

CONOCOPHILLIPS
Form 10-Q
July 31, 2012
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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 June 30, 2012

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: 001-32395

ConocoPhillips

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)
01-0562944
(I.R.S. Employer
Identification No.)
600 North Dairy Ashford, Houston, TX 77079
(Address of principal executive offices) (Zip Code)
281-293-1000
(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 ☒ 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 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.

Large accelerated filer ☒ Accelerated filer ☐
Non-accelerated filer ☐ Smaller reporting company ☐
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The registrant had 1,214,549,390 shares of common stock, \$.01 par value, outstanding at June 30, 2012.

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CONOCOPHILLIPS

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS**

Consolidated Income Statement

Consolidated Income Statement**ConocoPhillips**

	Millions of Dollars			
	Three Months Ended		Six Months Ended	
	June 30 2012	2011	June 30 2012	2011
Revenues and Other Income				
Sales and other operating revenues	\$ 13,988	17,176	28,972	32,956
Equity in earnings of affiliates	529	375	1,015	701
Gain on dispositions	583	35	1,523	648
Other income	66	82	126	166
Total Revenues and Other Income	15,166	17,668	31,636	34,471
Costs and Expenses				
Purchased commodities	5,758	7,681	11,878	14,639
Production and operating expenses	1,883	1,595	3,521	3,174
Selling, general and administrative expenses	235	203	562	451
Exploration expenses	270	264	949	440
Depreciation, depletion and amortization	1,626	1,846	3,249	3,694
Impairments	82		296	
Taxes other than income taxes	906	1,198	2,007	2,082
Accretion on discounted liabilities	105	107	212	212
Interest and debt expense	197	242	387	499
Foreign currency transaction (gains) losses	15	18	19	25
Total Costs and Expenses	11,077	13,154	23,080	25,216
Income from continuing operations before income taxes	4,089	4,514	8,556	9,255
Provision for income taxes	2,334	2,214	4,560	4,638
Income From Continuing Operations	1,755	2,300	3,996	4,617
Income from discontinued operations	534	1,119	1,248	1,844
Net income	2,289	3,419	5,244	6,461
Less: net income attributable to noncontrolling interests	(22)	(17)	(40)	(31)
Net Income Attributable to ConocoPhillips	\$ 2,267	3,402	5,204	6,430

Net Income Attributable to ConocoPhillips Per Share of

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Common Stock (dollars)					
Basic					
Continuing operations	\$	1.39	1.63	3.13	3.24
Discontinued operations		0.43	0.80	0.98	1.30
Net Income Attributable to ConocoPhillips Per Share of Common Stock	\$	1.82	2.43	4.11	4.54
Diluted					
Continuing operations	\$	1.38	1.62	3.10	3.21
Discontinued operations		0.42	0.79	0.98	1.29
Net Income Attributable to ConocoPhillips Per Share of Common Stock	\$	1.80	2.41	4.08	4.50
Dividends Paid Per Share of Common Stock (dollars)	\$	0.66	0.66	1.32	1.32
Average Common Shares Outstanding (in thousands)					
Basic		1,248,300	1,399,473	1,265,896	1,415,788
Diluted		1,258,189	1,412,147	1,275,667	1,428,760

See Notes to Consolidated Financial Statements.

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Consolidated Statement of Comprehensive Income

Consolidated Statement of Comprehensive Income

ConocoPhillips

	Millions of Dollars			
	Three Months Ended		Six Months Ended	
	June 30 2012	2011	June 30 2012	2011
Net Income	\$ 2,289	3,419	5,244	6,461
Other comprehensive income (loss)				
Defined benefit plans				
Prior service cost arising during the period				
Reclassification adjustment for amortization of prior service cost (credit) included in net income	(1)	1	(2)	1
Net change	(1)	1	(2)	1
Net actuarial loss arising during the period	(38)		(38)	
Reclassification adjustment for amortization of prior net losses included in net income	60	52	138	103
Net change	22	52	100	103
Nonsponsored plans*	2	5	5	11
Income taxes on defined benefit plans	2	(20)	(27)	(40)
Defined benefit plans, net of tax	25	38	76	75
Unrealized holding gain on securities**	1		1	8
Reclassification adjustment for gain included in net income				(255)
Income taxes on unrealized holding gain on securities				89
Unrealized gain on securities, net of tax	1		1	(158)
Foreign currency translation adjustments	(513)	549	339	1,463
Reclassification adjustment for gain included in net income			1	
Income taxes on foreign currency translation adjustments	13	(9)	(6)	(29)
Foreign currency translation adjustments, net of tax	(500)	540	334	1,434
Hedging activities	5		6	1
Income taxes on hedging activities				
Hedging activities, net of tax	5		6	1
Other Comprehensive Income (Loss), Net of Tax	(469)	578	417	1,352
Comprehensive Income	1,820	3,997	5,661	7,813
Less: comprehensive income attributable to noncontrolling interests	(22)	(17)	(40)	(31)

