VEEVA SYSTEMS INC
Form 10-Q
September 06, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 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: 001-36121

Veeva Systems Inc.

(Exact name of registrant as specified in its charter)

Delaware	20-8235463
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

4280 Hacienda Drive

Pleasanton, California	94588
(Address of principal executive offices)	(Zip Code)

(Registrant's telephone number, including area code) (925) 452-6500

(Former name, former address and former fiscal year, if changed since last report) N/A

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 August 31, 2018, there were 121,826,207 shares of the Registrant's Class A common stock outstanding and 22,683,180 shares of the Registrant's Class B common stock outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that are based on our beliefs and assumptions and on information currently available to us. Forward-looking statements include information concerning our possible or assumed future results of operations and expenses, business strategies and plans, trends, market sizing, competitive position, industry environment, potential growth opportunities and product capabilities, among other things. Forward-looking statements include all statements that are not historical facts and, in some cases, can be identified by terms such as “aim,” “anticipates,” “believes,” “could,” “estimates,” “expects,” “goal,” “intends,” “may,” “plans,” “potential,” “predicts,” “projects,” “strive,” “will,” “would” or similar expressions and the negatives of those terms.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements, including those described in “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and elsewhere in this report. Given these uncertainties, you should not place undue reliance on these forward-looking statements.

Any forward-looking statement made by us in this report speaks only as of the date on which it is made. Except as required by law, we disclaim any obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

As used in this report, the terms “Veeva,” the “Company,” “Registrant,” “we,” “us,” and “our” mean Veeva Systems Inc. and its subsidiaries unless the context indicates otherwise.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.
VEEVA SYSTEMS INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except number of shares and par value)

	July 31, 2018 (Unaudited)	January 31, 2018 *As adjusted
Assets		
Current assets:		
Cash and cash equivalents	$ 511,735	$ 320,183
Short-term investments	498,690	441,779
Accounts receivable, net of allowance for doubtful accounts of $461 and $345, respectively	111,795	224,668
Unbilled accounts receivable	14,777	13,348
Prepaid expenses and other current assets	15,361	12,443
Total current assets	1,152,358	1,012,421
Property and equipment, net	50,705	52,284
Deferred costs, net	28,126	30,306
Goodwill	95,804	95,804
Intangible assets, net	27,854	31,490
Deferred income taxes, noncurrent	3,468	2,222
Other long-term assets	6,277	5,806
Total assets	$ 1,364,592	$ 1,230,333
Liabilities and stockholders’ equity		
Current liabilities:		
Accounts payable	$ 7,661	$ 6,944
Accrued compensation and benefits	14,113	17,054
Accrued expenses and other current liabilities	11,989	13,152
Income tax payable	1,725	2,080
Deferred revenue	259,170	266,939
Total current liabilities	294,658	306,169
Deferred income taxes, noncurrent	12,309	10,949
Other long-term liabilities	7,249	6,977
Total liabilities	314,216	324,095
Commitments and contingencies (Note 12)		
Stockholders’ equity:		
Class A common stock, $0.00001 par value; 800,000,000 shares authorized,	1	1

121,412,763 and 117,246,735 issued and outstanding at July 31, 2018 and January 31, 2018, respectively		
Class B common stock, $0.00001 par value; 190,000,000 shares authorized, 22,731,725 and 24,822,661 issued and outstanding at July 31, 2018 and January 31, 2018, respectively	—	—
Additional paid-in capital	566,533	515,272
Accumulated other comprehensive income	(119)	1,600
Retained earnings	483,961	389,365
Total stockholders' equity	1,050,376	906,238
Total liabilities and stockholders' equity	$ 1,364,592	$ 1,230,333

See Notes to Condensed Consolidated Financial Statements.

* See note 1 of the notes to the condensed consolidated financial statements for a summary of adjustments.

