

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-K**

(Mark One)

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

For the fiscal year ended September 30, 2020

OR

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

Commission File Number 001-35840

**Model N, Inc.**

(Exact name of Registrant as specified in its Charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

77-0528806  
(I.R.S. Employer  
Identification No.)

777 Mariners Island Boulevard, Suite 300  
San Mateo, California  
(Address of Principal Executive Offices)

94404  
(Zip Code)

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

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value \$0.00015 per share	MODN	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 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 check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes  No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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 the voting and non-voting common equity held by non-affiliates of the Registrant, based on the closing price of the shares of common stock on The New York Stock Exchange Stock Market on March 31, 2020, was approximately \$749 million.

The number of shares of Registrant's Common Stock outstanding as of November 6, 2020, was 34,821,279.

Portions of the Registrant's Definitive Proxy Statement relating to the Annual Meeting of Shareholders, scheduled to be held on February 19, 2021, are incorporated by reference into Part III of this Report.



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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, the expected impact of the COVID-19 pandemic on our operations, our business strategy and plans, and our objectives for future operations, are forward-looking statements. The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “goal,” “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,” “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 leading provider of cloud revenue management solutions for life sciences and high tech companies. Our software helps companies drive mission critical business processes such as pricing, quoting, contracting, regulatory compliance, rebates and incentives. With deep industry expertise, Model N supports the complex business needs of the world's leading brands in life sciences and high tech including Johnson & Johnson, AstraZeneca, Novartis, Microchip Technology and ON Semiconductor.

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 operated in isolation from one another and were labor intensive, error prone, inflexible, and costly, often resulting in missed revenue opportunities, suboptimal margins, incentive overpayments, and increased revenue compliance risk. Current industry trends, which include 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 cloud-based revenue management solutions, combined with our knowledge of the life sciences and high tech industries, has enabled us to develop software designed to meet the unique, strategic needs of these industries, such as managed care and government pricing for life sciences companies and channel incentives management for high tech companies. Model N Revenue Cloud transforms the revenue lifecycle into a strategic, end-to-end process aligned across the enterprise. Our industry specific solution suites – Revenue Cloud for Life Sciences and Revenue Cloud for High Tech – offer a range of solutions from individual products to complete product suites.

### Overview of the Life Sciences and High Tech Industries

The life sciences and high tech industries are large and highly fragmented. Companies in both industries market their products to a global customer base through diverse channels. Additionally, high costs are required to launch a drug or medical device to the global market. Regulatory pressures, consolidation, and other factors in both industries continue to drive a considerable focus on revenue management.

Management of the revenue lifecycle is a strategic imperative and a source of competitive advantage for life sciences and high tech companies as they address increasingly globalized markets, sophisticated buyers, complex channels, and expanding volumes of data from internal and market sources. Emerging business models like outcome based pricing and service bundles further complicate the revenue management processes, which increases the need for practical solutions.

Several trends specific to these industries further complicate revenue management.

#### *Life Sciences:*

- 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;
- the 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;
- expanded scope of government mandates, frequency of regulatory reporting and audits, and fines, all of which increase administrative burden and monitoring costs;
- increased payer-provider consolidation which makes market access harder; and
- increased revenue leakage through 340B channels.

#### *High Tech:*

- shortened product lifecycles driving rapid pricing changes and require quick responses to quotes and competitive bidding;
- increased number of core high tech products sold into different end markets with segment-specific pricing;
- cyclicity and rising R&D costs contributing to a focus on maximizing sell time, margins and revenues;

- increased complexity of multi-tiered global distribution channels intensifying 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 resulting 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 critical strategic decisions.*** Legacy manual processes and systems used to manage the revenue lifecycle create silos of data causing companies to make strategic marketing, pricing and resource allocation decisions that are 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-specific contracts with complex pricing and commercial terms are common in many industries, in particular life sciences and high tech. 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 the overpayment of incentives.*** Life sciences and high tech 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 leads to 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, high tech companies face significant complexity in financial reporting and revenue recognition at the point of sale in their distribution channels. Life sciences companies have substantial 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 sciences companies. For example, government-driven programs require sophisticated 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

Our solutions enable customers to achieve significant returns on investment through increased revenues and gross margins while addressing vital business objectives:

- ***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 can 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 enforced automatically 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 comply systematically with government regulations, policies, procedures, pricing, and reporting requirements. Further, by automating and integrating contract terms, incentives and pricing into mandated price and payment calculations, our life sciences 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 cloud-based solutions 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 sciences and high tech 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 deep industry expertise in life sciences and high tech to enable our customers to maximize and accelerate the transformational benefits of our solutions.
- **Strong customer base.** We have established a reputation for delivering revenue management solutions to leading life sciences and high tech 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 sciences and high tech 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.

### 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 crucial revenue management processes including pricing, quoting, contracts, rebates, incentives, channel management, reporting and regulatory compliance. Our solutions are purpose-built for the life sciences and high tech industries and are designed to work with enterprise resource planning (ERP) and customer relationship management (CRM) applications. Our solutions enable real-time pricing, contract management, deal management, quoting, and channel incentives management, including rebates, incentives, and regulatory compliance. Our Revenue Cloud suites comprise multiple applications, which are integrated to work together but are flexible enough to be deployed individually. For example, when deployed as an interconnected suite, our solutions 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 such as prices, quotes, contracts, incentives and rebate claims that are typically not available in other enterprise systems. Our solutions can also provide customers predictive revenue insight optimization of sales and marketing investments and offers, as well as customer profitability intelligence.

**Revenue Cloud for Life Sciences** – Our suite of revenue management solutions deliver end to end workflow, visibility and control across the enterprise and integrate with front-office products (e.g. CRM) as well as back-office products (e.g. ERP). This helps life science companies improve revenue and operational efficiency while adhering to government regulations as they create and execute contracts with their customers.

Our integrated suite of solutions includes the following products:

- **Global Pricing Management.** Minimizes price erosion of products in international markets due to competitive pressures and government mandate throughout the product lifecycle. Enables a streamlined pricing process by consolidating information into a single system of record, which provides users' access to accurate and up-to-date information. Provides an in-built International Reference Pricing (IRP) simulation and price controls, launches sequence optimization and tracking and forecasting of prices and sales among other features.
- **Global Tender Management.** Improves revenue regionally and globally by enabling opportunity segmentation and targeting, optimal bid pricing and post-award tracking to manage the contract lifecycle and award value.
- **Provider Management.** Minimizes rebate overpayments and ensures compliance with price-tier commitments. Manufacturers can effectively manage and execute complex institutional contracts with Providers (Hospitals, IDNs, GPOs). This product helps minimize revenue leakage and improves operational efficiency by allowing the manufacturer to set up contracts using structured pricing and price alerts for each product and customer, implement the contracts and allow price look up, resolution and monitoring in end to end workflows enabled by analytics to drive contract compliance. This product calculates fees to be paid to wholesalers and GPOs as well as incentives to providers.
- **Payer Management.** Minimizes revenue leakage and noncompliance of complex contracts with Payers (Pharmacy Benefit Managers (PBMs)/Plan Sponsors). Significant revenue leakage can happen without proper handling of rebate requests from PBMs. Payer Management is an end-to-end industry-leading payer management solution which can help end revenue leakage in payer rebating processes and ensure adherence to complex government pricing regulations.
- **Government Pricing.** Optimizes revenue and reduces the risk of fines and other penalties due to non-compliance with regulatory pricing requirements.
- **Medicaid.** Improves compliance with regulatory requirements and payments of rebate claims timely and at correct rates for government Medicaid programs.

**Revenue Cloud for High Tech** – Our suite of solutions enables customers to modernize their sales processes by adopting a strategic approach to manage the revenue lifecycle by planned revenue.

- **Deal Management.** Increases deal conversion and pricing consistency with pricing, quotes and contracts natively supporting the High Tech Channel end-to-end.
- **Deal Intelligence.** Controls price concessions and determines ideal prices by using in-context analytics.
- **Channel Management.** Provides manufacturers a clearer view of inventory, including the ability to evaluate and perform actions, such as price protection and stock rotation and matching available inventory to quotes.
- **Market Development Fund Management.** Allows companies to streamline their MDF process and reduce revenue leakage by increasing partner participation.
- **Rebates Management.** Centralizes control of rebate programs to reduce upfront discounts and enables effective management of all incentives.
- **Channel Data Management.** Automates the process of collection, cleansing, validation and standardization of channel partner data, such as POS, inventory, and claims.
- **Configure Price Quote.** Streamlines the quote to contract process by enabling the configuration of complex services, bundles and solutions into a single interface. This application provides integration with the SAP ERP system and SAP Variant Configurator.



- **Contract Lifecycle Management.** 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.

## Technology

Our Revenue Cloud solution is architected in multiple layers. The first layer is composed of end-user operational and analysis solutions. The middle layer is comprised of supporting services and business engines. The lowest layer is made up of a unified technology platform used to construct and support all modules in higher layers. The platform also provides access to the normalized operational database where the transactional revenue management data used by the operational solutions are stored. It also provides access and facilitates the synchronization with the de-normalized analytics database where the revenue management data used by analytics and AI/ML solutions are stored.

Our Revenue Cloud solutions are built on a variety of industry standards such as Java EE, HTML5, ReactJS, Amazon Web Services and Force.com, which gives end users an intuitive and familiar user experience. These standard technologies enable us to offer our customers a familiar technology environment that is widely understood and utilized, as well as the ability to use certain solutions on the “go” with a tablet or other mobile devices, including smartphones running iOS and Android.

Our technology platform has allowed us to quickly develop new solutions, features and functionalities. We believe 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 sciences and high tech industries. With the expansion of global deployments, scalability has been a key requirement of our customers and a focus for us across all the layers of our application suites.

Our solutions have been designed to ensure high reliability and 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 Cloud for Life Sciences and Revenue Cloud for High Tech suites are only offered to our customers through the cloud. We manage 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 designed to be secure and provide high availability with disaster recovery capabilities.

## Services and Customer Support

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 offshore, as described below.

- **Implementation services.** We assist our customers in the implementation or upgrade of our Revenue Cloud, 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 our solutions either on-premise through a legacy contract or in the cloud, which include systems administration and infrastructure management, application support, custom feature 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 the existing transaction and decision support solutions, developing business cases for change and transformation plans and answering strategic questions.
- **Customer support.** We deliver customer support from support centers located in the United States, as well as at our offices in India. We offer a range of support offerings, including 24x7x365, 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. 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, and Switzerland.

## **Customers**

As of September 30, 2020, we had approximately 160 customers. For the fiscal year ended September 30, 2020, revenues from our life sciences and high tech 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, emerging companies. Our customers represent a range of sub-verticals within the broader life sciences and high tech industries, including biotechnology, pharmaceutical, medical device, generics, semiconductor, electronic component, consumer electronics, and software. During the fiscal year ended September 30, 2020, we did not rely on any single customer for a material portion of our revenue or subscription revenue.

We pursue close, long-term relationships with our customers because we believe strong customer relationships are the key to our success. Many of these relationships date back to our original on-premise, perpetual license business model. Customers maintaining on-premise implementations under legacy perpetual license contracts may purchase, at their discretion, maintenance and support services and in some cases managed services on an annual basis. For the last several years, we have been transitioning our business model to software as a service. New customers as well as customers who originally purchased a perpetual license now enter into a software as a service agreement that provides for a subscription to our solutions as well as implementation services.

## **Sales and Marketing**

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 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.

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 sciences and high tech industries. We also invite potential customers to this conference to leverage our strong customer relationships to accelerate sales cycles. In addition, Rainmaker provides a forum to build our ecosystem of strategic partner relationships, offering partners the opportunity to work closely with our sales force on joint sales pursuits.

## **Research and Development**

Our research and development organization is responsible for the definition, design, development, testing, certification and SaaS delivery of our solutions. Our efforts are focused on developing new solutions and technologies and further enhancing the functionality, reliability, performance, and configurability of existing solutions. When considering improvements and enhancements to our solutions, we engage with our customers and partners who provide essential input for product development and innovation. We assess emerging customer demand and proactively focus our efforts in bringing new solutions and enhancements to existing solutions to market following a seasonal release schedule. We also closely monitor the changes in business environment and regulations in our target industries, particularly in life sciences, to quickly deliver updates to our solutions that are critical for our customers to remain in compliance with government regulations.

As our solutions often serve as a system-of-record for our customers' revenue management processes, our research and development efforts reflect the extensive information technology (IT) needs of our customers in both the life sciences and high-tech industries. Our research and development efforts continue to focus on evolving our solutions to meet the increasingly complex infrastructure requirements of our customers in these industries.

Our product development 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, 2020, our research and development team consisted of 237 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 IT resources often resort to spreadsheet-assisted manual processes or

personal database applications. Also, 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 significant 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 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 sciences and high tech industries include large integrated systems vendors like SAP AG and Oracle Corporation. We also encounter competition from small independent companies such as Vistex, Inc., iContracts, Inc., EVERSAANA, and E2open, LLC which compete based on 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, more substantial 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 advanced 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. Also, we expect sales force automation vendors to acquire or develop 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, 2020, we had 11 patent applications pending and nine issued patents expiring between 2023 and 2038. 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 sciences and high tech 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 for 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.

### **Human Capital Resources**

As of September 30, 2020, we employed 781 people, including 371 in services and customer support, 237 in research and development, 93 in sales and marketing and 80 in a general and administrative capacity. As of such date, we had 413 employees in the United States and 368 employees in international locations. We also engage 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.

We recognize that attracting, motivating and retaining talent at all levels is vital to continuing our success. By improving employee retention and engagement, we also improve our ability to support Model N's customers and protect the long-term interests of our stakeholders and stockholders. We invest in our employees through high-quality benefits and various health and wellness initiatives, and offer competitive compensation packages, ensuring fairness in internal compensation practices.

To further engage and incentivize our workforce, we offer a wide range of programs and avenues for support, motivation, and professional recognition. We utilize both instructor-led training and online learning to provide custom training courses to ensure our sales and services teams stay up-to-date on our products and service offerings. For our talent pipeline development, we work closely with individual business functions to provide training and hands-on support for managers and leaders, who use our Performance/Potential Matrix to assess talent, identify development opportunities, and discuss succession planning.

### **Corporate Information**

We were incorporated in Delaware on December 14, 1999. Our principal offices are located at 777 Mariners Island Boulevard, Suite 300, San Mateo, CA 94404, 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 (the "SEC") under the Securities Exchange Act of 1934, as amended (the "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 also view these reports on the SEC's website at <https://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.*

#### **Risk Factors Summary**

Our business is subject to a number of risks and uncertainties, including those risks discussed at-length below. These risks include, among others, the following:

- We have incurred losses in the past, and we may not be profitable in the future.
- 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.
- 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.
- Our sales cycles are time-consuming, and it is difficult for us to predict when or if sales will occur.
- Our revenues are dependent on our ability to maintain and expand existing customer relationships and our ability to attract new customers.
- The loss of one or more of our key customers could slow our revenue growth or cause our revenues to decline.
- Because we recognize a majority of our subscription 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.
- 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 COVID-19 outbreak has had a material impact on the U.S. and global economies and could have a material adverse impact on our employees, suppliers and customers, which could adversely and materially impact our business, financial condition and results of operations.
- 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 transition from an on-premise to a cloud-based business model is subject to numerous risks and uncertainties.
- Our future growth is, in large part, dependent upon the increasing adoption of revenue management solutions.
- We are highly dependent upon the life sciences industry, and factors that adversely affect this industry could also adversely affect us.
- Failure to comply with applicable regulations may harm our business and financial condition.
- If our solutions do not interoperate with our customers' IT infrastructure, sales of our solutions could be negatively affected, which would harm our business.
- 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.
- 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.
- Our stock price may be volatile, and you may be unable to sell your shares at or above your purchase price.
- Our indebtedness could adversely affect our business and limit our ability to expand our business or respond to changes, and we may be unable to generate sufficient cash flow to satisfy our debt service obligations.

#### **Risk Related to Our Financial Condition**

***We have incurred losses in the past, and we may not be profitable in the future.***

We have incurred net losses of \$13.7 million and \$19.3 million for the fiscal years ended September 30, 2020 and 2019, respectively. As of September 30, 2020, we had an accumulated deficit of \$226.1 million. Our expenses may 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, and continuing to penetrate the technology industry. 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 may also increase our expenses in future periods. In the near-term, our revenues may not be sufficient to offset 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 continue to transition our customers 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;
- 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 subscription and professional services;
- the timing of upfront recognition of sales commission expense relative to the deferred recognition of our revenues;
- the timing of recognition of payment of royalties;
- the timing of our annual payment and recognition of employee non-equity incentive and bonus payments;
- the budgeting cycles and purchasing practices of customers;
- changes in customer requirements or market needs;
- delays or reductions in information technology spending and resulting variability in customer orders from quarter to quarter;
- delays or difficulties encountered during customer implementations, including customer requests for changes to the implementation schedule;
- the timing and success of new product or service introductions by us or our competitors;
- the amount and timing of any customer refunds or credits;
- our ability to accurately estimate the costs associated with any fixed bid projects;
- deferral of orders from customers in anticipation of new solutions or solution enhancements announced by us or our competitors;
- the length of time for the sale and implementation of our solutions to be complete, and our level of upfront investments prior to the period we begin generating revenues associated with such investments;
- the amount and timing of our operating expenses and capital expenditures, and our ability to timely repay our debt;
- price competition;
- the rate of expansion and productivity of our direct sales force;
- regulatory compliance costs;
- required modifications to our solutions or services in response to changes in law or regulations;
- 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, including the impact of the adoption and implementation of the Financial Accounting Standards Board's new standard regarding revenue recognition;
- 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;
- global epidemics, pandemics, or contagious diseases, such as COVID-19; 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 the past, and if we are unable to significantly improve our sales execution, increase the awareness of our solutions, create additional sales opportunities, expand our relationships with channel partners, leverage our relationship with strategic partners, or effectively manage the costs associated with these efforts, our operating results and financial condition could be materially and adversely affected.

***Our sales cycles are time-consuming, and it is difficult for us to predict when or if sales will occur.***

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.

***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, 2020, we had approximately 160 customers. Although our largest customers typically change from period to period, for the fiscal year ended September 30, 2020, our 15 largest customers accounted for 48% of our total revenues. During the fiscal year ended September 30, 2020, no customer represented more than 10% of our total revenues or more than 10% of our subscription revenues. 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 sciences and high tech 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.

***Because we recognize a majority of our subscription 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.***

Subscription revenues primarily include contractual arrangements with customers accessing our cloud-based solutions and revenues associated with maintenance and support agreements from license customers. We recognize a majority of our subscription revenues over the term of our customer agreements, which, on average are typically one to three years. As a result, most of our quarterly subscription 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 subscription revenues for that quarter but may negatively affect subscription 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 subscription 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 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 twelve months, and unexpected implementation delays and difficulties can occur including, but not limited to, those related to global epidemics, pandemics, or contagious diseases, such as COVID-19. 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 sales and renewals of our enterprise cloud products, and decreases in demand for our enterprise cloud products could adversely affect our results of operations and financial condition.***

Historically, a substantial majority of our total revenues has been associated with our enterprise cloud products, whether deployed as individual solutions or as a complete suite. We expect our enterprise cloud products to continue to generate a substantial majority of our total revenues for the foreseeable future. Declines and variability in demand for our enterprise cloud products 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 enterprise cloud products.

***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 twelve 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.

***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. While we recently began using foreign exchange forward contracts to hedge certain cash flow exposures resulting from changes in foreign currency exchange rates, this hedging strategy may not ultimately be effective and may adversely affect our financial condition and operating results.



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

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

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

We may require additional financing in the future to operate or expand our business, acquire assets or repay or refinance our existing debt. Our ability to obtain financing will depend, among other things, on our development efforts, business plans, operating performance and condition of the capital markets at the time we seek financing. We cannot assure you that additional financing will be available to us on favorable terms when required, or at all. 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, notes, or preferred stock, and our stockholders may experience dilution.

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

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

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

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

In general, under Section 382 of the U.S. Internal Revenue Code of 1986, as amended (Code), and similar state law provisions, a corporation that undergoes an “ownership change” is subject to limitations on its ability to utilize its pre-change net operating losses (“NOLs”) to offset future taxable income. If our existing NOLs are subject to limitations arising from ownership changes, our ability to utilize NOLs could be limited by Section 382 of the Code. Future changes in our stock ownership, some of which are outside of our control, also could result in an ownership change under Section 382 of the Code. There is also a risk that our NOLs could expire, or otherwise be unavailable to offset future income tax liabilities due to changes in the law, including regulatory changes, such as suspensions on the use of NOLs or other unforeseen reasons. Additionally, the CARES Act, among other things, permits NOL carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021. The CARES Act also temporarily repealed the 80% taxable income limitation for tax years beginning

before January 1, 2021; net operating loss carried forward generated from 2018 or later and carryforwards to taxable years beginning after December 31, 2020 will be subject to the 80% limitation. Under the CARES Act, net operating losses arising in 2018, 2019 and 2020 can be carried back 5 years.

### **Risks Related to Our Business and Industry**

***The COVID-19 outbreak has had a material impact on the U.S. and global economies and could have a material adverse impact on our employees, suppliers and customers, which could adversely and materially impact our business, financial condition and results of operations.***

The outbreak of the novel coronavirus, COVID-19, has evolved into a global pandemic and public health emergency. Many federal, state and local governments and private entities have mandated various restrictions, including travel restrictions, restrictions on public gatherings, stay at home orders and advisories and quarantining of people who may have been exposed to the virus. As the COVID-19 pandemic is complex and rapidly evolving, our business may be negatively affected for a sustained time frame. While our financial results for the fiscal year ended September 30, 2020 has not been materially impacted by COVID-19, at this point, we cannot reasonably estimate the duration and severity of this pandemic, which could have a material adverse impact on our business, results of operations, financial position, and cash flows.

The pandemic may adversely affect our customers' operations, our employees, and our employee productivity. It may impact the ability of our subcontractors and partners to operate and fulfill their contractual obligations, and result in an increase in costs, delays, or disruptions in performance. In particular, our customers in the life sciences industry may experience disruptions in their business due to the prioritization of COVID-19 treatment in the healthcare community, manufacturing, and supply interruptions or safety concerns. A negative impact on our customers may cause them to request extended payment terms, delayed invoicing, higher discounts, lower renewal amounts, or cancellations. We might also experience delays or changes in customer demand, particularly if customer funding priorities change. Additionally, our employees, in many cases, are working remotely and using various technologies to perform their functions, which may create inefficiencies and reduced productivity, and reduce the effectiveness of our sales team. These effects on our customers, and the direct effect of the virus and the disruption on our employees and operations, may negatively impact our revenue, profit margins and liquidity in 2020 and beyond. Additionally, the disruption and volatility in the global and domestic capital markets may increase the cost of capital and limit our ability to access capital.

The COVID-19 pandemic has caused us to modify our business practices including employee travel, employee work locations, and cancellation of physical participation in meetings, events and conferences, and we may take further actions as may be required by government authorities or that we determine are in the best interests of our employees, customers, and business partners. A prolonged disruption or any further unforeseen delay in our operations or within any of our business activities could continue to result in increased costs and reduced revenue. We could also be adversely affected if government authorities impose additional restrictions or extend the length of restrictions on public gatherings, human interactions, mandatory closures, seek voluntary closures, restrict hours of operations, or impose curfews. There is no certainty that such measures will be sufficient to mitigate the risks posed by the virus or otherwise be satisfactory to government authorities.

Both the health and economic aspects of the COVID-19 virus are highly fluid and the future course of each is uncertain. For these reasons and other reasons that may come to light if the coronavirus pandemic and associated protective or preventative measures expand, we may experience a material adverse effect on our business operations, revenues and financial condition; however, its ultimate impact is highly uncertain and subject to change.

***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 departure of executives or subsequent hiring of new executives, which may be disruptive to our business. We experienced turnover in our Chief Financial Officer role and currently do not have a Chief Financial Officer. We will be searching for a new Chief Financial Officer which may prove difficult and may take an extended period of time due to the competition to hire from a limited pool of qualified candidates. Any changes in business strategies or leadership can create uncertainty, may negatively impact our ability to execute our business strategy quickly and effectively and may ultimately be unsuccessful. The impact of hiring new executives 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 also requires 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 execute 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.

***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.

***We are highly dependent upon the Life Sciences 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 Sciences industry. Demand for our solutions could be affected by factors that adversely affect demand for the underlying life sciences products and services that are purchased and sold pursuant to contracts managed through our solutions. The Life Sciences 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, fines, and global epidemics, pandemics, or contagious diseases, such as COVID-19. Accordingly, our future operating results could be materially and adversely affected as a result of factors that affect the Life Sciences industry generally.

***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 acquisition of other companies could require significant management attention, disrupt our business, dilute stockholder value and adversely affect our operating results.***

As part of our business strategy, we have in the past and may in the future make investments in other companies, solutions or technologies to, among other reasons, expand or enhance our product offerings. In the future, any significant acquisition would require the consent of our lenders. Any failure to receive such consent could delay or prohibit us from acquiring companies that we believe could enhance our business.

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

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

We may have to pay cash, incur debt or issue equity securities to pay for any acquisition, each of which could affect our financial condition or the value of our capital stock. To fund any future acquisition, we may issue equity, which would result in dilution to our stockholders, or incur more debt, which would result in increased fixed obligations and could subject us to additional covenants or other restrictions that would impede our ability to manage our operations.

***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, assert legal claims against us or cease to be a reference. 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.

***If we are unable to enhance existing solutions and develop new solutions 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 solutions. The success of any enhancement or new solutions depends on several factors, including timely completion, adequate quality testing, introduction and market acceptance. Any enhancement or new solutions that we develop 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 solutions 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.

***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.

***The market for cloud-based solutions is at an earlier stage of acceptance relative to on-premise solutions, and if it 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.