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Comprehensive Income Attributable to ConocoPhillips	\$ 1,798	3,980	5,621	7,782
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**Plans for which ConocoPhillips is not the primary obligor primarily those administered by equity affiliates.*

***Available-for-sale securities of LUKOIL.*

See Notes to Consolidated Financial Statements.

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Consolidated Balance Sheet

Consolidated Balance Sheet**ConocoPhillips**

	Millions of Dollars	
	June 30 2012	December 31 2011**
Assets		
Cash and cash equivalents	\$ 1,044	5,780
Short-term investments*		581
Restricted cash	5,000	
Accounts and notes receivable (net of allowance of \$23 million in 2012 and \$30 million in 2011)	7,550	14,648
Accounts and notes receivable related parties	169	1,878
Inventories	1,178	4,631
Prepaid expenses and other current assets	1,971	2,700
Total Current Assets	16,912	30,218
Investments and long-term receivables	23,372	32,108
Loans and advances related parties	1,597	1,675
Net properties, plants and equipment (net of accumulated depreciation, depletion and amortization of \$57,220 million in 2012 and \$65,029 million in 2011)	71,227	84,180
Goodwill		3,332
Intangibles	11	745
Other assets	889	972
Total Assets	\$ 114,008	153,230
Liabilities		
Accounts payable	\$ 8,243	17,973
Accounts payable related parties	853	1,680
Short-term debt	4,179	1,013
Accrued income and other taxes	2,819	4,220
Employee benefit obligations	594	1,111
Other accruals	1,672	2,071
Total Current Liabilities	18,360	28,068
Long-term debt	18,829	21,610
Asset retirement obligations and accrued environmental costs	8,224	9,329
Joint venture acquisition obligation related party	3,201	3,582
Deferred income taxes	13,598	18,040
Employee benefit obligations	2,873	4,068
Other liabilities and deferred credits	2,480	2,784
Total Liabilities	67,565	87,481
Equity		
Common stock (2,500,000,000 shares authorized at \$.01 par value)		

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Issued (2012 1,754,997,004 shares; 2011 1,749,550,587 shares)		
Par value	18	17
Capital in excess of par	45,016	44,725
Treasury stock (at cost: 2012 540,447,614 shares; 2011 463,880,628 shares)	(36,696)	(31,787)
Accumulated other comprehensive income	3,877	3,246
Unearned employee compensation		(11)
Retained earnings	33,756	49,049
Total Common Stockholders' Equity	45,971	65,239
Noncontrolling interests	472	510
Total Equity	46,443	65,749
Total Liabilities and Equity	\$ 114,008	153,230

*Includes marketable securities of:

\$ 232

**Certain amounts have been restated to reflect a prior period adjustment. See Note 16 Accumulated Other Comprehensive Income, in the Notes to Consolidated Financial Statements.

See Notes to Consolidated Financial Statements.

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Consolidated Statement of Cash Flows

Consolidated Statement of Cash Flows**ConocoPhillips**

Millions of Dollars
Six Months Ended
June 30

2012 2011

Cash Flows From Operating Activities

Net income	\$ 5,244	6,461
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, depletion and amortization	3,249	3,694
Impairments	296	
Dry hole costs and leasehold impairments	634	139
Accretion on discounted liabilities	212	212
Deferred taxes	447	(41)
Undistributed equity earnings	(251)	(285)
Gain on dispositions	(1,523)	(648)
Income from discontinued operations	(1,248)	(1,844)
Other	(100)	(140)
Working capital adjustments		
Decrease (increase) in accounts and notes receivable	(384)	(806)
Decrease (increase) in inventories	31	93
Decrease (increase) in prepaid expenses and other current assets	254	(323)
Increase (decrease) in accounts payable	52	547
Increase (decrease) in taxes and other accruals	(545)	(706)
Net cash provided by continuing operating activities	6,368	6,353
Net cash provided by discontinued operations	164	1,868
Net Cash Provided by Operating Activities	6,532	8,221

