

MODEL N, INC.  
Form 10-K  
November 18, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Fiscal Year Ended: September 30, 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 Redwood City, California (Address of Principal Executive Offices)	94063 (Zip Code)

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(650) 610-4600

(Registrant's Telephone Number, Including Area Code)

Securities Registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$0.00015 par value per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act: Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K.

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of March 31, 2016, the last business day of the registrant's most recently completed second fiscal quarter, based on the closing price of \$10.77 per share of the registrant's common stock as reported by the New York Stock Exchange, was approximately \$234 million. Shares of common stock held by each executive officer, director, and their affiliated holders have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

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The number of shares outstanding of the registrant's Common Stock as of November 11, 2016 was 27,895,203 shares.

Documents Incorporated by Reference

Information required in response to Part III of Form 10-K (Items 10, 11, 12, 13 and 14) is hereby incorporated by reference to portions of the registrant's Proxy Statement for the Annual Meeting of Stockholders to be held in 2017. The Proxy Statement will be filed by the Registrant with the Securities and Exchange Commission no later than 120 days after the end of the registrant's fiscal year ended September 30, 2016.

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## PART I.

### SPECIAL NOTE REGARDING 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 contained in this report other than statements of historical fact, including statements regarding our future results of operations and financial position, our business strategy and plans, and our objectives for future operations, are forward-looking statements. The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “guess,” “plan,” “intend,” “expect,” “seek”, and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described under “Part I, Item 1A. Risk Factors,” and elsewhere in this report. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the future events and trends discussed in this report may not occur and actual results could differ materially and adversely from those anticipated or implied in the 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. We are under no duty to update any of these forward-looking statements after the date of this report or to conform these statements to actual results or revised expectations.

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

#### Item 1. Business

##### Overview

Model N is 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 across tens of thousands of users located in more than 120 countries. A representative list of our customers based on our total revenues for the fiscal year ended September 30, 2016 includes Allergan, Amgen, Boston Scientific, Bristol-Myers Squibb, Boehringer Ingelheim, Johnson & Johnson and Merck in life science, and our technology customers include Intel, Fairchild, Maxim and ST Micro.

Many companies, in particular in the life science and technology industries experience a gap between the strategic importance of revenue management and the current state of their revenue management processes. Historically, companies tended to rely on a disjointed patchwork of manual processes, spreadsheets, point applications and legacy systems to manage their revenue processes. These processes and systems operate in isolation from one another and are labor intensive, error prone, inflexible and are costly, often resulting in missed revenue opportunities, suboptimal margins and increased revenue compliance risk. Current industry trends, including shortening product lifecycles, tightening compliance and regulatory controls, increasing channel complexity and growing volumes of transactional data are causing these outdated processes and legacy systems to become increasingly ineffective.

Our expertise in revenue management cloud solutions for the life science and technology industries has enabled us to develop applications designed to meet the unique, strategic needs of these industries, such as managed care and government pricing for life science companies and channel incentives based on design wins, for technology companies. Our solutions are also applicable to companies in industries that sell complicated configurations of products, such as in manufacturing, and to those that sell a complex combination of products and services, such as in financial services.

Our solutions include several complementary suites of software applications:

**Revenue Enterprise Cloud (REC)**—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, and incentive and rebate management. Specific products include Price Management, Deal Management, Contract Management, Incentive and Rebate Management and Regulatory Compliance Management applications, which can be purchased together as a suite or as separate applications.

**Revenue Intelligence Cloud (RIC)**—a broad set of business intelligence applications that provide the analytical tools to define and optimize revenue management strategies. Specific products include Price Analytics, Brand and Payer Analytics, Channel Analytics, Deal Analytics, and Global Pricing Market Analytics, which can be purchased together as a suite or as separate applications.

**Revy Revenue Management (Revy)**—a broad set of multi-tenant cloud applications natively built on the Salesforce platform from Salesforce®. The Revy solutions provide customers with predictable pricing, elastic infrastructure, and ease of implementation. Our partnership with Salesforce presents us with an opportunity to combine customer relationship management (CRM), with focus on the Lead-to-Cash process, with our Revenue Management solutions. Revy delivers vertical-specific applications to the pharmaceutical, manufacturing, medical devices, and semiconductor and component manufacturing industries. Specific products include Configure, Price and Quote (CPQ), Global Pricing Management (GPM), Contract Lifecycle Management (CLM), Rebates Management and Customer Relationship Management.

These applications can be configured to meet the specific needs of an enterprise and enable it to maximize:

- revenue by developing more effective pricing and contracting strategies using internal data and third-party market data;

- selling time

- for both their direct sales force and indirect channels;

- by responding rapidly to quote and proposal requests;

- by processing high volumes of rebates and incentives quickly and accurately; and

- revenue per opportunity by monitoring contract performance and compliance;

Our customer deployments range from individual applications to our complete suites. Our on premise implementations are typically purchased through perpetual licenses with related implementation services typically including ongoing maintenance and application support. We recognize revenues from the sale of our licenses and related implementation services on a percentage-of-completion basis over the expected implementation period. We have taken several steps to transform our business model in order to increase the percentage of our business coming from Software as a Service (SaaS) and maintenance revenues (our recurring revenues). The Revenue Enterprise Cloud and Revenue Intelligence Cloud suites are available to customers both through the cloud and on-premise. The Revy solutions are available only through the cloud with a subscription. We believe we have accelerated the shift in our business model to recurring revenues, as cloud-based software delivery gained wider acceptance in general and in particular in the life science and technology industries. In our SaaS arrangements where subscription fees and implementation services have a standalone value, we allocate revenue to each element in the arrangement based on a selling price hierarchy. The consideration allocated to subscription fees is recognized as revenue ratably over the term of the contract. The consideration allocated to implementation services is recognized as revenue as services are delivered.

## Overview of the Life Science and Technology Industries

The life science and technology industries are large and highly fragmented. Companies in both industries market their products to a global customer base through diverse channels. Significant costs are required to launch a drug to the market globally. Regulatory pressures, consolidation, and other factors in these industries continue to drive significant focus on revenue management.

Management of the revenue lifecycle is a strategic imperative and source of competitive advantage for life science and technology companies as they address increasingly globalized markets, sophisticated buyers, complex channels and expanding volumes of data from internal and market sources.

Several trends specific to these industries further complicate revenue management.

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Life Science:

- the emergence of large group purchasing, managed care organizations and integrated healthcare delivery networks drive increased pricing pressure, contract volume and complexity;
- increased customer and channel incentives and rebates result in the increased risk of extending unearned discounts and the overpayment of rebates;
- shift of purchasing influence from physicians to economic buyers makes price and commercial terms key decision making factors;
- increased spending on healthcare by governments instead of commercial entities adds further regulatory oversight to transactions; and
- increased scope of government mandates, frequency of regulatory reporting and audits, and fines, all of which increase administrative burden and monitoring costs.

Technology:

- shortened product lifecycles drive rapid pricing changes and require quick responses to quotes and competitive bidding;
- increased number of core technology products sold into different end markets with segment-specific pricing;
- cyclical and rising R&D costs are contributing to a focus on maximizing sell time, margins and revenues;
- increased complexity of multi-tiered global distribution channels, which intensify channel conflict and price erosion;
- changing financial reporting requirements due to channel complexity; and
- increased use of off-invoice discounting to offset upfront discounts and mask end-customer pricing result in a lack of price transparency that can erode gross margins.

