NEW RELIC, INC.
Form 10-Q
August 04, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2016

or

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

For the transition period from __________ to __________

Commission File Number: 001-36766

New Relic, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**26-2017431**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

188 Spear Street, Suite 1200

San Francisco, California 94105

(Address of principal executive offices, including zip code)

(650) 777-7600

(Registrant s telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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.

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

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

As of July 22, 2016, there were 50,838,974 shares of the registrant s common stock, par value $0.001 per share, outstanding.

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NEW RELIC, INC.

Form 10-Q Quarterly Report

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws, which statements involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as may, will, should, would, shall, might, expects, plans, could, intends, target, projects, contemplates, believes, estimates, predicts, potential, or continue these words or other similar terms or expressions that concern our expectations, strategy, plans, or intentions. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- our future financial performance, including our revenue, cost of revenue, gross profit, gross margin, operating expenses, ability to generate positive cash flow, and ability to achieve and maintain profitability;
- the sufficiency of our cash and cash equivalents to meet our liquidity needs;
- our ability to attract and retain customers to use our products, to optimize the pricing for our products, to expand our sales to our customers, and convince our existing customers to renew subscriptions;
- the evolution of technologies affecting our products and markets;
- our ability to innovate and provide a superior user experience and our intentions and strategy with respect thereto;
- our ability to successfully penetrate enterprise markets;
- our ability to successfully expand in our existing markets and into new markets, including international markets;
- the attraction and retention of key personnel;
- our ability to effectively manage our growth and future expenses;
- our ability to maintain, protect, and enhance our intellectual property;
- worldwide economic conditions and their impact on spending; and

- our ability to comply with modified or new laws and regulations applying to our business, including privacy and data security regulations.

We caution you that the foregoing list does not contain all of the forward-looking statements made in this Quarterly Report on Form 10-Q.

You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Quarterly Report on Form 10-Q primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, operating results, and prospects. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties, and other factors described in the section titled Risk Factors and elsewhere in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. We cannot assure you that the results, events, and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events, or circumstances could differ materially from those described in the forward-looking statements.

The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures, or investments we may make.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

NEW RELIC, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

(Unaudited)

	June 30, 2016	March 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 81,655	$ 65,914
Short-term investments	114,474	125,414
Accounts receivable, net of allowance for doubtful accounts of $628 and $664, respectively	28,819	32,514
Prepaid expenses and other current assets	9,762	6,109
Total current assets	234,710	229,951
Property and equipment, net	40,202	40,147
Restricted cash	8,115	8,115
Goodwill	11,828	11,828
Intangible assets, net	3,416	3,661
Other assets	772	742
Total assets	$ 299,043	$ 294,444
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 7,265	$ 4,450
Accrued compensation and benefits	10,829	11,631
Other current liabilities	5,183	4,725
Deferred revenue	80,661	72,397
Total current liabilities	103,938	93,203
Deferred rent, non-current	5,952	4,658
Deferred revenue, non-current	1,567	2,326
Other liabilities, non-current	1,006	1,024

Total liabilities	112,463	101,211
Commitments and contingencies (Note 6)		
Stockholders equity:		
Common stock, $0.001 par value; 100,000 shares authorized at June 30, 2016 and March 31, 2016; 50,997 shares and 50,241 shares issued at June 30, 2016 and March 31, 2016; and 50,737 shares and 49,981 shares outstanding at June 30, 2016 and March 31, 2016	51	50
Treasury stock - at cost (260 shares)	(263)	(263)
Additional paid-in capital	403,918	392,511
Accumulated other comprehensive income	32	22
Accumulated deficit	(217,158)	(199,087)
Total stockholders equity	186,580	193,233
Total liabilities and stockholders equity	$ 299,043	$ 294,444

See notes to condensed consolidated financial statements.

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NEW RELIC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015
Revenue	$ 58,607	$ 38,145
Cost of revenue	11,655	7,866
Gross profit	46,952	30,279
Operating expenses:		
Research and development	15,969	8,754
Sales and marketing	38,786	28,683
General and administrative	10,236	7,984
Total operating expenses	64,991	45,421
Loss from operations	(18,039)	(15,142)
Other income (expense):		
Interest income	221	141
Interest expense	(21)	(14)
Other expense, net	(111)	(2)
Loss before income taxes	(17,950)	(15,017)
Income tax provision	121	102
Net loss	$ (18,071)	$ (15,119)
Net loss per share, basic and diluted	$ (0.36)	$ (0.32)
Weighted-average shares used to compute net loss per share, basic and diluted	50,224	47,190

See notes to condensed consolidated financial statements.