***If we or 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 vulnerabilities, 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 vulnerabilities, 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 process and manage, it is possible that failures, vulnerabilities or errors in our software could result in unauthorized access, data loss or corruption, or cause the information that we process 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 sciences and high tech industries include large integrated systems vendors like SAP AG and Oracle Corporation. We also encounter competition from small independent companies which compete based on 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. Further, stockholder activism has been increasing in recent years. Any such activism or public criticism of our company or management team may harm our brand and reputation.

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 sciences and high tech 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, partners, current employees and prospective employees, all of which would adversely affect our business operations and financial results.

***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 for our cloud platform 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.

***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. We have implemented the Model N Align Program, which gives our customers full access to expert knowledge through a portal for easy and fast access to information, experienced customer success managers and defined customer success plans, in order to help our customers maximize the value of our solutions. However, our customers may choose not to use such programs or may not use such programs efficiently or effectively and as a result may become dissatisfied with our solutions. 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 maintenance agreements or subscriptions 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, 2020, approximately 47% of our total employees were located in India, where we conduct a portion of our 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 you 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 countries which may adversely affect our ability to recruit, retain and manage employees in these countries;
- difficulties and costs associated with staffing and managing foreign operations;
- the potential diversion of management’s attention to oversee and direct operations that are geographically distant from our U.S. headquarters;
- compliance with multiple, conflicting and changing governmental laws and regulations, including employment, tax, privacy and data protection laws and regulations;
- legal systems in which our ability to enforce and protect our rights may be different or less effective than in the United States and in which the ultimate result of dispute resolution is more difficult to predict;
- greater difficulty collecting accounts receivable and longer payment cycles;
- higher employee costs and difficulty in terminating non-performing employees;
- differences in workplace cultures;
- unexpected changes in regulatory requirements;
- the need to adapt our solutions for specific countries;
- our ability to comply with differing technical and certification requirements outside the United States;
- tariffs, export controls and other non-tariff barriers such as quotas and local content rules;
- more limited protection for intellectual property rights in some countries;
- adverse tax consequences, including as a result of transfer pricing adjustments involving our foreign operations;
- fluctuations in currency exchange rates;
- anti-bribery compliance by us or our partners;
- restrictions on the transfer of funds;
- global epidemics, pandemics, or contagious diseases; 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.

### **Risks Related to Regulatory Compliance**

#### ***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 (the “ECJ”) ruled in October 2015 that the US-EU Safe Harbor framework was invalid, and on July 16, 2020, invalidated its successor program the US-EU Privacy Shield as a mechanism for managing personal data transfers between the European Union and the United States (and other countries). While the ECJ upheld the adequacy of EU-specified standard contractual clauses (a form of contract approved by the EU commission as an adequate data transfer mechanism), it made clear that reliance on them alone may not necessarily be sufficient in all circumstances and that their use must be assessed on a case-by-case basis taking into account the surveillance laws and right of individuals in the destination country. The ECJ went on to state that, if the competent supervisory authority believes that the standard contractual clauses cannot be complied with in the recipient country and the required level of protection cannot be secured by other means, such supervisory authority is under an obligation to suspend or prohibit that transfer unless the data exporter has already done so itself. We rely on a mixture of mechanisms to transfer personal data from our EU business to the U.S. (including having previously relied on US-EU Privacy Shield) and are evaluating what additional mechanisms may be required to establish adequate safeguards for personal data transfer. 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. For example, the state of California enacted the California Consumer Privacy Act of 2018 (“CCPA”) and California voters recently approved the California Privacy Rights Act (“CPRA”). The CCPA creates new individual privacy rights for consumers and places increased privacy and security obligations on entities handling personal data of consumers or households. The CCPA went into effect on January 1, 2020, and it requires covered companies to provide new disclosures to California consumers, provides such consumers, business-to-business contacts, and employees new ways to opt-out of certain sales of personal information, and allows for a new private right of action for data breaches. The CPRA significantly modifies the CCPA and will impose additional data protection obligations on companies doing business in California, including additional consumer rights processes and opt outs for certain uses of sensitive data. While the CPRA will not take effect until January 2023, it will establish a California privacy regulator before that date. The CCPA and the CPRA may significantly impact our business activities and require substantial compliance costs that adversely affect business, operating results, prospects and financial condition. To date, we have not experienced substantial compliance costs in connection with fulfilling the requirements under the CCPA or CPRA. However, we cannot be certain that compliance costs will not increase in the future with respect to the CCPA and CPRA.

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 European General Data Protection Regulation, which imposes 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.

***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 are 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.

***Changes to government regulations may reduce the size of the 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 sciences 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.

### **Risks Related to Our Technology and Security**

***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.

***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 and may be directed at either the solution used by our customers or our corporate information technology software and infrastructure.

Because techniques used to obtain unauthorized access, exploit vulnerabilities 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, patch vulnerabilities, or implement adequate preventative measures. Certain of our customers may have a greater sensitivity to security defects or breaches in our software than to defects in other, less critical, software solutions. Any actual or perceived security breach or theft of the business-critical data of one or more of our customers, regardless of whether the breach is attributable to the failure of our software or solutions, may adversely affect the market's perception of our solutions. There can be no assurance that limitation of liability, indemnification or other protective 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.

Furthermore, a party that is able to circumvent our security measures or exploit any vulnerabilities in our solutions could misappropriate our or our customers' proprietary or confidential information, cause interruption in their operations, damage or misuse their computer systems, misuse any information that they misappropriate, cause early termination of our contracts, subject us to notification and indemnity obligations, litigation, and regulatory investigation or governmental sanctions, cause us to lose existing customers, and harm our ability to attract future customers. Any such breach could cause harm to our reputation, business, financial condition and results of operations, and we may incur significant liability, and as a result our business and financial position may be harmed.

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

We currently operate our cloud-based solutions primarily through third-party data centers. We do not control the operation of these facilities. These facilities are vulnerable to damage or interruption from natural disasters, fires, power loss, telecommunications failures, global epidemics, pandemics, or contagious diseases, such as COVID-19, 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.

***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.

#### **Risks Related to Our Intellectual Property**

***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.

***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.

***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.

**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 volume of shares traded and the valuations of companies perceived by investors to be comparable to us; and stockholder activism.

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, particularly during this time of uncertainty as the world responds to the COVID-19 pandemic which could continue for an uncertain period. 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, or impacts related to global epidemics, pandemics, or contagious diseases, such as COVID-19, interest rate changes or international currency fluctuations, may negatively affect the market price of our common stock.

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

***The exclusive forum provision in our restated certificate of incorporation may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or any of our directors, officers, or other employees, which may discourage lawsuits with respect to such claims.***

Our restated certificate of incorporation, to the fullest extent permitted by law, provides that the Court of Chancery of the State of Delaware is the exclusive forum for: any derivative action or proceeding brought on our behalf; any action asserting a breach of fiduciary duty; any action asserting a claim against us arising pursuant to the Delaware General Corporation Law, or the DGCL, our restated certificate of incorporation, or our restated bylaws; or any action asserting a claim against us that is governed by the internal affairs doctrine. This exclusive forum provision does not apply to suits brought to enforce a duty or liability created by the Exchange Act. It could apply, however, to a suit that falls within one or more of the categories enumerated in the exclusive forum provision and asserts claims under the Securities Act, inasmuch as Section 22 of the

Securities Act creates concurrent jurisdiction for federal and state courts over all suits brought to enforce any duty or liability created by the Securities Act or the rule and regulations thereunder. There is uncertainty as to whether a court would enforce such provision with respect to claims under the Securities Act, and our stockholders will not be deemed to have waived our compliance with the federal securities laws and the rules and regulations thereunder.

This choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or any of our directors, officers, or other employees, which may discourage lawsuits with respect to such claims. Alternatively, if a court were to find the choice of forum provisions contained in our restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could harm our business, results of operations and financial condition.

In addition, Section 203 of the DGCL may discourage, delay or prevent a change in control of our company. Section 203 imposes certain restrictions on mergers, business combinations and other transactions between us and holders of 15% or more of our common stock.

Section 22 of the Securities Act of 1933, as amended (the Securities Act), creates concurrent jurisdiction for federal and state courts over all claims brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder. In May 2020, we amended and restated our restated bylaws to provide that the federal district courts of the United States of America will, to the fullest extent permitted by law, be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act, or a Federal Forum Provision. Our decision to adopt a Federal Forum Provision followed a decision by the Supreme Court of the State of Delaware holding that such provisions are facially valid under Delaware law. While there can be no assurance that federal or state courts will follow the holding of the Delaware Supreme Court or determine that the Federal Forum Provision should be enforced in a particular case, application of the Federal Forum Provision means that suits brought by our stockholders to enforce any duty or liability created by the Securities Act must be brought in federal court and cannot be brought in state court.

Section 27 of the Exchange Act creates exclusive federal jurisdiction over all claims brought to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder. In addition, neither the exclusive forum provision nor the Federal Forum Provision applies to suits brought to enforce any duty or liability created by the Exchange Act. Accordingly, actions by our stockholders to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder must be brought in federal court.

Our stockholders will not be deemed to have waived our compliance with the federal securities laws and the regulations promulgated thereunder.

Any person or entity purchasing or otherwise acquiring or holding any interest in any of our securities shall be deemed to have notice of and consented to our exclusive forum provisions, including the Federal Forum Provision. These provisions may limit a stockholders' ability to bring a claim in a judicial forum of their choosing for disputes with us or our directors, officers, or other employees, which may discourage lawsuits against us and our directors, officers, and other employees.

***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.

**Risk Related to Ownership of Our Convertible Senior Notes**

***Our outstanding notes are effectively subordinated to our secured debt and any liabilities of our subsidiaries.***

Our outstanding notes will rank senior in right of payment to all of our indebtedness that is expressly subordinated in right of payment to the notes; equal in right of payment with all of our liabilities that are not so subordinated; effectively junior to any of our secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all indebtedness and other liabilities (including trade payables) of our subsidiaries. In the event of our bankruptcy, liquidation, reorganization or other winding up, our assets that secure debt ranking senior or equal in right of payment to the notes will be available to pay obligations on the notes only after the secured debt has been repaid in full from these assets. There may not be sufficient assets remaining to pay amounts due on any or all of the notes then outstanding. The indenture governing the notes will not prohibit us from incurring additional senior debt or secured debt, nor will it prohibit any of our subsidiaries from incurring additional liabilities.

***Our notes are our obligations only, and to the extent our operations will be conducted through, and a substantial portion of our consolidated assets will be held by, our subsidiaries, we may rely on distributions from such subsidiaries to service our debt.***

Our notes are our obligations exclusively. To the extent our operations will be conducted through, and a substantial portion of our consolidated assets will be held by, our subsidiaries, our ability to service the notes will depend on the results of operations of our subsidiaries and upon the ability of such subsidiaries to provide us with cash, whether in the form of dividends, loans or otherwise, to pay amounts due on our obligations, including the notes. Our present and future subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to make payments on the notes or to make any funds available for that purpose. In addition, dividends, loans or other distributions to us from such subsidiaries may be subject to statutory, contractual and other restrictions and are subject to other business considerations.

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

As of September 30, 2020, we had an aggregate principal amount of \$172.5 million of notes outstanding. We may also incur additional indebtedness in the future to meet future financing needs. Our current indebtedness and any future incurrence of additional significant indebtedness could have adverse consequences, including the following:

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

Our ability to generate cash to repay our indebtedness is subject to the performance of our business, as well as general economic, financial, competitive and other factors that are beyond our control. If our business does not generate sufficient cash flow from operating activities or if future borrowings are not available to us in amounts sufficient to enable us to fund our liquidity needs, our operating results, financial condition and ability to expand our business may be adversely affected. In addition, if we are unable to generate such cash flow or obtain sufficient borrowings, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

***Recent and future regulatory actions and other events may adversely affect the trading price and liquidity of our notes.***

We expect that many investors in our notes will employ, or seek to employ, a convertible arbitrage strategy with respect to the notes. Investors would typically implement such a strategy by selling short the common stock underlying the notes and dynamically adjusting their short position while continuing to hold the notes. Investors may also implement this type of strategy by entering into swaps on our common stock in lieu of or in addition to short selling the common stock. The SEC and other regulatory and self-regulatory authorities have implemented various rules and taken certain actions, and may in the future adopt additional rules and take other actions, that may impact those engaging in short selling activity involving equity securities (including our common stock). Such rules and actions include Rule 201 of SEC Regulation SHO, the adoption by the Financial Industry Regulatory Authority, Inc. and the national securities exchanges of a “Limit Up-Limit Down” program, the imposition of market-wide circuit breakers that halt trading of securities for certain periods following specific market declines, and the implementation of certain regulatory reforms required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. Any governmental or regulatory action that restricts the ability of investors in, or potential purchasers of, the notes to effect short sales of our common stock, borrow our common stock or enter into swaps on our common stock could adversely affect the trading price and the liquidity of our notes.

In addition, the liquidity of the market for our common stock may decline, which could reduce the number of shares available for lending in connection with short sale transactions and the number of counterparties willing to enter into an equity swap on our shares of common stock with a note investor. If investors in our notes seeking to employ a convertible note arbitrage strategy are unable to borrow or enter into equity swaps on our shares of common stock on commercially reasonable terms, then the trading of, and the liquidity of the market for, our notes may significantly decline.

***Volatility in the market price and trading volume of our common stock could adversely impact the trading price of our notes.***

We expect that the trading price of the notes will be significantly affected by the market price of our common stock. The stock market in recent years has experienced significant price and volume fluctuations that have often been unrelated to the operating performance of companies. The market price of our common stock could fluctuate significantly for many reasons, including in response to the risks described in this section and this report, many of which are beyond our control, such as reports by industry analysts, investor perceptions or negative announcements by our customers, competitors or suppliers regarding their own performance, as well as industry conditions and general financial, economic and political instability. A decrease in the market price of our common stock would likely adversely impact the trading price of our notes. The market price of our common stock could also be affected by possible sales of our common stock by investors who view the notes as a more attractive means of equity participation in us and by hedging or arbitrage trading activity that we expect to develop involving our common stock. This trading activity could, in turn, affect the trading price of the notes.

In addition, the condition of the financial markets and changes in prevailing interest rates can have an adverse effect on the trading price of our notes. For example, prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future, and any increase in prevailing interest rates could adversely affect the trading price of our notes.

***We and our subsidiaries may incur substantially more debt or take other actions which would intensify the risks discussed above.***

We and our subsidiaries may be able to incur substantial additional debt in the future, subject to the restrictions contained in our debt instruments, some of which may be secured debt. We are not restricted under the terms of the indenture governing our notes from incurring additional debt, securing existing or future debt, recapitalizing our debt or taking a number of other actions that are not limited by the terms of the indenture governing the notes that could have the effect of diminishing our ability to make payments on our notes when due.

***We may not have the ability to raise the funds necessary to settle conversions of our notes in cash, to repurchase our notes for cash upon a fundamental change or to pay the redemption price for any notes we redeem, and our future debt may contain limitations on our ability to pay cash upon conversion or repurchase of the notes.***

Holders of our notes have the right to require us to repurchase all or a portion of their notes upon the occurrence of a fundamental change (as defined in the indenture) at a fundamental change repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest, if any. In addition, upon conversion of the notes, unless we elect to deliver solely shares of our common stock to settle such conversion (other than paying cash in lieu of delivering any fractional shares), we will be required to make cash payments in respect of the notes being converted. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of notes surrendered therefor or notes that are being redeemed or converted.

In addition, our ability to repurchase the notes or to pay cash upon redemptions or conversions of the notes may be limited by law, by regulatory authority, or by other agreements governing our future indebtedness. Our failure to repurchase notes at a time when the repurchase is required by the indenture or to pay any cash payable on future conversions of the notes as required by the indenture would constitute a default under the indenture. A default under the indenture or the occurrence of a fundamental change itself could also lead to a default under agreements governing our existing and future indebtedness. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the notes or make cash payments upon conversions thereof.

***The conditional conversion feature of our notes, if triggered, may adversely affect our financial condition and operating results.***

In the event the conditional conversion feature of our notes is triggered, holders of notes will be entitled to convert the notes at any time during specified periods at their option. If one or more holders elect to convert their notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional shares), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

***The accounting method for convertible debt securities that may be settled in cash, such as our outstanding notes, could have a material effect on our reported financial results.***

Under Accounting Standards Codification 470-20, Debt with Conversion and Other Options (“ASC 470-20”), an entity must separately account for the liability and equity components of the convertible debt instruments (such as our notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer’s economic interest cost.



The effect of ASC 470-20 on the accounting for the notes is that the equity component is required to be included in the additional paid-in capital section of stockholders' equity on our consolidated balance sheet at the issuance date, and the value of the equity component is treated as debt discount for purposes of accounting for the debt component of the notes. As a result, we are required to record a greater amount of non-cash interest expense in current periods presented as a result of the accretion of the discounted carrying value of the notes to their face amount over the respective terms of the notes. We report larger net losses (or lower net income) in our financial results because ASC 470-20 requires interest to include both the current period's accretion of the debt discount and the instrument's coupon interest rate, which could adversely affect our future financial results, the trading price of our common stock or the trading price of the notes.

In addition, under certain circumstances, the treasury stock method for calculating diluted earnings per share is permitted for convertible debt instruments (such as the notes) that may be settled entirely or partly in cash. As a result, for purposes of calculating diluted earnings per share, we will include, under certain circumstances, the shares underlying the notes only to the extent that the conversion value of the notes exceeds the principal amount; provided that we will not use the treasury stock method if the effect on diluted earnings per share would be anti-dilutive.

In August 2020, the FASB issued ASU 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40), Accounting for Convertible Instruments and Contracts in an Entity's Own Equity, which eliminates the beneficial conversion and cash conversion accounting models for convertible instruments. This would reduce non-cash interest expense, and thereby decreasing net loss (or increasing net income). Additionally, the treasury stock method for calculating earnings per share will no longer be allowed for convertible debt instruments whose principal amount may be settled using shares. Rather, the if-converted method will be required. Application of the "if-converted" method may reduce our reported diluted earnings per share. We cannot be sure whether other changes may be made to the current accounting standards related to the notes, or otherwise, that could have an adverse impact on our financial statements.

***Future sales of our common stock or equity-linked securities in the public market could lower the market price for our common stock and adversely impact the trading price of the notes.***

In the future, we may sell additional shares of our common stock or equity-linked securities to raise capital. In addition, a substantial number of shares of our common stock are reserved for issuance upon the exercise of stock options, settlement of other equity incentive awards, and upon conversion of the notes. The indenture for our notes does not restrict our ability to issue additional common stock or equity-linked securities in the future. We cannot predict the size of future issuances or the effect, if any, that they may have on the market price for our common stock. The issuance and sale of substantial amounts of common stock or equity-linked securities, or the perception that such issuances and sales may occur, could adversely affect the trading price of our notes and the market price of our common stock and impair our ability to raise capital through the sale of additional common stock or equity-linked securities.

***Holders of our notes are not entitled to any rights with respect to our common stock, but they are subject to all changes made with respect to them to the extent our conversion obligation includes shares of our common stock.***

Holders of our notes are not entitled to any rights with respect to our common stock (including, without limitation, voting rights and rights to receive any dividends or other distributions on our common stock) prior to the conversion date relating to such notes (if we have elected to settle the relevant conversion by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional shares)) or the last trading day of the relevant observation period (if we elect to pay and deliver, as the case may be, a combination of cash and shares of our common stock in respect of the relevant conversion), but holders of notes will be subject to all changes affecting our common stock. For example, if an amendment is proposed to our certificate of incorporation or bylaws requiring stockholder approval and the record date for determining the stockholders of record entitled to vote on the amendment occurs prior to the conversion date related to a holder's conversion of its notes (if we have elected to settle the relevant conversion by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional shares)) or the last trading day of the relevant observation period (if we elect to pay and deliver, as the case may be, a combination of cash and shares of our common stock in respect of the relevant conversion), such holder will not be entitled to vote on the amendment, although such holder will nevertheless be subject to any changes affecting our common stock.

***The conditional conversion feature of the notes could result in holders of our notes receiving less than the value of our common stock into which the notes would otherwise be convertible.***

Prior to the close of business on the business day immediately preceding March 1, 2025, the holders of our notes may convert their notes only if specified conditions are met. If the specific conditions for conversion are not met, our note holders will not be able to convert their notes, and they may not be able to receive the value of the cash, common stock or a combination of cash and common stock, as applicable, into which the notes would otherwise be convertible.

***Upon conversion of our notes, our note holders may receive less valuable consideration than expected because the value of our common stock may decline after such exercise of conversion rights but before we settle our conversion obligation.***

Under the notes, a converting holder will be exposed to fluctuations in the value of our common stock during the period from the date such holder surrenders notes for conversion until the date we settle our conversion obligation.

Upon conversion of the notes, we have the option to pay or deliver, as the case may be, cash, shares of our common stock, or a combination of cash and shares of our common stock. If we elect to satisfy our conversion obligation in cash or a combination of cash and shares of our common stock, the amount of consideration that our note holders will receive upon conversion of their notes will be determined by reference to the volume-weighted average price of our common stock for each trading day in a 40 consecutive trading day observation period. This period would be (i) subject to clause (ii), if the relevant conversion date occurs prior to March 1, 2025, the 40 consecutive trading day period beginning on, and including, the second trading day immediately succeeding such conversion date; (ii) if the relevant conversion date occurs on or after the date of our issuance of a notice of redemption calling such note for redemption and on or prior to the business day immediately preceding the relevant redemption date, the 40 consecutive trading days beginning on, and including, the 41st scheduled trading day immediately preceding such redemption date; and (iii) subject to clause (ii), if the relevant conversion date occurs on or after March 1, 2025, the 40 consecutive trading days beginning on, and including, the 41st scheduled trading day immediately preceding the maturity date. Accordingly, if the price of our common stock decreases during this period, the amount and/or value of consideration a note holder will receive will be adversely affected. In addition, if the market price of our common stock at the end of such period is below the average volume-weighted average price of our common stock during such period, the value of any shares of our common stock that our note holders will receive in satisfaction of our conversion obligation will be less than the value used to determine the number of shares that they will receive.

If we elect to satisfy our conversion obligation solely in shares of our common stock upon conversion of the notes, we will be required to deliver the shares of our common stock, together with cash for any fractional shares, on the second business day following the relevant conversion date. Accordingly, if the price of our common stock decreases during this period, the value of the shares that note holders receive will be adversely affected and would be less than the conversion value of the notes on the conversion date.

***Our notes are not protected by restrictive covenants.***

The indenture governing the notes does not contain any financial or operating covenants or restrictions on the payments of dividends, the incurrence of indebtedness or the issuance or repurchase of securities by us or any of our subsidiaries. The indenture does not contain any covenants or other provisions to afford protection to holders of the notes in the event of a fundamental change or other corporate transaction involving us except to the extent described in the indenture governing the notes.

***The increase in the conversion rate for notes converted in connection with a make-whole fundamental change or a notice of redemption may not adequately compensate note holders for any lost value of their notes as a result of such transaction or redemption.***

If a make-whole fundamental change (as defined in the indenture) occurs prior to the maturity date or if we deliver a notice of redemption, we will, under certain circumstances, increase the conversion rate by a number of additional shares of our common stock for notes converted in connection with such make-whole fundamental change or notice of redemption, as the case may be. The number of additional shares, if any, by which the conversion rate will be increased will be determined based on the date on which the make-whole fundamental change occurs or becomes effective or the date of the notice of redemption, as the case may be, and the price paid (or deemed to be paid) per share of our common stock in the make-whole fundamental change or determined with respect to the notice of redemption, as the case may be. Although the increase in the conversion rate is designed to compensate note holders for the option value that their notes lose as result of a make-whole fundamental change or a redemption, as the case may be, the value provided by the increase in the conversion rate is only an approximation of the lost option value and may not adequately compensate note holders for any lost value of their notes as a result of such transaction or redemption, as the case may be. In addition, if the “stock price” (as defined in the indenture governing the notes) is greater than \$325.00 per share or less than \$26.14 per share (in each case, subject to adjustment), no additional shares will be added to the conversion rate. Moreover, in no event will the conversion rate per \$1,000 principal amount of notes as a result of this adjustment exceed 38.2555 shares of common stock, subject to adjustment.

Our obligation to increase the conversion rate for notes converted in connection with a make-whole fundamental change or notice of redemption could be considered a penalty, in which case the enforceability thereof would be subject to general principles of reasonableness and equitable remedies.

***Upon any redemption of the notes on or after June 6, 2023 or any conversion of the notes in connection with a notice of redemption, the cash comprising the redemption price, in the case of a redemption, or the applicable conversion rate, in the case of a conversion in connection with a notice of redemption, as applicable, may not fully compensate note holders for future interest payments or lost time value of their notes and may adversely affect their return on the notes.***

On a redemption date occurring on or after June 6, 2023 and on or before the 41st scheduled trading day immediately before the maturity date, we may redeem for cash all or any portion of the notes, at our option, if the last reported sale price of our common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive), including the trading day immediately preceding the date on which we provide notice of redemption, during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which we provide notice of redemption at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. If we call any or all of the notes for redemption, our note holders may convert their notes at any time prior to the close of business on the business day immediately preceding the redemption date. Upon such redemption or conversion, the cash comprising the redemption price, in the case of a redemption, or the applicable conversion rate, in the case of a conversion in connection with a notice of redemption, in either case, may not fully compensate our note holders for any future interest payments that they would have otherwise received or any other lost time value of their notes. In addition, we may choose to redeem some or all of the notes, including at times when prevailing interest rates are relatively low and our note holders may not be able to reinvest the proceeds or conversion consideration they receive from the redemption or conversion prior to the redemption, respectively, of such notes in a comparable security at an effective interest rate as high as the interest rate on the notes being redeemed.

