takeover that stockholders consider favorable and could also reduce the market price of our stock.

Our restated certificate of incorporation and restated bylaws contain provisions that could delay or prevent a change in control of us. These provisions could also make it more difficult for stockholders to elect directors and take other corporate actions. These provisions include:

- providing for a classified board of directors with staggered, three year terms;
- authorizing the board of directors to issue, without stockholder approval, preferred stock with rights senior to those of our common stock;
- providing that vacancies on our board of directors be filled by appointment by the board of directors;
- prohibiting stockholder action by written consent;
- requiring that certain litigation must be brought in Delaware;
- limiting the persons who may call special meetings of stockholders; and
- requiring advance notification of stockholder nominations and proposals.

In addition, we are subject to Section 203 of the Delaware General Corporation Law which may prohibit large stockholders, in particular those owning fifteen percent or more of our outstanding voting stock, from merging or combining with us for a certain period of time without the consent of our board of directors.

These and other provision in our restated certificate of incorporation and our restated bylaws and under the Delaware General Corporation Law could discourage potential takeover attempts, reduce the price that investors might be

willing to pay in the future for shares of our common stock and result in the market price of our common stock being lower than it would be without these provisions.

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We do not anticipate paying any dividends on our common stock.

We do not anticipate paying any cash dividends on our common stock in the foreseeable future. If we do not pay cash dividends, you would receive a return on your investment in our common stock only if the market price of our common stock is greater at the time you sell your shares than the market price at the time you bought your shares.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The following documents are filed as Exhibits to this report:

- 2.1 Agreement and Plan of Merger dated December 12, 2016. (Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K (File No. 001-35840) filed on January 5, 2017.)
- 4.1 Promissory Note maturing in June 2018
- 4.2 Promissory Note maturing in January 2020
- 10.1 Financing Agreement by and among the Company, Crystal Financial SPV, LLC and certain other lenders from time to time party thereto, and TC Lending, LLC, dated January 5, 2017.
- 10.2 Form of Change in Control and Severance Agreement. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-35840) filed on February 6, 2017.
- 31.1 Certification of Principal Executive Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.
- 31.2 Certification of Principal Financial Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.
- 32.1* Certification of Chief Executive Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350
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- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

*This certification is deemed not filed for purpose of section 18 of the Exchange Act or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: February 8, 2017

MODEL N INC.

By: /s/ MARK TISDEL
Mark Tisdell
Chief Financial Officer
(Principal Financial Officer and Accounting Officer)

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