VEEVA SYSTEMS INC
Form 10-Q
September 04, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended July 31, 2015

or

¨ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to .

Commission File Number: 001-36121

Veeva Systems Inc.

(Exact name of registrant as specified in its charter)

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

4280 Hacienda Drive

Pleasanton, California 94588

(Address of principal executive offices)

(925) 452-6500

(Registrant's telephone number, including area code)

N/A

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

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

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

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

Large accelerated filer x	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 x

As of August 28, 2015, there were 75,888,667 shares of the Registrant's Class A common stock outstanding and 56,524,827 shares of the Registrant's Class B common stock outstanding.

VEEVA SYSTEMS INC.

FORM 10-Q

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

VEEVA SYSTEMS INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

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

	July 31, 2015 (Unaudited)	January 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 119,776	$ 129,253
Short-term investments	318,191	268,620
Accounts receivable, net of allowance for doubtful accounts of $609 and $413, respectively	67,977	92,661
Deferred income taxes	4,815	4,815
Prepaid expenses and other current assets	11,991	6,488
Total current assets	522,750	501,837
Property and equipment, net	44,425	28,203
Capitalized internal-use software, net	1,078	1,240
Goodwill	10,624	4,850
Intangible assets, net	7,683	4,904
Other long-term assets	5,072	3,856
Total assets	$ 591,632	$ 544,890
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 3,891	$ 3,886
Accrued compensation and benefits	7,592	6,497
Accrued expenses and other current liabilities	10,891	8,939
Income tax payable	2,510	3,241
Deferred revenue	109,518	112,960
Total current liabilities	134,402	135,523
Other long-term liabilities	3,593	2,534
Total liabilities	137,995	138,057
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Class A common stock, $0.00001 par value; 800,000,000 shares authorized, 75,553,842 and 64,729,479 issued and outstanding at July 31, 2015 and	1	—

January 31, 2015, respectively		
Class B common stock, $0.00001 par value; 190,000,000 shares authorized, 56,749,327 and 66,338,146 issued and outstanding at July 31, 2015 and January 31, 2015, respectively	—	1
Additional paid-in capital	338,343	317,881
Accumulated other comprehensive income (loss)	(20)	26
Retained earnings	115,313	88,925
Total stockholders' equity	453,637	406,833
Total liabilities and stockholders' equity	$ 591,632	$ 544,890

See Notes to Condensed Consolidated Financial Statements.

VEEVA SYSTEMS INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, except per share data)

	Three Months Ended		Six Months Ended	
	July 31, 2015	2014	July 31, 2015	2014
	(Unaudited)			
Revenues:				
Subscription services	$75,280	$56,572	$144,174	$105,093
Professional services and other	22,827	19,092	43,856	37,292
Total revenues	98,107	75,664	188,030	142,385
Cost of revenues[1]:				
Cost of subscription services	16,819	13,346	32,692	25,386
Cost of professional services and other	16,654	14,790	32,766	28,700
Total cost of revenues	33,473	28,136	65,458	54,086
Gross profit	64,634	47,528	122,572	88,299
Operating expenses[1]:				
Research and development	15,255	9,787	28,212	18,779
Sales and marketing	18,057	13,810	33,553	26,624
General and administrative	8,969	7,146	17,529	13,554
Total operating expenses	42,281	30,743	79,294	58,957
Operating income	22,353	16,785	43,278	29,342
Other income (expense), net	(445)	(101)	318	(131)
Income before income taxes	21,908	16,684	43,596	29,211
Provision for income taxes	8,502	7,106	17,208	12,412
Net income	$13,406	$9,578	$26,388	$16,799
Net income attributable to Class A and Class B common stockholders, basic and diluted	$13,390	$9,490	$26,357	$16,643
Net income per share attributable to Class A and Class B common stockholders:				
Basic	$0.10	$0.07	$0.20	$0.13
Diluted	$0.09	$0.07	$0.18	$0.12
Weighted-average shares used to compute net income per share attributable to Class A and Class B common stockholders:				
Basic	131,799	127,314	131,455	125,632
Diluted	144,871	143,353	144,870	143,506
Other comprehensive income (loss):				

Net change in unrealized losses on available-for-sale investments	$(76)	$(114)	$(79)	$(68)
Net change in cumulative foreign currency translation gain (loss)	41	(23)	33	(57)
Comprehensive income	$13,371	$9,441	$26,342	$16,674

(1) Includes stock-based compensation as follows:

Cost of revenues:				
Cost of subscription services	$136	$54	$247	$107
Cost of professional services and other	973	580	1,715	1,162
Research and development	1,643	874	3,026	1,761
Sales and marketing	1,755	760	2,875	1,536
General and administrative	1,104	1,132	2,547	2,090
Total stock-based compensation	$5,611	$3,400	$10,410	$6,656

See Notes to Condensed Consolidated Financial Statements.

VEEVA SYSTEMS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Three Months Ended		Six Months Ended	
	July 31,		July 31,	
	2015	2014	2015	2014
	(Unaudited)			
Cash flows from operating activities				
Net income	$13,406	$9,578	$26,388	$16,799
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	1,344	991	2,368	1,921
Amortization of premiums on short-term investments	750	421	1,513	733
Stock-based compensation	5,611	3,400	10,410	6,656
Bad debt expense	245	41	238	69
Changes in operating assets and liabilities:				
Accounts receivable	1,995	(721)	25,531	(3,533)
Income taxes	(3,019)	(280)	(157)	(2,958)
Prepaid expenses and other current and long-term assets	(5,560)	511	(5,527)	(1,350)
Accounts payable	560	(1,210)	(200)	(298)
Accrued expenses and other current liabilities	1,673	(6,544)	337	(1,226)
Deferred revenue	(1,651)	10,431	(3,848)	17,923
Other long-term liabilities	(172)	(10)	(80)	2
Net cash provided by operating activities	15,182	16,608	56,973	34,738
Cash flows from investing activities				
Purchases of short-term investments	(67,078)	(94,776)	(167,915)	(229,892)
Maturities and sales of short-term investments	69,008	40,763	116,752	44,630
Purchases of property and equipment	(9,782)	(24,983)	(14,492)	(25,282)
Acquisitions, net of cash acquired	(7)	—	(9,994)	—
Purchases of intangible assets	(568)	—	(568)	—
Capitalized internal-use software development costs	(172)	—	(194)	(220)
Changes in restricted cash and deposits	2	4	3	1
Net cash used in investing activities	(8,597)	(78,992)	(76,408)	(210,763)
Cash flows from financing activities				
Proceeds from early exercise of common stock options	2	—	10	—
Proceeds from exercise of common stock options	1,608	1,527	2,770	2,212
Net proceeds from offerings	—	(499)	—	34,495
Proceeds from Employee Stock Purchase Plan	—	5,951	—	5,951
Restricted stock units acquired to settle employee tax withholding liability	(2)	—	(6)	—
Excess tax benefits from employee stock plans	3,982	6,654	7,151	11,033