Cash Flows From Investing Activities

Capital expenditures and investments	(7,858)	(5,390)
Proceeds from asset dispositions	1,566	1,863
Net sales (purchases) of short-term investments	597	(1,594)
Long-term advances/loans related parties	6	(3)
Collection of advances/loans related parties	48	50
Other	20	32
Net cash used in continuing investing activities	(5,621)	(5,042)
Net cash provided by (used in) discontinued operations	(304)	148
Net Cash Used in Investing Activities	(5,925)	(4,894)

Cash Flows From Financing Activities

Issuance of debt	831	
Repayment of debt	(47)	(378)

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Special cash distribution from Phillips 66	7,818	
Change in restricted cash	(5,000)	
Issuance of company common stock	45	99
Repurchase of company common stock	(4,949)	(4,785)
Dividends paid on company common stock	(1,661)	(1,861)
Other	(369)	(357)
Net cash used in continuing financing activities	(3,332)	(7,282)
Net cash used in discontinued operations	(2,019)	(14)
Net Cash Used in Financing Activities	(5,351)	(7,296)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	8	20
Net Change in Cash and Cash Equivalents	(4,736)	(3,949)
Cash and cash equivalents at beginning of period	5,780	9,454
Cash and Cash Equivalents at End of Period	\$ 1,044	5,505

See Notes to Consolidated Financial Statements.

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Consolidated Statement of Changes in Equity

Consolidated Statement of Changes in Equity

ConocoPhillips

	Millions of Dollars							
	Attributable to ConocoPhillips							Total
	Common Stock							
	Par Value	Capital in Excess of Par	Treasury Stock	Accum. Other Comprehensive Income	Unearned Employee Compensation	Retained Earnings	Noncontrolling Interests	
December 31, 2011*	\$ 17	44,725	(31,787)	3,246	(11)	49,049	510	65,749
Net income						5,204	40	5,244
Other comprehensive income				417				417
Cash dividends paid on company common stock						(1,661)		(1,661)
Repurchase of company common stock			(4,949)					(4,949)
Distributions to noncontrolling interests and other							(47)	(47)
Distributed under benefit plans	1	291	40					332
Recognition of unearned compensation					11			11
Separation of Downstream business				214		(18,855)	(31)	(18,672)
Other						19		19
June 30, 2012	\$ 18	45,016	(36,696)	3,877		33,756	472	46,443

*Certain amounts have been restated to reflect a prior period adjustment. See Note 16 Accumulated Other Comprehensive Income, in the Notes to Consolidated Financial Statements.

See Notes to Consolidated Financial Statements.

Table of Contents**Notes to Consolidated Financial Statements****ConocoPhillips**

Notes to Consolidated Financial Statements

Note 1 Basis of Presentation

The interim-period financial information presented in the financial statements included in this report is unaudited and, in the opinion of management, includes all known accruals and adjustments necessary for a fair presentation of the consolidated financial position of ConocoPhillips and its results of operations and cash flows for such periods. All such adjustments are of a normal and recurring nature unless otherwise disclosed. Certain notes and other information have been condensed or omitted from the interim financial statements included in this report. Therefore, these financial statements should be read in conjunction with the consolidated financial statements. **Option**

Expiration

**Date Number of
Shares or Units
of Stock that
Have Not Vested
(#) Market Value of
Shares of Stock
that Have Not
Vested (\$)⁽¹⁾**

Peter P. Gassner

3/10/2013 611,111 2,722,222⁽²⁾ 3.92 3/9/2023

Timothy S. Cabral

2/24/2010 45,000 0.13 2/23/2020 3/10/2013 80,111 822,223.92 3/9/2023

Frank Defesche

3/25/2011 10,000 60,000⁽³⁾ 0.44 3/24/2021 3/10/2013 150,000.92 3/9/2023 3/23/2015 ⁽⁴⁾ 6

Alan V. Mateo

5/1/2015 500,000⁽⁵⁾ 26.99 4/30/2025 5/1/2015 ⁽⁶⁾ 29,769.75

E. Nitsa Zuppas

3/26/2013 8,334 86,666⁽⁷⁾ 3.92 3/25/2023 3/15/2014 35,000 60,097 32.26 3/14/2024 3/25/2015

- (1) Computed in accordance with SEC rules as the number of unvested RSUs multiplied by the closing market price of our Class A common stock at the end of fiscal 2016, which was \$24.10 on January 29, 2016 (the last trading day of fiscal 2016).
- (2) The stock options vest monthly over a five-year period following the vesting commencement date. The vesting commencement dates for the option grants are February 1 of 2015, 2014 and 2016 for Messrs. Gassner, Cabral and Defesche, respectively.
- (3) Mr. Defesche's stock option vests over five years, with 20% of the shares subject to the award vested on January 21, 2013, and 1/60th of the total shares vesting equally on a monthly basis thereafter.