***The conversion rate of our notes may not be adjusted for all dilutive events.***

The conversion rate of our notes is subject to adjustment for certain events, including, but not limited to, the issuance of certain stock dividends on our common stock, the issuance of certain rights or warrants, subdivisions, combinations, distributions of capital stock, indebtedness, or assets, cash dividends and certain issuer tender or exchange offers. However, the conversion rate will not be adjusted for other events, such as a third-party tender or exchange offer or an issuance of our common stock for cash, that may adversely affect the trading price of the notes or our common stock. An event that adversely affects the value of the notes may occur, and that event may not result in an adjustment to the conversion rate.

***Provisions in the indenture for the notes may deter or prevent a business combination that may be favorable to our security holders.***

If a fundamental change occurs prior to the maturity date, holders of our notes will have the right, at their option, to require us to repurchase all or a portion of their notes. In addition, if a make-whole fundamental change occurs prior the maturity date, we will in some cases be required to increase the conversion rate for a holder that elects to convert its notes in connection with such make-whole fundamental change. Furthermore, the indenture for the notes prohibits us from engaging in certain mergers or acquisitions unless, among other things, the surviving entity assumes our obligations under the notes. These and other provisions in the indenture could deter or prevent a third party from acquiring us even when the acquisition may be favorable to our security holders.

***Some significant restructuring transactions may not constitute a fundamental change, in which case we would not be obligated to offer to repurchase the notes.***

Upon the occurrence of a fundamental change, our note holders have the right to require us to repurchase their notes. However, the fundamental change provisions will not afford protection to holders of notes in the event of other transactions that could adversely affect the notes. For example, transactions such as leveraged recapitalizations, refinancings, restructurings, or acquisitions initiated by us may not constitute a fundamental change requiring us to repurchase the notes. In the event of any such transaction, the note holders would not have the right to require us to repurchase the notes, even though each of these transactions could increase the amount of our indebtedness, or otherwise adversely affect our capital structure or any credit ratings, thereby adversely affecting the holders of notes.

***We have not registered the notes or the common stock issuable upon conversion of the notes, if any, which will limit our note holders' ability to resell them.***

The offer and sale of the notes and the shares of common stock issuable upon conversion of the notes, if any, have not been registered under the Securities Act or any state securities laws. Unless the notes and the shares of common stock issuable upon conversion of the notes, if any, have been registered, the notes and such shares may not be transferred or resold except in a transaction exempt from or not subject to the registration requirements of the Securities Act and applicable state securities laws. We do not intend to file a registration statement for the resale of the notes and the common stock, if any, into which the notes are convertible.

***There may not be an active trading market for our notes.***

We do not intend to apply to list the notes on any securities exchange or to arrange for quotation on any automated dealer quotation system. The liquidity of the trading market in the notes, and the market price quoted for the notes, may be adversely affected by changes in the overall market for this type of security and by changes in our financial performance or prospects or in the prospects for companies in our industry generally. As a result, an active trading market may not be maintained for the notes, and the market price and liquidity of the notes may be adversely affected. In that case note holders may not be able to sell their notes at a particular time or they may not be able to sell their notes at a favorable price.

***Any adverse rating of the notes may cause their trading price to fall.***

We do not intend to seek a rating on the notes. However, if a rating service were to rate the notes and if such rating service were to lower its rating on the notes below the rating initially assigned to the notes or otherwise announces its intention to put the notes on credit watch, the trading price of the notes could decline.

***Note holders may be subject to tax if we make or fail to make certain adjustments to the conversion rate of the notes even though they do not receive a corresponding cash distribution.***

The conversion rate of the notes is subject to adjustment in certain circumstances, including the payment of cash dividends. If the conversion rate is adjusted as a result of a dividend that is taxable to our common stockholders, such as a cash dividend, note holders will be deemed to have received a distribution subject to U.S. federal income tax, without the receipt of any cash. In addition, a failure to adjust (or to adjust adequately) the conversion rate after an event that increases a note holder's proportionate interest in us could be treated as a deemed taxable dividend to the holder. If a make-whole fundamental change occurs prior to the maturity date or if we deliver a notice of redemption, we will, under certain circumstances, increase the conversion rate for notes converted in connection with the make-whole fundamental change or notice of redemption, as the case may be. Such increase also may be treated as a distribution subject to U.S. federal income tax as a dividend. It is unclear whether any such deemed dividend would be eligible for the preferential tax treatment generally available for dividends paid by U.S. corporations to certain non-corporate U.S. holders. If a note holder is a non-U.S. holder, any deemed dividend would generally be subject to U.S. federal withholding tax, which may be set off against subsequent payments on the notes or any shares of our common stock owned by the holder or from any proceeds of any subsequent sale, exchange or other disposition of the notes (including the retirement of a note) or such common stock or other funds or assets of the holder. The Internal Revenue Service has proposed regulations addressing the amount and timing of deemed distributions, obligations of withholding agents and filing and notice obligations of issuers, which if adopted could affect the U.S. federal income tax treatment of beneficial owners of notes deemed to receive such a distribution.

***We may invest or spend the proceeds of from the sale of our notes in ways with which our security holders may not agree or in ways which may not yield a return.***

Our management will have considerable discretion in the application of the net proceeds from the sale of our notes, and our security holders will not have the opportunity to assess whether the proceeds are being used appropriately. The net proceeds may be invested with a view towards long-term benefits for our stockholders and this may not increase our operating results or market value. The failure by our management to apply these funds effectively may adversely affect the return on investment.

***Because the notes will initially be held in book-entry form, holders must rely on DTC's procedures to receive communications relating to the notes and exercise their rights and remedies.***

We will initially issue the notes in the form of one or more global notes registered in the name of Cede & Co., as nominee of DTC. Beneficial interests in global notes will be shown on, and transfers of global notes will be effected only through, the records maintained by DTC. Except in limited circumstances, we will not issue certificated notes. Accordingly, if a note holder owns a beneficial interest in a global note, then it will not be considered an owner or holder of the notes. Instead, DTC or its nominee will be the sole holder of the notes. Unlike persons who have certificated notes registered in their names, owners of beneficial interests in global notes will not have the direct right to act on our solicitations for consents or requests for waivers or other actions from holders. Instead, those beneficial owners will be permitted to act only to the extent that they have received appropriate proxies to do so from DTC or, if applicable, a DTC participant. The applicable procedures for the granting of these proxies may not be sufficient to enable owners of beneficial interests in global notes to vote on any requested actions on a timely basis. In addition, notices and other communications relating to the notes will be sent to DTC. We expect DTC to forward any such communications to DTC participants, which in turn would forward such communications to indirect DTC participants. However, we can make no assurances that note holders will timely receive any such communications.

## General Risk Factors

***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. See Note 2 to the consolidated financial statements included in this report regarding the effect of new accounting pronouncements on our financial statements. Any difficulties in implementing these pronouncements could cause us to fail to meet our financial reporting obligations, which could result in regulatory discipline and harm investors’ confidence in us. Further, the implementation of this new 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 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 Securities Exchange Act of 1934 (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 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. For example, 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. 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.

***We incur significant costs and devote substantial management time as a result of operating as a public 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 Securities and Exchange Commission (“SEC”) and the New York Stock Exchange, including the establishment and maintenance of effective disclosure and financial controls and changes in corporate governance practices. Compliance with these rules and regulations increases our legal and financial compliance costs, makes some activities more difficult, time-consuming or costly and increases demand on our systems and resources, particularly since we are no longer an “emerging growth company.” In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting, significant resources and management oversight may be required. As a result, management’s attention may be diverted from other business concerns, which could adversely affect our business and operating results.

***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.

***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 including those related to global epidemics, pandemics, or contagious diseases, such as COVID-19, 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, global epidemics, pandemics, or contagious diseases, 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.

***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.

***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 provisions 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.

**ITEM 1B. Unresolved Staff Comments**

None.

**ITEM 2. Properties**

Our corporate headquarters are located in San Mateo, California, and consist of approximately 35,000 square feet of space under a lease for our business operations and product development activities.

We have additional U.S. offices in Colorado, Illinois, Maine, Massachusetts and New Jersey. We also have international office locations in India and Switzerland. 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. See Note 4 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’s common stock is traded on the New York Stock Exchange under the symbol “MODN”.

**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 6, 2020, there were 35 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.

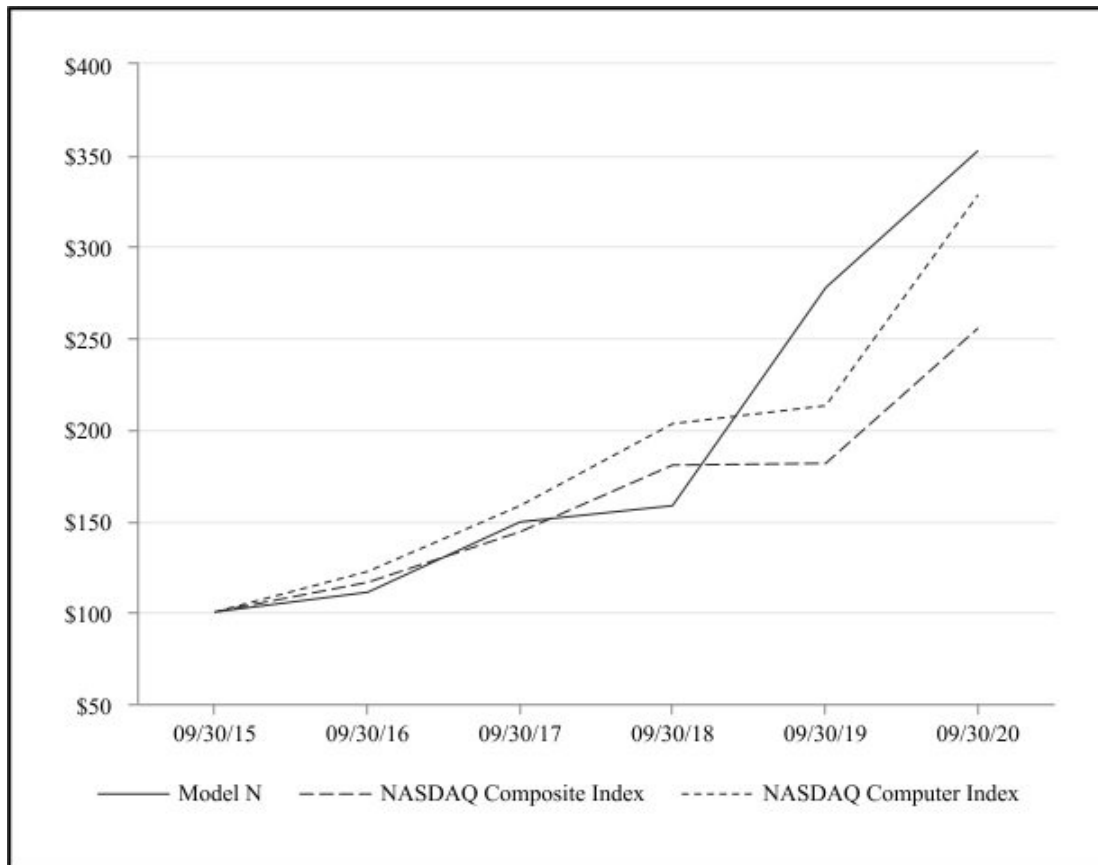
**Securities Authorized for Issuance under Equity Compensation Plans**

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 2021 (the “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 September 30, 2015, in our common stock, the NASDAQ Composite Index and the NASDAQ Computer Index, and assumes the reinvestment of any dividends.



	9/30/2015	9/30/2016	9/30/2017	9/30/2018	9/30/2019	9/30/2020
Model N	\$ 100.00	\$ 110.99	\$ 149.35	\$ 158.34	\$ 277.32	\$ 352.45
NASDAQ Composite Index	\$ 100.00	\$ 116.42	\$ 144.00	\$ 180.24	\$ 181.19	\$ 255.40
NASDAQ Computer Index	\$ 100.00	\$ 122.33	\$ 158.25	\$ 203.06	\$ 212.94	\$ 328.40

**ITEM 6. Selected Consolidated Financial Data**

The consolidated statements of operations data for the fiscal years ended September 30, 2020, 2019, and 2018, and the selected consolidated balance sheets data as of September 30, 2020, and 2019, are derived from our audited Consolidated Financial Statements included in this Form 10-K. The consolidated statements of operations data for fiscal years ended September 30, 2017 and 2016, and the selected consolidated balance sheets data as of September 30, 2018, 2017, and 2016, 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. We adopted ASC Topic 606, Revenue from Contracts with Customers, on October 1, 2018, using the modified retrospective method. The reported results for fiscal years 2020 and 2019 reflect the application of ASC Topic 606, while the reported results for prior fiscal years are not adjusted and continue to be reported under ASC Topic 605.



	Fiscal Years Ended September 30,				
	2020	2019	2018	2017(1)	2016
	(in thousands, except per share data)				
<b>Consolidated Statements of Operations Data:</b>					
Revenues:					
Subscription	\$ 116,184	\$ 105,219	\$ 98,308	\$ 86,151	\$ 84,021
Professional services	44,872	36,016	56,324	45,018	22,950
Total revenues	<u>161,056</u>	<u>141,235</u>	<u>154,632</u>	<u>131,169</u>	<u>106,971</u>
Cost of Revenues:					
Subscription	34,461	35,218	37,820	38,172	38,340
Professional services	31,035	30,912	27,514	22,924	15,353
Total cost of revenues	<u>65,496</u>	<u>66,130</u>	<u>65,334</u>	<u>61,096</u>	<u>53,693</u>
Gross profit	95,560	75,105	89,298	70,073	53,278
Operating Expenses:					
Research and development	34,361	30,009	32,416	31,064	23,706
Sales and marketing	38,979	32,894	35,482	41,339	32,261
General and administrative	28,826	27,213	42,178	36,281	30,051
Total operating expenses	<u>102,166</u>	<u>90,116</u>	<u>110,076</u>	<u>108,684</u>	<u>86,018</u>
Loss from operations	(6,606)	(15,011)	(20,778)	(38,611)	(32,740)
Interest expense (income), net	6,322	2,933	8,178	4,159	(50)
Other expenses (income), net	(76)	319	(722)	62	86
Loss before income taxes	(12,852)	(18,263)	(28,234)	(42,832)	(32,776)
Provision for (benefit from) income taxes	812	1,030	(27)	(3,285)	335
Net loss	<u>\$ (13,664)</u>	<u>\$ (19,293)</u>	<u>\$ (28,207)</u>	<u>\$ (39,547)</u>	<u>\$ (33,111)</u>
Net loss per share attributable to common stockholders (2):					
Basic and diluted	<u>\$ (0.40)</u>	<u>\$ (0.60)</u>	<u>\$ (0.93)</u>	<u>\$ (1.38)</u>	<u>\$ (1.21)</u>
Weighted average number of shares used in computing net loss per share attributable to common stockholders (2):					
Basic and diluted	<u>34,008</u>	<u>32,232</u>	<u>30,370</u>	<u>28,649</u>	<u>27,379</u>

**Other Financial Data:**

Adjusted EBITDA (3)	\$ 21,392	\$ 13,119	\$ 11,472	\$ (8,269)	\$ (12,571)
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- (1) On January 5, 2017, we completed the Revitas acquisition.
- (2) See Note 13 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.
- (3) 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.

	As of September 30,				
	2020(1)	2019	2018	2017(2)	2016
	(in thousands)				
<b>Consolidated Balance Sheets Data</b>					
Cash and cash equivalents	\$ 200,491	\$ 60,780	\$ 56,704	\$ 57,558	\$ 66,149
Working capital	168,732	18,200	16,455	10,172	48,588
Total assets	320,290	169,593	166,153	171,936	112,967
Long-term debt, current and long-term	114,438	44,282	53,704	57,205	—
Total liabilities	195,619	116,871	126,119	130,675	46,765
Total stockholders' equity	124,671	52,722	40,034	41,261	66,202

(1) In May 2020, we issued convertible senior notes and paid off the term loan with Wells Fargo. See Note 9 and Note 8 to our Consolidated Financial Statements for more information.

(2) On January 5, 2017, we completed the Revitas acquisition.

## **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.*

*A discussion and analysis regarding our financial condition, results of operations and cash flows for the year ended September 30, 2020 compared to the year ended September 30, 2019 is presented below. A discussion regarding our financial condition, results of operations and cash flows for the year ended September 30, 2019 compared to the year ended September 30, 2018 is included in Item 7 of Part II, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K filed with the SEC on November 15, 2019.*

### **Overview**

We are a leading provider of cloud revenue management solutions for life sciences and high tech companies. Our software helps companies drive mission critical business processes such as pricing, quoting, contracting, regulatory compliance, rebates and incentives. With deep industry expertise, Model N supports the complex business needs of the world’s leading brands in life sciences and high tech including Johnson & Johnson, AstraZeneca, Novartis, Microchip Technology, and ON Semiconductor.

Model N Revenue Cloud transforms the revenue life cycle into a strategic, end-to-end process aligned across the enterprise. Deployments may vary from specific divisions or territories to enterprise-wide implementations. Customers may purchase and deploy a single cloud product or a full suite.

We derive revenues primarily from the sale of subscriptions to our cloud-based solutions, as well as subscriptions for maintenance and support and managed support services related to on-premise solutions. We price our solutions based on a number of factors, including revenues under management and number of users. Subscription revenues are recognized ratably over the coverage period. We also derive revenues from selling professional services related to past sales of perpetual licenses and implementation and professional services associated with our cloud-based solutions. The actual timing of revenue recognition may vary based on our customers’ implementation requirements and the availability of our services personnel.

We market and sell our solutions to customers in the life sciences and high tech industries. Historically, our growth was driven by the sale of on-premise solutions. Over the last few years, we shifted our focus to selling cloud-based software and in 2017, we started transitioning customers with on-premise software to cloud-based software. Our most significant customers in any given period generally vary from period to period due to the timing in the delivery of our professional services and related revenue recognition. During the fiscal years ended September 30, 2020, and 2019, no customer represented more than 10% of our total revenues or more than 10% of our subscription revenues. During the fiscal years ended September 30, 2018, one customer, Johnson & Johnson, accounted for approximately 15% of our total revenues. No customer represented more than 10% of our subscription revenues during the fiscal years ended September 30, 2020, 2019, and 2018. For the fiscal years ended September 30, 2020, 2019, and 2018, approximately 9%, 8%, and 12% of our total revenues were derived from customers located outside the United States respectively.

For the fiscal years ended September 30, 2020, 2019, and 2018, our total revenues were \$161.1 million, \$141.2 million, and \$154.6 million, respectively, representing a year-over-year increase of approximately 14% from 2019 to 2020 and year-over-over decrease of approximately 9% from 2018 to 2019. Revenue increased in fiscal year 2020 due to the increase in subscription revenues resulting from an increased number of customer contracts as well as the increase in professional services revenues resulting from an increase in services provided to our new and existing customers. Revenues decreased in fiscal year 2019 primarily due to the reduction in professional services revenue as we moved towards cloud-based solutions.

### **COVID-19**

The World Health Organization declared the outbreak of COVID-19 a pandemic and the U.S. federal government declared it a national emergency in March 2020. Many federal, state and local governments and private entities have mandated various restrictions, including travel restrictions, restrictions on public gatherings, stay at home orders and advisories and quarantining of people who may have been exposed to the virus. Our financial results for the fiscal year ended September 30, 2020 has not been materially impacted by COVID-19. The extent of the impact of COVID-19 on our future operational and financial performance, revenues, and liquidity will depend on certain developments, including the duration and spread of the outbreak as well as the impact on our customers, employees, and partners, all of which are uncertain and cannot be predicted. We are conducting business with substantial modifications to employee travel, employee work locations, and virtualization or cancellation of certain sales and marketing events, among other modifications. Many of our customers have implemented similar measures, which may limit our ability to sell or provide professional services to them. Customers may also delay or

cancel purchasing decisions or projects in light of uncertainties to their businesses arising from the COVID-19 pandemic. As the majority of our revenue is subscription-based, the effect of the COVID-19 pandemic may not be fully reflected in our results of operations until future periods.

## **Key Business Metrics**

In addition to the measures of financial performance presented in our Consolidated Financial Statements, we use adjusted EBITDA to establish budgets and operational goals and to evaluate and manage our business internally. We believe adjusted EBITDA provides investors with consistency and comparability with our past financial performance and facilitates period-to-period comparisons of our operating results and our competitors' operating results. See "Non-GAAP Financial Measure" below.

## **Key Components of Results of Operations**

### ***Change in Presentation***

Prior to fiscal year 2019, we presented revenue and cost of revenue on two lines: "SaaS and maintenance" and "License and implementation". Historically, our growth was driven by the sale of on-premise solutions. Over the last few years, we shifted our focus to selling cloud-based software. As a result of our business model transition from an on-premise to a software-as-a-service ("SaaS") model, we have updated the presentation in fiscal year 2019 to present the revenue and cost of revenue line items within our consolidated statements of operations with the break-out between two new lines called "Subscription" and "Professional services." Revenues and cost of revenues in prior periods have been reclassified in this filing to conform to the new presentation. This change in presentation does not affect our previously-reported total revenues or total cost of revenues.

### ***Revenues***

#### ***Subscription***

Subscription revenues primarily include contractual arrangements with customers accessing our cloud-based solutions. These arrangements, on average, are for committed three-year terms. Included in subscription revenues are revenues associated with maintenance and support which generally renew on a one year or three year basis and managed support services. Maintenance and support revenues include post-contract customer support and the right to unspecified software updates and enhancements on a when and if available basis from customers using on-premise solutions. Managed support services revenue includes supporting, managing and administering our software solutions and providing additional end user support. Term-based licenses for current products with the right to use unspecified future versions of the software and maintenance and support during the coverage period are also included in subscription revenues. Subscription revenue is generally recognized ratably over the contractual term of the arrangement beginning on the date our service is made available to the customer. The SaaS model is the primary way we sell to our customers in our vertical markets.

#### ***Professional Services***

Professional services revenues primarily include fees generated from implementation, cloud configuration, on-site support, and other consulting services. Also included in professional services revenues are revenues related to training and customer-reimbursed expenses, as well as services related to software licenses for our on-premise solutions. Professional services revenues are generally recognized as the services are rendered for time and materials contracts or recognized using a proportional performance method as hours are incurred relative to total estimated hours for the engagement for fixed price contracts. The majority of our professional services contracts are on a time and materials basis. The revenue from training and customer-reimbursed expenses is recognized as we deliver these services.

### ***Cost of Revenues***

#### ***Subscription***

Cost of subscription revenues includes costs related to our cloud-based solutions, maintenance and support for our on-premise solutions and managed support services. Cost of subscription revenues primarily consists of personnel-related costs including salary, bonus, and stock-based compensation as well as costs for royalties, facilities expense, amortization, depreciation, third-party contractors and cloud infrastructure costs.

#### ***Professional Services***

Cost of professional services revenues includes costs related to the set-up of our cloud-based solutions, services for on-premise solutions, training and customer-reimbursed expenses. Cost of professional services revenues primarily consists of personnel-related costs including salary, bonus, and stock-based compensation as well as costs for third-party contractors and other expenses. Cost of professional services 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.

## Operating Expenses

### Research and Development

Our research and development expenses consist primarily of personnel-related costs including salary, bonus, stock-based compensation, costs related to third-party contractors, and travel-related expenses. Our software development costs are generally expensed as incurred. We capitalize certain development costs incurred in connection with the cloud-based software platform for internal use.

### Sales and Marketing

Our sales and marketing expenses consist primarily of personnel-related costs including salary, bonus, commissions, stock-based compensation, as well as amortization of intangibles, travel-related expenses, and marketing programs.

### General and Administrative

Our general and administrative expenses consist primarily of personnel-related costs including salary, bonus, and stock-based compensation, as well as audit and legal fees, costs related to third-party contractors, facilities expenses, costs associated with corporate transactions, and travel-related expenses.

## Results of Operations

The following tables set forth our consolidated results of operations for the periods presented and as a percentage of our total revenues for those periods. The period-to-period comparison of financial results is not necessarily indicative of financial results to be achieved in future periods. We adopted ASC Topic 606, Revenue from Contracts with Customers, on October 1, 2018, using the modified retrospective method. The reported results for fiscal years 2020 and 2019 reflect the application of ASC Topic 606, while the reported results for fiscal year 2018 are not adjusted and continue to be reported under ASC Topic 605.

	Fiscal Years Ended September 30,		
	2020	2019	2018
	(in thousands)		
<b>Consolidated Statements of Operations Data:</b>			
Revenues:			
Subscription	\$ 116,184	\$ 105,219	\$ 98,308
Professional services	44,872	36,016	56,324
Total revenues	<u>161,056</u>	<u>141,235</u>	<u>154,632</u>
Cost of Revenues:			
Subscription	34,461	35,218	37,820
Professional services	31,035	30,912	27,514
Total cost of revenues	<u>65,496</u>	<u>66,130</u>	<u>65,334</u>
Gross profit	95,560	75,105	89,298
Operating Expenses:			
Research and development	34,361	30,009	32,416
Sales and marketing	38,979	32,894	35,482
General and administrative	28,826	27,213	42,178
Total operating expenses	<u>102,166</u>	<u>90,116</u>	<u>110,076</u>
Loss from operations	(6,606)	(15,011)	(20,778)
Interest expense, net	6,322	2,933	8,178
Other expenses (income), net	(76)	319	(722)
Loss before income taxes	<u>(12,852)</u>	<u>(18,263)</u>	<u>(28,234)</u>
Provision for (benefit from) income taxes	812	1,030	(27)
Net loss	<u>\$ (13,664)</u>	<u>\$ (19,293)</u>	<u>\$ (28,207)</u>

**Comparison of the Fiscal Years Ended September 30, 2020 and 2019**
**Revenues**

	Fiscal Years Ended September 30,					
	2020		2019		Change	
	Amount	% of Total Revenues	Amount	% of Total Revenues		
(in thousands, except percentages)						
Revenues:						
Subscription	\$ 116,184	72 %	\$ 105,219	74 %	\$ 10,965	10 %
Professional services	44,872	28	36,016	26	8,856	25
Total revenues	\$ 161,056	100 %	\$ 141,235	100 %	\$ 19,821	14 %

**Subscription**

Subscription revenues increased by \$11.0 million, or 10%, to \$116.2 million for the fiscal year ended September 30, 2020, from \$105.2 million for the fiscal year ended September 30, 2019. The increase in our subscription revenues was due primarily to an increased number of customer contracts. As a percentage of total revenues, subscription revenues decreased from 74% to 72%. Our focus will continue to be on growing our recurring revenue from SaaS subscriptions in future periods.