Net cash provided by financing activities	5,590	13,633	9,925	53,691
Effect of exchange rate changes on cash and cash equivalents	40	(21)	33	(57)
Net change in cash and cash equivalents	12,215	(48,772)	(9,477)	(122,391)
Cash and cash equivalents at beginning of period	107,561	188,888	129,253	262,507
Cash and cash equivalents at end of period	$119,776	$140,116	$119,776	$140,116
Supplemental disclosures of other cash flow information:				
Cash paid for income taxes, net of refunds	$13,350	$706	$15,992	$4,624
Non-cash investing and financing activities:				
Changes in accounts payable and accrued liabilities related to property and equipment purchases	$133	$(90)	$2,615	$(21)
Vesting of early exercised stock options	$18	$112	$35	$231
Offering costs not yet paid	$—	$(515)	$—	$—
Acquisition escrow settlement, not yet received	$300	$—	$300	$—

See Notes to Condensed Consolidated Financial Statements.

VEEVA SYSTEMS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Summary of Business and Significant Accounting Policies

Description of Business

Veeva is a leading provider of cloud-based software solutions for the global life sciences industry. We were founded in 2007 on the premise that industry-specific business problems would best be addressed by tailored cloud solutions, an approach referred to as industry cloud. All of our solutions are designed from the ground up to address the unique business and regulatory requirements of the life sciences industry. We enable life sciences companies to realize the benefits of a cloud delivery model and modern mobile applications for their most critical business functions with solutions that meet their specialized functional and compliance needs. Our fiscal year end is January 31.

Principles of Consolidation and Basis of Presentation

These unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (GAAP) and applicable rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting, and include the accounts of our wholly owned subsidiaries after elimination of intercompany accounts and transactions. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in Veeva's Annual Report on Form 10-K for the fiscal year ended January 31, 2015, filed on April 1, 2015. There have been no changes to our significant accounting policies described in the annual report that have had a material impact on our condensed consolidated financial statements and related notes.

The consolidated balance sheet as of January 31, 2015 included herein was derived from the audited financial statements as of that date. These unaudited condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, our comprehensive income and cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for the full fiscal year ending January 31, 2016 or any other period.

Use of Estimates

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

- the best estimate of selling price of the deliverables included in multiple-deliverable revenue arrangements;
- the collectibility of our accounts receivable;
- the fair value of assets acquired and liabilities assumed for business combinations;
- the valuation of short-term investments and the determination of other-than-temporary impairments;

- the valuation of building and land;
- the realizability of deferred income tax assets;
- the fair value of our stock-based awards and related forfeiture rates; and
- the capitalization and estimated useful life of internal-use software development costs.

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

Revenue Recognition

We derive our revenues from two sources: (i) subscription services revenues, which are comprised of subscription fees from customers accessing our enterprise cloud computing solutions, and (ii) related professional services and other revenues. Professional services and other revenues generally include consulting, data services and training. We commence revenue recognition when all of the following conditions are satisfied:

- there is persuasive evidence of an arrangement;
- the service has been or is being provided to the customer;
- the collection of the fees is reasonably assured; and
- the amount of fees to be paid by the customer is fixed or determinable.

Our subscription services arrangements are generally non-cancellable and do not provide for refunds to customers in the event of cancellations. We record revenues net of any sales taxes.

Subscription Services Revenues

Subscription services revenues are recognized ratably over the order term beginning when the solution has been provisioned to the customer. Our subscription arrangements are considered service contracts, and the customer does not have the right to take possession of the software.

Professional Services and Other Revenues

The majority of our professional services arrangements are recognized on a time and material basis. Professional services revenues recognized on a time and material basis are measured monthly based on time incurred and contractually agreed upon rates. Certain professional services revenues are based on fixed fee arrangements and revenues are recognized based on progress against input measures, such as hours incurred. In some cases the terms of our time and materials and fixed fee arrangements may require that we defer the recognition of revenue until contractual conditions are met. Data services and training revenues are generally recognized as the services are performed.

Multiple Element Arrangements

We apply the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2009-13, Multiple—Deliverable Revenue Arrangements, to allocate revenues based on relative best estimated selling price to each unit of accounting in multiple element arrangements, which generally include subscriptions and professional services. Best estimated selling price of each unit of accounting included in a multiple element arrangement is based upon management’s estimate of the selling price of deliverables when vendor specific objective evidence or third-party evidence of selling price is not available.

Our multiple element arrangements contain non-software deliverables such as our subscription offerings and professional services. For these arrangements we must: (i) determine whether each deliverable has stand-alone value; (ii) determine the estimated selling price of each element using the selling price hierarchy of vendor-specific objective evidence (VSOE) of fair value, third-party evidence (TPE) or best estimated selling price (BESP), as applicable; and (iii) allocate the total price among the various deliverables based on the relative selling price method.

In determining whether professional services and other revenues have stand-alone value, we consider the following factors for each consulting agreement: availability of the consulting services from other vendors, the nature of the consulting services and whether the professional services are required in order for the customer to use the subscription services.

We have determined that we are not able to establish VSOE of fair value or TPE of selling price for any of our deliverables, and accordingly we use BESP for each deliverable in the arrangement. The objective of BESP is to estimate the price at which we would transact a sale of the service deliverables if the services were sold on a stand-alone basis. Revenue allocated to each deliverable is recognized when the basic revenue recognition criteria are met for each deliverable.

We determine BESP for our subscription services included in a multiple element subscription arrangement by considering multiple factors including, but not limited to, stated subscription renewal rates offered to the customer to renew the service and other major groupings such as customer type and geography.

BESP for professional services considers the discount of actual professional services sold compared to list price, the experience level of the individual performing the service and geography.