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- (4) Mr. Defesche's and Ms. Zuppas's RSUs vest quarterly over four years, with 6.25% vesting per quarter, following the vesting commencement date of March 1, 2015.
- (5) Mr. Mateo's stock options vest over five years, with 20% of the shares subject to the award vested on April 13, 2016, and 1/60th of the total shares vesting equally on a monthly basis thereafter.
- (6) Mr. Mateo's RSUs vest quarterly over five years, with 1/20th vesting per quarter, following the vesting commencement date of April 13, 2015.
- (7) Ms. Zuppas's stock options vest over five years, with 20% of the shares subject to the award vested on March 18, 2014, and 1/60th of the total shares vesting equally on a monthly basis thereafter.

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(8) Ms. Zuppas' stock options vest monthly over a five-year period following the vesting commencement date of April 1, 2014.

Fiscal 2016 Option Exercises and Stock Vested

The following table shows the number of shares acquired upon exercise of options by each NEO during fiscal 2016 and the number of RSUs held by each NEO that vested during fiscal 2016.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$) ⁽¹⁾	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$) ⁽²⁾
Peter P. Gassner				
Timothy S. Cabral	288,000	6,688,100		
Frank Defesche	65,000	1,691,688	1,500	39,435
Alan V. Mateo			5,250	135,363
E. Nitsa Zuppas	68,000	1,617,005	6,000	157,740

(1) The value realized is based on the fair market value of our Class A common stock on the date of exercise minus the exercise price.

(2) The value realized on vesting is calculated by multiplying the number of RSUs by the underlying value of a share of our Class A common stock on the vesting date.

Fiscal 2016 Potential Payments Upon Termination or Change in Control

We have entered into offer letters with each of Messrs. Gassner, Cabral, Defesche and Mateo and Ms. Zuppas, none of which provide a right to receive severance in the event of a termination of their employment. None of our NEOs is currently eligible for any change in control-related benefits.

Table of Contents**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information with respect to the beneficial ownership of our common stock as of March 31, 2016 for:

each of our named executive officers;

each of our directors;

all of our executive officers and directors as a group; and

each stockholder known by us to be the beneficial owner of more than 5% of our outstanding shares of Class A common stock or Class B common stock.

We have determined beneficial ownership in accordance with the rules of the SEC. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the table below have sole voting and investment power with respect to all shares of Class A common stock or Class B common stock that they beneficially own, subject to applicable community property laws.

Applicable percentage ownership is based on 91,279,150 shares of Class A common stock and 42,913,295 shares of Class B common stock outstanding at March 31, 2016. In computing the number of shares of common stock beneficially owned by a person and the percentage ownership of that person, we deemed to be outstanding all shares of common stock subject to options and restricted stock units held by that person or entity that are currently exercisable or releasable or that will become exercisable or releasable within 60 days of March 31, 2016. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person. Unless otherwise indicated, the address of each beneficial owner listed in the table below is c/o Veeva Systems Inc., 4280 Hacienda Drive, Pleasanton, California 94588.

Name of Beneficial Owner	Shares Beneficially Owned				% Total Voting Power ⁽¹⁾
	Class A		Class B		
	Shares	%	Shares	%	
Named Executive Officers and Directors:					
Timothy C. Barabe	3,465	*			*
Timothy S. Cabral ⁽²⁾	566	*	668,250	1.6	1.3
Paul E. Chamberlain	1,549	*			*
Ronald E.F. Codd ⁽³⁾	20,000	*	282,500	*	*
Frank Defesche ⁽⁴⁾	1,256	*	66,248	*	*
Peter P. Gassner ⁽⁵⁾			14,041,666	32.1	26.6
Alan V. Mateo ⁽⁶⁾	113,342	*			*
Gordon Ritter ⁽⁷⁾	636,332	*	7,950,000	18.5	15.4
Paul Sekhri ⁽⁸⁾	20,000	*			*