**Professional Services**

Professional services revenue increased by \$8.9 million, or 25%, to \$44.9 million for the fiscal year ended September 30, 2020, from \$36.0 million for the fiscal year ended September 30, 2019. As a percentage of total revenues, professional services revenue increased from 26% to 28%. The increase in our professional services revenue in absolute dollars and as a percentage of total revenue was primarily driven by the increase in delivery activities experienced in the professional services business in fiscal year 2020.

**Cost of Revenues**

	Fiscal Years Ended September 30,					
	2020		2019		Change	
	Amount	% of Revenues	Amount	% of Revenues		
(in thousands, except percentages)						
Cost of revenues						
Subscription	\$ 34,461	30 %	\$ 35,218	33 %	\$ (757)	(2)%
Professional services	31,035	69 %	30,912	86 %	123	—
Total cost of revenues	\$ 65,496	41 %	\$ 66,130	47 %	(634)	(1)%
Gross profit						
Subscription	\$ 81,723	70 %	\$ 70,001	67 %	\$ 11,722	17 %
Professional services	13,837	31 %	5,104	14 %	8,733	171 %
Total gross profit	\$ 95,560	59 %	\$ 75,105	53 %	\$ 20,455	27 %

**Subscription**

Cost of subscription revenues decreased by \$0.8 million, or 2%, to \$34.5 million during the fiscal year ended September 30, 2020, from \$35.2 million for the fiscal year ended September 30, 2019. As a percentage of subscription revenues, cost of subscription revenues decreased from 33% in fiscal year 2019 to 30% in fiscal year 2020 as we continued to improve gross margins by more efficiently delivering our cloud platform.

**Professional Services**

Cost of professional services revenues increased by \$0.1 million to \$31.0 million during the fiscal year ended September 30, 2020, from \$30.9 million for the fiscal year ended September 30, 2019. As a percentage of professional services revenue, cost of professional services revenues decreased from 86% to 69% primarily due to improved utilization.

### Operating Expenses

	Fiscal Years Ended September 30,		Change	
	2020	2019		
	Amount	Amount	(\$)	(%)
	(in thousands, except percentages)			
Operating expenses:				
Research and development	\$ 34,361	\$ 30,009	\$ 4,352	15 %
Sales and marketing	38,979	32,894	6,085	18 %
General and administrative	28,826	27,213	1,613	6 %
Total operating expenses	\$ 102,166	\$ 90,116	\$ 12,050	13 %

#### Research and Development

Research and development expenses increased by \$4.4 million, or 15%, to \$34.4 million during the fiscal year ended September 30, 2020, from \$30.0 million for the fiscal year ended September 30, 2019. The increase was primarily due to a \$3.3 million increase in employee-related costs and a \$1.3 million increase in outside services costs partially offset by a decrease in equipment-related costs of \$0.2 million.

#### Sales and Marketing

Sales and marketing expenses increased by \$6.1 million, or 18%, to \$39.0 million during the fiscal year ended September 30, 2020, from \$32.9 million for the fiscal year ended September 30, 2019. This increase was primarily due to a \$6.7 million increase in employee-related costs and a \$0.4 million increase in marketing programs, partially offset by a \$0.4 million decrease in outside services costs, a \$0.3 million decrease in travel and entertainment, a \$0.2 million decrease in office expenses, and a \$0.1 million decrease in facilities expenses.

#### General and Administrative

General and administrative expenses increased by \$1.6 million, or 6%, to \$28.8 million during the fiscal year ended September 30, 2020, from \$27.2 million for the fiscal year ended September 30, 2019. The increase was primarily driven by a \$1.8 million increase in employee-related costs and a \$0.4 million increase in outside services partially offset by a \$0.3 million decrease in depreciation expense and a \$0.3 million decrease in facilities expenses.

#### Interest and Other (Income) Expense, Net

	Fiscal Years Ended September 30,		Change	
	2020	2019		
	Amount	Amount	(\$)	(%)
	(in thousands, except percentages)			
Interest expense, net	\$ 6,322	2,933	\$ 3,389	116 %
Other (income) expenses, net	\$ (76)	319	\$ (395)	(124)%

Interest expense, net, increased by \$3.4 million to \$6.3 million during the fiscal year ended September 30, 2020, from \$2.9 million during the fiscal year ended September 30, 2019. The increase was primarily driven by the interest expense related to the convertible senior notes we issued in May 2020. See “Note 9. Convertible Senior Notes” of the Notes to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K.

The change in other (income) expense, net was primarily due to currency fluctuation.

#### Provision for Income Taxes

	Fiscal Years Ended September 30,		Change	
	2020	2019		
	Amount	Amount	(\$)	(%)
	(in thousands, except percentages)			
Provision for income taxes	\$ 812	\$ 1,030	\$ (218)	(21)%

The provision for income taxes in fiscal years 2020 and 2019 is primarily related to foreign taxes on our profitable foreign operations and foreign withholding taxes. The decrease in the provision during fiscal year ended September 30, 2020, was primarily due to lower foreign withholding taxes related to the repatriation of certain foreign subsidiary earnings to the United States in fiscal year 2020.

## Quarterly Results of Operations (Unaudited)

The following table sets forth our unaudited quarterly statements of operations data for the last eight fiscal quarters. The information for each of these quarters has been prepared on the same basis as the audited annual financial statements included elsewhere in this annual report and, in the opinion of management, includes all adjustments, which includes only normal recurring adjustments, necessary for the fair presentation of the results of operations for these periods. This data should be read in conjunction with our audited consolidated financial statements and related notes included elsewhere in this annual report. These quarterly operating results are not necessarily indicative of our operating results for any future period.

	Three Months Ended							
	Sep 30, 2020	Jun 30, 2020	Mar 31, 2020	Dec 31, 2019	Sep 30, 2019	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018
(in thousands, except per share amounts)								
<b>Revenues:</b>								
Subscription	\$ 29,672	\$ 29,339	\$ 28,991	\$ 28,182	\$ 27,439	\$ 26,638	\$ 25,940	\$ 25,202
Professional services	11,788	11,917	10,961	10,206	9,164	8,074	8,903	9,875
Total revenues	41,460	41,256	39,952	38,388	36,603	34,712	34,843	35,077
<b>Cost of Revenues:</b>								
Subscription	8,579	8,374	8,798	8,710	8,970	8,658	8,852	8,738
Professional services	8,009	7,699	7,685	7,642	7,983	7,206	7,894	7,829
Total cost of revenues	16,588	16,073	16,483	16,352	16,953	15,864	16,746	16,567
Gross profit	24,872	25,183	23,469	22,036	19,650	18,848	18,097	18,510
<b>Operating Expenses:</b>								
Research and development	8,455	8,288	9,102	8,516	8,122	7,060	7,415	7,412
Sales and marketing	9,297	9,716	10,953	9,013	9,080	7,164	8,598	8,052
General and administrative	6,757	7,559	7,545	6,965	7,511	6,713	6,833	6,156
Total operating expenses	24,509	25,563	27,600	24,494	24,713	20,937	22,846	21,620
Income (loss) from operations	363	(380)	(4,131)	(2,458)	(5,063)	(2,089)	(4,749)	(3,110)
Interest expense, net	3,371	1,986	402	563	620	689	891	733
Other (income) expenses, net	347	(168)	(243)	(12)	(89)	(4)	127	285
Loss before income taxes	(3,355)	(2,198)	(4,290)	(3,009)	(5,594)	(2,774)	(5,767)	(4,128)
Provision for (benefit from) income taxes	302	182	339	(11)	61	230	141	598
Net loss	\$ (3,657)	\$ (2,380)	\$ (4,629)	\$ (2,998)	\$ (5,655)	\$ (3,004)	\$ (5,908)	\$ (4,726)

## Liquidity and Capital Resources

Our principal sources of liquidity are our cash and cash equivalents. As of September 30, 2020, we had cash and cash equivalents of \$200.5 million.

Based on our future expectations and historical usage, we believe our current cash and cash equivalents are sufficient to meet our operating needs including principal payments related to our debt for at least the next twelve months. Our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our sales and marketing activities, the timing and extent of spending to support research and development efforts, expansion of our business and capital expenditures. To the extent that existing cash and cash equivalents and cash from operations are insufficient to fund our future activities, we may elect to raise additional capital through the sale of additional equity or debt securities, obtain a credit facility or sell certain assets. If additional funds are raised through the issuance of debt securities, these securities could have rights, preferences and privileges senior to holders of common stock and terms of any debt could impose restrictions on our operations. The sale of additional equity or additional convertible debt securities could result in more dilution to our stockholders and additional financing may not be available in amounts or on terms acceptable to us. We may also seek to invest in, or acquire complementary businesses or technologies, any of which could also require us to seek additional equity or debt financing. Additional funds may not be available on terms favorable to us or at all.

In May 2020, we issued \$172.5 million aggregate principal amount of 2.625% convertible senior notes (the "Notes"). The Notes mature on June 1, 2025 unless repurchased, redeemed or converted in accordance with their terms prior to such date. The net proceeds from the issuance of the Notes was \$166.4 million, net of initial purchasers' discounts. We used \$40.0 million of the net proceeds to repay in full the debt outstanding under, and terminated the credit agreement dated May 4, 2018, as



amended, by and among us, Wells Fargo, as administrative agent, and the lenders party thereto. Refer to Notes 8 and 9 in the notes to our Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K for additional information.

### *Cash Flows*

	Fiscal Years Ended September 30,		
	2020	2019	2018
	(in thousands)		
Cash flows provided by operating activities	\$ 14,406	\$ 10,450	\$ 2,523
Cash flows used in investing activities	(579)	(280)	(252)
Cash flows provided by (used in) financing activities	125,893	(6,130)	(3,003)

#### *Operating Activities*

Net cash provided by operating activities during the fiscal year ended September 30, 2020 was primarily the result of non-cash adjustments of \$34.6 million exceeding our net loss of \$13.7 million partially offset by net cash outflows of \$6.5 million from changes in operating assets and liabilities. Non-cash expenses consisting primarily of stock-based compensation of \$22.5 million, depreciation and amortization of \$5.5 million, amortization of debt discount and issuance costs of \$3.4 million, and amortization of capitalized contract acquisition costs of \$2.5 million. The net change in operating assets and liabilities primarily reflects an outflow from the changes in accounts receivable of \$8.8 million due to timing of billing and cash collections, prepaid expenses and other assets of \$3.1 million, and other current and long-term liabilities of \$2.4 million, partially offset by an inflow from the changes in deferred revenue of \$6.4 million caused by the timing of amounts invoiced and revenue recognized, accrued employee compensation of \$0.9 million, and accounts payable of \$0.5 million due to timing of vendor invoices and payments.

Net cash provided by operating activities during the fiscal year ended September 30, 2019, was primarily the result of non-cash adjustments of \$30.5 million exceeding our net loss of \$19.3 million partially offset by net cash outflows of \$0.8 million from change in operating assets and liabilities. Non-cash adjustments primarily included stock-based compensation of \$21.3 million, depreciation and amortization of \$6.8 million, and amortization of capitalized contract acquisition cost of \$1.8 million. The net change in operating assets and liabilities primarily reflects an outflow from the changes in prepaid expense and other assets of \$5.2 million partly offset by an inflow from the changes in accrued employee compensation of \$2.0 million, the changes in accounts receivable of \$0.9 million primarily reflective of the timing of cash collections, the changes in accounts payable of \$0.7 million, and the changes in deferred revenue of \$0.5 million primarily due to timing of amounts invoiced and revenue recognized.

#### *Investing Activities*

Net cash used in investing activities for fiscal years ended September 30, 2020, and 2019, was primarily due to purchases of property and equipment.

#### *Financing Activities*

Net cash provided by financing activities for the fiscal year ended September 30, 2020, consisted of \$166.4 million net proceeds from the issuance of our convertible senior notes and \$4.2 million proceeds from purchases made under our employee stock purchase plan and the exercises of stock options, partially offset by the \$44.8 million repayment of our term loan with Wells Fargo.

Net cash used in financing activities for fiscal year ended September 30, 2019, consisted of \$10.0 million principal payment on our term loan with Wells Fargo partly offset by \$3.9 million of proceeds from the exercises of stock options and purchases made under our employee stock purchase plan.

**Contractual Obligations**

The following summarizes our contractual obligations as of September 30, 2020:

	<b>Contractual Payment Obligations Due by Period</b>				
	<b>Total</b>	<b>Less than 1 Year</b>	<b>1 to 3 Years</b>	<b>3 to 5 Years</b>	<b>More than 5 Years</b>
Convertible senior notes (1)	\$ 195,266	\$ 4,641	\$ 9,056	\$ 181,569	\$ —
Operating leases that have commenced (2)	3,922	1,599	1,204	584	535
Operating leases that have not commenced (2)	11,386	193	4,740	5,121	1,332
Purchase obligations (3)	12,337	3,223	5,848	3,266	—
<b>Total</b>	<b>\$ 222,911</b>	<b>\$ 9,656</b>	<b>\$ 20,848</b>	<b>\$ 190,540</b>	<b>\$ 1,867</b>

(1) Represent principal amount of \$172.5 million and interests of \$22.8 million.

(2) Represent our obligations to make payments under the lease agreements for our facilities leases.

(3) Represent future minimum payments under non-cancelable purchase commitments related to our daily business operations.

**Off-Balance Sheet Arrangements**

As of September 30, 2020, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

**Critical Accounting Policies and Estimates**

Our consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States (“U.S. GAAP”). The preparation of the accompanying consolidated financial statements in conformity with U.S. GAAP requires us to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs, and expenses, as well as related disclosures. These estimates and assumptions are based on our management’s best estimates and judgment. Our management regularly evaluates these estimates and assumptions using historical experience and other factors; however, actual results could differ significantly from these estimates.

Note 2, “Summary of Significant Accounting Policies,” of the Notes to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K describes the significant accounting policies and methods used in the preparation of the Company’s Consolidated Financial Statements. We believe that the assumptions and estimates associated with revenue recognition, convertible senior notes, share-based compensation, business combinations, and income taxes have the greatest potential impact on our Consolidated Financial Statements. Therefore, we consider these to be our critical accounting policies and estimates.

**Revenue recognition under ASC Topic 606**

We adopted ASC Topic 606, Revenue from Contracts with Customers, on October 1, 2018, using the modified retrospective method.

We derive our revenues primarily from subscription revenues and professional services revenues and apply the following five step revenue recognition framework to recognize revenue from contracts with customers:

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

We enter into contracts with customers that can include various combinations of products and services which are generally distinct and accounted for as separate performance obligations. As a result, our contracts may contain multiple performance obligations. We determine whether the products and services are distinct based on whether the customer can benefit from the product or service on its own or together with other resources that are readily available and whether our commitment to transfer the product or service to the customer is separately identifiable from other obligations in the contract. We generally consider our cloud-based subscription offerings, maintenance and support, managed service support, professional services and training as distinct performance obligations. Term-based licenses generally have two performance obligations: software licenses and software maintenance.

The transaction price is determined based on the consideration to which we expect to be entitled in exchange for transferring products and services to the customer. Variable consideration (if any) is estimated and included in the transaction price if, in our judgment, it is probable that there will not be a significant future reversal of cumulative revenue under the contract. We typically do not offer contractual rights of return or concessions.

We apply judgment in identifying and evaluating any terms and conditions in contracts which may impact revenue recognition. For contracts that contain multiple performance obligations, the transaction price is allocated to each performance obligation based on its relative standalone selling price (“SSP”). SSP is estimated for each distinct performance obligation and judgment may be involved in the determination. We determine SSP using information that may include market conditions and other observable inputs. We evaluate the SSP for our performance obligations on a quarterly basis.

Revenue is recognized when control of these products and services is transferred to our customers in an amount that reflects the consideration to which we expect to be entitled in exchange for these products and services. In instances where the timing of revenue recognition differs from the timing of invoicing, we have determined that our contracts generally do not include a significant financing component.

Subscription revenue related to cloud-based solutions, maintenance and support and managed service and support revenues are generally recognized ratably over the contractual term of the arrangement beginning on the date that our service is made available to the customer. These arrangements, in general, are for committed one- to three-year terms. For term-based license contracts, the transaction price allocated to the software element is recognized when it is made available to the customers. The transaction price allocated to the related support and updates is recognized ratably over the contract term. Term-based license arrangements may include termination rights that limit the term of the arrangement to a month, quarter or year.

Professional services revenues are generally recognized as the services are rendered for time and materials contracts or recognized using a proportional performance method as hours are incurred relative to total estimated hours for the engagement for fixed price contracts. The majority of our professional services contracts are on a time and materials basis. Revenue from training and customer-reimbursed expenses is recognized as we deliver these services. Our implementation projects generally have a term ranging from a few months to twelve months and may be terminated by the customer at any time.

#### *Capitalized Contract Acquisition Costs*

We capitalize incremental costs incurred to acquire contracts with customers, primarily sales commissions, for which the associated revenue is expected to be recognized in future periods. We incur these costs in connection with both initial contracts and renewals. The costs in connection with initial contracts and renewals are deferred and amortized over an expected customer life of five years and over the renewal term, respectively, which corresponds to the period of benefit to the customer. We determined the period of benefit by considering our history of customer relationships, length of customer contracts, technological development and obsolescence, and other factors. The current and non-current portion of capitalized contract acquisition costs are included in other current assets and other assets on the Consolidated Balance Sheets. Amortization expense is included in sales and marketing expenses in the Consolidated Statements of Operations.

#### **Revenue recognition under ASC Topic 605**

We generate revenue from two sources: SaaS and maintenance and License and implementation.

License and implementation revenues include revenues from the sale of perpetual software licenses for our solutions and the related implementation services. SaaS and maintenance revenues primarily include subscription and the related implementation fees from customers accessing our cloud-based solutions and revenues associated with maintenance and support contracts from customers using on-premise solutions. Also included in SaaS and maintenance revenues are other revenues, such as managed support services, training and customer-reimbursed expenses. We commence revenue recognition when all of the following conditions are satisfied:

- there is persuasive evidence of an arrangement exists,
- delivery has occurred or services have been rendered,
- the price is fixed or determinable, and
- the collection of the fees is probable or reasonably estimable.

However, determining whether and when some of these criteria have been satisfied often involves assumptions and judgments that can have a significant impact on the timing and amount of revenues we report.

For SaaS arrangements related to Revenue Cloud for Life Sciences and High Tech companies we historically concluded that the SaaS deliverable did not have standalone value without the implementation services primarily because other vendors could not perform the services, and in some cases the complexity of the customer environment in which the SaaS deliverable was deployed.

Prior to fiscal year 2016, for SaaS arrangements related to Revenue Cloud for Life Sciences and High Tech companies we treated the entire arrangement consideration, including subscription fees and related implementation services fees, as a single unit of accounting and recognized the revenues ratably beginning the day the customer was provided access to the subscription service through the end of contractual period. During fiscal year 2016, we concluded that a sufficient number of implementation projects had been completed with several third-party consulting companies participating in either a primary or sub-contractor role, such that the third-party vendors have the requisite know-how to complete, and, have completed the implementation services independently. Therefore, the Company concluded that the SaaS deliverable has standalone value to the customer without the implementation services. The total arrangement fee for a multiple-element arrangement is allocated based on the relative selling price method. The consideration allocated to subscription fees is recognized as revenue ratably over the contract period. The consideration allocated to implementation services is recognized as revenue as services are performed, in accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2009-13, Revenue Recognition (Accounting Standards Codification (ASC) Topic 605)—Multiple-Deliverable Revenue Arrangements.”

For the remaining SaaS arrangements subscription fees and implementation services continue to have standalone value and we allocate revenue to each element in the arrangement based on a selling price hierarchy. The selling price for a deliverable is based on its vendor-specific objective evidence (VSOE), if available, third-party evidence (TPE), if VSOE is not available, or best estimated selling price (BESP), if neither VSOE nor TPE is available. For SaaS arrangements, where we utilize BESP, we established the BESP for each element by considering specific factors such as existing pricing and discounting. The total arrangement fee for a multiple element arrangement is allocated based on the relative BESP of each element. The consideration allocated to subscription fees is recognized as revenue ratably over the contract period. The consideration allocated to services is recognized as revenue as services are performed.

Revenue related to up-front fees are deferred and recognized ratably over the estimated period that the customer benefits from the related service.

Maintenance and support revenue include post-contract customer support and the right to unspecified software updates and enhancements on a when and if available basis. Managed support services revenue includes supporting, managing and administering our software solutions, and providing additional end user support. Maintenance and support revenue and managed support services revenue are recognized ratably over the period in which the services are provided. The revenue from training and customer-reimbursed expenses is recognized as we deliver services.

Arrangements that include term-based licenses for current products with the right to use unspecified future versions of the software during the coverage period, are also accounted for as subscriptions, with revenue recognized ratably over the coverage period.

License and implementation revenue is recognized based on the nature and scope of the implementation services, we have concluded that generally the implementation services are essential to our customers’ use of the on-premise solutions, and therefore, we recognize revenues from the sale of software licenses for our on-premise solutions and the related implementation services on a percentage-of-completion basis over the expected implementation period which is estimated at a few months to three years. The percentage-of-completion computation is measured as the hours expended on the implementation during the reporting period as a percentage of the total estimated hours needed to complete the implementation.

#### **Convertible Senior Notes**

In May 2020, we issued \$172.5 million aggregate principal amount of 2.625% convertible senior notes. We separate our convertible senior notes (the “Notes”) into liability and equity components. The carrying amount of the liability component is calculated by measuring the fair value of a similar debt instrument that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option is determined by deducting the fair value of the liability component from the principal amount of the Notes. The excess of the principal amount of the Notes over the carrying amount of the liability component (“debt discount”) is amortized to interest expense at an effective interest rate over the contractual terms of the Notes. The equity component is recorded in additional paid-in capital and is not remeasured as long as it continues to meet the conditions for equity classification. We allocate the issuance costs to the liability and equity components of the Notes based on the proportion of the proceeds allocated to the debt and equity components. Issuance costs attributable to the liability component are amortized to interest expense using the effective interest method over the contractual terms of the Notes. Issuance costs attributable to the equity component are netted with the equity component in stockholders’ equity.

#### **Stock-based compensation**

We recognize compensation expense for stock option, restricted stock units, employee stock purchase plan (“ESPP”), and performance based restricted stock units. We use the Black-Scholes-Merton valuation model to estimate the fair value of stock option awards and ESPP shares. However, we have not granted stock options since fiscal year 2013. The fair value of

restricted stock units and performance based restricted stock units is determined based on the intrinsic value of the award on the grant date.

Changes in the estimates used to determine the fair value of share-based equity compensation instruments could result in changes to our compensation charges.

### **Business Combinations**

We use all available information to estimate fair values. We typically engage outside appraisal firms to assist in the fair value determination of identifiable assets such as customer contracts and any other significant assets or liabilities and contingent consideration. We adjust the preliminary purchase price allocation, as necessary, up to one year after the acquisition closing date if we obtain more information regarding asset valuation and liabilities assumed.

Our purchase price allocation methodology contains uncertainties because it requires assumptions and management's judgment to estimate the fair value of assets acquired and liabilities assumed at the acquisition date. Management estimates the fair value of assets and liabilities based upon quoted market prices, the carrying value of the acquired assets and widely accepted valuation techniques, including discounted cash flows and market multiple analyses. Our estimates are inherently uncertain and subject to refinement. Unanticipated events or circumstances may occur which could affect the accuracy of our fair value estimates, including assumptions regarding industry economic factors and business strategies.

### **Income Taxes**

We account for income taxes in accordance with the FASB ASC No. 740—*Accounting for Income Taxes* ("ASC 740"). We make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of tax credits, tax benefits and deductions and in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes. Significant changes to these estimates may result in an increase or decrease to our tax provision in the subsequent period when such a change in estimate occurs.

We regularly assess the likelihood that our deferred income tax assets will be realized from future taxable income based on the realization criteria set forth in ASC 740. To the extent that we believe any amounts are not more likely than not to be realized, we record a valuation allowance to reduce the deferred income tax assets. In assessing the need for a valuation allowance, we consider all available evidence, including past operating results, estimates of future taxable income and the feasibility of tax planning strategies. In the event we determine that all or part of the net deferred tax assets are not realizable in the future, an adjustment to the valuation allowance would be charged to earnings in the period such determination is made. Similarly, if we subsequently realize deferred income tax assets that were previously determined to be unrealizable, the respective valuation allowance would be reversed, resulting in an adjustment to earnings in the period such determination is made.

On December 22, 2017, tax reform legislation known as the Tax Cuts and Jobs Act (the "Tax Legislation") was enacted in the United States ("U.S."). The Tax Legislation significantly revises the U.S. corporate income tax by, among other things, lowering the corporate income tax rate to 21%, implementing a modified territorial tax system and imposing a one-time repatriation tax on deemed repatriated earnings and profits of U.S.-owned foreign subsidiaries (the "Toll Charge"), and limiting the deductibility of certain expenses, such as interest expense. As a fiscal-year taxpayer, certain provisions of the Tax Legislation impact us in fiscal year 2018, including the change in the corporate income tax rate and the Toll Charge, while other provisions were effective starting at the beginning of fiscal year 2019.

On January 22, 2018, the FASB released guidance on the accounting for tax on the global intangible low-taxed income ("GILTI") provisions of the Tax Legislation. The GILTI provisions impose a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. The guidance indicates that either accounting for deferred taxes related to GILTI inclusions or treating any taxes on GILTI inclusions as a period cost are both acceptable methods, subject to an accounting policy election. We have elected to recognize any potential GILTI obligation as an expense in the period it is incurred.

