

MODEL N, INC.
Form 10-Q
May 09, 2018

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 March 31, 2018

OR

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

For the transition period from _____ to _____

Commission File Number: 001-35840

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.) |
| 777 Mariners Island Boulevard, Suite 300 San Mateo, California | 94404 |

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(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (650) 610-4600

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. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

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

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

As of April 27, 2018, the registrant had 30,529,972 shares of common stock, \$0.00015 par value per share, 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 March 31, 2018 | As of September 30, 2017 |
|--|----------------------------|-----------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$55,229 | \$57,558 |
| Accounts receivable, net of allowance for doubtful accounts of \$26 as of March 31, 2018 and \$85 as of September 30, 2017 | 31,490 | 24,784 |
| Prepaid expenses | 4,242 | 3,733 |
| Other current assets | 571 | 1,013 |
| Total current assets | 91,532 | 87,088 |
| Property and equipment, net | 3,043 | 4,611 |
| Goodwill | 39,283 | 39,283 |
| Intangible assets, net | 37,358 | 40,156 |
| Other assets | 1,056 | 798 |
| Total assets | \$172,272 | \$171,936 |
| Liabilities And Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$2,319 | \$3,002 |
| Accrued employee compensation | 9,521 | 14,996 |
| Accrued liabilities | 3,172 | 4,979 |
| Deferred revenue, current portion | 56,025 | 49,186 |
| Long term debt, current portion | 5,225 | 4,753 |
| Total current liabilities | 76,262 | 76,916 |
| Long term debt | 52,458 | 52,452 |
| Other long-term liabilities | 1,369 | 1,307 |
| Total liabilities | 130,089 | 130,675 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common Stock, \$0.00015 par value; 200,000 shares authorized; 30,530 and 29,323 shares issued and outstanding at March 31, 2018 and September 30, 2017, respectively | 5 | 4 |

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| | | |
|--|------------|------------|
| Preferred Stock, \$0.00015 par value; 5,000 shares authorized; no shares issued and outstanding | — | — |
| Additional paid-in capital | 227,107 | 217,052 |
| Accumulated other comprehensive loss | (483) | (502) |
| Accumulated deficit | (184,446) | (175,293) |
| Total stockholders' equity | 42,183 | 41,261 |
| Total liabilities and stockholders' equity | \$ 172,272 | \$ 171,936 |

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 March | | Six Months Ended March | |
|--|--------------------------|--------------|------------------------|--------------|
| | 31, | 2017 | 31, | 2017 |
| | 2018 | | 2018 | 2017 |
| Revenues: | | | | |
| SaaS and maintenance | \$ 32,997 | \$ 27,257 | \$ 65,320 | \$ 49,897 |
| License and implementation | 6,237 | 6,000 | 12,981 | 11,423 |
| Total revenues | 39,234 | 33,257 | 78,301 | 61,320 |
| Cost of revenues: | | | | |
| SaaS and maintenance | 12,866 | 11,880 | 25,890 | 22,088 |
| License and implementation | 4,387 | 4,159 | 8,172 | 7,773 |
| Total cost of revenues | 17,253 | 16,039 | 34,062 | 29,861 |
| Gross profit | 21,981 | 17,218 | 44,239 | 31,459 |
| Operating expenses: | | | | |
| Research and development | 8,047 | 8,934 | 17,115 | 14,909 |
| Sales and marketing | 9,015 | 11,608 | 17,507 | 20,342 |
| General and administrative | 7,324 | 11,668 | 16,055 | 18,853 |
| Total operating expenses | 24,386 | 32,210 | 50,677 | 54,104 |
| Loss from operations | (2,405) | (14,992) | (6,438) | (22,645) |
| Interest expense (income), net | 1,449 | 1,380 | 2,872 | 1,347 |
| Other expenses (income), net | (87) | 228 | 38 | 74 |
| Loss before income taxes | (3,767) | (16,600) | (9,348) | (24,066) |
| (Benefit) provision for income taxes | 129 | (4,110) | (195) | (3,976) |
| Net loss | \$ (3,896) | \$ (12,490) | \$ (9,153) | \$ (20,090) |
| Net loss per share attributable to common stockholders: | | | | |
| Basic and diluted | \$ (0.13) | \$ (0.44) | \$ (0.31) | \$ (0.71) |
| Weighted average number of shares used in computing net | | | | |
| loss per share attributable to common stockholders: | | | | |
| Basic and diluted | 29,983 | 28,452 | 29,689 | 28,228 |

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 March | | Six | |
|---|--------------------------|--------------|-------------|--------------|
| | 31, | 31, | 31, | 31, |
| | 2018 | 2017 | 2018 | 2017 |
| Net loss | \$ (3,896) | \$ (12,490) | \$ (9,153) | \$ (20,090) |
| Other comprehensive (loss) income, net | | | | |
| Change in foreign currency translation adjustment | (90) | 160 | 19 | 47 |
| Total comprehensive loss | \$ (3,986) | \$ (12,330) | \$ (9,134) | \$ (20,043) |

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)

| | Six Months Ended March 31, | |
|--|----------------------------------|--------------|
| | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Net loss | \$ (9,153) | \$ (20,090) |
| Adjustments to reconcile net loss to net cash used in operating activities | | |
| Depreciation and amortization | 4,427 | 3,493 |
| Stock-based compensation | 7,282 | 4,448 |
| Amortization of debt discount and issuance cost | 478 | 244 |
| Deferred income taxes | (572) | (4,073) |
| Other non-cash charges | (22) | 235 |
| Changes in assets and liabilities, net of acquisition: | | |
| Accounts receivable | (6,622) | (876) |
| Prepaid expenses and other assets | (608) | 1,707 |
| Deferred cost of implementation services | 338 | 1,076 |
| Accounts payable | (685) | (762) |
| Accrued employee compensation | (5,497) | (818) |
| Other accrued and long-term liabilities | (1,525) | (1,926) |
| Deferred revenue | 7,133 | 3,731 |
| Net cash used in operating activities | (5,026) | (13,611) |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (91) | (222) |
| Acquisition of businesses, net of cash acquired | — | (47,773) |
| Capitalization of software development costs | — | (285) |
| Net cash used in investing activities | (91) | (48,280) |
| Cash flows from financing activities: | | |
| Proceeds from exercise of stock options and issuance of employee stock purchase plan | 2,773 | 1,548 |
| Proceeds from term loan | — | 48,686 |
| Debt issuance costs | — | (806) |
| Net cash provided by financing activities | 2,773 | 49,428 |
| Effect of exchange rate changes on cash and cash equivalents | | |