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E. Nitsa Zuppas ⁽⁹⁾	47,904	*	21,667	*	*
All Executive Officers and Directors as a Group (12 persons) ⁽¹⁰⁾	844,388	*	24,884,781	56.0	46.6
5% Stockholders:					
T. Rowe Price Associates, Inc. and affiliates ⁽¹¹⁾	10,330,896	11.3			*
BlackRock, Inc. ⁽¹²⁾	7,834,928	8.6			1.5
Wellington Management Group LLP ⁽¹³⁾	7,268,771	8.0			*
JPMorgan Chase & Co. ⁽¹⁴⁾	6,399,892	7.0			1.1
Brown Capital Management, LLC ⁽¹⁵⁾	5,316,505	5.8			*
The Vanguard Group ⁽¹⁶⁾	4,736,339	5.2			*
Mark Armenante ⁽¹⁷⁾	20,000	*	9,200,000	21.4	17.7
Young A. Sohn ⁽¹⁸⁾			9,392,500	21.9	18.0
Emergence Capital Partners II, L.P. ⁽¹⁹⁾			7,950,000	18.5	15.3

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- * Less than 1 percent.
- (1) Percentage of total voting power represents voting power with respect to all shares of our Class A and Class B common stock, as a single class. The holders of our Class B common stock are entitled to ten votes per share, and holders of our Class A common stock are entitled to one vote per share. Each share of Class B common stock is convertible, at any time at the option of the holder, into one (1) share of Class A common stock.
 - (2) Includes (i) 566 shares of Class A common stock held by Mr. Cabral, (ii) 165,500 shares of Class B common stock held by Tim Cabral and Julia Cabral as community property, (iii) 111,316 shares of Class B common stock held by the TC 2013 Annuity Trust, (iv) 234,934 shares of Class B common stock held by The Cabral Family Trust dated April 17, 2001 and (v) 156,500 shares of Class B common stock issuable to Mr. Cabral pursuant to options exercisable within 60 days of March 31, 2016.
 - (3) Includes (i) 20,000 shares of Class A common stock issuable to Mr. Codd pursuant to an option exercisable within 60 days of March 31, 2016, (ii) 136,250 shares of Class B common stock held directly by the Codd Revocable Trust dated March 6, 1998 and (iii) 146,250 shares of Class B common stock issuable to Mr. Codd pursuant to an option exercisable within 60 days of March 31, 2016.
 - (4) Includes (i) 1,256 shares of Class A common stock held by Mr. Defesche and (ii) 66,248 shares of Class B common stock issuable to Mr. Defesche pursuant to options exercisable within 60 days of March 31, 2016.
 - (5) Includes (i) 10,000,000 shares of Class B common stock held directly by Mr. Gassner, (ii) 3,208,333 shares of Class B common stock held by Peter Gassner and Piyajit Gassner as Community Property and (iii) 833,333 shares of Class B common stock issuable to Mr. Gassner pursuant to options exercisable within 60 days of March 31, 2016.
 - (6) Includes (i) 3,259 shares of Class A common stock held by Mr. Mateo, (ii) 108,333 shares of Class A common stock issuable to Mr. Mateo pursuant to an option exercisable within 60 days of March 31, 2016 and (iii) 1,750 shares of Class A common stock issuable to Mr. Mateo pursuant to RSUs vesting within 60 days of March 31, 2016.
 - (7) Consists of (i) 616,332 shares of Class A common stock held by the Ritter-Metzler Revocable Trust dated November 6, 2000, (ii) 20,000 shares of Class A common stock issuable to Mr. Ritter pursuant to an option exercisable within 60 days of March 31, 2016 and (iii) 7,950,000 shares of Class B common stock held by Emergence Capital Partners II, L.P. (ECP II), as reflected in footnote 19 below. Mr. Ritter, a member of our board of directors, is a member of Emergence GP Partners, LLC (EGP) and has shared voting and dispositive power with regard to the shares directly held by ECP II. Mr. Ritter disclaims beneficial ownership of the securities except to the extent of his pecuniary interest therein.
 - (8) Includes 20,000 shares of Class A common stock issuable to Mr. Sekhri pursuant to an option exercisable within 60 days of March 31, 2016.
 - (9) Includes (i) 6,238 shares of Class A common stock held by Ms. Zuppas, (ii) 41,666 shares of Class A common stock issuable to Ms. Zuppas pursuant to an option exercisable within 60 days of March 31, 2016 and (iii) 21,667 shares of Class B common stock issuable to Ms. Zuppas pursuant to an option exercisable within 60 days of March 31, 2016.
 - (10) Includes (i) 844,414 shares of Class A common stock beneficially owned by the directors and named executive officers as reflected in the table, (ii) 23,303,331 shares of Class B common stock beneficially owned by the directors and named executive officers as reflected in the table, (iii) 1,230 shares of Class A common stock held directly by an executive officer who is not a named executive officer, (iv) 1,564,915 shares of Class B common stock held by an executive officer who is not a named executive officer and (v) 355,783 shares of Class B common stock issuable to executive officers who are not named executive officers pursuant to options exercisable within 60 days of March 31, 2016.
 - (11) Based solely on information reported on a Schedule 13G/A filed with the SEC on February 9, 2016, T. Rowe Price Associates, Inc. has sole voting power over 2,494,246 shares of Class A common stock and sole dispositive

power over 10,330,896 shares of Class A common stock. The address of T. Rowe Price Associates, Inc. is 100 E. Pratt Street, Baltimore, Maryland 21202.

