

Cornerstone OnDemand Inc
Form 10-Q
November 06, 2015

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

Form 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2015
OR

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

For the transition period from _____ to _____
Commission File Number 001-35098

Cornerstone OnDemand, Inc.
(Exact name of registrant as specified in its charter)
Delaware 13-4068197
(State or other jurisdiction of IRS Employer
incorporation or organization) Identification No.)
1601 Cloverfield Blvd.
Suite 620 South
Santa Monica, CA 90404
(Address of principal executive offices, including zip code)
Registrant's telephone number, including area code:
(310) 752-0200

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date

Class	Outstanding as of October 30, 2015
Common Stock	54,457,836

CORNERSTONE ONDEMAND, INC.
 QUARTERLY REPORT ON FORM 10-Q
 INDEX

	Page No.
<u>PART I.—FINANCIAL INFORMATION</u>	
<u>Item 1.</u> <u>Condensed Consolidated Financial Statements (unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2015 and September 30, 2014</u>	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Loss for the Three and Nine Months Ended September 30, 2015 and September 30, 2014</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2015 and September 30, 2014</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
<u>Item 2.</u> <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>17</u>
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>29</u>
<u>Item 4.</u> <u>Controls and Procedures</u>	<u>30</u>
<u>PART II.—OTHER INFORMATION</u>	
<u>Item 1.</u> <u>Legal Proceedings</u>	<u>30</u>
<u>Item 1A.</u> <u>Risk Factors</u>	<u>31</u>
<u>Item 2.</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>47</u>
<u>Item 3.</u> <u>Defaults Upon Senior Securities</u>	<u>47</u>
<u>Item 4.</u> <u>Mine Safety Disclosures</u>	<u>47</u>
<u>Item 5.</u> <u>Other Information</u>	<u>47</u>
<u>Item 6.</u> <u>Exhibits</u>	<u>47</u>
<u>SIGNATURE</u>	<u>48</u>
<u>TRADEMARKS</u>	

© Copyright 2015 Cornerstone OnDemand, Inc. All rights reserved. “Cornerstone,” “Cornerstone OnDemand,” the Cornerstone OnDemand logo, “CyberU” and other trademarks or service marks of Cornerstone OnDemand, Inc. appearing in this Quarterly Report on Form 10-Q are the property of Cornerstone OnDemand, Inc. Trade names, trademarks and service marks of other companies appearing in this Quarterly Report on Form 10-Q are the property of their respective holders and should be treated as such.

PART I. FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements

CORNERSTONE ONDEMAND, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (in thousands, except par values)
 (unaudited)

	September 30, 2015	December 31, 2014
Assets		
Cash and cash equivalents	\$ 57,927	\$ 166,557
Short-term investments	156,531	116,106
Accounts receivable, net	93,281	84,499
Deferred commissions	28,066	26,236
Prepaid expenses and other current assets	17,125	13,007
Total current assets	352,930	406,405
Capitalized software development costs, net	21,284	15,719
Property and equipment, net	28,775	21,424
Long-term investments	44,396	3,938
Intangible assets, net	19,356	27,282
Goodwill	25,894	25,894
Other assets, net	4,462	4,993
Total Assets	\$ 497,097	\$ 505,655
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable	\$ 13,614	\$ 16,737
Accrued expenses	30,416	29,476
Deferred revenue, current portion	191,951	180,598
Capital lease obligations, current portion	51	236
Debt, current portion	57	351
Other liabilities	2,933	3,052
Total current liabilities	239,022	230,450
Convertible notes, net	230,676	225,094
Other liabilities, non-current	3,247	3,871
Deferred revenue, net of current portion	14,045	10,738
Total liabilities	486,990	470,153
Commitments and contingencies (Note 10)		
Stockholders' Equity:		
Common stock, \$0.0001 par value; 1,000,000 shares authorized, 54,433 and 53,826 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	5	5
Additional paid-in capital	377,574	336,692
Accumulated deficit	(368,039	) (301,366)
Accumulated other comprehensive income	567	171
Total stockholders' equity	10,107	35,502
Total Liabilities and Stockholders' Equity	\$ 497,097	\$ 505,655

See accompanying notes to unaudited condensed consolidated financial statements.