Challenges to Effective Revenue Management

Traditionally, companies addressed revenue management through a patchwork of manual processes and inflexible and costly custom solutions. This outdated approach to revenue management impedes the ability of companies to respond to changing market conditions, preventing them from maximizing revenue and increasing their revenue compliance risk. Critical challenges include:

- Incomplete and unreliable information for key strategic decisions. Legacy manual processes and systems used to manage the revenue lifecycle creates silos of data cause companies to make strategic marketing, pricing and resource allocation decisions that are often based on incomplete or inaccurate information. As a result, revenue strategies can be suboptimal, budgets may be misallocated, and sales and marketing efforts can fail to positively impact revenues.
- Revenue leakage due to inadequate contract management and enforcement. Customer-tailored contracts with complex pricing and commercial terms are common in many industries, in particular life science and technology. When the commercial terms of these contracts are not automated and monitored systematically, deviations from contract pricing can occur, volume commitments can be missed, unearned discounts may be given, and revenue can be lost.
- Revenue leakage due to overpayment of incentives. Life science and technology companies process massive volumes of rebates and incentives. A lack of centralized, automated and enforceable processes can result in overpayment of incentives. Revenue leakage is also driven by inconsistent global pricing, poor price concession controls, and unmet contractual volume commitments.
  - Ineffective pricing across geographies and complex channels. Sophisticated buyers deploy global procurement strategies to discover and exploit regional and channel differences in pricing and contracting. The inability to enforce a single price for a specific sales opportunity across regions and channels can result in channel conflicts, which result in price and revenue erosion.

• **Inaccurate financial reporting.** Complex contracts and distribution channels have made it more difficult to obtain and process financial information, which can result in inaccurate financial reporting. For example, technology companies face significant complexity in financial reporting and revenue recognition at the point of sale in their distribution channels. Life science companies have significant challenges correctly accruing their massive rebate and incentive claim volumes.

• **Difficulty complying with complicated government regulations.** Satisfying the regulatory requirements of numerous federal and state programs is increasingly complex for life science companies. For example, government-driven programs require complex monitoring and reporting to compute and pay mandated rebates and fees under numerous federal and state programs. Government audits can expose ineffective management of these regulatory requirements and can result in penalties or program ineligibility.

#### Our Solutions

Customers use our solutions to achieve significant returns on investment, improve gross margins and address vital business objectives by:

• **Driving optimal pricing and contracting strategies.** Our customers use our solutions to develop, deploy, monitor and drive optimal pricing and contracting strategies. Our solutions consolidate information across the revenue lifecycle and provide visibility into historical volume, price and contract performance trends. Our pricing analytics enable our customers to identify untapped revenue opportunities across customers or products and make better pricing and contracting decisions.

• **Realizing greater value from contracts.** Our solutions enable customers to codify and automate complex pricing, incentives and financial and fulfillment terms that previously resided mainly on paper contracts. Our customers are able to maximize the value of contracts and realize additional revenue by tracking their customers' performance and enforcing contract terms. Our solutions automatically price orders in real-time and enforce contract pricing and commercial terms. Our solutions also enable customers to track and execute other revenue-enhancing financial terms, such as negotiated price increases.

• **Maximizing revenue by standardizing and enforcing pricing and discounting policies.** Our solutions allow customers to standardize pricing policies that can be automatically enforced across the enterprise and the channels to restrict unauthorized sales practices and discounting by sales personnel. By raising the visibility of, requiring authorization of, and enabling rapid resolution of, non-standard pricing, our customers can use our solutions to reduce unauthorized discounting. Through our channel solutions, our customers can gain visibility into and enforce channel pricing, and reduce price erosion caused by different price quotes for the same end customer.

• **Executing and optimizing channel incentives.** Our solutions enable customers to manage the entire incentive lifecycle, from contracting to recognition and payment. Accurate management allows our customers to eliminate unearned discounts and overpayment of incentives. Our solutions also provide our customers with greater cross channel visibility to manage the effectiveness of their channel incentive programs. With this insight, our customers can better utilize their channel incentives to positively influence channel behavior and thus increase revenue.

• **Achieving accurate financial reporting.** With our solutions, customers can manage all aspects of the contract-to-payment process related to calculating, monitoring, processing and triggering payments to end customers and channel intermediaries. For example, by automating all rebates, these liabilities can be accurately accrued, enabling our customers to consistently record accruals in compliance with financial accounting requirements, while ensuring customers and channels are credited on a timely basis.

• **Automating government regulatory compliance to reduce revenue risk.** Our solutions enable customers to systematically comply with government regulations, policies, procedures, and pricing and reporting requirements. Further, by automating and integrating contract terms, incentives and pricing into mandated price and payment calculations, our life science customers are better able to manage compliance with the terms of critical government programs that provide significant sources of revenue.

## Our Competitive Strengths

We believe our key competitive strengths include:

**Comprehensive approach to revenue management.** Our solutions address the end-to-end revenue management lifecycle. Our integrated, end-to-end application suites enable our customers to transform their revenue management processes from disjointed tactical operations into a cohesive, strategic, end-to-end process. Providing suites of both intelligence and transactional applications is an advantage that enables us to address both decision making and process automation.

**Deep domain knowledge.** Our expertise in the revenue management needs of life science and technology companies enables us to develop solutions that address the unique demands of these industries. By incorporating best practices into our industry-specific solutions, implementation methodologies and support programs, our customers can experience significantly accelerated time to value. Our team possesses the deep industry expertise in life science and technology to enable our customers to maximize and accelerate the transformational benefits of our solutions.

**Strong installed customer base.** We have established a reputation for delivering revenue management solutions to leading life science and technology customers. Our close customer relationships provide us with insight into how these companies use our solutions and help us to maintain a competitive advantage by anticipating their future requirements. We also believe that the use of our products by respected industry leaders also increases the value of our brand in these industries.

- **Talented team focused on customer success.** We employ experts from the life science and technology industries in key customer-facing and development roles. Additionally, we have established strong core values that start with a focus on customer success. Our customer focus has resulted in close relationships with our customers and a strong reference base for sales opportunities.

**Strategic partnerships.** We have established a strategic partnership with Salesforce, a leading provider of CRM and lead-to-cash solutions. We believe this partnership will provide the opportunity to offer our Revvy and certain other solutions to many companies of all sizes in various industries.

## Our Strategy

Our leadership strategy for revenue management solutions includes the following key elements:

**Increasing sales to existing customers.** We plan to improve our sales execution in order to increase revenues from our existing customers by expanding their use of our solutions across their business, including selling into additional divisions and product lines, as well as international operations, and by cross-selling additional applications.

**Expanding our customer base.** We believe the global market for revenue management solutions is large and underserved, and we intend to continue to make investments to drive awareness and adoption of revenue management solutions in our target industries. We intend to continue to aggressively pursue new customers by targeting senior level decision-makers and highlighting the strategic benefits of integrated revenue management.

**Introducing new applications and enhancing existing solutions.** We have a long history of product innovation which has driven the development of both industry specific and horizontally applicable applications across our several complementary product suites. We have a number of new products under development as well as continued innovations to our existing products. We intend to continue to develop innovative products and expand platform capabilities and functionality to meet the evolving needs of the market.

**Expanding through the cloud.** We intend to expand our customer base through continued development and deployment of our cloud-based solutions. Our cloud-based solutions significantly reduce the time and cost of implementing our revenue management solutions and, when combined with our subscription sales model, provide cost-effective, end-to-end revenue management suite.