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VEEVA SYSTEMS INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, except per share data)

	Three months ended		Six months ended	
	July 31, 2018	2017 *As adjusted	July 31, 2018	2017 *As adjusted
	(Unaudited)			
Revenues:				
Subscription services	$169,592	$135,550	$325,595	$264,681
Professional services and other	40,017	32,245	79,561	62,886
Total revenues	209,609	167,795	405,156	327,567
Cost of revenues(1):				
Cost of subscription services	29,146	26,800	59,059	52,938
Cost of professional services and other	30,080	23,600	60,322	46,339
Total cost of revenues	59,226	50,400	119,381	99,277
Gross profit	150,383	117,395	285,775	228,290
Operating expenses(1):				
Research and development	38,826	32,678	76,023	60,989
Sales and marketing	38,222	32,070	72,607	62,211
General and administrative	20,517	14,580	40,371	28,160
Total operating expenses	97,565	79,328	189,001	151,360
Operating income	52,818	38,067	96,774	76,930
Other income, net	3,342	2,858	5,481	3,449
Income before income taxes	56,160	40,925	102,255	80,379
Provision for income taxes	5,874	2,323	7,659	4,781
Net income	$50,286	$38,602	$94,596	$75,598
Net income attributable to Class A and Class B common stockholders, basic and diluted	$50,286	$38,602	$94,596	$75,598
Net income per share attributable to Class A and Class B common stockholders:				
Basic	$0.35	$0.28	$0.66	$0.54
Diluted	$0.32	$0.25	$0.61	$0.49
Weighted-average shares used to compute net income per share attributable to Class A and Class B common stockholders:				
Basic	143,748	140,010	143,271	139,351
Diluted	155,416	153,778	155,227	153,301

Other comprehensive income:				
Net change in unrealized losses on available-for-sale investments	$357	$34	$662	$(72)
Net change in cumulative foreign currency translation gain (loss)	(1,572)	327	(2,381)	1,232
Comprehensive income	$49,071	$38,963	$92,877	$76,758

(1) Includes stock-based compensation as follows:

Cost of revenues:				
Cost of subscription services	$416	$376	$761	$718
Cost of professional services and other	2,657	2,133	4,985	3,822
Research and development	5,795	4,349	10,462	8,151
Sales and marketing	4,830	4,173	8,918	8,020
General and administrative	6,020	2,349	11,603	4,457
Total stock-based compensation	$19,718	$13,380	$36,729	$25,168

See Notes to Condensed Consolidated Financial Statements.

* See note 1 of the notes to the condensed consolidated financial statements for a summary of adjustments.

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VEEVA SYSTEMS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Three months ended		Six months ended	
	July 31, 2018	2017 * As adjusted	July 31, 2018	2017 * As adjusted
	(Unaudited)			
Cash flows from operating activities				
Net income	$50,286	$38,602	$94,596	$75,598
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	3,498	3,571	7,094	7,020
Amortization of premiums (accretion of discount) on short-term investments	(353)	386	(532)	842
Stock-based compensation	19,718	13,380	36,729	25,168
Amortization of deferred costs	4,583	4,087	9,102	8,135
Deferred income taxes	868	(296)	818	(943)
(Gain) Loss on foreign currency from market-to-market derivative	(186)	204	(163)	253
Bad debt expense (recovery)	(58)	(198)	178	(206)
Changes in operating assets and liabilities:				
Accounts receivable	43,103	16,345	112,695	87,149
Unbilled accounts receivable	2,858	7,453	(1,429)	(479)
Deferred costs	(3,371)	(4,046)	(6,922)	(7,763)
Income taxes	1,992	483	(504)	(2,062)
Prepaid expenses and other current and long-term assets	(2,796)	331	(3,509)	(1,160)
Accounts payable	(1,443)	700	538	244
Accrued expenses and other current liabilities	(1,540)	(361)	(4,104)	544
Deferred revenue	(30,406)	(24,250)	(7,756)	5,161
Other long-term liabilities	60	1,215	567	2,266
Net cash provided by operating activities	86,813	57,606	237,398	199,767
Cash flows from investing activities				
Purchases of short-term investments	(181,069)	(87,202)	(374,231)	(143,451)
Maturities and sales of short-term investments	141,266	69,681	317,810	128,377
Purchases of property and equipment	(686)	(2,535)	(1,395)	(6,495)
Capitalized internal-use software development costs	(284)	(242)	(514)	(1,033)
Net cash used in investing activities	(40,773)	(20,298)	(58,330)	(22,602)
Cash flows from financing activities				