As of September 30, 2020, we had gross deferred income tax assets, related primarily to net operating loss ("NOL") carry forward, stock compensation, accruals and reserves that are not currently deductible, depreciation and amortization, and research and development tax credits of \$96.9 million, which have been fully offset by deferred tax liabilities and valuation allowance. Utilization of these net loss carry forwards is subject to the limitations of IRC Section 382. A Section 382 study was performed in fiscal year 2013 and subsequent Section 382 analyses have been performed. It is determined that there is no material limitation of IRC Section 382. However, in the future, some portion or all of these carry forwards may not be available to offset any future taxable income. The federal and state net operating losses will begin expiring in 2021 and 2020, respectively.

We account for uncertainty in income taxes using a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. We classify the liability for unrecognized tax benefits as current to the extent that our anticipated payment or receipt of cash is within one year. Interest and penalties related to uncertain tax positions are recognized in the provision for income taxes.

### Recent Accounting Pronouncements

See “Note 2. Summary of Significant Accounting Policies and Estimates” of the Notes to Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” for a full description of recent accounting pronouncements including the respective expected dates of adoption and estimated effects, if any, on our Consolidated Financial Statements.

### Non-GAAP Financial Measure

#### Adjusted EBITDA

Adjusted EBITDA is a financial measure that is not calculated in accordance with generally accepted accounting principles in U.S. GAAP. We define adjusted EBITDA as net loss before items discussed below, including: stock-based compensation expense, depreciation and amortization, acquisition and integration related expense, deferred revenue adjustment related to the acquisition of Revitas, interest (income) expenses, net, other (income) expenses, net, certain legal expenses, and provision for (benefit from) income taxes. We believe adjusted EBITDA provides investors with consistency and comparability with our past financial performance and facilitates period-to-period comparisons of our operating results and our competitors’ operating results. We also use this measure internally to establish budgets and operational goals to manage our business and evaluate our performance.

We understand that, although adjusted EBITDA is frequently used by investors and securities analysts in their evaluations of companies, adjusted EBITDA has limitations as an analytical tool, and it should not be considered in isolation or as a substitute for analysis of our results of operations as reported under U.S. GAAP. These limitations include:

- adjusted EBITDA does not include deferred revenue adjustment related to Revitas acquisition;
- adjusted EBITDA does not reflect stock-based compensation expense;
- depreciation and amortization are non-cash charges, and the assets being depreciated or amortized will often have to be replaced in the future; adjusted EBITDA does not reflect any cash requirements for these replacements;
- adjusted EBITDA does not reflect cash requirements for income taxes and the cash impact of interest income or expense and other income or expense; and
- other companies in our industry may calculate adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

	Fiscal Years Ended September 30,		
	2020	2019	2018
	(in thousands)		
<b>Reconciliation of Adjusted EBITDA:</b>			
Net loss	(13,664)	\$ (19,293)	(28,207)
Adjustments:			
Stock-based compensation expense	22,500	21,340	23,324
Depreciation and amortization	5,498	6,790	8,299
Deferred revenue adjustments	—	—	627
Interest expense, net	6,322	2,933	8,178
Other (income) expenses, net	(76)	319	(722)
Provision for (benefit from) income taxes	812	1,030	(27)
Adjusted EBITDA	<u>\$ 21,392</u>	<u>\$ 13,119</u>	<u>\$ 11,472</u>

The increase in our adjusted EBITDA for the fiscal year ended September 30, 2020 as compared to fiscal year ended September 30, 2019, was primarily due to the increase in revenue partially offset by the increase in operating expenses.

**Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to market risks in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of fluctuations in interest rates and foreign currency exchange rates. We do not hold or issue financial instruments for trading purposes.

***Interest Rate Sensitivity***

Our exposure to market risk for changes in interest rates relates primarily to our cash and cash equivalents, which bear interest at a fixed interest rate. Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of the interest rates in the United States. However, because of the short-term nature of our interest-bearing securities, a 10% change in market interest rates would not be expected to have a material impact on our consolidated financial condition or results of operations.

In May 2020, we issued \$172.5 million aggregate principal amount of 2.625% convertible senior notes (the “Notes”) in a private placement. As the Notes have a fixed annual interest rate, we have no financial or economic interest exposure associated with changes in interest rates. However, the fair value of fixed rate debt instruments fluctuates when interest rates change. Additionally, the fair value of the Notes can be affected when the market price of our common stock fluctuates. We carry the Notes at face value less unamortized discount on our balance sheet, and we present the fair value for required disclosure purposes only.

***Foreign Currency Exchange Risk***

Our customers typically pay us in U.S. dollars. However, in foreign jurisdictions, our expenses are typically denominated in local currency. Our expenses and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. The volatility of exchange rates depends on many factors that we cannot forecast with reliable accuracy. A significant fluctuation in the exchange rates between our subsidiaries’ local currencies, especially Indian Rupee, and the U.S. dollar, could have an adverse impact on our results of operations and cash flows.

In the first quarter of 2019, we initiated a hedging program with respect to foreign currency risk. During fiscal year September 30, 2020, the effect of a hypothetical 10% change in foreign currency exchange rates to which we have exposure, after considering foreign currency hedges, would have had an impact of approximately \$0.7 million on our net loss. As our international operations grow, we will continue to reassess our approach to managing our risk relating to fluctuations in currency rates.

**Item 8. Financial Statements and Supplementary Data**

**MODEL N, INC.**  
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The supplementary financial information required by this Item 8 is included in Item 7 under the caption "Quarterly Results of Operations (Unaudited)".



## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Model N, Inc.

### ***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of Model N, Inc. and its subsidiaries (the “Company”) as of September 30, 2020 and 2019, and the related consolidated statements of operations, comprehensive loss, stockholders’ equity and cash flows for each of the three years in the period ended September 30, 2020, including the related notes and schedule of valuation and qualifying accounts for each of the three years in the period ended September 30, 2020 appearing under Item 15(a)(2) (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of September 30, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2020 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

### ***Changes in Accounting Principles***

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in fiscal 2020 and the manner in which it accounts for revenues from contracts with customers in fiscal 2019.

### ***Basis for Opinions***

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Annual Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### ***Definition and Limitations of Internal Control over Financial Reporting***

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and

expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### ***Critical Audit Matters***

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

#### *Revenue Recognition - Identifying and Evaluating Terms and Conditions in Contracts*

As described in Note 2 to the consolidated financial statements, the Company applies the five step revenue recognition framework to recognize revenue from contracts with customers. Management applies judgment in identifying and evaluating any terms and conditions in contracts which may impact revenue recognition. The Company has \$161 million of total revenue for the year ended September 30, 2020 generated from contracts with customers.

The principal considerations for our determination that performing procedures relating to revenue recognition, specifically the identification and evaluation of terms and conditions in contracts, is a critical audit matter are the significant judgment by management when identifying and evaluating terms and conditions in contracts that impact revenue recognition, which in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures to evaluate whether terms and conditions in contracts were appropriately identified and evaluated by management.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the revenue recognition process, including controls relating to the identification and evaluation of terms and conditions in revenue contracts that impact revenue recognition. These procedures also included, among others, evaluating the appropriateness of management's identification and evaluation of the terms and conditions in revenue contracts by examining contracts with customers on a test basis and evaluating management's determination of the impact of those terms and conditions on revenue recognition.

#### *Convertible Note Transaction*

As described in Notes 2 and 9 to the consolidated financial statements, the Company issued \$172.5 million aggregate principal amount of 2.652% convertible senior notes in May 2020. The nature of the convertible senior notes (the "Notes") required management to separate the Notes into liability and equity components. The carrying amount of the liability component is calculated by measuring the fair value of a similar debt instrument that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the principal amount of the Notes.

The principal considerations for our determination that performing procedures relating to the convertible note transaction is a critical audit matter are (i) the significant judgment by management in determining the fair value of the Notes, (ii) a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating audit evidence related to the estimated interest rate of a similar debt instrument that does not have an associated convertible feature, which is a significant assumption in determining the fair value of the notes, as well as the accounting for the conversion option and other embedded features, and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of the controls over the accounting for the convertible notes transactions as well as valuation of the convertible notes, including the control over the management's valuation method, significant assumptions, and data. These procedures also included, among others, reading the agreements and evaluating the accounting for the convertible notes transaction, evaluating the methodology used by

management to determine the liability by measuring the fair value of a similar note that does not have an associated conversion feature, and evaluating management's selection of the interest rate of a comparable non-convertible note. Professionals with specialized skill and knowledge were used to assist in evaluating whether the interest rate of a comparable non-convertible note used by management was reasonable considering consistency with external market data.

/s/ PricewaterhouseCoopers LLP  
San Jose, California  
November 20, 2020

We have served as the Company's auditor since 2007.

**MODEL N, INC.**  
**Consolidated Balance Sheets**  
(in thousands, except per share data)

	As of September 30,	
	2020	2019
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 200,491	\$ 60,780
Accounts receivable, net of allowance for doubtful accounts of \$47 and \$51 as of September 30, 2020, and 2019, respectively	35,796	26,953
Prepaid expenses	2,797	2,776
Other current assets	7,314	4,039
Total current assets	246,398	94,548
Property and equipment, net	1,034	1,043
Operating lease right-of-use assets	3,332	—
Goodwill	39,283	39,283
Intangible assets, net	24,380	29,131
Other assets	5,863	5,588
Total assets	320,290	\$ 169,593
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 3,009	\$ 2,302
Accrued employee compensation	17,056	19,906
Accrued liabilities	5,237	4,354
Operating lease liabilities, current portion	1,460	—
Deferred revenue, current portion	50,904	44,875
Long-term debt, current portion	—	4,911
Total current liabilities	77,666	76,348
Long-term debt	114,438	39,371
Operating lease liabilities, less current portion	2,067	—
Other long-term liabilities	1,448	1,152
Total liabilities	195,619	116,871
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Common Stock, \$0.00015 par value; 200,000 shares authorized; 34,821 and 32,995 shares issued and outstanding at September 30, 2020 and September 30, 2019, respectively	5	5
Preferred Stock, \$0.00015 par value; 5,000 shares authorized; no shares issued and outstanding	—	—
Additional paid-in capital	351,952	266,295
Accumulated other comprehensive loss	(1,213)	(1,169)
Accumulated deficit	(226,073)	(212,409)
Total stockholders' equity	124,671	52,722
Total liabilities and stockholders' equity	\$ 320,290	\$ 169,593

The accompanying notes are an integral part of these Consolidated Financial Statements.

**MODEL N, INC.**  
**Consolidated Statements of Operations**  
**(in thousands, except per share data)**

	Fiscal Years Ended September 30,		
	2020	2019	2018
Revenues:			
Subscription	\$ 116,184	\$ 105,219	\$ 98,308
Professional services	44,872	36,016	56,324
Total revenues	<u>161,056</u>	<u>141,235</u>	<u>154,632</u>
Cost of revenues:			
Subscription	34,461	35,218	37,820
Professional services	31,035	30,912	27,514
Total cost of revenues	<u>65,496</u>	<u>66,130</u>	<u>65,334</u>
Gross profit	95,560	75,105	89,298
Operating expenses:			
Research and development	34,361	30,009	32,416
Sales and marketing	38,979	32,894	35,482
General and administrative	28,826	27,213	42,178
Total operating expenses	<u>102,166</u>	<u>90,116</u>	<u>110,076</u>
Loss from operations	(6,606)	(15,011)	(20,778)
Interest expense, net	6,322	2,933	8,178
Other expenses (income), net	(76)	319	(722)
Loss before income taxes	(12,852)	(18,263)	(28,234)
Provision for (benefit from) income taxes	812	1,030	(27)
Net loss	<u>\$ (13,664)</u>	<u>\$ (19,293)</u>	<u>\$ (28,207)</u>
Net loss per share attributable to common stockholders:			
Basic and diluted	<u>\$ (0.40)</u>	<u>\$ (0.60)</u>	<u>\$ (0.93)</u>
Weighted average number of shares used in computing net loss per share attributable to common stockholders:			
Basic and diluted	<u>34,008</u>	<u>32,232</u>	<u>30,370</u>

The accompanying notes are an integral part of these Consolidated Financial Statements.

**MODEL N, INC.**  
**Consolidated Statements of Comprehensive Loss**  
**(in thousands)**

	<u>Fiscal Years Ended September 30,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Net loss	\$ (13,664)	\$ (19,293)	\$ (28,207)
Other comprehensive income (loss), net:			
Unrealized gain on cash flow hedges	33	5	—
Foreign currency translation gain (loss)	(77)	111	(783)
Total comprehensive loss	<u>\$ (13,708)</u>	<u>\$ (19,177)</u>	<u>\$ (28,990)</u>

The accompanying notes are an integral part of these Consolidated Financial Statements.

**MODEL N, INC.**  
**Consolidated Statements of Stockholders' Equity**  
(in thousands)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance at September 30, 2017	29,323	\$ 4	\$ 217,052	\$ (502)	\$ (175,293)	\$ 41,261
Issuance of common stock upon exercise of stock options	180	—	1,546	—	—	1,546
Issuance of common stock upon release of restricted stock units	1,709	1	(1)	—	—	—
Issuance of common stock under stock purchase plans	232	—	2,893	—	—	2,893
Stock-based compensation	—	—	23,324	—	—	23,324
Other comprehensive loss	—	—	—	(783)	—	(783)
Net loss	—	—	—	—	(28,207)	(28,207)
Balance at September 30, 2018	31,444	\$ 5	\$ 244,814	\$ (1,285)	\$ (203,500)	\$ 40,034
Adoption of ASC 606	—	—	—	—	10,384	10,384
Issuance of common stock upon exercise of stock options	120	—	822	—	—	822
Issuance of common stock upon release of restricted stock units	1,213	—	—	—	—	—
Issuance of common stock under stock purchase plans	218	—	3,048	—	—	3,048
Stock-based compensation	—	—	17,611	—	—	17,611
Other comprehensive income	—	—	—	116	—	116
Net loss	—	—	—	—	(19,293)	(19,293)
Balance at September 30, 2019	32,995	\$ 5	\$ 266,295	\$ (1,169)	\$ (212,409)	\$ 52,722
Issuance of common stock upon exercise of stock options	65	—	503	—	—	503
Issuance of common stock upon release of restricted stock units	1,613	—	—	—	—	—
Issuance of common stock under stock purchase plans	148	—	3,731	—	—	3,731
Stock-based compensation (1)	—	—	26,196	—	—	26,196
Equity component of convertible senior notes, net of issuance costs	—	—	55,227	—	—	55,227
Other comprehensive income	—	—	—	(44)	—	(44)
Net loss	—	—	—	—	(13,664)	(13,664)
Balance at September 30, 2020	34,821	\$ 5	\$ 351,952	\$ (1,213)	\$ (226,073)	\$ 124,671

(1) For the year ended September 30, 2020, the additional paid-in capital included \$3.7 million related to restricted stock unit grants for the portion of the bonus recorded as stock-based compensation for the year ended September 30, 2019.

The accompanying notes are an integral part of these Consolidated Financial Statements.

**MODEL N, INC.**  
**Consolidated Statements of Cash Flows**  
(in thousands)

	Fiscal Years Ended September 30,		
	2020	2019	2018
<b>Cash flows from operating activities:</b>			
Net loss	\$ (13,664)	\$ (19,293)	\$ (28,207)
Adjustments to reconcile net loss to net cash provided by operating activities			
Depreciation and amortization	5,498	6,790	8,299
Stock-based compensation	22,500	21,340	23,324
Amortization of debt discount and issuance costs	3,405	579	800
Deferred income taxes	389	176	(392)
Amortization of capitalized contract acquisition costs	2,459	1,781	—
Loss on extinguishment	319	—	3,142
Other non-cash charges	(4)	(121)	137
Changes in assets and liabilities, net of acquisition:			
Accounts receivable	(8,836)	860	(3,555)
Prepaid expenses and other assets	(3,091)	(5,158)	(960)
Deferred cost of implementation services	—	—	486
Accounts payable	544	692	(1,434)
Accrued employee compensation	927	2,015	(687)
Other accrued and long-term liabilities	(2,433)	240	(1,622)
Deferred revenue	6,393	549	3,192
Net cash provided by operating activities	<u>14,406</u>	<u>10,450</u>	<u>2,523</u>
<b>Cash flows from investing activities:</b>			
Purchases of property and equipment	(579)	(280)	(252)
Net cash used in investing activities	<u>(579)</u>	<u>(280)</u>	<u>(252)</u>
<b>Cash flows from financing activities:</b>			
Proceeds from exercise of stock options and issuance of employee stock purchase plan	4,234	3,870	4,439
Proceeds from debt, net of issuance costs	166,409	—	49,308
Principal payments on loan	(44,750)	(10,000)	(55,250)
Early payment penalty	—	—	(1,500)
Net cash provided by (used in) financing activities	<u>125,893</u>	<u>(6,130)</u>	<u>(3,003)</u>
Effect of exchange rate changes on cash and cash equivalents	(9)	36	(122)
Net increase (decrease) in cash and cash equivalents	139,711	4,076	(854)
<b>Cash and cash equivalents</b>			
Beginning of period	60,780	56,704	57,558
End of period	<u>200,491</u>	<u>\$ 60,780</u>	<u>\$ 56,704</u>
<b>Supplemental Disclosure of Cash Flow Data:</b>			
Cash paid for income taxes	\$ 488	\$ 993	\$ 622
Cash paid for interest	1,433	3,225	4,181

The accompanying notes are an integral part of these Consolidated Financial Statements.



**MODEL N, INC.**  
**Notes to Consolidated Financial Statements**

**Note 1. The Company**

Model N, Inc. (the “Company”) was incorporated in Delaware on December 14, 1999. The Company is a provider of cloud revenue management solutions for the life sciences and high tech industries. The Company’s solutions enable its customers to maximize revenues and reduce revenue compliance risk by transforming their revenue life cycle from a series of tactical, disjointed operations into a strategic end-to-end process, which enables them to manage the strategy and execution of pricing, contracting, incentives, and rebates. The Company’s corporate headquarters are located in San Mateo, California, with additional offices in the United States, India, and Switzerland.

***Fiscal Year***

The Company’s fiscal year ends on September 30. References to fiscal year 2020, for example, refer to the fiscal year ended September 30, 2020.

**Note 2. Summary of Significant Accounting Policies and Estimates*****Basis for Presentation***

The Company’s Consolidated Financial Statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation. The Company has evaluated subsequent events through the date that the financial statements were issued.

***Change in Presentation***

Prior to fiscal year 2019, the Company presented revenue and cost of revenue on two lines: “SaaS and maintenance” and “License and implementation.” Historically, the Company’s growth was driven by the sale of on-premise solutions. Over the last few years, the Company shifted its focus to selling cloud-based software. As a result of the business model transition from an on-premise to a software-as-a-service (“SaaS”) model, the Company updated the presentation in fiscal year 2019 to present the revenue and cost of revenue line items within the Consolidated Statements of Operations with the break-out between two new lines called “Subscription” and “Professional services.” Revenues and cost of revenues in prior periods have been reclassified in this filing to conform to the new presentation. This change in presentation does not affect our previously-reported total revenues and total cost of revenues.

***Subscription***

Subscription revenues primarily include contractual arrangements with customers accessing our cloud-based solutions. Subscription revenues also include revenues associated with maintenance and support and managed support services. Maintenance and support revenues include post-contract customer support and the right to unspecified software updates and enhancements on a when and if available basis to customers using on-premise solutions. Managed support services revenues include supporting, managing and administering our software solutions and providing additional end user support. Term-based licenses for current products with the right to use unspecified future versions of the software and maintenance and support during the coverage period are also included in subscription revenues.

***Professional services***

Professional services revenues primarily include fees generated from implementation, cloud configuration, on-site support and other consulting services. Also included in professional services revenues are revenues related to training and customer-reimbursed expenses, as well as services related to software licenses for on-premise solutions.

***Use of Estimates***

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 to the Consolidated Financial Statements. Significant items subject to such estimates include revenue recognition, liability and equity allocation of convertible senior notes, income taxes, stock-based compensation, and business combinations. These estimates and assumptions are based on management’s best estimates and judgment. Management regularly evaluates its estimates and assumptions using historical experience and other factors; however, actual results could differ significantly from these estimates.

***COVID-19***

The Company is subject to risks and uncertainties as a result of the COVID-19 pandemic. At this point, the extent to which COVID-19 may impact the Company’s financial condition or results of operations is uncertain. As of the date of

**MODEL N, INC.**  
**Notes to Consolidated Financial Statements**

issuance of these financial statements, the Company is not aware of any specific event or circumstance that would require us to update our estimates, judgments or revise the carrying value of our assets or liabilities. The estimates discussed above may change, as new events occur and additional information is obtained, and are recognized in the Consolidated Financial Statements as soon as they become known.

***Revenue Recognition under ASC Topic 606***

The Company adopted ASC Topic 606, Revenue from Contracts with Customers, on October 1, 2018, using the modified retrospective method.

The Company derives revenues primarily from subscription revenues and professional services revenues and applies the following five step revenue recognition framework to recognize revenue from contracts with customers:

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

The Company enters into contracts with customers that can include various combinations of products and services which are generally distinct and accounted for as separate performance obligations. As a result, the contracts may contain multiple performance obligations. The Company determines whether the products and services are distinct based on whether the customer can benefit from the product or service on its own or together with other resources that are readily available and whether the Company's commitment to transfer the product or service to the customer is separately identifiable from other obligations in the contract. The Company generally considers its cloud-based subscription offerings, maintenance and support on license arrangements, managed service support, professional services and training to be distinct performance obligations. Term-based licenses generally have two performance obligations: software licenses and software maintenance.

The transaction price is determined based on the consideration to which the Company expects to be entitled in exchange for transferring products and services to the customer. Variable consideration, if any, is estimated and included in the transaction price if, in the Company's judgment, it is probable that there will not be a significant future reversal of cumulative revenue under the contract. The Company typically does not offer contractual rights of return or concessions.

The Company applies judgment in identifying and evaluating any terms and conditions in contracts which may impact revenue recognition. For contracts that contain multiple performance obligations, the transaction price is allocated to each performance obligation based on its relative standalone selling price ("SSP"). SSP is estimated for each distinct performance obligation and judgment may be involved in the determination. The Company determines SSP using information that may include market conditions and other observable inputs. The Company evaluates SSP for its performance obligations on a quarterly basis.

Revenue is recognized when control of these products and services is transferred to the customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for these products and services. In instances where the timing of revenue recognition differs from the timing of invoicing, the Company has determined that its contracts generally do not include a significant financing component.

Subscription revenue related to cloud-based solutions, maintenance and support, and managed service and support revenues are generally recognized ratably over the contractual term of the arrangement beginning on the date that our service is made available to the customer. These arrangements, in general, are for committed one to three-year terms. For term-based license contracts, the transaction price allocated to the software element is recognized when it is made available to the customer. The transaction price allocated to the related support and updates is recognized ratably over the contract term. Term-based license arrangements may include termination rights that limit the term of the arrangement to a month, quarter or year.

Professional services revenues are generally recognized as the services are rendered for time and materials contracts or recognized using a proportional performance method as hours are incurred relative to total estimated hours for the engagement for fixed price contracts. The majority of the Company's professional services contracts are on a time and materials basis. Revenue from training and customer-reimbursed expenses is recognized as the Company delivers these services. The Company's implementation projects generally have a term ranging from a few months to twelve months and may be terminated by the customer at any time.

**MODEL N, INC.**  
**Notes to Consolidated Financial Statements**

***Capitalized Contract Acquisition Costs under ASC Topic 606***

The Company capitalizes incremental costs incurred to acquire contracts with customers, primarily sales commissions, for which the associated revenue is expected to be recognized in future periods. The Company incurs these costs in connection with both initial contracts and renewals. Such costs for renewals are not considered commensurate with those for initial contracts given the substantive difference in commission rates in proportion to their respective contract values. The costs in connection with initial contracts and renewals are deferred and amortized over an expected customer life of five years and over the renewal term, respectively, which corresponds to the period of benefit to the customer. The Company determined the period of benefit by considering the Company's history of customer relationships, length of customer contracts, technological development and obsolescence, and other factors. The current and non-current portion of capitalized contract acquisition costs are included in other current assets and other assets on the Consolidated Balance Sheets. Amortization expense is included in sales and marketing expenses on the Consolidated Statements of Operations.

***Revenue Recognition under ASC Topic 605***

Revenues are comprised of Software as a Service ("SaaS") and maintenance revenues and license and implementation revenues.

*SaaS and Maintenance*

SaaS and maintenance revenues primarily include subscription and the related implementation fees from customers accessing the Company's cloud-based solutions and revenues associated with maintenance and support contracts from customers using on-premise solutions. Also included in SaaS and maintenance revenues are other revenues, including revenues related to managed support services, training and customer-reimbursed expenses.

The Company has determined that its subscriptions have standalone value without the implementation services and allocates revenue to each deliverable in the arrangement based on a selling price hierarchy. The selling price for a deliverable is based on its vendor-specific objective evidence (VSOE), if available, third-party evidence (TPE), if VSOE is not available, or best estimated selling price (BESP), if neither VSOE nor TPE are available. As the Company has been unable to establish VSOE or TPE for the elements of its SaaS arrangements, the Company established the BESP for each element by considering company-specific factors such as existing pricing and discounting. The total arrangement fee for a multiple element arrangement is allocated based on the relative selling price method, taking into consideration contingent revenue restraints. The consideration allocated to subscription fees is recognized as revenue ratably over the contract period. The consideration allocated to implementation services is recognized as revenue as services are performed.

Prior to fiscal year 2016, for SaaS arrangements related to Revenue Cloud for Life Science and High Tech companies the Company treated the entire arrangement consideration, including subscription fees and related implementation services fees, as a single unit of accounting and recognized the revenues ratably beginning the day the customer was provided access to the subscription service through the end of contractual period. During fiscal year 2016, the Company concluded that the SaaS deliverable has standalone value to the customer without the implementation services, primarily due to the number of third-party consulting companies that have the know-how to be able to independently perform the implementation services.