**Expanding within the technology industry.** Our first customer in the technology industry was in the semiconductor vertical and we subsequently expanded into other technology verticals such as consumer electronics and software. We plan to continue to expand into these and adjacent technology markets, including by continuing to leverage our channel data management offering.



Expanding in the pharmaceutical industry with Global Pricing Management. A highly unoptimized area of pharmaceutical market is pricing and product launch decisions that satisfy regulatory reporting requirements across countries. This can be enabled by analyzing internal and external pricing data in a timely manner and by fostering efficient and proactive global pricing collaboration. Our applications to enable the pricing stakeholders to connect globally in real time and around a common global pricing repository, including prices and price structures, expected price events and global pricing market rules.

Expanding into new geographies. We will evaluate taking our solutions to new geographies. We intend to evaluate markets in the Asia-Pacific region, such as Japan, as well as other markets where our life science, technology, and other solutions are in demand.

## Products

We provide solutions that span the organizational and operational boundaries of functions such as sales, marketing and finance, and serve as a system of record for key revenue management processes including pricing, contracts, rebates, incentives, channel management, and regulatory compliance. Our application suites are purpose-built for the life science and technology industries and are designed to work with enterprise resource planning (ERP) and customer relationship management (CRM) applications that do not typically provide revenue management capabilities. Our solutions enable real-time pricing, contract management, vertical sales management (such as for the semiconductor industry), and channel incentives management, including rebates, incentives and regulatory compliance. Our application suites are comprised of several applications, which are integrated to work together but which may be deployed individually. For example, when deployed as an interconnected suite, our applications allow prices that are set up in the price management process to flow into the quoting process. Similarly, closed deals are captured in contract management and can be synchronized with ERP systems and into regulatory reporting as required by government agencies. Our solutions provide critical data that is typically not available in either CRM or ERP systems, such as prices, quotes, contracts, incentives and rebate claims. Our applications can also provide customers predictive revenue insight optimization of sales and marketing investments and offers, as well as and customer profitability intelligence.

Revenue Enterprise Cloud—a suite of enterprise applications designed to automate end-to-end revenue management processes including:

**Price Management.** Manage the entire pricing lifecycle from price strategy to execution, serving often as the pricing engine and system of record for pricing. Implement sophisticated pricing rules and guidelines to enforce pricing consistency across geographies and transactions, resulting in accurate, real-time pricing and improved margins. By using a transactional pricing engine that references various price sources, price points and business rules, this application enables customers to reduce quote turnaround time and ensures accurate pricing across overlapping contracts, quotes, agreements or other pricing documents.

**Deal Management.** Develop and optimize deals and contracts to maximize revenues by integrating lead and opportunity tracking, offer development, pricing and contract compliance to drive more accurate pricing, contract terms and performance metrics. The application supports an iterative negotiation process by escalating special discount requests based on configurable business conditions, suggests pricing guidelines and provides tools for decision makers to analyze the deal and its margins and compare the deal to similar deals. The approved quote or activated contract creates, through standard integration, a record in the ERP system so that orders posted against the contract or quote are priced correctly.

**Contract Management.** Improve execution of pricing and incentives strategies on contracts, capture and enforce pricing policies and manage the entire contract lifecycle from offer development to contract compliance. The application manages all the steps to create and review contracts by pulling pricing information from the pricing engine. It includes sophisticated conditional workflow capabilities that route the contract for review and approval. The application also includes industry-specific capabilities that are designed to allow our customers to maximize individual contract value, increase overall contract revenue and reduce price erosion by systematically tracking and

enforcing compliance with contract terms and customer commitments.

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**Incentive and Rebate Management.** Drive more effective and accurate management of a wide range of customer and channel incentives, such as healthcare provider rebates, managed care rebates, wholesaler chargebacks and inventory management agreements by monitoring, processing, calculating and approving the payment of incentives based on contract terms, direct and indirect sales, product utilization, customer eligibility and other internal and external performance data. This application supports the process of creating and defining incentive and rebate programs and routing them through complex multi-step approval processes for final approval. Once programs are activated, the application processes direct and indirect sales lines and validates whether they are subject to and eligible for an incentive payment. The application rejects incorrect data and calculates and approves payment information that is submitted to the financial systems. This application can also be used by finance functions to calculate and track the accrual of financial liabilities and enables customers to create reports that track the effectiveness of their incentive programs.

**Regulatory Compliance Management.** Enforce compliance with statutory and financial regulations and their revenue recognition policies by calculating and reporting mandatory government prices such as Average Manufacturer Price, Best Price and Non-Federal Average Manufacturer's Price, as well as process and pay government claims for Medicaid, Tricare and other mandated federal and state healthcare programs. The application can be used in conjunction with our other applications to promote effective risk management and reduce compliance risk.

**Revenue Intelligence Cloud**—a suite of revenue management business intelligence applications that enable customers to analyze revenue drivers and optimize revenue outcomes by delivering industry-specific visualizations, analyses and actions including:

**Price Strategy.** Develop, analyze and optimize price strategies by combining internal revenue management data and external market data across customers, products, geographies and channels. Utilizing this data, this application measures and analyzes performance by employing industry-specific data visualizations and custom analyses to provide visibility into all elements of the pricing process, in addition to insights into profitability and revenue risks.

**Brand Strategy.** Identify and pinpoint drivers of brand performance that influence market demand to optimize sales and marketing spend at national and regional levels from product launch to sunset with insights from internal and external syndicated data providing meaningful insights into customer behavior and competitive dynamics. Marketing and brand managers can leverage these advanced analytics capabilities to validate their sales forecasts and gain insights into how formulary status or other payer and physician dynamics affect brand performance at a regional level. Sales personnel receive actionable targeting guidance and performance against plans in order to optimize their sales efforts.

- **Channel Strategy.** Increase the effectiveness of global distribution by aggregating and tracking channel data for accurate and timely visibility into revenue and profit trends. This application aggregates and tracks a broad set of internal and external channel data, such as design registrations, point-of-sale claims, opportunity registrations, quotes, wins, contracts, contract compliance data, inventory and chargeback. Robust analytical capabilities allow channel and trade managers, sales teams and executives to gain accurate and timely visibility into revenue and profit trends by distributor, wholesaler, end customer, product, region and country and actionable intelligence on market trends through key metrics and alerts.

**Managed Markets Strategy.** Analyze and optimize market strategy by determining which healthcare payers or insurance plans have the biggest impact on brand revenues, how formulary status influences market access across regions and how market share is trending against competition in key markets by using syndicated data to assess performance against market strategy. This application integrates external syndicated data sets with internal sales and promotional data, such as call plans, samples and sales alignment, to provide actionable intelligence.

**Revvly Revenue Management** —a suite of multi-tenant, software-as-a-service (SaaS) applications built on the Salesforce1 Platform designed to automate the Revenue Management lifecycle including:

**Configure, Price, Quote (CPQ):** Streamlines the quote to contract process by enabling the configuration of complex services, bundles and solutions in an easy to use, intuitive user interface. This application provides seamless integration with the SAP ERP system and SAP Variant Configurator. This application can significantly reduce the

average time needed for sales representatives to present a professional proposal to a prospective customer.

◆ **Global Pricing Management (GPM):** Optimize pricing and product launch decisions and satisfy regulatory reporting requirements across countries by analyzing internal and external pricing data in a timely manner and by fostering efficient and proactive global pricing collaboration. This application connects pricing stakeholders globally in real time and around a common global pricing repository, which includes prices and price structures, expected price events and international reference pricing rules.