3

CORNERSTONE ONDEMAND, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (in thousands, except per share data)
 (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue	\$87,271	\$68,318	\$243,789	\$187,195
Cost of revenue	27,246	19,374	79,801	54,187
Gross profit	60,025	48,944	163,988	133,008
Operating expenses:				
Sales and marketing	53,255	41,512	150,659	116,259
Research and development	10,457	7,552	30,207	21,335
General and administrative	13,194	9,576	36,545	30,485
Amortization of certain acquired intangible assets	150	211	450	675
Total operating expenses	77,056	58,851	217,861	168,754
Loss from operations	(17,031	) (9,907	) (53,873	) (35,746
Other income (expense):				
Interest income	218	174	590	587
Interest expense	(3,138	) (3,049	) (9,343	) (9,087
Other, net	(66	) (1,351	) (3,257	) (1,956
Other income (expense), net	(2,986	) (4,226	) (12,010	) (10,456
Loss before income tax provision	(20,017	) (14,133	) (65,883	) (46,202
Income tax provision	(132	) (178	) (790	) (531
Net loss	\$(20,149	) \$(14,311	) \$(66,673	) \$(46,733
Net loss per share, basic and diluted	\$(0.37	) \$(0.27	) \$(1.24	) \$(0.88
Weighted average common shares outstanding, basic and diluted	54,260	53,423	53,917	53,130

See accompanying notes to unaudited condensed consolidated financial statements.

CORNERSTONE ONDEMAND, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net loss	\$(20,149	) \$(14,311	) \$(66,673	) \$(46,733
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	526	355	291	110
Net change in unrealized gains (losses) on investments	41	(29	) 105	(156
Other comprehensive income (loss), net of tax	567	326	396	(46
Total comprehensive loss	\$(19,582	) \$(13,985	) \$(66,277	) \$(46,779

See accompanying notes to unaudited condensed consolidated financial statements.

CORNERSTONE ONDEMAND, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (in thousands)
 (unaudited)

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net loss	\$(66,673)	\$(46,733)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	19,897	9,831
Accretion of debt discount and amortization of debt issuance costs	6,478	6,167
Purchased investment premium, net of amortization	(94)	225
Net foreign currency loss	1,669	1,329
Stock-based compensation expense	30,668	24,504
Changes in operating assets and liabilities:		
Accounts receivable	(9,523)	(20,920)
Deferred commissions	(2,127)	(3,527)
Prepaid expenses and other assets	(4,789)	845
Accounts payable	(1,045)	2,037
Accrued expenses	386	125
Deferred revenue	16,544	15,664
Other liabilities	(675)	(978)
Net cash used in operating activities	(9,284)	(11,431)
Cash flows from investing activities:		
Purchases of investments	(162,191)	(124,191)
Maturities of investments	81,415	139,849
Purchases of property and equipment	(15,006)	(10,522)
Capitalized software costs	(9,996)	(7,000)
Net cash used in investing activities	(105,778)	(1,864)
Cash flows from financing activities:		
Repayment of debt	(295)	(425)
Principal payments under capital lease obligations	(185)	(701)
Proceeds from employee stock plans	9,197	9,721
Net cash provided by financing activities	8,717	8,595
Effect of exchange rate changes on cash and cash equivalents	(2,285)	(889)
Net decrease in cash and cash equivalents	(108,630)	(5,589)
Cash and cash equivalents at beginning of period	166,557	109,583
Cash and cash equivalents at end of period	\$57,927	\$103,994
Supplemental cash flow information:		
Cash paid for interest	\$1,914	\$1,970
Cash paid for income taxes	\$1,209	\$503
Proceeds from employee stock plans received in advance of stock issuance	\$1,130	\$—
Non-cash investing and financing activities:		
Capitalized assets financed by accounts payable and accrued expenses	\$538	\$783
Capitalized stock-based compensation	\$2,019	\$1,113

See accompanying notes to unaudited condensed consolidated financial statements.

CORNERSTONE ONDEMAND, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Company Overview

Cornerstone OnDemand, Inc. (“Cornerstone” or the “Company”) was incorporated on May 24, 1999 in the state of Delaware and began its principal operations in November 1999.

The Company is a leading global provider of learning and talent management solutions delivered as Software-as-a-Service (“SaaS”). The Company’s Enterprise and Mid-Market solution is a comprehensive and unified cloud-based suite that addresses critical talent needs throughout the entire employee lifecycle, from recruitment, onboarding, training and collaboration, to performance management, compensation, succession planning and analytics.