Revenue related to up-front fees are deferred and recognized ratably over the estimated period that the customer benefits from the related service.

Maintenance and support revenue include post-contract customer support and the right to unspecified software updates and enhancements on a when and if available basis. Managed support services revenue includes supporting, managing and administering our software solutions, and providing additional end user support. Maintenance and support revenue and managed support services revenue are recognized ratably over the period in which the services are provided. The revenue from training and customer-reimbursed expenses is recognized as the Company delivers these services.

Arrangements that include term-based licenses for current products with the right to use unspecified future versions of the software and maintenance and support during the coverage period, are also accounted for as subscriptions, with revenue recognized ratably over the coverage period.

*License and Implementation*

License and implementation revenues include revenues from the sale of perpetual software licenses for the Company's solutions and the related implementation services. Based on the nature and scope of the implementation services, the Company has concluded that generally the implementation services are essential to its customers' use of the on-premise solutions, and therefore, the Company recognizes revenues from the sale of software licenses for its on-premise solutions and the related implementation services on a percentage-of-completion basis over the expected implementation period. The Company estimates the length of this period based on a number of factors, including the number of licensed applications and the scope and

**MODEL N, INC.**  
**Notes to Consolidated Financial Statements**

complexity of the customer's deployment requirements. The percentage-of-completion computation is measured as the hours expended on the implementation during the reporting period as a percentage of the total estimated hours needed to complete the implementation.

*Revenue Recognition*

The Company commences revenue recognition when all of the following conditions are satisfied: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable and collection of the fees is probable or reasonably estimable. However, determining whether and when some of these criteria have been satisfied often involves assumptions and judgments that can have a significant impact on the timing and amount of revenues the Company reports.

For multiple software element arrangements, the Company allocates the sales price among each of the deliverables using the residual method, under which revenue is allocated to undelivered elements based on their VSOE of fair value. VSOE is the price charged when an element is sold separately or a price set by management with the relevant authority. The Company has established VSOE for maintenance and support and training.

The Company does not offer any contractual rights of return or concessions. The Company's implementation projects generally have a term ranging from a few months to twelve months and may be terminated by the customer at any time. Should a loss be anticipated on a contract, the full amount of the loss is recorded when the loss is determinable. The Company updates its estimates regarding the completion of implementations based on changes to the expected contract value and revisions to its estimates of time required to complete each implementation project. Amounts that may be payable to customers to settle customer disputes are recorded as a reduction in revenues or reclassified from deferred revenue to customer payables in accrued liabilities and other long-term liabilities.

*Cost of Revenues*

Cost of subscription revenues primarily consists of personnel-related costs including salary, bonus, and stock-based compensation as well as costs for royalties, facilities expense, amortization, depreciation, third-party contractors and cloud infrastructure costs. Cost of professional services revenues primarily consists of personnel-related costs including salary, bonus, and stock-based compensation as well as costs for third-party contractors and other expenses.

*Warranty*

The Company provides limited warranties on all sales and provides for the estimated cost of warranties at the date of sale. The estimated cost of warranties has not been material to date.

*Foreign Currency Translation*

The functional currency of the Company's foreign subsidiaries is their respective local currency. The Company translates all assets and liabilities of foreign subsidiaries to U.S. dollars at the current exchange rate as of the applicable consolidated balance sheet date. Revenues and expenses are translated at the average exchange rate prevailing during the period. The effects of foreign currency translations are recorded in accumulated other comprehensive loss as a separate component of stockholders' equity in the Consolidated Statements of Stockholders' Equity. Realized gains and losses from foreign currency transactions are included in other expenses, net in the Consolidated Statements of Operations and have not been material for all periods presented.

*Hedging*

*Cash Flow Hedging—Hedges of Forecasted Foreign Currency Operation Costs*

The Company's customers typically pay in U.S. dollars; however, in foreign jurisdictions, the expenses are typically denominated in local currency. The Company may use foreign exchange forward contracts to hedge certain cash flow exposures resulting from changes in these foreign currency exchange rates. These foreign exchange contracts generally range from one month to one year in duration.

To receive hedge accounting treatment, all hedging relationships are formally documented at the inception of the hedge and the hedges must be highly effective in offsetting changes to future cash flows on hedged transactions. The Company records changes in the fair value of cash flow hedges in accumulated other comprehensive loss in the Consolidated Balance Sheets, until the forecasted transaction occurs, at which point, the related gain or loss on the cash flow hedge is reclassified to the financial statement line item to which the derivative relates. In the event the underlying forecasted transaction does not occur or it becomes probable that it will not occur, the gain or loss on the related cash flow hedge is reclassified into earnings from accumulated other comprehensive loss. If the Company does not elect hedge accounting or the contract does not qualify

**MODEL N, INC.**  
**Notes to Consolidated Financial Statements**

for hedge accounting treatment, the changes in fair value from period to period are recognized immediately in the same financial statement line item to which the derivative relates.

*Hedge Effectiveness*

For foreign currency hedges designated as cash flow hedges, the Company elected to utilize the critical terms method to determine if the hedges are highly effective and thus, eligible for hedge accounting treatment. The Company evaluates the effectiveness of the foreign exchange contracts on a quarterly basis.

*Cash and Cash Equivalents*

The Company considers all highly liquid investments with an original or remaining maturity of three months at date of purchase to be cash equivalents. The Company's cash equivalents are comprised of money market funds and US Treasury securities and are maintained with financial institutions with high credit ratings.

*Concentration of Credit Risk and Significant Customers*

The Company maintains cash and cash equivalents with major financial institutions. The Company's cash and cash equivalents consist of bank deposits held with banks, money market funds, and US Treasury securities. The Company limits its credit risk by dealing with counterparties that are considered to be of high credit quality and by performing periodic evaluations of its investments and of the relative credit standing of these financial institutions.

Credit risk is the risk of loss from amounts owed by financial counterparties. Credit risk can occur at multiple levels; as a result of broad economic conditions, challenges within specific sectors of the economy, or from issues affecting individual companies. Financial instruments that potentially subject the Company to credit risk consist of cash equivalents and accounts receivable.

In the normal course of business, the Company is exposed to credit risk from its customers. To reduce credit risk, the Company performs ongoing credit evaluations of its customers.

The following customers comprised 10% or more of the Company's accounts receivable as of September 30, 2020, and 2019 and of the Company's total revenues for the fiscal years ended September 30, 2020, 2019, and 2018, respectively:

	As of September 30,		
	2020	2019	
<b>Accounts Receivable</b>			
Company A	12%	12%	
Company B	12%	less than 10%	

	Fiscal Years Ended September 30,		
	2020	2019	2018
<b>Revenue</b>			
Company C	less than 10%	less than 10%	15%

*Accounts Receivable and Allowance for Doubtful Accounts*

Accounts receivable are recorded at the invoiced amount, net of allowances for doubtful accounts. The allowance for doubtful accounts is based on management's assessment of the collectability of accounts. The Company regularly reviews the adequacy of this allowance for doubtful accounts by considering historical experience, the age of the accounts receivable balances, the credit quality of the customers, current economic conditions, and other factors that may affect customers' ability to pay to determine whether a specific allowance is appropriate. Accounts receivable deemed uncollectable are charged against the allowance for doubtful accounts when identified.

Revenue that has been recognized, but for which the Company has not invoiced the customer, amounting to \$2.0 million and \$5.9 million is recorded as unbilled receivables and is included in accounts receivables in the Consolidated Balance Sheets as of September 30, 2020, and 2019, respectively. Invoices that have been issued before revenue has been recognized are recorded as deferred revenue in the Consolidated Balance Sheets.

*Property and Equipment, Net*

Property and equipment are stated at cost less accumulated depreciation. Depreciation of property and equipment is calculated on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or the estimated useful lives of the assets.

**MODEL N, INC.**  
**Notes to Consolidated Financial Statements**

The estimated useful lives of property and equipment are as follows:

Computer software and equipment	2-5 years
Furniture and fixtures	2-5 years
Leasehold improvements	Shorter of the lease term or estimated useful life
Software development costs	3 years

Costs of maintenance and repairs that do not improve or extend the lives of the respective assets are charged to expense as incurred. Upon retirement or sale of property and equipment, the cost and related accumulated depreciation are removed from the balance sheet and the resulting gain or loss is reflected in the Consolidated Statement of Operations.

#### ***Leases***

The Company determines if an arrangement contains a lease at inception. The Company has entered into operating lease agreements primarily for offices. The Company does not have any finance leases.

Operating lease ROU assets represent the Company's right to use an underlying asset for the lease term and operating lease liabilities represent the Company's obligation to make payments arising from the lease. Operating leases are included in "Operating lease right-of-use assets", "Operating lease liabilities, current portion", and "Operating lease liabilities, less current portion" in the consolidated balance sheets.

Operating lease ROU assets and operating lease liabilities are recognized at the present value of the future lease payments at commencement date. ROU assets also include any initial direct costs incurred and any lease payments made at or before the lease commencement date, less lease incentives received.

The Company's lease arrangements may contain lease and non-lease components. The Company elected to combine lease and non-lease components. In determining the present value of the future lease payments, the Company considers only payments that are fixed and determinable at commencement date, including non-lease components. Variable components such as utilities and maintenance costs are expensed as incurred. The Company uses its incremental borrowing rate based on the information available at the commencement date in determining the lease liabilities as the Company's leases generally do not provide an implicit rate. In determining the appropriate incremental borrowing rate, the Company considers information including, but not limited to, its credit rating, the lease term, and the economic environment where the leased asset is located. Lease terms include periods under options to extend or terminate the lease when the Company is reasonably certain that the option will be exercised. Lease expense is recognized on a straight-line basis over the lease term.

The Company also elected to apply the short-term lease measurement and recognition exemption in which ROU assets and lease liabilities are not recognized for leases with a term of 12 months or less.

#### ***Business Combination***

The Company includes the results of operations of the businesses that are acquired as of the acquisition date. The Company allocates the purchase price of acquisitions to the assets acquired and liabilities assumed based on the estimated fair values. The excess of the purchase price over the fair values of the identifiable assets and liabilities is recorded as goodwill. Acquisition related costs are recognized separately from the business combination and are expensed as incurred.

#### ***Goodwill and Intangible Assets***

The Company records goodwill when consideration paid in an acquisition exceeds the fair value of the net tangible assets and the identified intangible assets acquired. Goodwill is not amortized, but rather is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. The Company conducted the annual impairment test of goodwill as of September 30, 2020, and 2019. For purposes of goodwill impairment testing, the Company has one reporting unit. The Company has elected to first assess the qualitative factors to determine whether it is more likely than not that the fair value of the single reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the goodwill impairment test. When performing the goodwill impairment test, the Company compares the fair value of the single reporting unit with its carrying amount. An impairment charge is recognized for the amount by which the carrying amount exceeds the fair value with goodwill written down accordingly. There have been no goodwill impairments during the periods presented.

Intangible assets, consisting of developed technology, backlog, and customer relationships, are stated at cost less accumulated amortization. All intangible assets have been determined to have finite lives and are amortized on a straight-line basis over their estimated remaining economic lives, ranging from three to ten years. Amortization expense related to developed

**MODEL N, INC.**  
**Notes to Consolidated Financial Statements**

technology is included in cost of subscription revenue while amortization expense related to backlog and customer relationships is included in sales and marketing expenses.

***Long-lived Assets***

The Company continually monitors events and changes in circumstances that could indicate that carrying amounts of its long-lived assets, including property and equipment and intangible assets, may not be recoverable. When such events or changes in circumstances occur, the Company assesses the recoverability of long-lived assets by determining whether the carrying value of such assets will be recovered through their undiscounted expected future cash flows. If the future undiscounted cash flows are less than the carrying amount of these assets, the Company recognizes an impairment loss based on the excess of the carrying amount over the fair value of the assets. The Company did not recognize any impairment charges on its long-lived assets during any periods presented.

***Research and Development and Capitalization of Software Development Costs***

The Company generally expenses costs related to research and development, including those activities related to software solutions to be sold, leased or otherwise marketed. As such development work is essentially completed concurrently with the establishment of technological feasibility, and accordingly, the Company has not capitalized any such development costs.

The Company capitalizes certain software development costs incurred in connection with its cloud-based software platform for internal use. The Company capitalizes software development costs when application development begins, it is probable that the project will be completed, and the software will be used as intended. When development becomes substantially complete and ready for its intended use, such capitalized costs are amortized on a straight-line basis over the estimated useful life of the related asset, which is generally three years. Costs associated with preliminary project stage activities, training, maintenance and all post implementation stage activities are expensed as incurred.

***Fair Value of Financial Instruments***

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

The Company's cash equivalents consist of money market funds and US Treasury securities, which are classified within Level 1 of the fair value hierarchy because they are valued based on quoted prices in active markets for identical assets or liabilities.

***Convertible Senior Notes***

In May 2020, the Company issued \$172.5 million aggregate principal amount of 2.625% convertible senior notes. The Company separates its convertible senior notes (the "Notes") into liability and equity components. The carrying amount of the liability component is calculated by measuring the fair value of a similar debt instrument that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option is determined by deducting the fair value of the liability component from the principal amount of the Notes. The excess of the principal amount of the Notes over the carrying amount of the liability component ("debt discount") is amortized to interest expense at an effective interest rate over the contractual term of the Notes. The equity component is recorded in additional paid-in capital and is not remeasured as long as it continues to meet the conditions for equity classification. The Company allocates the issuance costs to the liability and equity components of the Notes based on the proportion of the proceeds allocated to the debt and equity components. Issuance costs attributable to the liability component are amortized to interest expense using the effective interest method over the contractual terms of the Notes. Issuance costs attributable to the equity component are netted with the equity component in stockholders' equity.

***Advertising and Promotion Costs***

Advertising and promotion costs are expensed as incurred. The Company incurred \$0.2 million, \$0.2 million, and \$0.4 million in advertising and promotions costs during the fiscal years ended September 30, 2020, 2019, and 2018, respectively.

***Employee Benefit Plan***

The Company has a savings plan that qualifies under Section 401(k) of the Internal Revenue Code (IRC). Under the 401(k) Plan, matching contributions are based upon the amount of the employees' contributions subject to certain limitations. The Company contributed approximately \$0.6 million for each of the years ended September 30, 2020, 2019, and 2018.

**MODEL N, INC.**  
**Notes to Consolidated Financial Statements**

***Stock-Based Compensation***

Stock-based compensation expense for all share-based payment awards granted to the employees and directors including stock options and restricted stock units (“RSUs”) is measured and recognized based on the fair value of the awards on the grant date. The fair value is recognized as expense, net of estimated forfeitures on a ratable basis, over the requisite service period, which is generally the vesting period of the respective award. The Company uses the Black-Scholes-Merton valuation model to estimate the fair value of stock option awards and employee stock purchase plan (“ESPP”). The Black-Scholes-Merton valuation model requires the use of subjective assumptions including the expected stock price volatility over the expected term of the options, stock option exercise and cancellation behaviors, risk-free interest rates and expected dividends. The fair value of RSUs is determined based on the closing quoted price of the Company’s common stock on the grant date. The Company periodically estimates the portion of awards which will ultimately vest based on its historical forfeiture experience. These estimates are adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from the prior estimates.

The Company grants performance-based restricted stock units (“PB-RSUs”) to executives and leadership team and has determined no forfeiture rate would be applied to the PB-RSUs. PB-RSUs have vesting conditions either based on pre-established performance goals of the Company or the performance of the Company’s total shareholder return relative to that of the Russell 3000 Index. For the former, the fair value is determined based on the closing quoted price of the Company’s common stock on the grant date and the fair value is recognized using the graded-vesting attribution method over the requisite service period. For the latter, the Company uses a Monte Carlo simulation model to determine the fair value on the grant date and the fair value is recognized using the graded-vesting attribution method over the requisite service period.

***Income Taxes***

The Company accounts for income taxes in accordance with the FASB ASC No. 740—*Accounting for Income Taxes* (“ASC 740”). The Company makes certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of tax credits, tax benefits and deductions and in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes. Significant changes to these estimates may result in an increase or decrease to our tax provision in the subsequent period when such a change in estimate occurs. The Company regularly assesses the likelihood that its deferred income tax assets will be realized from future taxable income based on the realization criteria set forth in ASC 740. To the extent that the Company believes any amounts are not more likely than not to be realized, the Company records a valuation allowance to reduce the deferred income tax assets. In assessing the need for a valuation allowance, the Company considers all available evidence, including past operating results, estimates of future taxable income and the feasibility of tax planning strategies. In the event the Company determines that it is more likely than not that all or part of the net deferred tax assets are not realizable in the future, an adjustment to the valuation allowance would be charged to earnings in the period such determination is made. Similarly, if the Company subsequently realizes deferred income tax assets that were previously determined to be unrealizable, the respective valuation allowance would be reversed, resulting in an adjustment to earnings in the period such determination is made.

As of September 30, 2020, and 2019, the Company had gross deferred income tax assets, related primarily to net operating loss (“NOL”) carry forwards, stock compensation, accruals and reserves that are not currently deductible, depreciation and amortization, and research and development tax credits of \$96.9 million and \$83.0 million, respectively, which have been fully offset by a valuation allowance. Utilization of these net loss carry forwards is subject to the limitations of IRC Section 382 (“Section 382 Limitations”). A Section 382 study was performed in fiscal year 2013 and subsequent Section 382 analyses have been performed. It is determined that there are no material limitations of IRC Section 382. However, in the future, some portion or all of these carry forwards may not be available to offset any future taxable income.

The Company accounts for uncertainty in income taxes using a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. The Company classifies the liability for unrecognized tax benefits as current to the extent that the Company anticipates payment or receipt of cash within one year. Interest and penalties related to uncertain tax positions are recognized in the provision for income taxes.

***Segment***

The Company has one operating segment with one business activity: developing and monetizing revenue management solutions. The Company’s Chief Operating Decision Maker (“CODM”) is its Chief Executive Officer, who manages operations



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on a consolidated basis for purposes of allocating resources. When evaluating performance and allocating resources, the CODM reviews financial information as presented on a consolidated basis.

***Comprehensive Loss***

Comprehensive loss is comprised of net loss and other comprehensive income (loss). Other comprehensive income (loss) includes foreign currency translation adjustments and unrealized gain (loss) on cash flow hedges.

***Recent Accounting Pronouncements***

***Recently Adopted Accounting Pronouncements***

In February 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-02, Leases (Topic 842). Under Topic 842, lessees are required to recognize a lease liability, which represents the discounted obligation to make future minimum lease payments, and a corresponding right-of-use asset on the balance sheet for most leases and provide enhanced disclosures. The Company adopted Topic 842 on October 1, 2019 using the alternative modified transition method. The Company elected the package of practical expedients and carried forward its historical lease classification, its assessment on whether a contract was or contained a lease, and its initial direct costs for any leases that existed prior to October 1, 2019. The Company also elected to combine lease and non-lease components and to keep leases with an initial term of 12 months or less off the balance sheet. Upon adoption, the Company recognized total operating lease right-of-use (“ROU”) assets and total operating lease liabilities of \$6.7 million and \$7.2 million, respectively, on the consolidated balance sheet. The difference of \$0.5 million represents deferred rent that existed as of the date of adoption, which was an offset to the opening balance of operating lease ROU assets. The adoption had no impact on opening retained earnings.

In January 2017, the FASB issued ASU 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This new accounting standard update simplifies the measurement of goodwill by eliminating the step two impairment test. Step two measures a goodwill impairment loss by comparing the implied fair value of goodwill with the carrying amount of that goodwill. The new guidance requires a comparison of the fair value of the Company’s single reporting unit with the carrying amount and the Company is required to recognize an impairment charge for the amount by which the carrying amount exceeds the fair value. Additionally, the Company will consider the income tax effects from any tax deductible goodwill on the carrying amount when measuring the goodwill impairment loss, if applicable. The new guidance becomes effective for goodwill impairment tests in fiscal years beginning after December 15, 2019 with early adoption permitted. The Company adopted this guidance beginning in the first quarter of fiscal year 2020 and it did not have a material impact on the Consolidated Financial Statements.

***Recent Accounting Pronouncements Not Yet Adopted***

In August 2018, the FASB issued ASU 2018-15, Intangibles (Topic 350), Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This standard also requires customers to amortize the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. ASU 2018-15 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019, with early adoption permitted. The Company does not expect the new standard to have a material impact on its Consolidated Financial Statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss model which requires the use of forward-looking information to calculate credit loss estimates. ASU 2016-13 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019, with early adoption permitted. ASU 2016-13 requires a cumulative effect adjustment to the balance sheet as of the beginning of the first reporting period in which the guidance is effective. The Company does not expect the new standard to have a material impact on its Consolidated Financial Statements.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes, which simplifies the accounting for incomes taxes by removing certain exceptions to the general principles in Topic 740 and amending existing guidance to improve consistent application. ASU 2019-12 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the impact this standard will have on its Consolidated Financial Statements.

In August 2020, the FASB issued ASU 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40), Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity, which eliminates the beneficial conversion and cash conversion accounting models for

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convertible instruments. It also amends the accounting for certain contracts in an entity's own equity that are currently accounted for as derivatives because of specific settlement provisions. In addition, the new guidance modifies how particular convertible instruments and certain contracts that may be settled in cash or shares impact the diluted EPS computation. ASU 2020-06 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2021, with early adoption permitted. The Company is currently evaluating the impact this standard will have on its Consolidated Financial Statements.

**Note 3. Revenues from Contracts with Customers**

***Revenue Recognition***

The Company derives revenues primarily from subscription revenues and professional services revenues.

***Disaggregation of Revenues***

See Note 14, Geographic Information, for information on revenue by geography.

***Customer Contract Balances***

The following table reflects balances related to contracts with customers (in thousands):

	<u>As of September 30, 2020</u>	<u>As of September 30, 2019</u>
Accounts receivable, net	\$ 35,796	\$ 26,953
Contract asset	4,482	1,588
Deferred revenue	51,786	45,385
Capitalized contract acquisition costs	7,506	6,626

***Accounts Receivable***

Accounts receivable represents our right to consideration that is unconditional, net of allowances for doubtful accounts. The allowance for doubtful accounts is based on management's assessment of the collectability of accounts receivable amounts.

***Contract Asset***

Contract asset represents revenue that has been recognized for satisfied performance obligations for which the Company does not have an unconditional right to consideration.

***Deferred Revenue***

Deferred revenue, which is a contract liability, consists of amounts that have been invoiced and for which the Company has the right to bill, but that have not been recognized as revenue because the related goods or services have not been transferred.

The non-current portion of deferred revenue is included in other long-term liabilities in the Consolidated Balance Sheets. During the years ended September 30, 2020, and 2019, the Company recognized \$44.7 million and \$44.5 million of revenue that was included in the deferred revenue balance at the beginning of the periods.

***Capitalized Contract Acquisition Costs***

As of September 30, 2020, the current and non-current portions of capitalized contract acquisition costs were \$2.3 million and \$5.2 million, respectively. The Company amortized \$2.5 million and \$1.8 million of contract acquisition costs during the years ended September 30, 2020, and 2019, respectively. For the years ended September 30, 2020, and 2019, there was no impairment related to capitalized contract acquisition costs.

***Customer Deposits***

Customer deposits primarily relate to payments received from customers which could be refundable pursuant to the terms of the arrangement. These amounts are included in accrued liabilities on the Consolidated Balance Sheets. The customer deposits amount was immaterial as of September 30, 2020, and 2019.

Standard payment terms to customers generally range from thirty to ninety days; however, payment terms and conditions in the customer contracts may vary. In some cases, customers prepay for subscription and services in advance of the delivery; in other cases, payment is due as services are performed or in arrears following the delivery.

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**Remaining Performance Obligations**

Remaining performance obligations represent non-cancelable contracted revenue that has not yet been recognized, which includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. As of September 30, 2020, the aggregate amount of the transaction price allocated to performance obligations either unsatisfied or partially unsatisfied was \$164.5 million, 53% of which the Company expects to recognize as revenue over the next 12 months and the remainder thereafter.

**Note 4. Leases**

The Company leases facilities under noncancelable operating leases with lease terms between three years and 10 years. Certain leases include options to extend or terminate the lease. The Company factored into the determination of lease payments the options that it is reasonably certain to exercise.

Operating lease costs were \$3.2 million for the year ended September 30, 2020. Short-term lease costs, variable lease costs, and sublease income were immaterial for the year ended September 30, 2020. Rent expenses recognized prior to the adoption of Topic 842 were \$3.2 million and \$3.4 million during the fiscal years ended September 30, 2019, and 2018, respectively.

Cash flow information related to operating leases is as follows (in thousands):

	<b>Fiscal Year Ended September 30, 2020</b>
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 3,545
Operating lease ROU assets obtained in exchange for new operating lease liabilities	(375)

The Company early terminated certain leases during the three months ended June 30, 2020 which resulted in a reduction of ROU assets and operating lease liabilities of \$1.0 million.

The weighted-average remaining lease term is 4.0 years and the weighted-average discount rate is 5.5% as of September 30, 2020.

Maturities of operating lease liabilities as of September 30, 2020 are as follows (in thousands):

<b>Fiscal Year</b>	
2021	1,599
2022	762
2023	442
2024	350
2025	234
2026 and thereafter	535
Total operating lease payments	3,922
Less imputed interest	395
Total operating lease liabilities	<u>\$ 3,527</u>

The Company's headquarter lease expires on November 30, 2020. In April 2020, the Company entered into a new noncancelable operating lease for its headquarters with a 64 month lease term that will commence on December 1, 2020. The new lease has a five year renewal option which the Company is not reasonably certain to exercise. The future payments over the 64 month lease term are \$11.4 million.