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Customer Relationship Management (CRM): Provides sales management a consolidated view of their sales funnel with analytical capabilities to assess funnel trends overall and by customers, products, geographies, or people. This application delivers a 360 view of customer accounts such that sales representatives have full visibility into account information that will help them drive customer adoption. This application also provides powerful solution selling capabilities that allow sales representatives to maximize socket wins. This feature is also very relevant for new sales representatives or post-acquisitions when selling a consolidated portfolio.

Contract Lifecycle Management (CLM): Enables organizations to create and manage all types of sell-side contracts in one place including service contracts, sales contracts, NDAs, statements of work, and more. The solution enables users to create and manage contracts directly from within Salesforce® or Microsoft Word® with complete visibility and control of the entire contract lifecycle. Capabilities include the ability to define and configure contract lifecycles, template and clause libraries, and the ability to redline documents directly in Microsoft Word.

Rebates Management: Simplifies rebate and channel incentive administration to help align partners and customers with their goals. The solution enables companies to make strategic decisions with their rebate and channel incentives, define rebate programs, track and calculate rebate earnings and accruals on transactions, point-of-sale, inventory, or any data set, and provide visibility across the organization. With this application, companies can enhance the performance of their channel, distributors, partners and customers to deliver greater sales growth.

## Technology

The Revenue Management application suites are architected in layers. The first layer is composed of end-user operational and analysis applications. The middle layer consists of supporting services and business engines, and the lowest layer consists of a unified technology platform used to construct and support all modules at the higher layers. The platform also provides access to the normalized operational database where the transactional revenue management data used by the operational applications are stored. It also provides access and facilitates the synchronization with the de-normalized analytics database where the revenue management data used by the analytics applications are stored.

The Revenue Enterprise Cloud and Revenue Intelligence Cloud suites are built on industry standards, such as Java EE and HTML5, which give the end-users of our applications an intuitive and familiar browsing experience. These standard technologies enable us to offer our customers a familiar technology environment that is widely understood and utilized.

The Revvy suite is built on the Salesforce1 Platform with engines built using industry standards such as Node.js. These technologies enable us to offer our customers cloud-based applications through desktop, tablet, and mobile devices including smart phones running iOS and Android.

Our technology platform has allowed us to quickly develop new applications, features and functionalities. We believe that the platform is configured to meet the needs of broad horizontal markets as well as specific vertical markets and, within each instance, to meet the specific needs of each of our customers. The flexibility of the technology platform has also allowed us to add mobile device support and deploy cloud-based solutions in a rapid and efficient manner, and we believe it will enable us to continue to add new capabilities in the future.

Our technology is designed specifically to handle the complex calculations and massive data sets associated with revenue management processes typical in the life science and technology industries. With the expansion of global deployments, scalability has also been a key requirement of our customers and has been a focus for us across all of the layers of our application suites.

Our solutions have been designed to ensure high reliability, strong security and the technology platform includes a comprehensive set of built-in features and management tools to allow optimal and continuous operation. The Revenue Enterprise Cloud and Revenue Intelligence Cloud suites are available to customers both through the cloud and on

premise. The Revvy suite is available only through the cloud. We operate a reliable architecture designed to reduce the risk associated with infrastructure outages, improve system scalability and security, and allow for flexibility in deployment. The environment for our cloud-based solutions is secure and is designed to provide high availability with disaster recovery capabilities. Our cloud-based solutions are primarily operated through third-party data centers located in Colorado, Missouri, Texas, and Massachusetts and through Amazon Web Services.

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## Services and Customer Support

Leveraging deep industry and subject matter expertise, we offer a comprehensive set of services to assist our customers through the full lifecycle of new business transformations or upgrades of existing solutions. We help our customers define, implement and support or manage our solutions. We provide implementation services, managed services and strategic services both on and off-shore, as described below.

**Implementation services.** We assist our customers in the implementation or upgrade of our Revenue Enterprise Cloud and Revenue Intelligence Cloud solutions, including project management, design and solution blueprint, process improvement, application configuration or customization, systems integration, data cleansing and migration, testing and performance tuning, production cutover and post go-live support.

**Managed services.** We offer managed services for customers using either our on premise solutions or our cloud-based solutions, which include systems administration and infrastructure management, application support, and education services, including process, application and end-user training.

**Strategic services.** We assist our customers in defining best practices and strategies in revenue management, assessing the capability of existing transaction and decision support solutions, developing business cases for change and transformation plans and answering strategic questions using our Revenue Intelligence Cloud suite to analyze available market data.

**Customer support.** We deliver 24x7x365 customer support from support centers located at our corporate headquarters in Redwood City, California, as well as at our offices in Hyderabad, India. We offer a wide range of support offerings packaged into varying levels of access to our support resources.

For project delivery, we use a standard implementation methodology incorporating lessons learned from past work to ensure the success of our current projects. This methodology enables us to predictably estimate project costs and schedule, and proactively mitigate most implementation challenges.

In addition, we have cultivated relationships to promote and assist with the implementation of our solutions with consulting firms, including industry specialists such as HighPoint Solutions, LLC. While we do not maintain formal contractual relationships with these firms that require them to promote our solutions to their clients, we work with them for implementation and other professional services projects. As a result, these firms have expertise in our technologies and best practices and have invested in building out their practice areas with our revenue management solutions.

We deploy our resources globally through offices located in the United States, India, the United Kingdom and Switzerland.

## Customers

We market and sell our solutions to customers in life sciences, technology, manufacturing, and other industries. As of September 30, 2016, we had 122 customers across all industries. For the fiscal year ended September 30, 2016, revenues from our life science and technology customers accounted for approximately 78% and 22% of our total revenues, respectively. Our customers range in size from the largest multi-national corporations to smaller companies. Our customers represent a range of sub-verticals within the larger life sciences and technology industries, including biotechnology, pharmaceutical, medical device, semiconductor, electronic component, consumer electronics and software.

We pursue close, long-term relationships with our customers because we believe strong customer relationships are the key to our success. Our agreements with our on premise customers typically provide for the purchase of a perpetual

license to the software and related implementation services. A majority of these implementation services are determined at the initial purchase of the software. Customers can order additional implementation services pursuant to additional statements of work on a project by project basis, but they do not have any obligation for future purchases beyond what is agreed to in the initial contract or statement of work. Customers also purchase, at their discretion, maintenance and support services on an annual basis. Customers of our SaaS offerings enter into a subscription agreement that provides for a subscription to our applications as well as related implementation services for a specified term. We sell to multiple divisions within our customers' organizations, which have the ability to independently purchase solutions and services directly. However, we treat multiple divisions as a single customer to the extent they are part of a single organization. During the fiscal year ended September 30, 2016, no customer accounted for more than 10% of our total revenues. During the fiscal year ended September 2015 and 2014, one customer, Johnson & Johnson, accounted for approximately 11% and 15% of our total revenues.

## Sales and Marketing

Our sales and marketing teams are focused on expanding relationships with existing customers and adding new customers. We primarily target large and mid-sized organizations worldwide through our direct sales force. Our sales and marketing programs are also organized by geographic region. We have historically focused our sales efforts in the United States and Western Europe, but we believe markets outside of these regions offer a significant opportunity for growth and we intend to make additional investments in sales and marketing to expand in these markets. We augment our sales professionals with solutions engineers and industry domain experts via our Center of Excellence. These professionals work closely with prospective customers during the sales process. Our marketing team supports sales with demand generation, competitive analysis and sales tools, and contributes to the sales process through lead generation, brand building, industry analyst relations, public relations and industry research.