Proceeds from exercise of common stock options	7,022	6,131	14,861	13,416
Net cash provided by financing activities	7,022	6,131	14,861	13,416
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(1,565)	327	(2,376)	1,240
Net change in cash, cash equivalents, and restricted cash	51,497	43,766	191,553	191,821
Cash, cash equivalents, and restricted cash at beginning of period	461,443	366,662	321,387	218,607
Cash, cash equivalents, and restricted cash at end of period	$512,940	$410,428	$512,940	$410,428
Cash, cash equivalents, and restricted cash at end of period:				
Cash and cash equivalents	$511,735	$409,226	$511,735	$409,226
Restricted cash included in other long-term assets	1,205	1,202	1,205	1,202
Total cash, cash equivalents, and restricted cash at end of period	$512,940	$410,428	$512,940	$410,428
Supplemental disclosures of other cash flow information:				
Cash paid for income taxes, net of refunds	$6,455	$1,780	$10,571	$6,036
Excess tax benefits from employee stock plans	$9,347	$14,765	$19,026	$28,675
Non-cash investing and financing activities:				
Changes in accounts payable and accrued expenses related to property and equipment purchases	$80	$465	$179	$(121)
Vesting of early exercised stock options	$—	$—	$—	$1

See Notes to Condensed Consolidated Financial Statements.

*See note 1 of the notes to the condensed consolidated financial statements for a summary of adjustments.

VEEVA SYSTEMS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Summary of Business and Significant Accounting Policies

Description of Business

Veeva is a leading provider of industry cloud solutions for the global life sciences industry. We were founded in 2007 on the premise that industry-specific cloud solutions could best address the operating challenges and regulatory requirements of life sciences companies. Our products are designed to meet the unique needs of our customers and their most strategic business functions—from research and development (R&D) to commercialization. Our products address a broad range of needs—including multichannel customer relationship management (CRM), content management, master data management, and data regarding healthcare professionals and organizations. Veeva is also offering its regulated content management solutions to a new set of customers in process and discrete manufacturing, consumer packaged goods, and highly regulated services industries. Our fiscal year end is January 31.

Principles of Consolidation and Basis of Presentation

These unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (GAAP) and applicable rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting and include the accounts of our wholly-owned subsidiaries after elimination of intercompany accounts and transactions. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in Veeva’s Annual Report on Form 10-K for the fiscal year ended January 31, 2018, filed on March 29, 2018. Except for the accounting policies for revenue recognition, unbilled accounts receivable, and deferred costs that were updated as a result of adopting ASU 2014-09, “Revenue from Contracts with Customers” (Topic 606), there have been no changes to our significant accounting policies described in the annual report that have had a material impact on our condensed consolidated financial statements and related notes.

The condensed consolidated balance sheet as of January 31, 2018 included herein was derived from the audited financial statements as of that date. These unaudited condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, our comprehensive income and cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for the full fiscal year ending January 31, 2019 or any other period.

Effective February 1, 2018, we adopted the requirements of Topic 606, ASU 2016-18, “Statement of Cash Flows, Restricted Cash,” and ASU 2018-02, “Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income,” as discussed in this note. All amounts and disclosures set forth in this Form 10-Q for previously reported periods have also been updated to comply with the new standards, as indicated by the “as adjusted” tables in this footnote.

Use of Estimates

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

- the standalone selling price for each distinct performance obligation included in customer contracts with multiple performance obligations;
- the period of benefit for deferred costs;
- the collectibility of our accounts receivable;
- the fair value of assets acquired and liabilities assumed for business combinations;
- the valuation of short-term investments and the determination of other-than-temporary impairments;

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- the realizability of deferred income tax assets and liabilities;
- the fair value of our stock-based awards; and
- the capitalization and estimated useful life of internal-use software development costs.

As future events cannot be determined with precision, actual results could differ significantly from those estimates.

Revenue Recognition

We derive our revenues primarily from subscription services and professional services. Subscription services revenues consist of fees from customers accessing our cloud-based software solutions and subscription or license fees for our data solutions. Professional services and other revenues consist primarily of fees from implementation services, configuration, data services, training and managed services related to our solutions. Revenues are recognized when control of these services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those services.