Deferred Revenue

Deferred revenue includes amounts billed to customers for which the revenue recognition criteria have not been met. The majority of deferred revenue primarily consists of billings or payments received in advance of revenue recognition from our subscription services described above and is recognized as the revenue recognition criteria are met. We generally invoice our customers in annual, quarterly or monthly installments for the subscription services, which are typically contracted for a term of one year or less. Accordingly, the deferred revenue balance does not generally represent the total contract value of a subscription arrangement. Deferred revenue that will be recognized during the succeeding 12-month period is recorded as current deferred revenue.

Certain Risks and Concentrations of Credit Risk

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

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

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

One customer represented 17% of accounts receivable in the condensed consolidated financial statements as of July 31, 2015 and no single customer represented over 10% of accounts receivable in the condensed consolidated financial statements as of January 31, 2015. No single customer represented over 10% of total revenues in the condensed consolidated financial statements for the three and six months ended July 31, 2015 and 2014.

Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (FASB) issued new accounting guidance Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. This guidance is intended to help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement, primarily to determine whether the arrangement includes a sale or license of software. The new guidance is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. We have elected not to early adopt. The adoption of this guidance is not expected to have a material impact on our condensed consolidated financial statements.

In August 2015, the FASB issued Accounting Standards Update (“ASU”) 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date.” This Update defers the effective date of ASU 2014-09, “Revenue from Contracts with Customers,” issued in May 2014, for all entities by one year, although companies still have the option to begin applying the new guidance as of the original effective date. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. ASU 2014-09 requires revenue to be recognized when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 supersedes the existing revenue recognition guidance in “Revenue Recognition (Topic 605)” and permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU 2014-09 will have on our condensed consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

Note 2. Acquisition of Qforma CrowdLink

On March 31, 2015, we completed our acquisition of the key opinion leader, or KOL, business and products known as Qforma CrowdLink in an all-cash transaction. We expect this acquisition to support our key opinion leader business. Total closing consideration for the purchase was $9.8 million in cash, net of a $0.3 million release of escrow, not yet received by period end. There are no contingent cash payments related to this transaction. As of July 31, 2015, we had incurred $0.3 million in acquisition-related transaction costs which are reflected in general and administrative expenses on our condensed consolidated statements of comprehensive income. The assets, liabilities and operating results of Qforma CrowdLink have been reflected in our consolidated financial statements from the date of acquisition and have not been material.

Through the transaction we acquired the outstanding equity interests of Mederi AG, and the selected other KOL-related business assets and liabilities of Qforma, Inc. and other affiliated entities. Under the acquisition method of accounting, the total preliminary purchase price was allocated to Qforma CrowdLink's net tangible and intangible assets based upon their estimated fair values as of March 31, 2015. The total preliminary purchase price for Qforma CrowdLink was $9.8 million of which $5.8 million was allocated to goodwill, $3.3 million to identifiable intangible assets and $0.6 million to net assets assumed.

Goodwill represents the excess of the purchase price over the fair value of the underlying net tangible and intangible assets and represents the future economic benefits of the data technology contributions in support of our data-related offerings. Goodwill is not deductible for U.S. tax purposes.

The fair values assigned to assets acquired and liabilities assumed are based on management’s best estimates and assumptions as of the reporting date and are considered preliminary pending finalization of valuation analyses pertaining to intangible assets assumed, liabilities assumed and tax liabilities assumed including calculation of deferred tax assets and liabilities. Changes to amounts recorded as assets or liabilities may result in corresponding adjustments to goodwill during the measurement period (up to one year from the acquisition date).

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date (in thousands):

Purchase price	
Cash	$9,750
Allocation of purchase price	
Cash	$56
Accounts receivable	1,085
Intangible assets	3,300
Deferred tax asset	1,312
Other current and non-current assets	50
Deferred tax liability	(1,096)
Other current and non-current liabilities	(731)
Goodwill	5,774
Total purchase price	$9,750

We did not record any in-process research and development in connection with the acquisition.

Intangible assets are being amortized on a straight-line basis over an estimated useful life ranging from four to five years. Each component of identifiable intangible assets acquired in connection with the above acquisition as of July 31, 2015 were as follows (dollar amounts in thousands):

July 31, 2015			
Estimated Fair Value	Accumulated Amortization	Net Carrying Amount	Remaining Useful Life (in years)

Existing technology	$200	$ (13)	$ 187	4.7
Database	1,800	(120)	1,680	4.7
Customer relationships	800	(67)	733	3.7
Software	500	(33)	467	4.7
	$3,300	$ (233)	$ 3,067	

Pro forma results of operations have not been presented because the effect of this acquisition was not material to the consolidated financial statements.

Note 3. Short-Term Investments

We classify short-term investments as available-for-sale at the time of purchase and reevaluate such classification as of each balance sheet date. All short-term investments are recorded at estimated fair value. Unrealized gains and losses for available-for-sale securities are included in accumulated other comprehensive income (loss), a component of stockholders' equity. We evaluate our investments to assess whether those with unrealized loss positions are other than temporarily impaired. We consider impairments to be other than temporary if they are related to deterioration in credit risk or if it is likely we will sell the securities before the recovery of their cost basis. Realized gains and losses and declines in value judged to be other than temporary are determined based on the specific identification method and are reported in other income (expense), net, in the condensed consolidated statements of comprehensive income. Interest, amortization of premiums, and accretion of discount on all short-term investments classified as available for sale are also included as a component of other income (expense), net, in the condensed consolidated statements of comprehensive income.

At July 31, 2015, short-term investments consisted of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Asset-backed securities	$ 10,951	$ 1	$ (3)	$ 10,949
Commercial paper	9,991	—	—	9,991
Corporate notes and bonds	35,470	6	(38)	35,438
U.S. agency obligations	242,747	58	(13)	242,792
U.S. treasury securities	19,019	6	(4)	19,021
Total available-for-sale securities	$ 318,178	$ 71	$ (58)	$ 318,191

At January 31, 2015, short-term investments consisted of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Asset-backed securities	$ 9,323	$ —	$ (4)	$ 9,319
Commercial paper	3,394	—	—	3,394
Corporate notes and bonds	45,990	18	(19)	45,989
U.S. agency obligations	199,822	92	(3)	199,911
U.S. treasury securities	9,999	8	—	10,007
Total available-for-sale securities	$ 268,528	$ 118	$ (26)	$ 268,620

We may sell our short-term investments at any time, without significant penalty, for use in current operations or for other purposes, even if they have not yet reached maturity. As a result, we classify our investments, including securities with maturities beyond 12 months, as current assets in the accompanying condensed consolidated balance sheets.