Our sales and marketing efforts are tailored to communicate effectively to senior executives at all relevant organizations and especially in our target industries. We believe our industry expertise enables a better understanding of our customers' unique needs, including the specialized business requirements of industry segments, such as pharmaceutical, biotechnology, medical device, semiconductor, consumer electronics, manufacturing and software. As a result, we believe we are able to engage our customers during the sales process using quantitative and qualitative benchmarks built on a combination of comparative data from our customers and from surveys of these industries.

We host an annual customer conference, Rainmaker, which plays a significant role in driving sales of our solutions. Customers are invited both as attendees and participants to deliver sessions relevant to the interests and practices of the life science and technology industries. We also invite potential customers to this conference in order to leverage our strong customer relationships to accelerate sales cycles. In addition, Rainmaker provides a forum to build our eco-system of strategic partner relationships, offering partners the opportunity to work closely with our sales force on joint sales pursuits.

## Research and Development

Our reputation benefits from our continuous commitment to research and development and our ability to make timely introductions of new products, technologies, features and functionality. Our research and development organization is responsible for the definition, design, development, testing, certification and ongoing maintenance of our applications. Our research and development expenses were \$23.7 million, \$17.9 million, and \$18.7 million in the fiscal years ended September 30, 2016, 2015, and 2014, respectively. We also capitalized \$1.1 million, \$2.5 million and \$0.4 million of software development costs in the fiscal years ended September 30, 2016, 2015, and 2014, respectively, related to the development of certain additional software as a service offering that will only be offered through the cloud. These capitalized costs include all direct employee related costs. Our efforts are focused on developing new applications and technologies and further enhancing the functionality, reliability, performance and flexibility of existing solutions. When considering improvements and enhancements to our applications, we communicate with our customers and partners who provide significant feedback for product development and innovation. We focus our efforts on anticipating customer demand and bringing our new solutions and enhancements of existing solutions to market through a seasonal release schedule (Spring, Summer, and Winter) in order to remain competitive in the marketplace. We also closely monitor the changes in business environment and regulations in our target industries, particularly in life science, where quick deliveries of updates to our applications are critical to allowing our customers to remain in compliance with government regulations.

Because our solutions often serve as a system-of-record for our customers' revenue management processes, our research and development efforts reflect the extensive IT needs of our customers in both life science and technology.

Our research and development efforts continue to focus on enhancing our solutions to meet the increasingly complex infrastructure requirements of our customers in these industries.

Our product development process is based on deep industry knowledge and familiarity with the specific requirements of individual customers, combined with continued innovation using state of the art software development processes and tools. We follow an “agile” development process, which helps us clarify requirements and receive feedback early, accommodate changes and deliver products that better match the overall needs of our customers with higher quality.

As of September 30, 2016, our research and development team consisted of 262 full-time employees globally.

## Competition

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, horizontal revenue management solutions and smaller companies that offer point solutions. Companies lacking information technology (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 ERP or CRM applications, which do not typically provide revenue management capabilities, may extend these horizontal applications with customizations or point solution applications in order to address single 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.

We believe we compete based primarily on the following factors:

- industry expertise;
- comprehensiveness of solution;
- reliability, scalability and performance;
- access to prospective customers through strategic partnerships;
- global system and support capabilities; and
- industry brand, reputation and customer base.

While we believe that we compete favorably on the basis of each of the factors listed above, 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.

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.

## Intellectual Property

We rely upon a combination of copyright, trade secret, trademark and, to a lesser extent, patent laws, and we also rely on contractual restrictions, such as confidentiality agreements and licenses, to establish and protect our proprietary rights. As of September 30, 2016, we had five U.S. patent applications, one international patent application, and five issued patents expiring between 2023 and 2034. We have a number of registered and unregistered trademarks. We maintain a policy requiring our employees, consultants and other third parties to enter into confidentiality and proprietary rights agreements and to control access to our software, documentation and other proprietary information. We also believe that factors resulting from our length of presence in the market and significant research and development investments, such as our deep expertise in life science and technology revenue management practices, the ability of our solutions to handle the complexities of revenue management processes, the technological and creative skills of our personnel, the creation of new features and functionality and frequent enhancements to our solutions are essential to establishing and maintaining our technology leadership position.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or obtain and use our technology to develop products with the same functionality as our solutions. Policing unauthorized use of our technology is difficult. The laws of other countries in which we market our application suite may offer little or no effective protection of our proprietary technology. Our competitors could also independently develop technologies equivalent to ours, and our intellectual property rights may not be broad enough for us to prevent competitors from selling products incorporating those technologies. Reverse engineering, unauthorized copying or other misappropriation of our proprietary technology could enable third parties to benefit from our technology without paying us for it, which would significantly harm our business.



## Employees

As of September 30, 2016, we employed 814 people, including 369 in services and customer support, 262 in research and development, 119 in sales and marketing and 64 in a general and administrative capacity. As of such date, we had 405 employees in the United States and 409 employees in international locations. We also engage a number of temporary employees and consultants. None of our employees are represented by a labor union with respect to his or her employment with us. We have not experienced any work stoppages and we consider our relations with our employees to be good.

## Segments

We have one business activity, developing and monetizing revenue management solutions, and there are no segment managers who are held accountable for operations, operating results or plans for levels or components below the consolidated unit level. Accordingly, we have determined that we operate in a single reporting segment. For a discussion of revenues, operating profit or loss and total assets, please see Part II, Item 8 of this Form 10-K.

## Geographic Information

See Note 10 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Form 10-K.

## Corporate Information

We were incorporated in Delaware on December 14, 1999. Our principal offices are located at 1600 Seaport Boulevard, Suite 400, Pacific Shores Center, Building 6, Redwood City, CA 94063, and our telephone number is (650) 610-4600. Our website address is [www.modeln.com](http://www.modeln.com). The information contained on, or that can be accessed through, our website is not part of this report. Model N is our registered trademark in the United States and in various international jurisdictions. Model N, the Model N logo and all of our product names appearing in this report are our trademarks. Other trademarks appearing in this report are the property of their respective holders.

## Available Information

We file annual, quarterly and other reports, proxy statements and other information with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934, as amended (Exchange Act). We also make available, free of charge on the investor relations portion of our website at [investor.modeln.com](http://investor.modeln.com), our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after they are filed electronically with the SEC. You can inspect and copy our reports, proxy statements and other information filed with the SEC at the offices of the SEC's Public Reference Room located at 100 F Street, NE, Washington D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of Public Reference Rooms. The SEC also maintains an Internet website at <http://www.sec.gov/> where you can obtain most of our SEC filings. You can also obtain paper copies of these reports, without charge, by contacting Investor Relations at (650) 610-4600.

## 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 \$33.1 million and \$19.6 million for fiscal year ended September 30, 2016 and 2015, respectively. As of September 30, 2016, we had an accumulated deficit of \$135.7 million. We expect that our expenses will increase in future periods as we implement additional initiatives designed to grow our business, including, among other things, increasing sales to existing customers, expanding our customer base, introducing new applications, enhancing existing solutions, extending into the mid-market, continuing to penetrate the technology industry and pursuing selective acquisitions. Increased operating expenses related to personnel costs such as salary, bonus, commissions and stock-based compensation as well as third-party contractors, travel-related

expenses and marketing programs will also increase our expenses in future periods. In the near-term, we do not expect that our revenues will be sufficient to offset these expected increases in operating expenses, and we expect that we will incur losses. Additionally, we may encounter unforeseen expenses, difficulties, complications, delays and other unknown factors that may result in losses in future periods. We cannot assure you that we will again obtain and maintain profitability in the future. Any failure to return to profitability may materially and adversely affect our business, results of operations and financial condition.