We determine revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as, we satisfy a performance obligation.

Our subscription services agreements are generally non-cancelable during the term, although customers typically have the right to terminate their agreements for cause in the event of material breach.

Subscription Services Revenues

Subscription services revenues are recognized ratably over the respective non-cancelable subscription term because of the continuous transfer of control to the customer. Our subscription arrangements are considered service contracts, and the customer does not have the right to take possession of the software.

Professional Services and Other Revenues

The majority of our professional services arrangements are recognized on a time and materials basis. Professional services revenues recognized on a time and materials basis are measured monthly based on time incurred and contractually agreed upon rates. Certain professional services revenues are based on fixed fee arrangements and revenues are recognized as services are rendered. Data services and training revenues are generally recognized as the services are performed.

Contracts with Multiple Performance Obligations

Some of our contracts with customers contain multiple performance obligations. For these contracts, we account for individual performance obligations separately when they are distinct. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. We determine the standalone selling prices based on our overall pricing objectives, taking into consideration market conditions and other factors, including other groupings such as customer type and geography.

Unbilled Accounts Receivable

Unbilled accounts receivable is a contract asset related to the delivery of our subscription services and professional services for which the related billings will occur in a future period. Unbilled accounts receivable consists of (i) revenue recognized for professional services performed but not yet billed and (ii) revenue recognized from non-cancelable, multi-year orders in which fees increase annually but for which we are not contractually able to invoice until a future period.

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Deferred Costs

Deferred costs include sales commissions associated with obtaining a contract with a customer. These costs are deferred and then amortized over a period of benefit that we have determined to be three years. We determined the period of benefit by taking into consideration our customer contracts, our technology and other factors. Amortization expense is included in sales and marketing expenses in the accompanying condensed consolidated statements of operations.

Deferred Revenue

Deferred revenue includes amounts billed to customers for which the revenue recognition criteria have not been met. Deferred revenue primarily consists of billings or payments received in advance of revenue recognition from our subscription services and, to a lesser extent, professional services and other revenues described above. Deferred revenue is recognized as we satisfy our performance obligations. We generally invoice our customers in annual or quarterly installments for subscription services. Accordingly, the deferred revenue balance does not generally represent the total contract value of a subscription arrangement. Deferred revenue that will be recognized during the succeeding 12-month period is recorded as current deferred revenue and the remaining portion is recorded as noncurrent, which is included in other long-term liabilities on the condensed consolidated balance sheet.

Certain Risks and Concentrations of Credit Risk

Our revenues are derived from subscription services, professional services and other services delivered primarily to the life sciences industry. We operate in markets that are highly competitive and rapidly changing. Significant technological changes, shifting customer needs, the emergence of competitive products or services with new capabilities and other factors could negatively impact our operating results.

Our financial instruments that potentially subject us to concentration of credit risk consist primarily of cash and cash equivalents, short-term investments and trade accounts receivable. Our cash equivalents and short-term investments are held by established financial institutions. We have established guidelines relative to credit ratings, diversification and maturities that seek to maintain safety and liquidity. Deposits in these financial institutions may significantly exceed federally insured limits.

We do not require collateral from our customers and generally require payment within 30 to 60 days of billing. We periodically evaluate the collectibility of our accounts receivable and provide an allowance for doubtful accounts as necessary, based on historical experience. Historically, losses related to lack of collectibility have not been material.

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

	July 31, 2018	January 31, 2018
Customer 1	*	18%
Customer 2	*	13%

*Does not exceed 10%.

No single customer represented over 10% of total revenues in the condensed consolidated statements of comprehensive income for the three and six months ended July 31, 2018 and 2017.

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New Accounting Pronouncements Adopted in Fiscal 2019

Income Taxes

In March 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-05, “Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118.” This standard amends ASC 740, Income Taxes, to provide accounting guidance for the tax effects of the Tax Act pursuant to Staff Accounting Bulletin No. 118, which allows companies to complete the accounting under ASC 740 within a one-year measurement period from the Tax Act enactment date. This standard is effective upon issuance. We have applied the guidance in ASU 2018-05 (see note 8 of the notes to our condensed consolidated financial statements).