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

	July 31, 2015	January 31, 2015
Due in one year or less	$247,989	$224,263
Due in greater than one year	70,202	44,357
Total	$318,191	$268,620

We have certain available-for-sale securities in a gross unrealized loss position, all of which have been in such position for less than 12 months. We review our debt securities classified as short-term investments on a regular basis to evaluate whether or not any security has experienced an other-than-temporary decline in fair value. We consider factors such as the length of time and extent to which the market value has been less than the cost, the financial position and near-term prospects of the issuer and our intent to sell, or whether it is more likely than not we will be required to sell the investment before recovery of the investment's amortized-cost basis. If we determine that an other-than-temporary decline exists in one of these securities, the respective investment would be written down to fair value. For debt securities, the portion of the write-down related to credit loss would be recognized to other income, net in our condensed consolidated statements of comprehensive income. Any portion not related to credit loss would be included in accumulated other comprehensive income (loss). There were no impairments considered other-than-temporary as of July 31, 2015 and January 31, 2015.

The following table shows the fair values and the gross unrealized losses of these available-for-sale securities aggregated by investment category as of July 31, 2015 (in thousands):

	Fair Value	Gross Unrealized Losses
Asset-backed securities	$7,946	$ (3)
Corporate notes and bonds	25,628	(38)
U.S. agency obligations	50,135	(13)
U.S. treasury securities	7,018	(4)

The following table shows the fair values and the gross unrealized losses of these available-for-sale securities aggregated by investment category as of January 31, 2015 (in thousands):

	Fair Value	Gross Unrealized Losses
Asset-backed securities	$9,319	$ (4)
Corporate notes and bonds	23,239	(19)
U.S. agency obligations	18,398	(3)

Note 4. Property and Equipment, Net

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

	July 31, 2015	January 31, 2015
Land	$3,040	$3,040
Building	20,984	20,984
Land and building improvements	13,099	—
Equipment and computers	4,291	3,103
Furniture and fixtures	4,493	1,207
Leasehold improvements	1,363	1,228
Construction in progress	28	980
	47,298	30,542
Less accumulated depreciation	(2,873)	(2,339)
Total property and equipment, net	$44,425	$28,203

Total depreciation expense for the three and six months ended July 31, 2015 was $0.4 million and $0.8 million, respectively, and $0.4 million and $0.7 million for the three and six months ended July 31, 2014, respectively. Land is not depreciated.

Note 5. Capitalized Internal-Use Software

Capitalized internal-use software, net, consisted of the following as of the dates shown (in thousands):

	July 31 2015	January 31, 2015
Capitalized internal-use software development costs	$3,525	$3,307
Less accumulated amortization	(2,447)	(2,067)
Capitalized internal-use software development costs, net	$1,078	$1,240

During the six months ended July 31, 2015 and 2014, we capitalized $0.2 million and $0.3 million, respectively, for internal-use software development costs.

Capitalized internal-use software amortization expense for the three and six months ended July 31, 2015 was $0.2 million and $0.4 million, respectively, and $0.2 million and $0.4 million for the three and six months ended July 31, 2014, respectively.

Note 6. Intangible Assets and Goodwill

The following schedule presents the details of intangible assets as of July 31, 2015 (dollar amounts in thousands):

	July 31, 2015			
	Gross Carrying Amount	Accumulated Amortization	Net	Remaining Useful Life (in years)
Existing technology	$3,880	$ (1,569)	$2,311	3.0
Database	4,939	(1,509)	3,430	3.4
Customer relationships	1,820	(426)	1,394	3.7
Software	804	(256)	548	4.1
	$11,443	$ (3,760)	$7,683	

The following schedule presents the details of intangible assets as of January 31, 2015 (dollar amounts in thousands):

	January 31, 2015			
	Gross Carrying Amount	Accumulated Amortization	Net	Remaining Useful Life (in years)
Existing technology	$3,680	$ (1,188)	$2,492	3.4
Database	2,570	(1,037)	1,533	2.3
Customer relationships	1,020	(274)	746	4.3
Software	304	(171)	133	1.3
	$7,574	$ (2,670)	$4,904	

Amortization expense associated with acquired intangible assets for the three and six months ended July 31, 2015 was $0.7 million and $1.1 million, respectively, and $0.4 million and $0.8 million for the three and six months ended July 31, 2014, respectively.

The estimated amortization expense for intangible assets, for the next five years and thereafter is as follows (in thousands):

Period	Estimated Amortization Expense
Remainder of fiscal 2016	$ 1,272
Fiscal 2017	2,471

Fiscal 2018		2,044
Fiscal 2019		1,217
Fiscal 2020		597
Thereafter		82
Total	$	7,683

The following schedule presents the details of goodwill as of July 31, 2015 (in thousands):

	Goodwill	
Balance as of January 31, 2015	$	4,850
Goodwill from Qforma CrowdLink acquisition		5,774
Balance as of July 31, 2015	$	10,624

Note 7. Accrued Expenses

Accrued expenses consisted of the following as of the dates shown (in thousands):

	July 31, 2015	January 31, 2015
Accrued commissions	$1,755	$1,309
Accrued bonus	1,893	1,901
Accrued other compensation and benefits	3,944	3,287
Total accrued compensation and benefits	$7,592	$6,497
Accrued fees paid to salesforce.com	3,906	3,395
Accrued liabilities related to property and equipment purchases	2,760	209
Sales taxes payable	641	1,666
Other accrued expenses	3,584	3,669
Total accrued expenses and other current liabilities	$10,891	$8,939

Note 8. Fair Value Measurements

The carrying amounts of accounts receivable and other current assets, accounts payable and accrued liabilities approximate fair value due to their short-term nature.

Financial assets and financial liabilities recorded at fair value in the condensed consolidated financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, which are directly related to the amount of subjectivity associated with the inputs to the valuation of these assets or liabilities are as follows:

Level 1—Observable inputs, such as quoted prices in active markets for identical assets or liabilities.

Level 2—Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Financial assets and financial liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires management to make judgments and considers factors specific to the asset or liability.