- (12) Based solely on information reported on a Schedule 13G/A filed with the SEC on January 27, 2016, BlackRock, Inc. has sole voting power over 7,612,377 shares of Class A common stock and sole dispositive

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- power over 7,834,928 shares of Class A common stock. The subsidiaries included in the report were as follows: BlackRock (Luxembourg) S.A., BlackRock Advisors (UK) Limited, BlackRock Advisors, LLC, BlackRock Asset Management Canada Limited, BlackRock Asset Management Ireland Limited, BlackRock Asset Management Schweiz AG, BlackRock Fund Advisors, BlackRock Institutional Trust Company, N.A., BlackRock Investment Management (Australia) Limited, BlackRock Investment Management (UK) Ltd and BlackRock Investment Management, LLC. The address of BlackRock, Inc. is 55 East 52nd Street, New York, New York 10055.
- (13) Based solely on information reported on a Schedule 13G/A filed with the SEC on February 11, 2016, Wellington Management Group LLP has shared voting power over 5,202,366 shares of Class A common stock and shared dispositive power over 7,268,771 shares of Class A common stock. Additional persons identified in the report were as follows: Wellington Group Holdings LLP, Wellington Investment Advisors Holdings LLP and Wellington Management Company LLP. The address of Wellington Management Group LLP is c/o Wellington Management Company LLP, 280 Congress Street, Boston, Massachusetts 02210.
- (14) Based solely on information reported on a Schedule 13G/A filed with the SEC on January 25, 2016, JPMorgan Chase & Co. has sole voting power over 5,633,094 shares of Class A common stock, shared voting power over 4,171 shares of Class A common stock, sole dispositive power over 6,398,547 shares of Class A common stock and shared dispositive power over 1,345 shares of Class A common stock. The subsidiaries included in the report were as follows: JPMorgan Chase Bank, National Association, J.P. Morgan Investment Management Inc., J.P. Morgan Trust Company of Delaware and J.P. Morgan Securities LLC. According to the filing, no other such person is known to beneficially own more than five percent of our total outstanding Class A common stock. The address of JPMorgan Chase & Co. is 270 Park Avenue, New York, New York 10017.
- (15) Based solely on information reported on a Schedule 13G/A filed with the SEC on February 16, 2016, Brown Capital Management, LLC has sole voting power over 3,033,262 shares of Class A common stock and sole dispositive power over 5,316,505 shares of Class A common stock. The address of Brown Capital Management, LLC is 1201 N. Calvert Street, Baltimore, Maryland 21202.
- (16) Based solely on information reported on a Schedule 13G filed with the SEC on February 11, 2016, The Vanguard Group has sole voting power over 54,536 shares of Class A common stock, shared voting power over 3,800 shares of Class A common stock, sole dispositive power over 4,682,603 shares of Class A common stock and shared dispositive power over 53,736 shares of Class A common stock.
- (17) Includes (i) 20,000 shares of Class A common stock held directly by Mr. Armenante, (ii) 7,075,588 shares of Class B common stock held directly by Mr. Armenante, (iii) 600,206 shares of Class B common stock held by Mark A. Armenante and Elizabeth T. Armenante, Trustees of the Elizabeth T. Armenante Grantor Retained Annuity Trust dated May 20, 2013, (iv) 600,206 shares of Class B common stock held by Mark A. Armenante and Elizabeth T. Armenante, Trustees of the Mark A. Armenante Grantor Retained Annuity Trust dated May 20, 2013, (v) 395,000 shares of Class B common stock held by the Christina E. Armenante Trust 2000 U/A dated July 14, 2000, (vi) 395,000 shares of Class B common stock held by the Andrew M. Armenante Trust 2000 U/A dated July 14, 2000, and (vii) 134,000 shares of Class B common stock held by Armenante Family Trust 2000, dated July 19, 2000.
- (18) Consists of 8,882,000 shares of Class B common stock held directly by Ms. Sohn and (ii) 510,500 shares of Class B common stock held by Young Sohn Grantor Retained Annuity Trust dated May 21, 2013.
- (19) Consists of 7,950,000 shares of Class B common stock held by ECP II. EEP II is the sole general partner of ECP II and EGP is the sole general partner of EEP II. Jason Green, Brian Jacobs and Gordon Ritter are members of EGP and share voting and dispositive power over the shares held by each of these entities. Mr. Ritter is also a member of our Board of Directors. Each member disclaims beneficial ownership of the securities except to the extent of his pecuniary interest therein. The address of ECP II is 160 Bovet Road, Suite 300, San Mateo, California 94402.