Stranded Tax Effects in Accumulated Other Comprehensive Income

In February 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-02, "Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This update allows reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 (Tax Act).

ASU 2018-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those years. We early adopted this standard effective February 1, 2018. The impact on our condensed consolidated financial statements was immaterial.

Restricted Cash

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash, Restricted Cash,” which requires that amounts generally described as restricted cash or restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This standard is effective for our interim and annual reporting periods beginning after December 15, 2017. We adopted ASU 2016-18 retrospectively, effective February 1, 2018. As a result of including restricted cash with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts presented on the condensed consolidated statement of cash flows, the impact on net cash flows for the three and six months ended July 31, 2018 was immaterial.

Financial Instruments

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments.” ASU 2016-01, among other things, requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income and clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity’s other deferred tax assets. This standard is effective for our interim and annual reporting periods beginning after December 15, 2017. We adopted ASU 2016-01 effective February 1, 2018. There was no impact to our condensed consolidated financial statements.

Revenue Recognition

In May 2014, the FASB issued Topic 606. This guidance outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model requires revenue to be recognized when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. Topic 606 supersedes the existing revenue recognition guidance in “Revenue Recognition (Topic 605)”.

We have adopted the requirements of the new standard as of February 1, 2018, utilizing the full retrospective transition method. Adoption of the new standard resulted in changes to our accounting policies for revenue recognition, unbilled accounts receivable, and deferred costs as detailed above in our description of Revenue Recognition. We applied a practical expedient provided by the new standard and are not disclosing the amount of consideration allocated to the remaining performance obligations for all reporting periods presented before the date of the initial application.

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The impact of adoption included the deferral of costs to obtain customer contracts, which is comprised of commissions on our subscription services arrangements. Such costs were expensed as incurred under Topic 605, whereas under Topic 606, they are generally capitalized and amortized over the costs' associated term of economic benefit. We have determined that the term of economic benefit of our costs to obtain customer contracts is three years.

Revenue for the majority of our subscription services customer contracts will continue to be recognized over time because of the continuous transfer of control to the customer; however, there is some impact to revenue primarily driven by (i) accounting for non-cancelable multi-year contracts, (ii) the removal of the current limitation on contingent revenue, which may result in revenue being recognized earlier for certain contracts, and (iii) allocation of revenue from subscription services to professional services.

We adjusted our condensed consolidated financial statements from amounts previously reported to reflect the adoption of Topic 606, ASU 2016-18, or ASU 2018-02. Select impacted condensed consolidated balance sheet line items, which reflect the adoption of the new standards are as follows (in thousands):

	January 31, 2018			
	As Reported	Adjustments		As adjusted
Assets				
Accounts receivable[1]	$233,731	(9,063)	a	$224,668
Unbilled accounts receivable[1]	—	13,348	a	13,348
Deferred costs, net	—	30,306	a	30,306
Deferred income taxes, non-current	3,490	(1,268)	a	2,222
Liabilities				
Deferred revenue	$275,446	$ (8,507)	a	$266,939
Deferred income taxes, non-current	3,828	7,121	a	10,949
Stockholders' equity:				
Accumulated other comprehensive income	$1,404	$ 196	b	$1,600
Retained earnings	354,850	34,515	a, b	389,365

(1) Unbilled accounts receivable was previously included in Accounts receivable before the adoption of Topic 606.

a Adjusted to reflect the adoption of ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)."

b Adjusted to reflect the adoption of ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income."

Select unaudited condensed consolidated statement of comprehensive income line items, which reflect the adoption of the new standards are as follows (in thousands):

	Three months ended July 31, 2017			
	As Reported	Adjustments		As adjusted
Revenues:				
Subscription services	$134,340	$ 1,210	a	$135,550
Operating expenses:				
Sales and marketing	32,017	53	a	32,070
Operating income	36,898	1,169	a	38,067
Provision for income taxes	1,912	411	a	2,323
Net income	$37,844	$ 758	a	$38,602
Net income per share attributable to Class A and Class B common stockholders:				
Basic	$0.27	$ 0.01	a	$0.28
Diluted	$0.25	$ —	a	$0.25

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	Six months ended July 31, 2017			
	As Reported	Adjustments		As adjusted
Revenues:				
Subscription services	$261,617	$ 3,064	a	$264,681
Operating expenses:				
Sales and marketing	61,827	384	a	62,211
Operating income	74,237	2,693	a	76,930
Provision for income taxes	3,819	962	a	4,781
Net income	$73,867	$ 1,731	a	$75,598
Net income per share attributable to Class A and Class B common stockholders:				
Basic	$0.53	$ 0.01	a	$0.54
Diluted	$0.48	$ 0.01	a	$0.49

a Adjusted to reflect the adoption of ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)."