The following table presents the fair value hierarchy for financial assets measured at fair value on a recurring basis as of July 31, 2015 (in thousands):

	Level 1	Level 2	Total

			Level 3	
Cash equivalents:				
Money market funds	$20,423	$—	$ —	$20,423
Corporate notes and bonds	—	1,750	—	1,750
U.S. agency obligations	—	4,099	—	4,099
Short-term investments				
Asset-backed securities	—	10,949	—	10,949
Commercial paper	—	9,991	—	9,991
Corporate notes and bonds	—	35,438	—	35,438
U.S. agency obligations	—	242,792	—	242,792
U.S. treasury securities	—	19,021	—	19,021
Total	$20,423	$324,040	$ —	$344,463

The following table presents the fair value hierarchy for financial assets measured at fair value on a recurring basis as of January 31, 2015 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$41,861	$—	$ —	$41,861
U.S. agency obligations	—	3,595	—	3,595
Short-term investments				
Asset-backed securities	—	9,319	—	9,319
Commercial paper	—	3,394	—	3,394
Corporate notes and bonds	—	45,989	—	45,989
U.S. agency obligations	—	199,911	—	199,911
U.S. treasury securities	—	10,007	—	10,007
Total	$41,861	$272,215	$ —	$314,076

We determine the fair value of our security holdings based on pricing from our pricing vendors. The valuation techniques used to measure the fair value of financial instruments having Level 2 inputs were derived from non-binding consensus prices that are corroborated by observable market data or quoted market prices for similar instruments. Such market prices may be quoted prices in active markets for identical assets (Level 1 inputs) or pricing determined using inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs). We perform procedures to ensure that appropriate fair values are recorded such as comparing prices obtained from other sources.

Note 9. Income Taxes

For the three months ended July 31, 2015 and 2014, our effective tax rates were 38.8% and 42.6%, respectively. Our effective tax rate decreased 3.8% during the three months ended July 31, 2015 as compared to the prior year period primarily due to an increase in the Section 199 domestic production activities deduction for Fiscal 2016.

For the six months ended July 31, 2015 and 2014, our effective tax rates were 39.5% and 42.5%, respectively. Our effective tax rate decreased 3.0% during the six months ended July 31, 2015 as compared to the prior year period primarily due to an increase in the Section 199 domestic production activities deduction for Fiscal 2016.

Note 10. Stockholders' Equity

Common Stock

As of July 31, 2015, we had 75,553,842 shares of Class A common stock and 56,749,327 shares of Class B common stock outstanding, of which 136,000 shares of Class B common stock were unvested, resulting from employees exercising stock options prior to vesting.

As of January 31, 2015, we had 64,729,479 shares of Class A common stock and 66,338,146 shares of Class B common stock outstanding, of which 195,833 shares of Class B common stock were unvested, resulting from employees exercising stock options prior to vesting.

Early Exercise of Employee Options

We historically have allowed for the early exercise of options granted under the 2007 Stock Plan (2007 Plan) prior to vesting. The 2007 Plan allows for such exercises by means of cash payment, surrender of already outstanding common stock, a same-day broker assisted sale or through any other form or method consistent with applicable laws, regulations and rules. Historically, all exercises have been through cash payment. The unvested shares are subject to our repurchase right at the original purchase price. The proceeds initially are recorded as an accrued liability from the early exercise of stock options, and reclassified to common stock as our repurchase right lapses. At July 31, 2015 and January 31, 2015, there were unvested shares in the amount of 136,000 and 195,833, respectively, which were subject to repurchase at an aggregate price of approximately $0.1 million and $0.1 million, respectively.

Stock Option Activity

A summary of stock option activity for the six months ended July 31, 2015 is as follows:

	Number of shares	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value
Options outstanding at January 31, 2015	20,233,620	$ 4.18	7.7	$498,862,568
Options granted	619,800	26.91		
Options exercised	(1,070,086)	2.67		
Options forfeited/cancelled	(131,519)	7.94		
Options outstanding at July 31, 2015	19,651,815	$ 4.96	7.4	$434,042,648
Options vested and exercisable at July 31, 2015	4,570,959	$ 3.24	6.5	$108,902,622
Options vested and exercisable at July 31, 2015 and expected to vest thereafter	18,656,191	$ 4.93	7.3	$412,499,449

The weighted average grant-date fair value of options granted during the three and six months ended July 31, 2015 was $12.40 and $12.36, respectively, and $9.79 and $13.80 for the three and six months ended July 31, 2014, respectively, per share.

As of July 31, 2015, there was $36.9 million in unrecognized compensation cost, net of estimated forfeitures, related to unvested stock options granted under the 2007 Plan, 2012 Equity Incentive Plan and 2013 Equity Incentive Plan (2013 EIP). This cost is expected to be recognized over a weighted average period of 4.2 years.

As of July 31, 2015, we had authorized and unissued shares of common stock sufficient to satisfy exercises of stock options.

The total intrinsic value of options exercised was approximately $13.8 million and $26.8 million for the three and six months ended July 31, 2015.

Restricted Stock Units

A summary of restricted stock unit (RSU) activity for the six months ended July 31, 2015 is as follows:

	Unreleased Restricted Stock Units	Weighted average grant date fair value
Balance at January 31, 2015	965,972	$ 27.48
RSUs granted	1,147,910	26.93

RSUs vested	(168,994)	27.38
RSUs forfeited/cancelled	(112,690)	25.68
Balance at July 31, 2015	1,832,198	$ 27.26

During the three and six months ended July 31, 2015, we issued RSUs under the 2013 EIP with a weighted-average grant date fair value of $27.50 and $26.93, respectively, and $22.03 and $24.35, for the three and six months ended July 31, 2014, respectively.

During the six months ended July 31, 2015, in connection with the acquisition of Qforma CrowdLink, we issued 17,000 performance-based RSUs to certain employees. These performance-based RSUs will vest based on a service and performance-based vesting condition. The RSUs had an estimated value of $0.5 million on the date of grant. We currently estimate that the performance-based conditions will be achieved and as a result, the full grant date fair value of these RSUs are being accounted for as compensation expense over the vesting periods.

As of July 31, 2015, there was a total of $48.4 million in unrecognized compensation cost, net of estimated forfeitures, related to unvested RSUs. This cost is expected to be recognized over a weighted-average period of approximately 3.4 years.