The Company’s solutions are designed to enable organizations to meet the challenges they face in empowering and maximizing the productivity of their human capital. These challenges include hiring and developing employees throughout their careers, engaging all employees effectively, improving business execution, cultivating future leaders, and integrating with an organization’s extended enterprise of clients, vendors and distributors by delivering training, certification programs and other content. The Company’s management has determined that the Company operates in one segment as it only reports financial information on an aggregate and consolidated basis to the Company’s chief executive officer, who is the Company’s chief operating decision maker.

Office Locations

The Company is headquartered in Santa Monica, California and has offices in Amsterdam, Auckland, Bangalore, Düsseldorf, Hong Kong, London, Madrid, Mumbai, Munich, New Delhi, Paris, San Francisco, São Paulo, Stockholm, Sunnyvale, Sydney, Tel Aviv, and Tokyo.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with (i) United States generally accepted accounting principles (“GAAP”) for interim financial information and (ii) the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, such financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the financial statements include all adjustments (consisting of normal recurring adjustments) necessary for the fair statement of the interim periods presented. Results for the three and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015, for any other interim period or for any other future year.

The condensed consolidated balance sheet at December 31, 2014 has been derived from the audited financial statements at that date, but does not include all of the disclosures required by GAAP.

The Company’s significant accounting policies are described in “Note 1. Summary of Significant Accounting Policies” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. The Company follows the same accounting policies for interim reporting. The financial information included in this Quarterly Report on Form 10-Q should be read in conjunction with the Company’s consolidated financial statements and related notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

Subsequent to the filing of the Company’s Annual Report on Form 10-K for the year ended December 31, 2014, an accounting policy was added related to stock-based compensation for the Company’s 2010 Employee Stock Purchase Plan (“ESPP”). The fair value of each stock purchase right granted under the ESPP was estimated on the date of grant using the Black-Scholes option-pricing model and this value is recognized on a straight-line basis over the offering period.

Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (“FASB”) issued a new accounting standards update that provides additional guidance to customers about whether a cloud computing arrangement includes a software license. The guidance will be effective for reporting periods beginning after December 15, 2015 and interim periods within those fiscal years. The Company does not anticipate that the adoption of this guidance will have a significant impact

on its results of operations or financial position.

7

In April 2015, the FASB issued a new accounting standards update to simplify presentation of debt issuance costs, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The guidance will be effective for reporting periods beginning after December 15, 2015 and interim periods within those fiscal years. The Company does not anticipate that the adoption of this guidance will have a significant impact on its results of operations or financial position.

In February 2015, the FASB issued a new accounting standards update amending the consolidation guidance for Variable Interest Entities, which could change consolidation conclusions. The new standard is effective for reporting periods beginning after December 15, 2015. The Company early adopted the new guidance in the six months ended June 30, 2015. The adoption of this guidance did not have a significant impact on the Company's disclosures and the results of operations or financial position.

In May 2014, the FASB issued a new accounting standards update that provides principles for recognizing revenue for the transfer of promised goods or services to customers with the consideration to which the entity expects to be entitled in exchange for those goods or services. In July 2015, the FASB approved a one-year deferral of the effective date for the new standard. As a result, the guidance will be effective for reporting periods beginning after December 15, 2017. Early adoption is permitted beginning January 1, 2017. The Company is currently evaluating the accounting, transition and disclosure requirements of the standard and cannot currently estimate the financial statement impact of adoption.

2. BUSINESS ACQUISITION

On November 3, 2014, the Company completed its acquisition of Evolv Inc. ("Evolv"), a San Francisco based SaaS company. Evolv's platform has been developed with big data architecture and machine learning algorithms to perform predictive and prescriptive analytics and has broad data capturing capabilities that are used to help companies solve workforce management challenges. The acquisition was completed pursuant to a merger whereby Evolv became a wholly-owned subsidiary of the Company.

Unaudited Pro Forma Financial Information

The following table reflects the unaudited pro forma consolidated results of operations as if the acquisition had taken place on January 1, 2013, after giving effect to certain adjustments including the amortization of acquired intangible assets and the elimination of the Company's and Evolv's non-recurring acquisition-related expenses (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
	Actual	Pro Forma	Actual	Pro Forma
Revenue	\$87,271	\$69,525	\$243,789	\$191,522
Net loss	\$(20,149)	\$(20,465)	\$(66,673)	\$(64,601)

The unaudited pro forma information presented does not purport to be indicative of the results that would have been achieved had the acquisition been consummated as of January 1, 2013 nor of the results which may occur in the future. The pro forma adjustments are based upon available information and certain assumptions that the Company believes are reasonable. The unaudited pro forma information does not include any adjustments for any restructuring activities, operating effi