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

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

- our ability to increase sales to and renew agreements with our existing customers;
- 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;
- our ability to transition effectively to new leadership under a new Chief Executive Officer;
- the continued ability to transition from an on-premise to a cloud-based business model;
- 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 organically or through acquisitions;
- disruptions in our relationships with partners;
- 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;
- our ability to successfully expand our business domestically and internationally;

- the amount and timing of our operating expenses and capital expenditures;
- price competition;
- the rate of expansion and productivity of our direct sales force;
- 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 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 on an interim basis to replace Edward Sander who left the company. In addition, in April 2016, we hired a new Senior Vice President, Global Services, and Senior Vice President, Product Marketing, who are tasked with implementing initiatives to expand and enhance our solution delivery and marketing strategy, respectively, and in July 2016, we hired a new Senior Vice

President, Human Resources, who is tasked with implementing initiatives to improve recruiting and our organizational health. 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.

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.

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.

We may acquire other businesses, which 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. We may not be able to find suitable acquisition candidates, and we may not be able to complete acquisitions on favorable terms, if at all. If and when we do complete acquisitions, we may not ultimately strengthen our competitive position or achieve our goals, and any acquisitions we complete could be viewed negatively by users 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. Any integration process 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 an acquisition transaction, including accounting charges. We may have to pay cash, incur debt or issue equity securities to pay for any such acquisition, each of which could affect our financial condition or the value of our capital stock. The sale of equity or issuance of debt to finance any such acquisitions could result in dilution to our stockholders. If we incur

more debt it would result in increased fixed obligations and could also subject us to covenants or other restrictions that would impede our ability to manage our operations.

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. 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.

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. 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.

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 and through Amazon Web Services. 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.

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.

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. 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.

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.

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.

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;

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- 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.

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.

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.

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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.

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. 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 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. 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. 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;
- 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.

#### 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.

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.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

Our corporate headquarters are located in Redwood City, California, and consist of approximately 34,600 square feet of space under a lease that expires in December 2017. Our cloud-based solutions are operated through third-party data centers located in Colorado, Missouri, Texas and Massachusetts and through Amazon Web Services.

We have additional U.S. offices in California, Colorado, Illinois, Massachusetts and New Jersey. We also have offices in international locations in India, Switzerland and the United Kingdom. We believe our facilities are adequate for our current needs and for the foreseeable future; however, we will continue to seek additional space as needed to accommodate our growth. See Note 6 to the Consolidated Financial Statements and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Contractual Payment Obligations” for information regarding our lease obligations.

ITEM 3. 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.

ITEM 4. Mine Safety Disclosure

Not applicable



## PART II

## ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

## Market Information for Common Stock

Model N common stock is traded on the New York Stock Exchange under the symbol "MODN". The high and low sales prices per share of common stock for each of the quarters in the last two fiscal years were as follows:

	Fiscal Year 2016		Fiscal Year 2015	
	High	Low	High	Low
Fiscal Quarter	\$11.84	\$9.76	\$11.34	\$8.77
Second Quarter	\$11.33	\$9.19	\$12.57	\$10.30
Third Quarter	\$13.98	\$10.24	\$12.70	\$10.98
Fourth Quarter	\$13.87	\$9.75	\$12.24	\$9.75

## Dividend Policy

We have never declared or paid, and do not anticipate declaring or paying in the foreseeable future, any cash dividends on our capital stock. Any future determination as to the declaration and payment of dividends, if any, will be at the discretion of our board of directors, subject to applicable laws and will depend on then existing conditions, including our financial condition, operating results, contractual restrictions, capital requirements, business prospects, and other factors our board of directors may deem relevant.

## Stockholders

As of November 11, 2016, there were 97 holders of record of our common stock, including The Depository Trust Company, which holds shares of our common stock on behalf of an indeterminate number of beneficial owners.

## Securities Authorized for Issuance under Equity Compensation Plans

The information called for by this item is incorporated by reference to our Proxy Statement for the Annual Meeting of Stockholders to be held in 2017 (Proxy Statement). See Part III, Item 12 "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information."

Stock Performance Graph

The following shall not be deemed “filed” for purposes of Section 18 of the Exchange Act, or incorporated by reference into any of our other filings under the Exchange Act or the Securities Act of 1933, as amended, except to the extent we specifically incorporate it by reference into such filing.

This chart compares the cumulative total return on our common stock with that of the NASDAQ Composite Index and the NASDAQ Computer Index. The chart assumes \$100 was invested at the close of market on March 20, 2013 (the first day our common stock began trading publicly on the NYSE), in our common stock, the NASDAQ Composite Index and the NASDAQ Computer Index, and assumes the reinvestment of any dividends.

	3/20/2013	3/31/2013	6/30/2013	9/30/2013
Model N	\$ 100.00	\$ 127.87	\$ 150.71	\$ 63.87
NASDAQ Composite Index	\$ 100.00	\$ 100.41	\$ 104.58	\$ 115.90
NASDAQ Computer Index	\$ 100.00	\$ 99.28	\$ 101.16	\$ 112.32

	12/31/2013	3/31/2014	6/30/2014	9/30/2014
Model N	\$ 76.06	\$ 65.23	\$ 71.29	\$ 63.61
NASDAQ Composite Index	\$ 128.34	\$ 129.03	\$ 135.46	\$ 138.08
NASDAQ Computer Index	\$ 128.13	\$ 130.12	\$ 140.68	\$ 147.67

	12/31/2014	3/31/2015	6/30/2015	9/30/2015
Model N	\$ 68.52	\$ 77.16	\$ 76.84	\$ 64.58
NASDAQ Composite Index	\$ 145.54	\$ 150.60	\$ 153.24	\$ 141.98
NASDAQ Computer Index	\$ 153.60	\$ 155.57	\$ 155.89	\$ 148.06

	12/31/2015	3/31/2016	6/30/2016	9/30/2016
Model N	\$ 72.00	\$ 69.48	\$ 86.13	\$ 71.68
NASDAQ Composite Index	\$ 153.88	\$ 149.65	\$ 148.81	\$ 163.24
NASDAQ Computer Index	\$ 163.19	\$ 164.59	\$ 158.09	\$ 181.12

#### Use of Proceeds from Public Offering of Common Stock

On March 19, 2013, our registration statements on Form S-1 (File Nos. 333-186668 and 333-187370) were declared effective by the SEC for our initial public offering (IPO) pursuant to which we sold an aggregate of 7,751,000 shares of our common stock (inclusive of 1,011,000 shares of common stock pursuant to the full exercise of an overallotment option granted to the underwriters and 740,000 shares of common stock sold by a selling stockholder) at a price to the public of \$15.50 per share. There has been no material change in the planned use of proceeds from our IPO as described in our final prospectus filed with the SEC on March 20, 2013 pursuant to Rule 424(b).