Stock-Based Compensation

Compensation expense related to share-based transactions, including employee, consultant, and non-employee director stock option awards, is measured and recognized in the consolidated financial statements based on fair value. The fair value of each option award is estimated on the grant date using the Black-Scholes option-pricing model. The stock-based compensation expense, net of forfeitures, is recognized using a straight-line basis over the requisite service periods of the awards, which is generally four to nine years. For restricted stock awards, fair value is based on the closing price of our common stock on the grant date.

Our option-pricing model requires the input of highly subjective assumptions, including the fair value of the underlying common stock, the expected term of the option, the expected volatility of the price of our common stock, risk-free interest rates, and the expected dividend yield of our common stock. The assumptions used in our option-pricing model represent management's best estimates. These estimates involve inherent uncertainties and the application of management's judgment. If factors change and different assumptions are used, our stock-based compensation expense could be materially different in the future.

The following table presents the weighted-average assumptions used to estimate the grant date fair value of options granted during the periods presented:

	Three Months Ended July 31,		Six Months Ended July 31,	
	2015	2014	2015	2014
Volatility	45% – 46%	50%	45% – 46%	48% – 50%
Expected term (in years)	5.50 – 6.32	6.28 – 6.32	5.50 – 6.32	6.27 – 6.32
Risk-free interest rate	1.69% – 1.84%	1.93% – 1.94%	1.69% – 1.84%	1.85% – 1.94%
Dividend yield	—%	—%	—%	—%

The amounts of stock-based compensation capitalized for internal-use software in the three and six months ended July 31, 2015 and 2014 were immaterial.

Note 11. Net Income per Share Attributable to Common Stockholders

We compute net income per share of Class A and Class B common stock using the two-class method required for participating securities. Prior to the date of our IPO in October 2013, we considered all series of our convertible preferred stock to be participating securities due to their non-cumulative dividend rights. Immediately prior to the completion of our IPO, all outstanding shares of convertible preferred stock converted to Class B common stock. Additionally, we consider unvested shares issued upon the early exercise of options to be participating securities as the holders of these shares have a non-forfeitable right to dividends in the event of our declaration of a dividend for common shares.

Under the two-class method, net income attributable to common stockholders is determined by allocating undistributed earnings, calculated as net income, less (i) current period convertible preferred stock non-cumulative dividends and (ii) earnings attributable to participating securities.

The net income per share attributable to common stockholders is allocated based on the contractual participation rights of the Class A common stock and Class B common stock as if the income for the year has been distributed. As the liquidation and dividend rights are identical, the net loss attributable to common stockholders is allocated on a proportionate basis.

Basic net income per share of common stock is computed by dividing the net income attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period. All participating securities are excluded from the basic weighted-average shares of common stock outstanding. Unvested shares of common stock resulting from the early exercises of stock options are excluded from the calculation of the weighted-average shares of common stock until they vest as they are subject to repurchase until they are vested.

Diluted net income per share attributable to common stockholders is computed by dividing net income attributable to common stockholders by the weighted-average shares outstanding, including potentially dilutive shares of common stock assuming the dilutive effect of potential shares of common stock for the period determined using the treasury stock method.

Undistributed net income for a given period is apportioned to participating securities based on the weighted-average shares of each class of common stock outstanding during the applicable period as a percentage of the total weighted-average shares outstanding during the same period.

For purposes of the diluted net income per share attributable to common stockholders calculation, unvested shares of common stock resulting from the early exercises of stock options and unvested options to purchase common stock are considered to be potentially dilutive shares of common stock. In addition, the computation of the fully diluted net income per share of Class A common stock assumes the conversion from Class B common stock, while the fully diluted net income per share of Class B common stock does not assume the conversion of those shares.

The numerators and denominators of the basic and diluted EPS computations for our common stock are calculated as follows (in thousands, except per share data):

	Three Months Ended July 31,				Six Months Ended July 31,			
	2015		2014		2015		2014	
	Class A	Class B	Class A	Class B	Class A	Class B	Class A	Class B
Basic								
Numerator								
Net income	$7,450	$5,956	$3,330	$6,248	$14,292	$12,096	$4,428	$12,371
Undistributed earnings allocated to participating securities	(9)	(7)	(31)	(57)	(17)	(14)	(41)	(115)
Net income attributable to common stockholders, basic	$7,441	$5,949	$3,299	$6,191	$14,275	$12,082	$4,387	$12,256
Denominator								
Weighted average shares used in computing net income per share attributable to common stockholders, basic	73,246	58,553	44,261	83,053	71,197	60,258	33,113	92,519
Net income per share attributable to common stockholders, basic	$0.10	$0.10	$0.07	$0.07	$0.20	$0.20	$0.13	$0.13
Diluted								
Numerator								
Net income attributable to common stockholders, basic	$7,441	$5,949	$3,299	$6,191	$14,275	$12,082	$4,387	$12,256

Reallocation as a result of conversion of Class B to Class A common stock:								
Net income attributable to common stockholders, basic	5,949	—	6,191	—	12,082	—	12,256	—
Reallocation of net income to Class B common stock	—	671	—	369	—	1,322	—	546
Net income attributable to common stockholders, diluted	$13,390	$6,620	$9,490	$6,560	$26,357	$13,404	$16,643	$12,802
Denominator								
Number of shares used for basic EPS computation	73,246	58,553	44,261	83,053	71,197	60,258	33,113	92,519
Conversion of Class B to Class A common stock	58,553	—	83,053	—	60,258	—	92,519	—
Effect of potentially dilutive common shares	13,072	13,072	16,039	16,039	13,415	13,415	17,874	17,874
Weighted average shares used in computing net income per share attributable to common stockholders, diluted	144,871	71,625	143,353	99,092	144,870	73,673	143,506	110,393
Net income per share attributable to common stockholders, diluted	$0.09	$0.09	$0.07	$0.07	$0.18	$0.18	$0.12	$0.12

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Potential common share equivalents excluded where the inclusion would be anti-dilutive are as follows:

	Three Months Ended		Six Months Ended	
	July 31, 2015	2014	July 31, 2015	2014
Options and awards to purchase shares not included in the computation of diluted net income per share because their inclusion would be anti-dilutive	1,278,843	826,772	833,425	700,903

Note 12. Commitments and Contingencies

Litigation

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment or remediation can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

On April 30, 2015, a complaint was filed against us in the U.S. District Court for the Southern District of New York (IMS Health Technology Solutions France SASU et al. (collectively, “IMS”) v. Veeva Systems Inc., 15CV03379). The complaint alleged that our use of the term “OpenKey” in our “Veeva OpenKey” product name constituted infringement of the plaintiffs’ trademark, “OneKey.” The complaint also alleged unfair competition, dilution and other federal and state claims arising from our use of the term “OpenKey.” The complaint sought injunctive relief, unspecified monetary damages and an award of plaintiffs' attorney fees. On or about May 26, 2015, we voluntarily discontinued use of and replaced the term “OpenKey” in our product names with the term “OpenData.” On July 22, 2015, we entered into a settlement agreement with IMS resolving all claims described above. The settlement agreement included a nominal one-time payment from us to IMS, which is reflected in our financial results for the period ended July 31, 2015, and cessation of any further use of the term “OpenKey” in our product names.