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NEW RELIC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

	Three Months Ended June 30, 2016		Three Months Ended June 30, 2015	
Net loss	$	(18,071)	$	(15,119)
Other comprehensive income (loss):				
Unrealized gain (loss) on available-for-sale securities, net of tax		10		(25)
Comprehensive loss	$	(18,061)	$	(15,144)

See notes to condensed consolidated financial statements.

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NEW RELIC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015
Cash flows from operating activities:		
Net loss:	$ (18,071)	$ (15,119)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,222	3,301
Stock-based compensation expense	7,338	4,659
Other	293	418
Changes in operating assets and liabilities:		
Accounts receivable	3,695	(4,721)
Prepaid expenses and other assets	(3,567)	(384)
Accounts payable	996	(387)
Accrued compensation and benefits and other liabilities	(324)	827
Deferred revenue	7,505	9,332
Deferred rent	1,319	(70)
Net cash provided by (used in) operating activities	3,406	(2,144)
Cash flows from investing activities:		
Purchases of property and equipment	(1,527)	(2,671)
Purchases of short-term investments	(24,875)	(43,146)
Proceeds from sale and maturity of short-term investments	35,774	13,625
Capitalized software development costs	(712)	(2,209)
Net cash provided by (used in) investing activities	8,660	(34,401)
Cash flows from financing activities:		
Proceeds from issuance of common stock from employee stock options	3,675	1,516
Net cash provided by financing activities	3,675	1,516
Net increase (decrease) in cash and cash equivalents	15,741	(35,029)
Cash and cash equivalents, beginning of period	65,914	105,257
Cash and cash equivalents, end of period	$ 81,655	$ 70,228

Supplemental disclosure of cash flow information:				
Cash paid for interest and income taxes	$	16	$	
Noncash investing and financing activities:				
Property and equipment purchased but not paid yet	$	2,663	$	1,028

See notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Description of Business and Summary of Significant Accounting Policies

Description of Business New Relic, Inc. (the Company or New Relic) was incorporated in Delaware on February 20, 2008. The Company is a software-as-a-service provider of software analytics products which allow users to monitor software performance and see how their software is being used with applications deployed in a cloud or in a data center. New Relic s software analytics products and platform capabilities enable software developers, IT operations, and business users to better understand their digital business.

Basis of Presentation These unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (GAAP) and applicable rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2016, as filed with the SEC on May 26, 2016 (the Annual Report). There have been no changes to the Company s significant accounting policies described in the Annual Report that have had a material impact on its condensed consolidated financial statements and related notes.

In the opinion of management, the unaudited condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, comprehensive loss and cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for the full fiscal year ending March 31, 2017. The condensed consolidated balance sheet as of March 31, 2016 included herein was derived from the audited financial statements as of that date.

Use of Estimates The preparation of the Company s condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of income and expenses during the reporting period. These estimates are based on information available as of the date of the condensed consolidated financial statements; therefore, actual results could differ from management s estimates.

Concentration of Risk At June 30, 2016, there was one customer that represented 11% of the Company s accounts receivable balance. There were no customers that represented more than 10% of the Company s accounts receivable balance as of March 31, 2016. There were no customers that individually exceeded 10% of the Company s revenue during the three months ended June 30, 2016 and 2015.

Short-term Investments Short-term investments consist of money market funds, commercial paper, certificates of deposit, U.S. treasury securities, U.S. agency securities, and corporate debt securities and are classified as available-for-sale securities. The Company has classified its investments as current based on the nature of the investments and their availability for use in current operations. Available-for-sale securities are carried at fair value with unrealized gains and losses reported as a component of accumulated other comprehensive income, while realized gains and losses are reported within the statement of operations. The Company reviews its debt securities classified as short-term investments on a regular basis to evaluate whether or not any security has experienced an other-than-temporary decline in fair value. The Company consider factors such as the length of time and extent to which the market value has been less than the cost, the financial position and near-term prospects of the issuer, and the Company s intent to sell, or whether it is more likely than not the Company will be required to sell the investment before recovery of the investment s amortized-cost basis. If the Company determines that an other-than-temporary decline exists in one of these securities, the respective investment would be written down to fair value. For debt securities, the portion of the write-down related to credit loss would be recognized to other income, net in the condensed consolidated statement of operations. Any portion not related to credit loss would be included in accumulated other comprehensive income (loss). There were no impairments considered other-than-temporary as of June 30, 2016 and March 31, 2016.