## ITEM 6. Selected Consolidated Financial Data

The consolidated statement of operations data for the fiscal years ended September 30, 2016, 2015 and 2014 and the selected consolidated balance sheet data as of September 30, 2016 and 2015 are derived from our audited consolidated financial statements included in this Form 10-K. The consolidated statement of operations data for fiscal years ended September 30, 2013 and 2012, and the selected consolidated balance sheet data as of September 30, 2014, 2013 and 2012 are derived from audited consolidated financial statements that are not included in the Form 10-K. The information set forth below is not necessarily indicative of results of future operations, and should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes included in Part II, Item 8, "Consolidated Financial Statements and Supplementary Data" in this Annual Report on Form 10-K.

	Fiscal Years Ended September 30,				
	2016	2015	2014	2013	2012
	(in thousands, except per share data)				
<b>Consolidated Statements of Operations Data:</b>					
<b>Revenues:</b>					
License and implementation	\$20,579	\$36,172	\$35,333	\$59,134	\$49,756
SaaS and maintenance	86,392	57,596	46,423	42,770	34,502
Total revenues	106,971	93,768	81,756	101,904	84,258
<b>Cost of Revenues:</b>					
License and implementation	12,976	15,555	16,652	26,832	22,483
SaaS and maintenance	40,717	26,014	21,092	19,350	18,053
Total cost of revenues	53,693	41,569	37,744	46,182	40,536
Gross profit	53,278	52,199	44,012	55,722	43,722
<b>Operating Expenses:</b>					
Research and development	23,706	17,906	18,710	16,772	17,695
Sales and marketing	32,261	30,300	25,998	21,144	19,640
General and administrative	30,051	23,132	19,671	16,063	10,584
Restructuring	—	—	26	1,215	—
Total operating expenses	86,018	71,338	64,405	55,194	47,919
(Loss) income from operations	(32,740 )	(19,139 )	(20,393 )	528	(4,197 )
Interest (income) expense, net	(50 )	(6 )	(12 )	357	655
Other (income) expenses, net	86	(22 )	116	658	540
Loss before income taxes	(32,776 )	(19,111 )	(20,497 )	(487 )	(5,392 )
Provision for income taxes	335	528	384	439	301
Net loss	\$(33,111 )	\$(19,639 )	\$(20,881 )	\$(926 )	\$(5,693 )
<b>Net loss per share attributable to common stockholders <sup>(1)</sup>:</b>					
Basic and diluted	\$(1.21 )	\$(0.76 )	\$(0.86 )	\$(0.06 )	\$(0.73 )
<b>Weighted average number of shares used in computing net</b>					
<b>loss per share attributable to common stockholders <sup>(1)</sup>:</b>					
Basic and diluted	27,379	26,015	24,399	15,979	7,815
<b>Other Financial Data:</b>					
Adjusted EBITDA <sup>(2)</sup>	\$(12,571 )	\$(3,332 )	\$(6,241 )	\$9,621	\$4,957
SaaS Revenues <sup>(3)</sup>	\$48,688	\$22,923	\$14,688	\$13,667	\$9,053



- (1) See Note 9 to our consolidated financial statements for a description of the method used to compute basic and diluted net loss per share attributable to common stockholders.
- (2) See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measure” in Item 7 for more information and a reconciliation of adjusted EBITDA to net loss, the most directly comparable financial measure calculated and presented in accordance with generally accepted accounting principles in the United States.
- (3) SaaS revenues for cloud-based solutions are derived from subscription fees from customers accessing our cloud-based solutions, as well as from associated implementation services.

	As of September 30,				
	2016	2015	2014	2013	2012
	(in thousands)				
<b>Consolidated Balance Sheet Data</b>					
Cash and cash equivalents	\$66,149	\$91,019	\$101,006	\$103,350	\$15,768
Working capital (deficit)	48,588	74,814	82,370	86,842	(12,584)
Total assets	112,967	121,970	129,131	134,472	40,598
Loan obligations, current and long-term	—	—	—	—	5,127
Total liabilities	46,765	38,908	40,167	40,854	51,085
Convertible preferred stock	—	—	—	—	41,776
Total stockholders' equity (deficit)	66,202	83,062	88,964	93,618	(52,263)

## ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations together with the consolidated financial statements and related notes that are included elsewhere in this report. This discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" or in other parts of this report.

### Overview

We are a leader in Revenue Management solutions for the 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 sciences and high technology 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.

We derive revenues primarily from the sale of our cloud-based and on premise solutions and related implementation 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 implementation services, which revenues are recognized over the implementation period, which commences when implementation work begins and typically ranges from a few months to three years. Maintenance and support revenues are recognized ratably over the support period, which is typically one year. SaaS revenues for cloud-based solutions are derived from subscription fees from customers accessing our cloud-based solutions, as well as from associated implementation services. The actual timing of revenue recognition may vary based on our customers' implementation requirements and availability of our services personnel.

We market and sell our solutions to customers in the life science and technology industries. While we have historically generated the substantial majority of our revenues from companies in the life science industry, we have also grown our base of technology customers and intend to continue to focus on increasing the revenues from customers in the technology industry. Our most significant customers in any given period generally vary from period to period due to the timing of implementation and related revenue recognition over those periods of larger projects. No customer accounted for more than 10% of total revenues during the fiscal year ended September 30, 2016. During the fiscal years ended September 30, 2015 and 2014, one customer, Johnson and Johnson, accounted for approximately 11% and 15% of our total revenues. For the fiscal year ended September 30, 2016, approximately 10% of our total revenues were derived from customers located outside the United States.

For the fiscal years ended September 30, 2016, 2015 and 2014, our total revenues were \$107.0 million, \$93.8 million and \$81.8 million, respectively, representing a year-over-year increase of approximately 14% from 2015 to 2016 and year-over-over increase of approximately 15% from 2014 to 2015. Revenues increased in the 2016 fiscal year primarily due to improvement in sales execution, new product offerings and acquisition of Channelinsight. Improvement in sales execution in fiscal year 2016 resulted in the acquisition of new customers and an increase in our revenues.

### Key Business Metrics

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

Measure” below.

### Key Components of Results of Operations

#### Revenues

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

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## License and Implementation

License and implementation revenues are generated from the sale of software licenses for our on premise solutions and related implementation services. We expect our license and implementation revenues for the fiscal year 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, primarily due to increased focus on subscription revenues, which are recorded in our SaaS and maintenance line, and which has been gaining wider acceptance as a delivery model.

## SaaS and Maintenance

SaaS and maintenance revenues primarily include subscription and related implementation fees from customers accessing our cloud-based solutions and revenues associated with maintenance contracts from license customers. Also included in SaaS and maintenance revenues are other revenues, including revenues related to maintenance and support, managed support services (MSS), revenue management as a service (RMaaS), 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 we have accelerate the shift in our business model to recurring revenues, as we believe the SaaS model has gained wider acceptance as a delivery model, particularly in the technology sector and with mid-market life science companies. 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.

Deferred revenue on our consolidated balance sheet does not represent the total contract value of annual or multi-year, noncancelable subscription agreements. Backlog represents expected future billings which are contractually committed under our existing subscription agreements that have not been invoiced. Backlog was approximately \$10.6 million and \$10.1 million as of September 30, 2016 and 2015, respectively. Out of backlog as of September 30, 2016 and 2015, approximately \$6.9 million and \$3.7 million were long-term backlog and \$6.6 million and \$3.5 million was short-term backlog, respectively. We expect that the amount of backlog may change from year-to-year for several reasons, including billing cycles, timing of customer renewals, remaining duration of arrangement, and the timing of when unbilled deferred revenue is to be recognized as revenues. For multi-year subscription agreements, the associated backlog is typically high at the beginning of the contract period, zero immediately prior to expiration and increases if the agreement is renewed. Low backlog attributable to a particular subscription agreement is typically associated with an impending renewal and is not an indicator of the likelihood of renewal or future revenue of that customer. Accordingly, we expect that the amount of backlog may change from year to year depending in part upon the number of subscription agreements in particular stages in their renewal cycle. Such fluctuations are not reliable indicators of future revenues.