From time to time, we may be involved in other legal proceedings and subject to claims incident to the ordinary course of business. Although the results of such legal proceedings and claims cannot be predicted with certainty, we believe we are not currently a party to any legal proceedings, other than as set forth above, the outcome of which, if determined adversely to us, would individually or taken together have a material adverse effect on our business, operating results, cash flows or financial position. Regardless of the outcome, such proceedings can have an adverse impact on us because of defense and settlement costs, diversion of resources and other factors, and there can be no assurances that favorable outcomes will be obtained.

Value-Added Reseller Agreement

We have a value-added reseller agreement with salesforce.com, inc. for our use of the Salesforce Platform in combination with our developed technology to deliver our Veeva CRM solution, including hosting infrastructure and data center operations provided by salesforce.com. On March 3, 2014, we extended the term of the Value-Added Reseller Agreement for an additional ten years through September 1, 2025 and amended our minimum order commitments. As of July 31, 2015, we remained obligated to pay fees of at least $438.0 million prior to September 1, 2025 in connection with this agreement.

Note 13. Information about Geographic Areas

We track and allocate revenues by the principal geographic region of our customers’ end users rather than by individual country where such revenues are billed, which makes it impractical to disclose revenues for the United States or other specific foreign countries. Revenues by geographic area, as measured by the estimated location of the end users for subscription services revenues and the estimated location of the users for which the services were performed for professional services revenues, were as follows for the periods shown below (in thousands):

	Three Months Ended		Six Months Ended	
	July 31,		July 31,	
	2015	2014	2015	2014
Revenues by geography				
North America	$53,518	$41,865	$103,571	$79,343
Europe and other	26,427	20,047	50,558	36,593
Asia Pacific	18,162	13,752	33,901	26,449
Total revenues	$98,107	$75,664	$188,030	$142,385

Long-lived assets by geographic area are as follows as of the date shown (in thousands):

	July 31, 2015	January 31, 2015
Long-lived assets by geography		
North America	$43,101	$27,213
Europe and other	796	538
Asia Pacific	528	452
Total long-lived assets	$44,425	$28,203

Item 2. 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 in conjunction with our condensed consolidated financial statements and notes thereto appearing elsewhere in this report. In addition to historical condensed consolidated financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results could differ materially from those anticipated by these forward-looking statements as a result of many factors. We discuss factors that we believe could cause or contribute to these differences below and elsewhere in this report, including those set forth under "Risk Factors" and "Special Note Regarding Forward-Looking Statements."

Overview

Veeva is a leading provider of cloud-based software solutions for the global life sciences industry. We were founded in 2007 on the premise that industry-specific business problems would best be addressed by tailored cloud solutions, an approach referred to as industry cloud. All of our solutions are designed from the ground up to address the unique business and regulatory requirements of the life sciences industry. We enable life sciences companies to realize the benefits of a cloud delivery model and modern mobile applications for their most critical business functions with solutions that meet their specialized functional and compliance needs.

Veeva CRM was our first commercially available solution and has made up the vast majority of our revenue historically. For instance, in our fiscal year ended January 31, 2015, we derived approximately 89% of our subscription services revenues and 84% of our total revenues from our core sales automation solution, Veeva CRM, and the other multichannel CRM solutions that are complementary to Veeva CRM. The contribution of subscription services revenues and total revenues associated with Veeva Vault, Veeva Network and Veeva OpenData is expected to increase as a percentage of our subscription services and total revenues going forward. However, we have less experience selling Veeva Vault, Veeva Network, Veeva OpenData and our newer commercial applications that complement Veeva CRM. To the extent that these more recently introduced solutions do not achieve significant market acceptance, our business and results of operations may be adversely affected.

For the six months ended July 31, 2015 and 2014, our total revenues were $188.0 million and $142.4 million, respectively, representing period-over-period growth in total revenues of 32%. For the six months ended July 31, 2015 and 2014, our subscription services revenues were $144.2 million and $105.1 million, respectively, representing period-over-period growth in subscription services revenues of 37%. We expect the growth rate of our total revenues and subscription services revenues to decline in future periods. We generated net income of $26.4 million and $16.8 million for the six months ended July 31, 2015 and 2014, respectively.

Key Factors Affecting Our Performance

Investment in Growth. We have invested and intend to continue to invest aggressively in expanding the breadth and depth of our Industry Cloud for life sciences. We expect to invest in research and development to expand existing and build new solutions, sales and marketing to promote our solutions to new and existing customers and in existing and expanded geographies, professional services to ensure the success of our customers' implementations of our solutions, and other operational and administrative functions to support our expected growth and the requirements associated with being a public company. We anticipate that our headcount will increase as a result of these investments. We expect our total operating expenses will increase over time, and, in some cases, have short-term negative impacts on our operating margin.

Adoption of Our Solutions by Existing and New Customers. Most of our customers initially deploy our solutions to a limited number of users within a division or geography and may only initially deploy a limited set of our available solutions. Our future growth is dependent upon our existing customers' continued success and renewals of subscriptions to our solutions, deployment of our solutions to additional users around the world, and the purchase of subscriptions to additional solutions. Our growth is also dependent on the adoption of our solutions by new customers.