Future minimum payments under noncancelable operating leases as of September 30, 2019 under ASC 840 are as follows (in thousands):

<b>Fiscal Year</b>	
2020	\$ 3,400
2021	1,700
2022	900
2023	400
2024	100
Total	<u>\$ 6,500</u>

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**Note 5. Financial Instruments**

The table below sets forth the Company's cash equivalents as of September 30, 2020, and 2019, which are measured at fair value on a recurring basis by level within the fair value hierarchy. The assets are classified based on the lowest level of input that is significant to the fair value measurement. The Company had no liabilities measured at fair value on a recurring basis.

	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Reported as: Cash and Cash Equivalents</u>
<b>As of September 30, 2020</b>					
Level 1:					
Money market funds	31,915	—	—	31,915	31,915
US Treasury securities	\$ 149,982	\$ —	\$ —	\$ 149,982	\$ 149,982
Total	<u>\$ 181,897</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 181,897</u>	<u>\$ 181,897</u>
<b>As of September 30, 2019</b>					
Level 1:					
Money market funds	\$ 32,792	\$ —	\$ —	\$ 32,792	\$ 32,792
Total	<u>\$ 32,792</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 32,792</u>	<u>\$ 32,792</u>

The Company's financial instruments not measured at fair value on a recurring basis include cash, accounts receivable, accounts payable, and accrued liabilities, and are reflected in the financial statements at cost and approximates their fair value due to their short-term nature.

See Note 6 for the fair value measurement of the Company's derivative contracts, Note 8 for the fair value measurement of the Company's term loan and promissory notes, and Note 9 for the fair value measurement of the Company's convertible senior notes.

**Note 6. Derivative Instruments and Hedging**

The Company uses foreign currency forward contracts to hedge a portion of the forecasted foreign currency-denominated expenses incurred in the normal course of business. These contracts are designated as cash flows hedges. These hedging contracts reduce, but do not entirely eliminate, the impact of adverse foreign exchange rate movements. The Company does not use any of the derivative instruments for trading or speculative purposes. These contracts have maturities of 12 months or less. The amounts reclassified to expenses related to the hedged transactions were immaterial for the years ended September 30, 2020, and 2019. The fair value of the outstanding non-deliverable foreign currency forward contracts was measured using Level 2 fair value inputs and was immaterial as of September 30, 2020, and 2019.

*Notional Amounts of Derivative Contracts*

Derivative transactions are measured in terms of the notional amount but this amount is not recorded on the balance sheet and is not, when viewed in isolation, a meaningful measure of the risk profile of the instruments. The notional amount is generally not exchanged but is used only as the basis on which the value of foreign exchange payments under these contracts are determined. The notional amounts of the Company's outstanding foreign currency forward contracts designated as cash flow hedges were \$5.5 million and \$9.4 million as of September 30, 2020, and 2019, respectively.

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**Note 7. Consolidated Balance Sheets Components**

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

***Property and Equipment***

	As of September 30,	
	2020	2019
	(in thousands)	
Computer software and equipment	\$ 6,367	\$ 7,644
Furniture and fixtures	1,143	1,252
Leasehold improvements	1,012	1,276
Software development costs	7,801	9,416
Total property and equipment	\$ 16,323	\$ 19,588
Less: Accumulated depreciation and amortization	(15,289)	(18,545)
Total Property and equipment, net	\$ 1,034	\$ 1,043

Depreciation expense including depreciation of assets under capital leases totaled \$0.7 million, \$1.3 million, and \$2.7 million for the fiscal years ended September 30, 2020, 2019, and 2018, respectively.

***Intangible Assets***

	Estimated Useful Life (in years)	As of September 30, 2020		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(in thousands)		
<b>Intangible Assets:</b>				
Developed technology	5-6	\$ 12,083	\$ (9,544)	\$ 2,539
Customer relationships	3-10	36,599	(14,758)	21,841
Total		\$ 48,682	\$ (24,302)	\$ 24,380

	Estimated Useful Life (in years)	As of September 30, 2019		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(in thousands)		
<b>Intangible Assets:</b>				
Developed technology	5-6	\$ 12,083	\$ (8,351)	\$ 3,732
Backlog	5	280	(280)	—
Customer relationships	3-10	36,599	(11,200)	25,399
Total		\$ 48,962	\$ (19,831)	\$ 29,131

The Company recorded amortization expense related to the acquired intangible assets of \$4.8 million, \$5.5 million and \$5.6 million during the fiscal years ended September 30, 2020, 2019, and 2018, respectively.

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Estimated future amortization expense for the intangible assets as of September 30, 2020 is as follows:

	<b>Fiscal Years Ending September 30, (in thousands)</b>
2021	4,687
2022	4,687
2023	3,840
2024	3,558
2025	3,558
2026 and thereafter	4,050
Total future amortization	<b>\$ 24,380</b>

**Note 8. Debt**

***Term Loan – Wells Fargo***

On May 4, 2018, the Company entered into a credit agreement (the “Credit Agreement”) with Wells Fargo, as administrative agent, and the lenders party thereto, for a \$50.0 million term loan, as well as a revolving line of credit for an amount up to \$5.0 million. At the same time and with a portion of the proceeds, the Company repaid in full the \$50.0 million term loan the Company entered into in connection with the 2017 Revitas acquisition.

The Company paid a total of \$10.2 million of principal in fiscal years 2018 and 2019. In May 2020, the Company terminated the Credit Agreement and repaid in full the outstanding term loan including \$39.8 million principal and \$0.2 million interest from the proceeds of the convertible senior notes, as discussed in Note 9. The Company recorded a loss on debt extinguishment of \$0.3 million representing the unamortized debt discount and issuance costs amount. The term loan had a maturity date of May 4, 2023.

On August 12, 2019, the Company entered into an amendment to the Credit Agreement whereby the applicable margins were revised. At the Company’s election, the term loan under the Credit Agreement and the revolving line of credit bore interest based upon the Company’s leverage ratio as defined in the Credit Agreement at either (i) a base rate plus applicable margin ranging from 1.5% to 3.5% or (ii) LIBOR rate plus applicable margin ranging from 2.5% to 4.5%. Interest was payable periodically, in arrears, at the end of each interest period the Company elected. For the first four months of fiscal year 2020, the Company’s interest rate was LIBOR rate plus 3.5%. For the period beginning on February 1, 2020 through the payoff of the term loan, the Company’s interest rate was LIBOR rate plus 2.5%. The effective interest rate for the term loan with Wells Fargo was 5.34% for the year ended September 30, 2020. In addition, the Company was required to pay monthly in arrears an unused line fee ranging from 0.25% to 0.5% of the unused portion of the revolving line of credit based upon the Company’s leverage ratio.

The Credit Agreement contained customary representations and warranties, subject to limitations and exceptions, customary covenants, and certain financial covenants. The Company was in compliance with all covenant requirements through the payoff in conjunction with the issuance of convertible senior notes as discussed in Note 9.

***Promissory Notes***

Also in connection with the Revitas acquisition, the Company incurred \$10.0 million in debt in the form of two \$5.0 million promissory notes with the sellers, both of which matured and were paid in full on July 5, 2018 and January 5, 2020, respectively.

The carrying value of the term loan with Wells Fargo approximated fair value since the term loan bore interest at rates that fluctuated with the changes in the base rate or the LIBOR rate as elected by the Company. The carrying value of the promissory note approximated its fair value. The Company classified the term loan with Wells Fargo and the promissory note under level 2 of the fair value measurement hierarchy as these instruments were not actively traded.

**Note 9. Convertible Senior Notes**

In May 2020, the Company issued \$172.5 million aggregate principal amount of 2.625% convertible senior notes in a private placement, including \$22.5 million which represents the exercise in full of the initial purchasers’ option to purchase additional notes. The net proceeds from the issuance of the Notes was \$166.4 million, net of initial purchasers’ discounts and debt issuance costs of \$6.1 million. The Company used \$40.0 million of the net proceeds to repay in full the debt outstanding under, and terminated the Credit Agreement dated May 4, 2018, as amended, by and among the Company, Wells Fargo, as administrative agent, and the lenders party thereto. See Note 8 for details of the Credit Agreement.

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The Notes are senior, unsecured obligations of the Company and bear an interest rate of 2.625% per year payable semi-annually in arrears on June 1 and December 1 of each year, beginning on December 1, 2020. The Notes mature on June 1, 2025 unless repurchased, redeemed or converted in accordance with their terms prior to such date.

The Notes are convertible into cash, shares of the Company's common stock or a combination thereof, at the Company's election, at an initial conversion rate of 30.0044 shares of common stock per \$1,000 principal amount of the Notes, which is equal to an initial conversion price of approximately \$33.33 per share of common stock subject to adjustment, with a maximum conversion rate of 38.2555. The Company intends to settle the principal amount of the Notes with cash. Prior to the close of business on the scheduled trading day immediately preceding March 1, 2025, holders of the Notes may convert all or a portion of their Notes in multiples of \$1,000 principal amount, only under the following circumstances:

- during any calendar quarter commencing after the calendar quarter ending on September 30, 2020 (and only during such calendar quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;
- during the five business day period after any five consecutive trading day period (the "measurement period") in which the trading price per \$1,000 principal amount of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day;
- if the Company calls any or all of the notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date; or
- upon the occurrence of specified corporate events.

On or after March 1, 2025 and prior to the close of business on the second scheduled trading day immediately preceding the maturity date, holders of the Notes may convert all or a portion of their Notes in multiples of \$1,000 principal amount regardless of the foregoing conditions.

Holders of the Notes who convert their Notes in connection with a make-whole fundamental change (as defined in the Indenture) or in connection with any optional redemption are, under certain circumstances, entitled to an increase in the conversion rate. Additionally, in the event of a fundamental change (as defined in the Indenture), holders of the Notes may require the Company to repurchase all or a portion of their Notes at a price equal to 100% of the principal amount of Notes, plus any accrued and unpaid interest to, but excluding, the repurchase date.

The Company may not redeem the Notes prior to June 6, 2023. The Company may redeem for cash all or part of the Notes, at its option, on or after June 6, 2023 and on or before the 41st scheduled trading day immediately before the maturity date, at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest if the last reported sale price of the Company's common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive), including the trading day immediately preceding the date on which the Company provides notice of redemption, during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption. No sinking fund is provided for the Notes.

During the year ended September 30, 2020, the conditions allowing holders of the Notes to convert were not met. The Notes were classified as long-term debt on the Consolidated Balance Sheets as of September 30, 2020.

In accounting for the issuance of the Notes, the Company separated the Notes into liability and equity components. The carrying amount of the liability component of \$115.3 million was calculated by measuring the fair value of a similar debt instrument that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was \$57.2 million and was determined by deducting the fair value of the liability component from the principal amount of the Notes. The excess of the principal amount of the Notes over the carrying amount of the liability component is amortized to interest expense at an effective interest rate over the contractual terms of the Notes. The equity component was recorded in additional paid-in capital and is not remeasured as long as it continues to meet the conditions for equity classification.

In accounting for the issuance costs related to the Notes, the Company allocated the total amount incurred to the liability and equity components of the Notes based on the proportion of the proceeds allocated to the debt and equity components. Issuance costs attributable to the liability component were \$4.1 million and are amortized to interest expense using the effective interest method over the contractual terms of the Notes. Issuance costs attributable to the equity component of \$2.0 million were netted with the equity component in stockholders' equity.

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The net carrying amount of the liability and equity components for the Notes as of September 30, 2020 was as follows (in thousands):

<b>Liability component:</b>	
Principal amount	\$ 172,500
Unamortized discount	(54,147)
Unamortized issuance costs	(3,915)
<b>Net carrying amount</b>	<b>\$ 114,438</b>
Equity component, net of issuance costs	\$ 55,227

The following table sets forth the interest expense recognized related to the Notes (in thousands):

	<b>Fiscal Year Ended September 30, 2020</b>
Coupon interest expense	\$ 1,623
Amortization of debt discount	3,102
Amortization of debt issuance costs	155
<b>Total interest expense related to the Notes</b>	<b>\$ 4,880</b>
Effective interest rate of the liability component	12.32 %

The unamortized debt discount and debt issuance costs will be amortized over 56 months as of September 30, 2020.

As of September 30, 2020, the total estimated fair value of the Notes was approximately \$224.9 million which includes the equity component. The fair value was determined based on the closing trading price per \$100 of the Notes as of the last day of trading for the period. The fair value of the Notes is primarily affected by the trading price of the Company's common stock and market interest rates. The fair value of the Notes is considered a Level 2 measurement as they are not actively traded.

#### **Note 10. Commitments and Contingencies**

##### ***Leases***

See Note 4 for details of leases.

##### ***Indemnification Obligations***

Each of the Company's software licenses contains the terms of the contractual arrangement with the customer and generally includes certain provisions for defending the customer against any claims that the Company's software infringes upon a patent, copyright, trademark, or other proprietary right of a third party. The software license also provides for indemnification by the Company of the customer against losses, expenses, and liabilities from damages that may be assessed against the customer in the event the Company's software is found to infringe upon such third party rights.

The Company has not had to reimburse any of its customers for losses related to indemnification provisions, and there were no material claims against the Company outstanding as of September 30, 2020, and 2019. For several reasons, including the lack of prior indemnification claims and the lack of a monetary liability limit for certain infringement cases under the software license, the Company cannot estimate the amount of potential future payments, if any, related to indemnification provisions.

##### ***Legal Proceedings***

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



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**Note 11. Stock-Based Compensation*****2000 Stock Plan***

The 2000 Stock Plan (the “2000 Plan”) authorized the board of directors (the “Board”) to grant incentive share options and non-statutory share options to employees, directors and other eligible participants. Stock purchase rights may also be granted under the 2000 Plan. The exercise price of the stock options shall not be less than the estimated fair value of the underlying shares of the common stock on the grant date. Options generally vest over four years and expire ten years from the date of grant. In connection with the adoption of the 2010 Equity Incentive Plan (the “2010 Plan”) in June 2010, the 2000 Plan was terminated and all shares of common stock previously reserved but unissued were transferred to 2010 Plan.

***2010 Equity Incentive Plan***

On June 15, 2010, the Company’s Board adopted the 2010 Equity Incentive Plan under which employees, directors, and other eligible participants of the Company or any subsidiary of the Company may be granted incentive stock options, nonstatutory stock options and all other types of awards to purchase shares of the Company’s common stock. The total number of shares reserved and available for grant and issuance pursuant to this 2010 Plan consists of (a) any authorized shares not issued or subject to outstanding grants under the 2000 Plan on the adoption date, (b) shares that are subject to issuance upon exercise of options granted under the Plan but cease to exist for any reason other than exercise of such options; and (c) shares that were issued under the Plan which are repurchased by the Company at the original issue price or forfeited. In connection with the adoption of the 2013 Equity Incentive Plan in February 2013, the 2010 Plan was terminated and all shares of common stock previously reserved but unissued were transferred to 2013 Plan.

***2013 Equity Incentive Plan***

The Company’s Board adopted the 2013 Equity Incentive Plan (the “2013 Plan”) in February 2013, and the stockholders approved the 2013 Plan in March 2013. The 2013 Plan became effective on March 18, 2013 and will terminate on February 28, 2023. The 2013 Plan serves as the successor equity compensation plan to the 2010 Plan. The 2013 Plan was approved with a reserve of 8.0 million shares, which consists of 2.5 million shares of the Company’s common stock reserved for future issuance under the 2013 Plan and shares of common stock previously reserved but unissued under the 2010 Plan.

Additionally, the 2013 Plan provides for automatic increases in the number of shares available for issuance under it on October 1 of each of the first four calendar years during the term of the 2013 Plan by the lesser of 5% of the number of shares of common stock issued and outstanding on each September 30 immediately prior to the date of increase or the number determined by the Board. In fiscal year 2018, 2.0 million additional shares were approved by the Company’s stockholders for issuance under the 2013 Plan. No further grants will be made under the 2010 Plan, and the balances under the 2010 Plan have been transferred to the 2013 Plan. The 2013 Plan provides for the grant of incentive stock options, nonqualified stock options, restricted stock awards, stock appreciation rights, performance stock awards, restricted stock units and stock bonuses. Awards generally vest over four years and expire ten years from the date of grant. As of September 30, 2020, 2.8 million shares were available for future stock awards under the plans and any additional releases resulting from an over-achievement relating to performance-based restricted stock units.

***Stock Options***

There were no stock options granted in fiscal years ended September 30, 2020, 2019, and 2018. The expected terms of options granted were calculated using the simplified method, determined as the average of the contractual term and the vesting period. Estimated volatility is derived from the historical closing prices of common shares of similar entities whose share prices are publicly available for the expected term of the option. The risk-free interest rate is based on the U.S. treasury constant maturities in effect at the time of grant for the expected term of the option. The Company uses historical data to estimate the number of future stock option forfeitures.

**MODEL N, INC.**  
**Notes to Consolidated Financial Statements**

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

	Number of Shares (in thousands)	Weighted Average Exercised Price	Weighted Average Remaining Contract Term (in years)	Aggregate Intrinsic Value (in thousands)
<b>Balance at September 30, 2017</b>	453	\$ 7.71	3.53	\$ 3,281
Exercised	(179)	8.61		
Expired	(47)	4.65		
<b>Balance at September 30, 2018</b>	227	7.64	2.94	\$ 1,861
Exercised	(120)	6.87		
Expired	(7)	6.13		
<b>Balance at September 30, 2019</b>	100	8.66	2.23	\$ 1,911
Exercised	(65)	7.72		
Expired	(1)	1.74		
<b>Balance at September 30, 2020</b>	34	\$ 10.57	1.68	\$ 846
Options exercisable as of September 30, 2020	34	\$ 10.57	1.68	\$ 846
Options vested and expected to vest as of September 30, 2020	34	\$ 10.57	1.68	\$ 846

The intrinsic value of options exercised during fiscal years ended September 30, 2020, 2019, and 2018 was \$1.4 million, \$1.6 million, and \$1.5 million, respectively.

**Employee Stock Purchase Plan**

The 2013 Employee Stock Purchase Plan (the “ESPP”) became effective on March 19, 2013. The ESPP allows eligible employees to purchase shares of the Company’s common stock at a discount through payroll deductions of up to 15% of their eligible compensation, at not less than 85% of the fair market value, as defined in the ESPP, subject to any plan limitations. Except for the initial offering period, the ESPP provides for six-month offering periods, starting on February 20 and August 20 of each year.

The following table summarizes the weighted-average assumptions used to estimate the fair value of rights to acquire stock granted under the Company’s ESPP during the periods presented:

	Fiscal Years Ended September 30,		
	2020	2019	2018
Risk-free interest rate	0.84 %	2.26 %	1.73 %
Dividend yield	— %	— %	— %
Volatility	52 %	33 %	28 %
Expected term (in years)	0.50	0.50	0.50
Fair value at grant date	\$ 11.20	\$ 5.17	\$ 3.65

**Restricted Stock Units and Performance-based Restricted Stock Units**

During the years ended September 30, 2020, 2019, and 2018, the Compensation Committee of the Board approved grants of performance-based restricted stock units to the Company’s certain senior officers, including the Chief Executive Officer and the Chief Financial Officer. For the performance-based restricted stock units granted in fiscal years 2020 and 2019, under the terms of these grants, the actual number of shares that will vest and be released will range from 0% to 150% of the grant based on the achievement of the pre-established performance goals of the Company. These grants vest over a three-year period with one third vesting on the first anniversary of the vesting commencing date and quarterly thereafter. For the performance-based restricted stock units granted in fiscal year 2018, under the terms of these grants, the actual number of shares that will vest and be released will range from 0% to 250% of the grant based on the performance of the Company’s total shareholder return (“TSR”) relative to that of the Russell 3000 Index (the “Index”). These grants vest over a three-year period with 50% vesting on each of the second and the third annual anniversary of the vesting commencing date. In addition, these grants have a “catch-up” provision such that if the Company’s TSR relative to the Index for the three-year period exceeds that of the two-year period, additional shares for the two-year period will vest and be released based on the three-year achievement level. Performance-based restricted stock units grants have a ten-year term, subject to their earlier termination upon certain events including the

**MODEL N, INC.**  
**Notes to Consolidated Financial Statements**

awardee's termination of employment. The grant date fair values of the performance-based restricted stock units granted in fiscal year 2018 were determined using Monte-Carlo simulation model with risk-free interest rate of 2.42%–2.57% and volatility of 39%–40%. As of September 30, 2020, 0.2 million shares were reserved for any additional release resulting from over-achievement relating to performance-based restricted stock units.

The following table summarizes the Company's restricted stock unit activity (including performance based restricted stock awards) under all equity award plans:

	Restricted Stock Units Outstanding (in thousands)	Weighted Average Grant Date Fair Value
<b>Balance at September 30, 2017</b>	2,917	\$ 12.55
Granted	1,355	22.92
Released	(1,137)	13.99
Forfeited	(822)	18.57
<b>Balance at September 30, 2018</b>	<u>2,313</u>	<u>\$ 15.78</u>
Granted	1,638	16.09
Released	(1,213)	15.35
Forfeited	(388)	14.91
<b>Balance at September 30, 2019</b>	<u>2,350</u>	<u>\$ 16.36</u>
Granted	1,390	28.91
Released	(1,613)	19.60
Forfeited	(170)	18.21
<b>Balance at September 30, 2020</b>	<u>1,957</u>	<u>\$ 22.43</u>

The total fair value of restricted stock and performance based restricted stock awards vested for the years ended September 30, 2020, 2019, and 2018, was \$54.9 million, \$22.2 million, and \$19.8 million, respectively.

The following table summarizes certain information of the unvested awards as of September 30, 2020:

	Restricted Stock Units (1)	ESPP
Total compensation cost for unvested (in millions)	\$ 29.3	\$ 0.7
Weighted-average period to recognize (in years)	2.1	0.4

(1): Includes restricted stock units and performance-based restricted stock awards.

**MODEL N, INC.**  
**Notes to Consolidated Financial Statements**

**Stock-based Compensation**

Stock-based compensation recorded in the Consolidated Statements of Operations is as follows:

	Fiscal Years Ended September 30,		
	2020	2019	2018
	(in thousands)		
<b>Cost of revenues:</b>			
Subscription	\$ 1,865	\$ 2,468	\$ 1,400
Professional Services	2,229	2,894	1,256
Total stock-based compensation in cost of revenues	4,094	5,362	2,656
<b>Operating expenses:</b>			
Research and development	4,625	4,145	2,983
Sales and marketing	6,160	4,641	3,524
General and administrative	7,621	7,192	14,161
Total stock-based compensation in operating expenses	18,406	15,978	20,668
Total stock-based compensation	\$ 22,500	\$ 21,340	\$ 23,324

For the fiscal year ended September 30, 2020, the total stock-based compensation included an immaterial amount related to bonus. For the fiscal year ended September 30, 2019, the total stock-based compensation included \$3.7 million related to bonus, which was recorded in the accrued employee compensation line item in the Consolidated Balance Sheets.

**Note 12. Income Taxes**

The components of loss before income taxes are as follows:

	Fiscal Years Ended September 30,		
	2020	2019	2018
	(in thousands)		
Domestic	\$ (14,252)	\$ (17,057)	\$ (31,312)
Foreign	1,400	(1,206)	3,078
Loss before taxes	\$ (12,852)	\$ (18,263)	\$ (28,234)

The components of the provision for (benefit from) income taxes are as follows:

	Fiscal Years Ended September 30,		
	2020	2019	2018
	(in thousands)		
<b>Current</b>			
Federal	\$ (106)	\$ —	\$ (110)
State	21	11	36
Foreign	508	843	439
	\$ 423	\$ 854	\$ 365
<b>Deferred</b>			
Federal	\$ 86	\$ (2)	\$ (404)
State	70	(19)	12
Foreign	233	197	—
	\$ 389	\$ 176	\$ (392)
Total provision for (benefit from) income taxes	\$ 812	\$ 1,030	\$ (27)

**MODEL N, INC.**  
**Notes to Consolidated Financial Statements**

Reconciliation of the statutory federal income tax to the Company's effective tax is as follows:

	Fiscal Years Ended September 30,		
	2020	2019	2018
	(in thousands)		
Tax at statutory federal rate	\$ (2,699)	\$ (3,835)	\$ (6,854)
State tax, net of federal benefit	21	11	36
Permanent differences	(195)	(443)	950
Stock-based compensation	(5,163)	(1,061)	(3,761)
Section 162(m)	2,266	168	56
Foreign tax rate differential	213	1,293	(308)
Change in valuation allowance	7,778	5,814	(13,785)
Research and development tax credits	(1,370)	(974)	(725)
Change in deferred tax liabilities	69	(19)	(392)
Change in federal statutory tax rate	—	—	24,828
Other	(108)	76	(72)
Total provision for (benefit from) income taxes	<u>\$ 812</u>	<u>\$ 1,030</u>	<u>\$ (27)</u>

On December 22, 2017, tax reform legislation known as the Tax Cuts and Jobs Act (the "Tax Legislation") was enacted in the United States (U.S.). The Tax Legislation significantly revises the U.S. corporate income tax by, among other things, lowering the corporate income tax rate to 21%, implementing a modified territorial tax system and imposing a one-time repatriation tax on deemed repatriated earnings and profits of U.S.-owned foreign subsidiaries (the "Toll Charge"), and limiting the deductibility of certain expenses, such as interest expense. As a fiscal-year taxpayer, certain provisions of the Tax Legislation impacted the Company in fiscal year 2018, including the change in the corporate income tax rate and the Toll Charge, while other provisions were effective starting at the beginning of fiscal year 2019.

Prior to the first quarter of fiscal year 2019, the Company's provision for income taxes did not include provisions for foreign withholding taxes associated with the repatriation of undistributed earnings of certain foreign subsidiaries that the Company intends to reinvest indefinitely. The current Tax Legislation generally allows companies to make distributions of non-U.S. earnings to the U.S. without incurring additional federal income tax. As a result, the Company expects to repatriate future foreign earnings in certain foreign jurisdictions over time. During the year ended September 30, 2019, the Company repatriated \$2.5 million of foreign subsidiary earnings to the U.S. in the form of cash and paid foreign withholding taxes of \$0.5 million. During the year ended September 30, 2020, the Company repatriated \$1.0 million of foreign subsidiary earnings to the U.S. in the form of cash and paid foreign withholding taxes of \$0.2 million. As of September 30, 2020, the Company recorded a deferred tax liability of \$0.2 million for the additional non-U.S. taxes that are expected to be incurred related to the repatriation of \$1.6 million in foreign subsidiary earnings.