## Cost of Revenues

Our total cost of revenues is comprised of the following:

### License and Implementation

Cost of license and implementation revenues includes costs related to the implementation of our on premise solutions. Cost of license and implementation revenues primarily consists of personnel-related costs including salary, bonus, stock-based compensation, third-party contractor costs and royalty fees paid to third parties for rights to their intellectual property. 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, channel data management, 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 as we continue to sell more products.

## Operating Expenses

Our operating expenses consist of research and development, sales and marketing and general and administrative expenses.

### Research and Development

Our research and development expenses consist primarily of personnel-related costs including salary, bonus, stock-based compensation, as well as third-party contractors and travel-related expenses. Our software development costs for new software solutions and enhancements to existing software solutions are generally expensed as incurred. However, we capitalize development costs incurred in connection with the development of certain additional service offerings that will only be offered through the cloud. As of September 30, 2016, the net book value of capitalized software development costs was \$2.7 million, of which \$1.9 million is related to the software that was made available for use by our customers in fiscal year 2016. The remaining amount of \$0.8 million relates to the development of a product that is not completed as of September 30, 2016. 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. For fiscal year 2016, we recognize sales commission expense upon the booking of a contract, while we recognize revenue over the period services were provided. 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 our sales and marketing employees and increase market program spend to grow our 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 and travel-related expenses.

### LeapFrogRx Compensation Charges

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

## 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.

	Fiscal Years Ended		
	September 30,		
	2016	2015	2014
(in thousands)			
<b>Consolidated Statements of Operations Data:</b>			
<b>Revenues:</b>			
License and implementation	\$20,579	\$36,172	\$35,333
SaaS and maintenance	86,392	57,596	46,423
<b>Total revenues</b>	<b>106,971</b>	<b>93,768</b>	<b>81,756</b>
<b>Cost of Revenues:</b>			
License and implementation	12,976	15,555	16,652
SaaS and maintenance	40,717	26,014	21,092
<b>Total cost of revenues</b>	<b>53,693</b>	<b>41,569</b>	<b>37,744</b>
<b>Gross profit</b>	<b>53,278</b>	<b>52,199</b>	<b>44,012</b>
<b>Operating Expenses:</b>			
Research and development	23,706	17,906	18,710
Sales and marketing	32,261	30,300	25,998
General and administrative	30,051	23,132	19,671
Restructuring	—	—	26
<b>Total operating expenses</b>	<b>86,018</b>	<b>71,338</b>	<b>64,405</b>
<b>Loss from operations</b>	<b>(32,740 )</b>	<b>(19,139 )</b>	<b>(20,393 )</b>
Interest (expense) income, net	(50 )	(6 )	(12 )
Other (income) expenses, net	86	(22 )	116
<b>Loss before income taxes</b>	<b>(32,776 )</b>	<b>(19,111 )</b>	<b>(20,497 )</b>
<b>Provision for income taxes</b>	<b>335</b>	<b>528</b>	<b>384</b>
<b>Net loss</b>	<b>\$(33,111 )</b>	<b>\$(19,639 )</b>	<b>\$(20,881 )</b>

## Comparison of the Fiscal Years Ended September 30, 2016 and 2015

## Revenues

	Fiscal Years Ended September 30,		Change
	2016	2015	
	Amount	Amount	(\$)
	% of Total Revenues	% of Total Revenues	(%)
(in thousands, except percentages)			
<b>Revenues:</b>			

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License and implementation	\$20,579	19	%	\$36,172	39	%	\$(15,593)	(43)%
SaaS and maintenance	86,392	81		57,596	61		28,796	50
Total revenues	\$106,971	100	%	\$93,768	100	%	\$13,203	14 %

License and Implementation

License and implementation revenues decreased \$15.6 million, or 43%, to \$20.6 million for the fiscal year ended September 30, 2016 from \$36.2 million for the fiscal year ended September 30, 2015. As a percentage to total revenues, license and implementation revenue decreased from 39% to 19%. The decrease in these revenues as a percentage of revenues and in absolute dollars was primarily due to fewer sales of software licenses for our on-premise solutions and related implementation services in fiscal year 2016, as our business model continued to focus on sales of our cloud-based solutions in fiscal year 2016.

## SaaS and Maintenance

SaaS and maintenance revenues increased \$28.8, or 50%, to \$86.4 million for the fiscal year ended September 30, 2016 from \$57.6 million for the fiscal year ended September 30, 2015. The increase in SaaS and maintenance revenues was primarily driven by an increase in the number of subscription contracts and included a \$18.9 million increase in our SaaS and Revvy subscription, a \$6.9 million increase in revenue from channel data management, a \$1.2 million increase in revenues from RaaS, and a \$1.8 million increase in our maintenance and support, managed support services revenues, training and customer reimbursable expense. . We intend to focus on growing our recurring revenue from SaaS and maintenance in future periods and also as a percentage of total revenues.

## Cost of Revenues

	Fiscal Years Ended September 30,		2015		Change	
	2016	% of	Amount	% of	(\$)	(%)
	Amount	Revenues	Amount	Revenues		
	(in thousands, except percentages)					
<b>Cost of revenues</b>						
License and implementation	\$12,976	63 %	\$15,555	43 %	\$(2,579)	(17) %
SaaS and maintenance	40,717	47	26,014	45	14,703	57
Total cost of revenues	\$53,693	50 %	\$41,569	44 %	\$12,124	29 %
<b>Gross profit</b>						
License and implementation	\$7,603	37 %	\$20,617	57 %	\$(13,014)	(63) %
SaaS and maintenance	45,675	53	31,582	55	14,093	45
Total gross profit	\$53,278	50 %	\$52,199	56 %	\$1,079	2 %

## License and Implementation

Cost of license and implementation revenues decreased \$2.6 million, or 17%, to \$13.0 million during the fiscal year ended September 30, 2016 from \$15.6 million for the fiscal year ended September 30, 2015. As a percentage of revenue, cost of license and implementation revenues increased to 63% in fiscal year 2016 from 43% in fiscal year 2015. The increase in cost of revenue as a percentage of revenue was primarily due to the sale of fewer software licenses for our on premise solutions. The cost of revenues recognized in fiscal year 2016 was primarily from the sale of standalone professional services which has a lower margin than sale of license.

## SaaS and Maintenance

Cost of SaaS and maintenance revenues increased \$14.7 million, or 57%, to \$40.7 million during the fiscal year ended September 30, 2016 from \$26.0 million for the fiscal year ended September 30, 2015. As a percentage of SaaS and maintenance revenues, cost of SaaS and maintenance revenues increased slightly from 45% to 47% in fiscal year 2016. The increase in SaaS and maintenance cost during the period was primarily due to an increase in our SaaS and maintenance revenues. This increase in these revenues resulted in an increase in personnel and other related costs.

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	Fiscal Years		
	Ended		
	September 30,		
	2016	2015	Change
	Amount	Amount	(\$)
			(%)
	(in thousands, except		
	percentages)		
Operating expenses:			
Research and development	\$23,706	\$17,906	\$