Subscription Services Revenue Retention Rate. A key factor to our success is the renewal and expansion of our existing subscription agreements with our customers. We calculate our annual subscription services revenue retention rate for a particular fiscal year by dividing (i) annualized subscription revenue as of the last day of that fiscal year from those customers that were also customers as of the last day of the prior fiscal year by (ii) the annualized subscription revenue from all customers as of the last day of the prior fiscal year. Annualized subscription revenue is calculated by multiplying the daily subscription revenue recognized on the last day of the fiscal year by 365. This calculation includes the impact on our revenues from customer non-renewals, deployments of additional users or decreases in users, deployments of additional solutions or discontinued use of solutions by our customers, and price changes for our solutions. Historically, the impact of price changes on our subscription services revenue retention rate has been minimal. For our fiscal years ended January 31, 2015, 2014 and 2013, our subscription services revenue retention rate was 138%, 166% and 187%, respectively.

Mix of Subscription and Professional Services Revenues. We believe our investments in professional services have driven customer success and facilitated the further adoption of our solutions by our customers. During the initial period of deployment by a customer, we generally provide a greater amount of configuration, implementation and training than later in the deployment. At the same time, many of our customers have historically purchased subscriptions for only a limited set of their total potential users during their initial deployments. As a result of these factors, the proportion of total revenues for a customer associated with professional services is relatively high during the initial deployment period. Over time, as the need for professional services associated with user deployments decreases and the number of users often increases, we have observed and continue to expect the mix of total revenues to shift more toward subscription services revenues. As a result, we expect the proportion of our total revenues from subscription services to increase over time.

Components of Results of Operations

Revenues

We derive our revenues primarily from subscription services fees and professional services fees. Subscription services revenues consist of fees from customers accessing our cloud-based software solutions. Professional services revenues consist primarily of fees from implementation services, configuration, data services, training and managed services related to our solutions. For the six months ended July 31, 2015, subscription services revenues constituted 77% of total revenues and professional services and other revenues constituted 23% of total revenues.

New subscription orders typically have a one-year term and automatically renew unless notice of cancellation is provided in advance. If a customer adds users or solutions to an existing order, such additional orders will generally be coterminous with the initial order, and as a result, orders for additional users or solutions will commonly have an initial term of less than one year. Subscription orders are generally billed at the subscription commencement date in annual or quarterly increments. Because the term of orders for additional users or solutions is commonly less than one year and payment terms may be quarterly, the annualized value of the orders we enter into with our customers will not be completely reflected in deferred revenue at any single point in time. We have also agreed from time to time and may agree in the future to allow customers to change the renewal dates of their orders to, for example, align more closely with a customer's annual budget process or to align with the renewal dates of other orders placed by other entities within the same corporate control group. Such changes typically result in an order of less than one year as necessary to align all orders to the desired renewal date and, thus, may result in a lesser increase to deferred revenue than if the renewal date adjustment had not occurred. Accordingly, we do not believe that change in deferred revenue or calculated billings, a metric commonly cited by financial analysts that is the sum of the change in deferred revenue plus revenue, are accurate indicators of future revenues for any given period of time.

Subscription services revenues are recognized ratably over the order term beginning when the solution has been provisioned to the customer. Our subscription services agreements are generally non-cancelable during the term, although customers typically have the right to terminate their agreements for cause in the event of material breach. Subscription services revenues are affected primarily by the number of customers, the number of users (or other subscription usage metric) at each customer that uses our solutions and the number of solutions subscribed to by each customer.

We utilize our own professional services personnel and, in certain cases, third-party subcontractors to perform our professional services engagements with customers. Our professional services engagements are primarily billed on a time and materials basis and revenues are typically recognized as the services are rendered. Certain professional services revenues are based on fixed fee arrangements and revenues are recognized based on progress against input measures, such as hours incurred. In some cases, the terms of our time and materials and fixed fee arrangements may require that we defer the recognition of revenue until contractual conditions are met. In those circumstances, revenue recognition may be sporadic, based upon the achievement of such contractual conditions. Professional services revenues are affected primarily by our customers' demands for implementation services, configuration, data services, training and managed services in connection with our solutions.

Cost of Revenues

Cost of subscription services revenues for all of our solutions consists of third-party expenses related to data centers, personnel related costs associated with hosting our subscription services and providing support, including our data stewards, operating lease expense associated with computer equipment and software and allocated overhead, amortization expense associated with capitalized internal-use software related to our subscription services and amortization expense associated with purchased intangibles related to our subscription services. Cost of subscription services revenues for Veeva CRM and certain of our related multichannel CRM solutions also include fees paid to salesforce.com, inc. for our use of the Salesforce1 Platform and the associated hosting infrastructure and data center operations that are provided by salesforce.com. We intend to continue to invest additional resources in our subscription services to broaden our product offerings and increase our delivery capacity. For example, we may open additional data centers, expand our current data centers in the future and continue to make investments in the availability and security of our solutions. The timing of when we incur these additional expenses will affect our cost of revenues in absolute dollars in the affected periods.

Cost of professional services and other revenues consists primarily of employee-related expenses associated with providing these services, including salaries, benefits and stock-based compensation expense, the cost of third-party subcontractors, travel costs and allocated overhead. The cost of providing professional services is significantly higher as a percentage of the related revenues than for our subscription services due to the direct labor costs and costs of third-party subcontractors.

Operating Expenses

We accumulate certain costs such as office rent, utilities and other facilities costs and allocate them across the various departments based on headcount. We refer to these costs as “allocated overhead.”

Research and Development. Research and development expenses consist primarily of employee-related expenses, third-party consulting fees and allocated overhead, offset by capitalized internal-use software development costs. We continue to focus our research and development efforts on adding new features and applications, increasing the functionality and enhancing the ease of use of our cloud-based applications.

Sales and Marketing. Sales and marketing expenses consist primarily of employee-related expenses, sales commissions, marketing program costs, travel-related expenses and allocated overhead. Sales commissions and other program spend costs are expensed as incurred.

General and Administrative. General and administrative expenses consist of employee-related expenses for our executive, finance and accounting, legal, employee success, management information systems personnel and other administrative employees. In addition, general and administrative expenses include third-party professional services costs, including legal costs and professional fees, other corporate expenses and allocated overhead.

Other Expense, Net

Other expense, net consists primarily of transaction gains or losses on foreign currency, net of interest income and amortization of investments.

Provision for Income Taxes

Provision for income taxes consists of federal and state income taxes in the United States and income taxes in certain foreign jurisdictions. See note 9 of the notes to our condensed consolidated financial statements.