Table of Contents**EQUITY COMPENSATION PLAN INFORMATION**

The following table provides information as of January 31, 2016 with respect to the shares of our common stock that may be issued under our existing equity compensation plans.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, RSUs, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights⁽¹⁾	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans⁽²⁾
Equity compensation plans approved by stockholders	20,769,127	\$ 5.01	17,554,720 ⁽³⁾
Equity compensation plans not approved by stockholders			
Total	20,769,127		17,554,720

(1) The weighted average exercise price does not take into account outstanding restricted stock or RSUs.

(2) Included in this amount are 4,897,856 shares available for future issuance under the 2013 Employee Stock Purchase Plan (ESPP).

(3) On the first business day of each fiscal year during the term of our 2013 Equity Incentive Plan (2013 Plan), commencing on February 1, 2014, the number of authorized shares of our Class A common stock under our 2013 Plan automatically increases by a number of shares of our Class A common stock equal to the least of (i) 5% of the total number of shares of all classes of our common stock issued and outstanding on the last business day of the prior fiscal year, (ii) 13,750,000 shares of our Class A common stock or (iii) a number of shares of our Class A common stock determined by our Board of Directors. On the first business day of each fiscal year during the term of our ESPP, commencing on February 1, 2014, the number of authorized shares of our Class A common stock under our ESPP automatically increases by a number of shares of our Class A common stock equal to the least of (i) 1% of the total number of shares of all classes of our common stock issued and outstanding on the last business day of the prior fiscal year, (ii) 2,200,000 shares of our Class A common stock or (iii) a number of shares of our Class A common stock determined by our Board of Directors.

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CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

In addition to the compensation arrangements with our directors and executive officers described elsewhere in this proxy statement, the following is a description of each transaction since February 1, 2015 and each currently proposed transaction in which:

we have been or are to be a participant;

the amount involved exceeds or will exceed \$120,000; and

any of our directors, executive officers or holders of more than 5% of our capital stock, or any immediate family member of or person sharing the household with any of these individuals (other than tenants or employees), had or will have a direct or indirect material interest.

Amended and Restated Investors Rights Agreement

We have entered into an investors rights agreement with certain holders of our capital stock, including entities with which certain of our directors are affiliated. These stockholders are entitled to rights with respect to the registration of their shares under the Securities Act.

Employment Arrangements with Immediate Family Members of Our Executive Officers and Directors

Theodore Wallach, a brother of Matthew J. Wallach, our President, has been employed by us since September 2010. Theodore Wallach serves as a senior product manager. During our fiscal year ended January 31, 2016, Theodore Wallach had total cash compensation of \$160,927.

Lisa Halsey, a sister-in-law of Timothy S. Cabral, our Chief Financial Officer, has been employed by us since August 2015. Ms. Halsey serves as a director in our employee success team. During our fiscal year ended January 31, 2016, Ms. Halsey had total cash and other compensation of \$183,277, \$128,050 of which represents the aggregate grant date fair value of restricted stock units vesting over a four-year period, the value of which is computed in accordance with FASB ASC Topic No. 718.

The compensation level for each of Theodore Wallach and Ms. Halsey was based on reference to internal pay equity when compared to the compensation paid to employees in similar positions that were not related to our executive officers and directors. They were also eligible for equity awards on the same general terms and conditions as applicable to other employees in similar positions who were not related to our executive officers and directors.

Indemnification Agreements

We have entered into indemnification agreements with each of our directors and executive officers and certain other key employees. The indemnification agreements will provide that we indemnify each of our directors, executive officers and such other key employees against any and all expenses incurred by that director, executive officer, or other key employee because of his or her status as one of our directors, executive officers, or other key employees, to the fullest extent permitted by Delaware law, our restated certificate of incorporation and our amended and restated bylaws. In addition, the indemnification agreements provide that, to the fullest extent permitted by Delaware law, we

will advance all expenses incurred by our directors, executive officers and other key employees in connection with a legal proceeding.