Select unaudited condensed consolidated statement of cash flows line items, which reflect the adoption of the new standards are as follows (in thousands):

	Three months ended July 31, 2017			
	As Reported	Adjustments		As adjusted
Cash flows from operating activities				
Net income	$37,844	$ 758	a	$38,602
Adjustments to reconcile net income to net cash provided by operating activities:				
Amortization of deferred costs	—	4,087	a	4,087
Changes in operating assets and liabilities:				
Accounts receivable	16,169	176	a	16,345
Unbilled accounts receivable	—	7,453	a	7,453
Deferred costs	—	(4,046)	a	(4,046)
Deferred revenue	(15,410)	(8,840)	a	(24,250)
Net cash provided by operating activities	57,607	(1)	a	57,606

Change in restricted cash and deposits	(201)	201	b	—
Net cash (used in) provided by investing activities	(20,499)	201	b	(20,298)
Net change in cash, cash equivalents and restricted cash	43,566	200	b	43,766
Cash, cash equivalents and restricted cash at the beginning of period	365,660	1,002	b	366,662
Cash, cash equivalents and restricted cash at the end of period	$409,226	$ 1,202	b	$410,428

	Six months ended July 31, 2017			
	As Reported	Adjustments		As adjusted
Cash flows from operating activities				
Net income	$73,867	$ 1,731	a	$75,598
Adjustments to reconcile net income to net cash provided by operating activities:				
Amortization of deferred costs	—	8,135	a	8,135
Changes in operating assets and liabilities:				
Accounts receivable	85,869	1,280	a	87,149
Unbilled accounts receivable	—	(479)	a	(479)
Deferred costs	—	(7,763)	a	(7,763)
Deferred revenue	9,027	(3,866)	a	5,161
Net cash provided by operating activities	199,768	(1)	a	199,767
Change in restricted cash and deposits	(202)	202	b	—
Net cash (used in) provided by investing activities	(22,804)	202	b	(22,602)
Net change in cash, cash equivalents and restricted cash	191,620	201	b	191,821
Cash, cash equivalents and restricted cash at the beginning of period	217,606	1,001	b	218,607
Cash, cash equivalents and restricted cash at the end of period	$409,226	$ 1,202	b	$410,428

a Adjusted to reflect the adoption of ASU 2014-09, “Revenue from Contracts with Customers (Topic 606).”

b Adjusted to reflect the adoption of ASU 2016-18, “Statement of Cash Flows, Restricted Cash.”

Future periods may or may not have the same impact as those set forth above.

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Note 2. Short-Term Investments

At July 31, 2018, short-term investments consisted of the following (in thousands):

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Available-for-sale securities:				
Certificates of deposits	$ 11,036	$ 7	$ —	$ 11,043
Asset-backed securities	86,498	2	(555)	85,945
Commercial paper	13,596	2	(1)	13,597
Corporate notes and bonds	152,185	56	(718)	151,523
Foreign government bonds	2,999	—	(21)	2,978
Mortgage backed securities	13,366	—	(81)	13,285
U.S. agency obligations	57,657	2	(25)	57,634
U.S. treasury securities	162,888	1	(204)	162,685
Total available-for-sale securities	$ 500,225	$ 70	$ (1,605)	$ 498,690

At January 31, 2018, short-term investments consisted of the following (in thousands):