**MODEL N, INC.**  
**Notes to Consolidated Financial Statements**

Deferred tax assets and liabilities consisted of the following:

	As of September 30,	
	2020	2019
	(in thousands)	
<b>Deferred tax assets:</b>		
Depreciation and amortization	\$ 1,104	\$ 1,168
Accruals and other	7,801	5,889
Deferred revenue	141	—
NOL carry-forward	69,816	59,705
Stock compensation	2,017	2,610
Research and development tax credits	15,975	13,622
Total deferred tax assets	\$ 96,854	\$ 82,994
Valuation allowance	(73,372)	(74,885)
Net deferred tax assets	\$ 23,482	\$ 8,109
<b>Deferred tax liabilities:</b>		
Convertible senior notes	\$ (13,967)	\$ —
Intangibles	(6,844)	(7,588)
Capitalized contract acquisition costs	(2,070)	(561)
Other	(1,096)	(235)
Net deferred tax liabilities	\$ (495)	\$ (275)

A valuation allowance is provided when it is more likely than not that the deferred tax assets will not be realized. The Company has established a full valuation allowance to offset net deferred tax assets as of September 30, 2020, and 2019, due to the uncertainty of realizing future tax benefits from its net operating loss carry-forwards and other deferred tax assets. The net decrease in the total valuation allowance for the year ended September 30, 2020 was approximately \$1.5 million.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”) was enacted and signed into law in response to the COVID-19 pandemic. GAAP requires recognition of the tax effects of new legislation during the reporting period in which the enactment date occurs. The CARES Act includes changes to the tax provisions that benefits business entities and makes certain technical corrections to the 2017 Tax Cuts and Jobs Act. The tax relief measures for businesses include a five-year net operating loss carryback, suspension of annual deduction limitation of 80% of taxable income from net operating losses generated in a tax year beginning after December 31, 2017, changes in the deductibility of interest, acceleration of alternative minimum tax credit refunds, payroll tax relief, technical corrections on net operating loss carryforwards for fiscal year taxpayers and allowing accelerated deductions for qualified improvement property. The CARES Act also provides other non-tax benefits to assist those impacted by the pandemic. The Company evaluated the impact of the CARES Act and determined that there is no material impact to the income tax provision for the year.

On June 29, 2020, California Assembly Bill 85 (“AB 85”) was signed into law, which suspends the use of net operating losses for certain taxpayers and limits the use of research tax credits for tax years 2020, 2021, and 2022. The Company evaluated the impact of AB 85 and determined that it did not impact the Company’s income tax provision for the year.

As of September 30, 2020, the Company has federal and state NOL carry-forwards of approximately \$264.4 million and \$525.1 million, respectively. The federal NOL will begin expiring in 2021 and the state NOLs began expiring in 2020. As of September 30, 2020, the Company had federal and state research and development credit carry forwards of approximately \$10.8 million and \$11.7 million, respectively. The federal research and development credit carry-forwards began expiring in 2020. The California and Massachusetts tax credits can be carried forward indefinitely.

Internal Revenue Code section 382 places a limitation (“Section 382 Limitation”) on the amount of taxable income can be offset by NOL carry-forwards after a change in control (generally greater than 50% change in ownership) of a loss corporation. California has similar rules. Generally, after a control change, a loss corporation cannot deduct NOL carry-forwards in excess of the Section 382 Limitation. An IRC Section 382 analysis has been performed as of September 30, 2020 and determined there would be no effect on the NOL deferred tax asset if ownership changes occurred.

**MODEL N, INC.**  
**Notes to Consolidated Financial Statements**

As of September 30, 2020, the Company had unrecognized tax benefits of approximately \$4.7 million. It is unlikely that the amount of liability for unrecognized tax benefits will significantly change over the next twelve months. The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of September 30, 2020, there was a liability of \$0.1 million related to uncertain tax positions recorded on the financial statements.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	Fiscal Years Ended September 30,		
	2020	2019	2018
	(in thousands)		
Unrecognized tax benefits at the beginning of the period	\$ 3,961	\$ 3,469	\$ 3,143
Gross decrease based on tax positions during the prior period	(8)	(4)	(143)
Gross increase based on tax positions during the prior period	—	23	94
Gross increase based on tax positions during the current period	702	473	375
Unrecognized tax benefits at the end of the period	<u>\$ 4,655</u>	<u>\$ 3,961</u>	<u>\$ 3,469</u>

The Company is subject to income taxes in U.S. federal and various state, local and foreign jurisdictions. The tax years ended from September 2000 to September 2020 remain open to examination due to the carryover of unused net operating losses or tax credits.

**Note 13. Net Loss Per Share**

The Company's basic net loss per share attributable to common stockholders is calculated by dividing the net loss attributable to common stockholders by the weighted average number of shares of common stock outstanding for the period, which excludes unvested restricted stock awards. The diluted net loss per share attributable to common stockholders is computed by giving effect to all potentially dilutive common stock equivalents outstanding for the period including options to purchase common stock, unvested restricted stock units, ESPP, and convertible senior notes.

	Fiscal Years Ended September 30,		
	2020	2019	2018
	(in thousands, except per share data)		
Numerator:			
Basic and diluted:			
Net loss attributable to common stockholders	<u>\$ (13,664)</u>	<u>\$ (19,293)</u>	<u>\$ (28,207)</u>
Denominator:			
Basic and diluted:			
Weighted Average Shares Used in Computing Net Loss per Share Attributable to Common Stockholders	<u>34,008</u>	<u>32,232</u>	<u>30,370</u>
Net Loss per Share Attributable to Common Stockholders:			
Basic and diluted	<u>\$ (0.40)</u>	<u>\$ (0.60)</u>	<u>\$ (0.93)</u>

Potentially dilutive securities that were not included in the calculation of diluted net loss per share because their effect would have been anti-dilutive are as follows (in thousands):

	As of September 30,		
	2020	2019	2018
	(in thousands)		
Stock options	34	100	227
Performance-based RSUs and RSUs	1,957	2,350	2,313
Shares issuable pursuant to the employee stock purchase plan	66	84	120
Convertible senior notes	5,176	—	—

Since the Company expects to settle the principal amount of its Notes in cash and any excess in cash or shares of the Company's common stock, the Company uses the treasury stock method for calculating any potential dilutive effect of the conversion spread on diluted net income per share, if applicable. The conversion spread will have a dilutive impact on diluted net income per share of common stock when the average market price of the Company's common stock for a given period exceeds the conversion price of \$33.33 per share for the Notes.

#### Note 14. Geographic Information

The Company has one operating segment with one business activity - developing and monetizing revenue management solutions.

##### *Revenues from External Customers*

Revenues from customers outside the United States were 9%, 8%, and 12% of total revenues for the fiscal years ended September 30, 2020, 2019, and 2018, respectively. No single jurisdiction outside of the United States had revenues in excess of 10%.

##### *Long-Lived Assets*

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

	As of September 30,	
	2020	2019
	(in thousands)	
United States	\$ 562	\$ 853
India	472	190
Total property and equipment, net	<u>\$ 1,034</u>	<u>\$ 1,043</u>



## **ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

### **ITEM 9A. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and our Chief Accounting Officer (who is currently our principal financial officer), evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2020. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of September 30, 2020, our Chief Executive Officer and Chief Accounting Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

#### ***Management’s Annual Report on Internal Control over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Accounting Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of September 30, 2020, using the criteria established in *Internal Control—Integrated Framework* (2013 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on our evaluation under the COSO framework, our management has concluded that our internal control over financial reporting was effective as of September 30, 2020, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The effectiveness of our internal control over financial reporting as of September 30, 2020, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

#### ***Changes in Internal Control over Financial Reporting***

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended September 30, 2020, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

#### ***Inherent Limitations on Effectiveness of Controls***

Our management, including our Chief Executive Officer and Chief Accounting Officer, believes that our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives and are effective at the reasonable assurance level. However, our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

### **ITEM 9B. Other Information**

None.

## PART III

### **ITEM 10. Directors, Executive Officers and Corporate Governance**

Information about our Executive Officers and our Directors is incorporated by reference to information contained in the Proxy Statement for the 2021 Annual Meeting of Stockholders to be filed with the SEC within 120 days of September 30, 2020.

We have adopted a code of business conduct for directors and a code of business conduct for all of our employees, including our executive officers, and those employees responsible for financial reporting. Both codes of business conduct are available on the investor relations portion of our website at investor.modeln.com. A copy may also be obtained without charge by contacting Investor Relations, Model N, Inc., 777 Mariners Island Boulevard, Suite 300, San Mateo, CA 94404 or by calling (650) 610-4998.

We plan to post on our website at the address described above any future amendments or waivers of our codes of business conduct.

### **ITEM 11. Executive Compensation**

The information required by this item is incorporated by reference to information contained in the Proxy Statement for the 2021 Annual Meeting of Stockholders to be filed with the SEC within 120 days of September 30, 2020.

### **ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this item is incorporated by reference to information contained in the Proxy Statement for the 2021 Annual Meeting of Stockholders to be filed with the SEC within 120 days of September 30, 2020.

### **ITEM 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this item is incorporated by reference to information contained in the Proxy Statement for the 2021 Annual Meeting of Stockholders to be filed with the SEC within 120 days of September 30, 2020.

### **ITEM 14. Principal Accountant Fees and Services**

The information required by this item is incorporated by reference to information contained in the Proxy Statement for the 2021 Annual Meeting of Stockholders to be filed with the SEC within 120 days of September 30, 2020.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

(a) The following documents filed as a part of the report:

(1) Financial Statements

The financial statements are set forth in Item 8 of this Annual Report on Form 10-K.

(2) Financial Statement Schedule

Schedule II - Valuation and qualifying accounts

The table below presents the changes in the allowance for doubtful accounts and valuation allowance for deferred tax assets for the fiscal years ended September 30, 2020, 2019, and 2018, respectively.

Description	Balance at Beginning of Period	Additions Charges to Costs and Expenses	Write-offs and Deductions	Balance at End of Period
<b>Allowance for doubtful receivables</b>				
For the Year Ended September 30, 2020	\$ 51	24	28	\$ 47
For the Year Ended September 30, 2019	\$ 172	44	165	\$ 51
For the Year Ended September 30, 2018	\$ 85	172	85	\$ 172
<b>Valuation allowance for deferred tax assets</b>				
For the Year Ended September 30, 2020	\$ 74,885	15,261	16,774	\$ 73,372
For the Year Ended September 30, 2019	\$ 67,879	7,006	—	\$ 74,885
For the Year Ended September 30, 2018	\$ 78,003	10,708	20,832	\$ 67,879

(3) Exhibits

The following exhibits are included herein or incorporated herein by reference:

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
3.1	<a href="#">Amended and Restated Certificate of Incorporation of the Registrant</a>	10-Q	001-35840	3.1	5/10/2013	
3.2	<a href="#">Amended and Restated Bylaws of the Registrant</a>	10-Q	001-35840	3.1	5/6/2020	
4.1	<a href="#">Form of Registrant's Common Stock certificate</a>	S-1	333-186668	4.01	3/7/2013	
4.2	<a href="#">Amended and Restated Investor Rights Agreement dated December 12, 2003 by and among Registrant and certain of its stockholders</a>	S-1	333-186668	4.02	2/13/2013	
4.3	<a href="#">Indenture dated May 22, 2020 between Model N, Inc. and U.S. Bank, National Association</a>	8-K	001-35840	4.1	5/22/2020	
4.4	<a href="#">Form of Global Note, representing Model N, Inc.'s 2.625% Convertible Senior Notes due 2025</a>	8-K	001-35840	4.1	5/22/2020	
4.5	<a href="#">Description of Registrant's Securities</a>					X
10.1	<a href="#">Form of Indemnity Agreement to be entered into between Registrant and each of its officers and directors</a>	S-1	333-186668	10.01	3/12/2013	
10.2†	<a href="#">2000 Stock Plan and forms of stock option agreement and stock option exercise agreement</a>	S-1	333-186668	10.02	2/13/2013	
10.3†	<a href="#">2010 Equity Incentive Plan and forms of stock option agreement and stock option exercise agreement</a>	S-1	333-186668	10.03	2/13/2013	

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10.4†	<a href="#">2013 Equity Incentive Plan and forms of stock option agreement and stock option exercise agreement</a>	S-1	333-186668	10.04	3/7/2013	
10.5†	<a href="#">2013 Employee Stock Purchase Plan</a>	S-8	333-187388	99.4	3/20/2013	
10.6†	<a href="#">Employment offer letter dated May 7, 2017 and Amendment 1 dated May 8, 2017 by and between Registrant and David Barter.</a>	10-K	001-35840	10.07	11/15/2017	
10.7†	<a href="#">Employment offer letter dated December 9, 2016 by and between Registrant and Russell Mellott.</a>	10-K	001-35840	10.08	11/15/2017	
10.8†	<a href="#">Form of Restricted Stock Unit Agreement</a>	10-K	001-35840	10.12	12/6/2013	
10.9	<a href="#">Sublease by and between Dynatrace LLC and Registrant dated August 8, 2017</a>	10-K	001-35840	10.10	11/15/2017	
10.10†	<a href="#">Employment agreement dated May 7, 2018 by and between Registrant and Jason Blessing</a>	10-Q	001-35840	10.2	8/8/2018	
10.11	<a href="#">Credit Agreement by and between Wells Fargo Bank, National Association and Registrant dated May 4, 2018</a>	10-Q	001-35840	10.3	8/8/2018	
10.12	<a href="#">Lease by and between RV VI 777 Mariners, LLC and Registrant dated April 7, 2020</a>	10-Q	001-35840	10.1	5/6/2020	
21.1	<a href="#">List of Subsidiaries of Registrant</a>					X
23.1	<a href="#">Consent of PricewaterhouseCoopers LLP, independent registered public accounting firm</a>					X
24.1	<a href="#">Power of Attorney (included on the signature page to this report)<sup>1</sup></a>					X
31.1	<a href="#">Certification of Periodic Report by Principal Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002</a>					X
31.2	<a href="#">Certification of Periodic Report by Principal Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002</a>					X
32.1*	<a href="#">Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>					X
32.2*	<a href="#">Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>					X
101.INS	<a href="#">Inline XBRL Instance Document</a>					X
101.SCH	<a href="#">Inline XBRL Taxonomy Extension Schema Document</a>					X
101.CAL	<a href="#">Inline XBRL Taxonomy Extension Calculation Linkbase Document</a>					X
101.DEF	<a href="#">Inline XBRL Taxonomy Extension Definition Linkbase Document</a>					X
101.LAB	<a href="#">Inline XBRL Taxonomy Extension Label Linkbase Document</a>					X
101.PRE	<a href="#">Inline XBRL Taxonomy Extension Presentation Linkbase Document</a>					X
104	<a href="#">Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)</a>					X

† Indicates a management contract or compensatory plan.

\* These exhibits are furnished with this Annual Report on Form 10-K and are not deemed filed with the Securities and Exchange Commission and are not incorporated by reference in any filing of the Registrant under the Securities Act of 1933 or the Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in such filings.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in San Mateo, State of California, on this 20th day of November 2020.

**MODEL N, INC.**

By: /s/ CATHY LEWIS  
Cathy Lewis  
Chief Accounting Officer

**POWER OF ATTORNEY**

**KNOW ALL PERSONS BY THESE PRESENTS**, that each person whose signature appears below constitutes and appoints Jason Blessing or Cathy Lewis, or any of them, his attorneys-in-fact, for such person in any and all capacities, to sign any amendments to this report and to file the same, with exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that either of said attorneys-in-fact, or substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/S/ JASON BLESSING</u> Jason Blessing	Chief Executive Officer and Director <i>(Principal Executive Officer)</i>	November 20, 2020
<u>/S/ CATHY LEWIS</u> Cathy Lewis	Chief Accounting Officer <i>(Principal Financial Officer and Accounting Officer)</i>	November 20, 2020
Additional Directors:		
<u>/S/ TIM ADAMS</u> Tim Adams	Director	November 20, 2020
<u>/S/ BALJIT DAIL</u> Baljit Dail	Director	November 20, 2020
<u>/S/ KIMBERLY DECARLIS</u> Kimberly DeCarlis	Director	November 20, 2020
<u>/S/ MELISSA FISHER</u> Melissa Fisher	Director	November 20, 2020
<u>/S/ ALAN HENRICKS</u> Alan Henricks	Director	November 20, 2020
<u>/S/ SCOTT REESE</u> Scott Reese	Director	November 20, 2020
<u>/S/ DAVE YARNOLD</u> Dave Yarnold	Director	November 20, 2020

## DESCRIPTION OF REGISTRANT'S SECURITIES

The following is a summary of our capital stock and certain provisions of our amended restated certificate of incorporation and amended and restated bylaws. This summary does not purport to be complete and is qualified in its entirety by the provisions of our amended and restated certificate of incorporation, and our amended and restated bylaws, both of which are filed as exhibits to this Annual Report on Form 10-K, and to the applicable provisions of the Delaware General Corporation Law.

### General

We are authorized to issue 205,000,000 shares of all classes of capital stock, of which 200,000,000 shares are common stock, \$0.00015 par value per share, and 5,000,000 shares are preferred stock, \$0.00015 par value per share. Our capital is stated in U.S. dollars.

### Common Stock

The holders of our common stock are entitled to receive such dividends or distributions as are lawfully declared on our common stock, to have notice of any authorized meeting of stockholders, and to one vote for each share of our common stock on all matters which are properly submitted to a vote of stockholders, including the election of directors. As a Delaware corporation, we are subject to statutory limitations on the declaration and payment of dividends. In the event of a liquidation, dissolution or winding up of our company, holders of our common stock have the right to a ratable portion of assets remaining after satisfaction in full of all outstanding debt and liabilities and the preferential rights and payment of liquidation preferences, if any, on any outstanding shares of preferred stock. The holders of our common stock have no conversion, redemption, preemptive or cumulative voting rights and our common stock is not subject to sinking fund provisions.

All of our outstanding shares of common stock are fully paid and nonassessable.

### Preferred Stock

No shares of our preferred stock are issued and outstanding and no such shares are subject to outstanding options or other rights to purchase or acquire. However, shares of preferred stock may be issued in one or more series from time to time by our board of directors, and the board of directors is expressly authorized to fix by resolution or resolutions the designations and the powers, preferences and rights, and the qualifications, limitations and restrictions thereof, of the shares of each series of preferred stock. Subject to the determination of our board of directors, any shares of our preferred stock that may be issued in the future would generally have preferences over our common stock with respect to the payment of dividends and the distribution of assets in the event of our liquidation, dissolution or winding up.

### Anti-Takeover Provisions

The provisions of Delaware law, our amended and restated certificate of incorporation and our amended and restated bylaws may have the effect of delaying, deferring or discouraging another person from acquiring control of us.

These provisions, which are summarized below, may have the effect of discouraging takeover bids. They are also designed, in part, to encourage persons seeking to acquire control of us to negotiate first with our board of directors. We believe that the benefits of increased protection of our potential ability to negotiate with an unfriendly or unsolicited acquirer outweigh the disadvantages of discouraging a proposal to acquire us because negotiation of these proposals could result in an improvement of their terms.

## **Delaware Law**

We are subject to the provisions of Section 203 of the Delaware General Corporation Law regulating corporate takeovers. This section prevents some Delaware corporations from engaging, under certain circumstances, in a business combination, which includes a merger or sale of at least 10% of the corporation's assets with any interested stockholder, meaning a stockholder who, together with affiliates and associates, owns or, within three years prior to the determination of interested stockholder status, did own 15% or more of the corporation's outstanding voting stock, unless:

- the transaction is approved by the board of directors prior to the time that the interested stockholder became an interested stockholder;
- upon consummation of the transaction which resulted in the stockholder's becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced; or
- subsequent to such time that the stockholder became an interested stockholder, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders by at least two-thirds of the outstanding voting stock which is not owned by the interested stockholder.

A Delaware corporation may "opt out" of these provisions with an express provision in its original certificate of incorporation or an express provision in its certificate of incorporation or restated bylaws resulting from a stockholders' amendment approved by at least a majority of the outstanding voting shares. We have not opted out of these provisions. As a result, mergers or other takeover or change in control attempts of us may be discouraged or prevented.

## **Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws**

Our amended and restated certificate of incorporation and amended and restated bylaws include a number of provisions that could deter hostile takeovers or delay or prevent changes in control of our company, including the following:

### *Board of directors vacancies*

Our amended and restated certificate of incorporation and amended and restated bylaws authorize only our board of directors to fill vacant directorships, including newly created seats. In addition, the number of directors constituting our board of directors is permitted to be set only by a resolution adopted by a majority vote of our entire board of directors. These provisions would prevent a stockholder from increasing the size of our board of directors and then gaining control of our board of directors by filling the resulting vacancies with its own nominees. This makes it more difficult to change the composition of our board of directors but promotes continuity of management.

### *Classified board*

Our amended and restated certificate of incorporation provides that our board is classified into three classes of directors, each with staggered three-year terms. A third party may be discouraged from making a tender offer or otherwise attempting to obtain control of us as it is more difficult and time consuming for stockholders to replace a majority of the directors on a classified board of directors.

### *Stockholder action; Special meeting of stockholders*

Our amended and restated certificate of incorporation provides that our stockholders may not take action by written consent, but may only take action at annual or special meetings of our stockholders. As a result, a holder controlling a majority of our capital stock would not be able to amend our restated bylaws or remove directors without holding a meeting of our stockholders called in accordance with our amended and restated bylaws. Our amended and restated bylaws further provide that special meetings of our stockholders may be called only by a majority of our board of directors, the chairman of our board of directors, our chief executive officer or our president, thus prohibiting a stockholder from calling a special meeting. These provisions might delay the ability of



our stockholders to force consideration of a proposal or for stockholders controlling a majority of our capital stock to take any action, including the removal of directors.

*Advance notice requirements for stockholder proposals and director nominations*

Our amended and restated bylaws provide advance notice procedures for stockholders seeking to bring business before our annual meeting of stockholders or to nominate candidates for election as directors at our annual meeting of stockholders. Our amended and restated bylaws also specify certain requirements regarding the form and content of a stockholder's notice. These provisions might preclude our stockholders from bringing matters before our annual meeting of stockholders or from making nominations for directors at our annual meeting of stockholders if the proper procedures are not followed. These provisions might also discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of our company.

*No cumulative voting*

The Delaware General Corporation Law provides that stockholders are not entitled to the right to cumulate votes in the election of directors unless a corporation's certificate of incorporation provides otherwise. Our amended and restated certificate of incorporation does not provide for cumulative voting.

*Directors removed only for cause*

Our amended and restated certificate of incorporation provides that stockholders may remove directors only for cause.

*Amendment of charter provisions*

Any amendment of the above provisions in our amended and restated certificate of incorporation requires approval by holders of at least two-thirds of our outstanding common stock.

*Issuance of undesignated preferred stock*

Our board of directors has the authority, without further action by the stockholders, to issue up to 5,000,000 shares of undesignated preferred stock with rights and preferences, including voting rights, designated from time to time by our board of directors. The existence of authorized but unissued shares of preferred stock would enable our board of directors to render more difficult or to discourage an attempt to obtain control of us by means of a merger, tender offer, proxy contest or other means.

*Exclusive forum*

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware will be the exclusive forum for any derivative action or proceeding brought on our behalf; any action asserting a breach of fiduciary duty; any action asserting a claim against us arising pursuant to the Delaware General Corporation Law, our amended and restated certificate of incorporation or our amended and restated bylaws; or any action asserting a claim against us that is governed by the internal affairs doctrine.

Our amended and restated bylaws provide that, to the fullest extent permitted by law, the federal district courts of the United States will be the exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act.

Except as described above, the approval of a majority of the shares entitled to vote shall be required to amend any of the provisions of our amended and restated certificate of incorporation or amended and restated bylaws.

**Transfer Agent and Registrar**

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company, LLC. The transfer agent's address is 6201 15th Avenue, Brooklyn, NY 11219.

**Listing**

Our common stock is quoted on the New York Stock Exchange under the trading symbol "MODN."

SUBSIDIARIES OF MODEL N, INC.

<b>Name</b>	<b>Jurisdiction of Incorporation</b>
Model N India Software Private Limited	India
Model N (Switzerland) GmbH / Model N (Switzerland) LLC	Switzerland
Model N UK Limited	United Kingdom
Sapphire Stripe Holdings, Inc.	Delaware, USA
Model N Canada Limited	Canada

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-187388, 333-192758, 333-200358, 333-208158, 333-214705, 333-221583, 333-224051, 333-228439 and 333-234740) of Model N, Inc. of our report dated November 20, 2020 relating to the financial statements and financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

San Jose, California  
November 20, 2020

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jason Blessing, certify that:

1. I have reviewed this Annual Report on Form 10-K of Model N, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 20, 2020

By: /s/ JASON BLESSING  
Jason Blessing  
Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Cathy Lewis, certify that:

1. I have reviewed this Annual Report on Form 10-K of Model N, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 20, 2020

By: /s/ CATHY LEWIS

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Cathy Lewis  
Chief Accounting Officer  
(Principal Financial Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jason Blessing, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge, the Annual Report of Model N, Inc. on Form 10-K for the fiscal year ended September 30, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Model N, Inc.

Date: November 20, 2020

By: /s/ JASON BLESSING  
Jason Blessing  
Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Cathy Lewis, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge, the Annual Report of Model N, Inc. on Form 10-K for the fiscal year ended September 30, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Model N, Inc.

Date: November 20, 2020

By: /s/ CATHY LEWIS  
Cathy Lewis  
Chief Accounting Officer  
(Principal Financial Officer)