Policies and Procedures for Related Party Transactions

Pursuant to our Code of Conduct and Audit Committee charter, any related party transaction or series of transactions with an executive officer, director, or any of such persons' immediate family members or affiliates,

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in which the amount, either individually or in the aggregate, involved exceeds \$120,000 must be presented to our Audit Committee for review, consideration and approval. All of our directors and executive officers are required to report to our Audit Committee any such related party transaction. In approving or rejecting the proposed transactions, our Audit Committee shall consider the relevant facts and circumstances available and deemed relevant to the Audit Committee, including, but not limited to the risks, costs and benefits to us, the terms of the transaction, the availability of other sources for comparable services or products and, if applicable, the impact on a director's independence. Our Audit Committee shall approve only those transactions that, in light of known circumstances, are not inconsistent with Veeva's best interests, as our Audit Committee determines in the good faith exercise of its discretion.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires that our executive officers and directors and persons who own more than 10% of our common stock, file reports of ownership and changes of ownership with the SEC. Such directors, executive officers and 10% stockholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file.

SEC regulations require us to identify in this proxy statement anyone who filed a required report late during the most recent fiscal year. Based on our review of forms we received, or written representations from reporting persons, we believe that during fiscal 2016, all Section 16(a) filing requirements were satisfied on a timely basis except that Matthew J. Wallach delinquently filed two Forms 4, each of which reported one transaction.

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AUDIT COMMITTEE REPORT

The information contained in the following report of Veeva's Audit Committee is not considered to be soliciting material, filed or incorporated by reference in any past or future filing by us under the Securities Exchange Act of 1934 or the Securities Act of 1933 unless and only to the extent that Veeva specifically incorporates it by reference.

Role of the Audit Committee

The Audit Committee operates under a written charter adopted by our Board of Directors. Our Audit Committee oversees our accounting practices, system of internal controls, audit processes and financial reporting processes. Among other things, our Audit Committee is responsible for reviewing our disclosure controls and processes and the adequacy and effectiveness of our internal controls. It also discusses the scope and results of the audit with our independent registered public accounting firm, reviews with our management and our independent registered public accounting firm our interim and year-end operating results and, as appropriate, initiates inquiries into aspects of our financial affairs. Our Audit Committee is responsible for establishing procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters and for the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters. In addition, our Audit Committee has sole and direct responsibility for the appointment, retention, compensation and oversight of the work of our independent registered public accounting firm, including approving services and fee arrangements. Significant related party transactions will be approved by our Audit Committee before we enter into them, as required by applicable rules and listing standards. A more detailed description of the functions and responsibilities of the Audit Committee can be found in Veeva's Audit Committee charter, published on the Investors portion of Veeva's website at <http://ir.veeva.com/>.

The Audit Committee oversees our financial reporting process on behalf of the Board of Directors. Management is responsible for our internal controls, financial reporting process, selection of accounting principles, determination of estimates and compliance with laws, regulations and ethical business conduct. Our independent registered public accounting firm is responsible for expressing an opinion as to the conformity of our consolidated financial statements with generally accepted accounting principles.

Review of Audited Financial Statements for the Fiscal Year Ended January 31, 2016

The Audit Committee has reviewed and discussed with Veeva's management and KPMG LLP the audited consolidated financial statements of Veeva for the fiscal year ended January 31, 2016. The Audit Committee has also discussed with KPMG LLP the matters required to be discussed by applicable requirements of the Public Company Accounting Oversight Board regarding communications between our independent registered public accounting firm and Audit Committee.

The Audit Committee has received and reviewed the written disclosures and the letter from KPMG LLP required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence, and has discussed with KPMG LLP its independence from us.

Based on the review and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in Veeva's annual report on Form 10-K for the fiscal year ended January 31, 2016 for filing with the Securities and Exchange Commission.

Submitted by the Audit Committee of the Board of Directors:

Ronald E. F. Codd (Chair)

Timothy Barabe

Paul E. Chamberlain

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OTHER MATTERS

We know of no other matters to be submitted at the Annual Meeting. If any other matters properly come before the Annual Meeting, it is the intention of the persons named in the proxy card to vote the shares they represent as Veeva may recommend.

It is important that your shares be represented at the Annual Meeting, regardless of the number of shares that you hold. You are, therefore, urged to vote at your earliest convenience on the Internet or by telephone as instructed, or by executing and returning a proxy card, if you have requested one, in the envelope provided.

THE BOARD OF DIRECTORS

Pleasanton, California

May 10, 2016

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