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Available-for-sale securities:				
Asset-backed securities	$ 67,875	$ —	$ (424)	$ 67,451
Commercial paper	19,926	—	(12)	19,914
Corporate notes and bonds	160,499	1	(759)	159,741
Foreign government bonds	1,504	—	(18)	1,486
Mortgage backed securities	11,555	—	(75)	11,480
U.S. agency obligations	71,206	1	(76)	71,131
U.S. treasury securities	110,707	5	(136)	110,576
Total available-for-sale securities	$ 443,272	$ 7	$ (1,500)	$ 441,779

The following table summarizes the estimated fair value of our short-term investments, designated as available-for-sale and classified by the contractual maturity date of the securities as of the dates shown (in thousands):

	July 31, 2018	January 31, 2018
Due in one year or less	$331,500	$308,172
Due in greater than one year	167,190	133,607
Total	$498,690	$441,779

We have certain available-for-sale securities in a gross unrealized loss position, some of which have been in that position for more than 12 months. We review our debt securities classified as short-term investments on a regular basis to evaluate whether or not any security has experienced an other-than-temporary decline in fair value. We consider factors such as the length of time and extent to which the market value has been less than the cost, our financial position and near-term prospects and our intent to sell, or whether it is more likely than not we will be required to sell the investment before recovery of the investment’s amortized-cost basis. If we determine that an other-than-temporary decline exists in one of these securities, we would write down the respective investment to fair value. For debt securities, the portion of the write-down related to credit loss would be recognized as other income, net in our condensed consolidated statements of comprehensive income. Any portion not related to credit loss would be included in accumulated other comprehensive income. There were no impairments considered other-than-temporary as of July 31, 2018 and January 31, 2018.

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The following table shows the fair values and the gross unrealized losses of these available-for-sale securities aggregated by investment category as of July 31, 2018 (in thousands):

	Fair value	Gross unrealized losses
Asset-backed securities	$82,019	$ (555)
Commercial paper	3,892	(1)
Corporate notes and bonds	108,287	(718)
Foreign government bonds	2,979	(21)
Mortgage backed securities	13,285	(81)
U.S. agency obligations	49,893	(25)
U.S. treasury securities	153,505	(204)

The following table shows the fair values and the gross unrealized losses of these available-for-sale securities aggregated by investment category as of January 31, 2018 (in thousands):

	Fair value	Gross unrealized losses
Asset-backed securities	$65,690	$ (424)
Commercial paper	19,914	(12)
Corporate notes and bonds	155,419	(759)
Foreign government bonds	1,485	(18)
Mortgage backed securities	11,481	(75)
U.S. agency obligations	66,655	(76)
U.S. treasury securities	82,147	(136)

Note 3. Deferred Costs

Deferred costs, which consist of deferred sales commissions, were $28.1 million and $30.3 million as of July 31, 2018 and January 31, 2018, respectively. For the three and six months ended July 31, 2018, amortization expense for the deferred costs was $4.6 million and $9.1 million, respectively. For the three and six months ended July 31, 2017, amortization expense for the deferred costs was $4.1 million and $8.1 million, respectively. There has been no impairment loss recorded in relation to the costs capitalized for all periods presented.

Note 4. Property and Equipment, Net

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

	July 31, 2018	January 31, 2018
Land	$3,040	$3,040
Building	20,984	20,984
Land improvements and building improvements	20,172	20,073
Equipment and computers	7,837	7,732
Furniture and fixtures	9,495	9,619
Leasehold improvements	3,613	3,637
Construction in progress	270	36
	65,411	65,121
Less accumulated depreciation	(14,706)	(12,837)
Total property and equipment, net	$50,705	$52,284

Total depreciation expense was $1.6 million and $3.2 million for the three and six months ended July 31, 2018, respectively, and $1.4 million and $2.7 million for the three and six months ended July 31, 2017, respectively. Land is not depreciated.

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Note 5. Intangible Assets

The following schedule presents the details of intangible assets as of July 31, 2018 (dollar amounts in thousands):

	July 31, 2018			
	Gross carrying amount	Accumulated amortization	Net	Remaining useful life (in years)
Existing technology	$3,880	$ (3,813)	$67	1.7
Database	4,939	(4,340)	599	1.7
Customer contracts and relationships	33,643	(10,560)	23,083	7.1
Software	10,867	(6,979)	3,888	1.7
Brand	1,141	(924)	217	0.7
	$54,470	$		