Business Combinations The Company recognizes identifiable assets acquired and liabilities assumed at their acquisition date fair value. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While the Company uses its best estimates and assumptions as a part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, its estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company records adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill to the extent that the Company identifies adjustments to the preliminary purchase price allocation. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Company s condensed consolidated statements of operations. There has been no such adjustment as of June 30, 2016.

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Goodwill Goodwill represents the excess of the purchase price of an acquired business over the fair value of the underlying net tangible and intangible assets. Goodwill is evaluated for impairment annually in the third quarter of the Company s fiscal year, and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. Triggering events that may indicate impairment include, but are not limited to, a significant adverse change in customer demand or business climate that could affect the value of goodwill or a significant decrease in expected cash flows. Since inception through June 30, 2016, the Company did not have any goodwill impairment.

Intangible Assets Intangible assets consist of identifiable intangible assets, primarily developed technology, resulting from the Company s acquisitions. Acquired intangible assets are recorded at cost, net of accumulated amortization. Intangible assets are amortized on a straight-line basis over their estimated useful lives.

Recent Accounting Pronouncements In May 2014, the Financial Accounting Standards Board (FASB) issued new guidance related to the recognition and reporting of revenue that establishes a comprehensive new revenue recognition model designed to depict the transfer of goods or services to a customer in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. The guidance allows for the use of either the full or modified retrospective transition method, and the standard will be effective for the Company in its fiscal year beginning April 1, 2018; early adoption is permitted for the fiscal year beginning April 1, 2017. The Company is currently evaluating the impact of this new standard on its condensed consolidated financial statements, as well as which transition method the Company intends to use.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires lessees to put most leases on their balance sheets but recognize the expenses on their income statements in a manner similar to current practice. ASU 2016-02 states that a lessee would recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. The new standard will be effective for the Company in the fiscal year beginning April 1, 2019; early adoption is permitted. The amendments require a modified retrospective approach with optional practical expedients. The Company is currently evaluating the impact of this standard on its condensed consolidated financial statements.

In March 2016, the FASB Issued ASU No. 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. The updated guidance changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The update to the standard is effective for the Company in the fiscal year beginning April 1, 2017; early adoption is permitted. The Company is currently evaluating the effect the standard will have on its condensed 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 amends guidance on reporting credit losses for assets held at amortized cost basis and available-for-sale debt securities. The updated guidance requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a write-down. The measurement of credit losses for newly recognized financial assets and subsequent changes in the allowance for credit losses are recorded in the statement of income. The update to the standard is effective for the Company in the fiscal year beginning April 1, 2020; early adoption is permitted in the fiscal year beginning April 1, 2019. The Company is currently evaluating the effect the standard will have on its condensed consolidated financial statements.

2. Business Combination

In October 2015, the Company completed the acquisition of Opsmatic, Inc. (Opsmatic), a provider of live-state server configuration monitoring across dynamic cloud infrastructure, pursuant to which the Company acquired all of the capital stock of Opsmatic for $5.5 million in cash, up to 161,116 shares of the Company s common stock, a portion of which are subject to forfeiture in the event of certain indemnification claims by the Company, and 12,008 restricted stock units (RSUs) with fair values of $39.15 per share, resulting in an aggregate purchase price of $12.3 million. Of the total purchase price, $2.5 million was allocated to acquired technology and an immaterial amount to net assets acquired, with the excess $9.8 million of the purchase price over the fair value of net tangible and intangible assets acquired recorded as goodwill. The Opsmatic technology complements the Company s existing server and infrastructure monitoring capabilities. The acquisition has been accounted for as a business combination under the acquisition method. Goodwill generated from the acquisition is attributable to expected synergies from future growth and potential future monetization opportunities, and is not deductible for tax purposes. Pro forma revenue and results of operations have not been presented because the historical results of Opsmatic were not material to the Company s condensed consolidated financial statements in any period presented.

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The acquisition also included an obligation to issue up to 98,115 shares of its common stock, with an aggregate grant date fair value of $3.8 million, to certain employees of Opsmatic, contingent upon their continuous employment with the Company. As such, compensation expense will be recorded on a straight-line basis over the requisite service period of 30 months. As of June 30, 2016, 59,687 of these shares were issued, 42,996 of which are subject to repurchase by the Company.

3. Fair Value Measurements

The following tables present information about the Company s financial assets measured at fair value on a recurring basis as of June 30, 2016 and March 31, 2016 based on the three-tier fair value hierarchy (in thousands):

	Fair Value Measurements as of June 30, 2016		
	Level 1	Level 2	Level 3