MARIN SOFTWARE INC
Form 10-Q
August 08, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

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: 001-35838

Marin Software Incorporated

(Exact Name of Registrant as Specified in Its Charter)

Delaware **(State or Other Jurisdiction of** **Incorporation or Organization)**	**20-4647180** **(I.R.S. Employer** **Identification No.)**
123 Mission Street, 25th Floor, San Francisco, CA **(Address of Principal Executive Offices)**	**94105** **(Zip Code)**

(415) 399-2580

(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 checkmark 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 time period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition 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	x (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 31, 2013, the registrant had 32,476,986 shares of common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

MARIN SOFTWARE INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands, except par value)

	At June 30, 2013	At December 31, 2012
Assets		
Current assets		
Cash and cash equivalents	$ 120,579	$ 31,540
Accounts receivable, net	12,354	13,133
Prepaid expenses and other current assets	3,328	1,814
Total current assets	136,261	46,487
Property and equipment, net	13,426	9,224
Other noncurrent assets	397	1,513
Total assets	$ 150,084	$ 57,224
Liabilities, Convertible Preferred Stock and Stockholders Equity (Deficit)		
Current liabilities		
Accounts payable	$ 1,570	$ 1,268
Accrued expenses and other current liabilities	10,636	9,661
Deferred revenue	3,757	618
Current portion of long-term debt	2,782	1,572
Total current liabilities	18,745	13,119
Long-term debt, less current portion	3,066	9,243
Other long-term liabilities	1,496	1,858
Total liabilities	23,307	24,220
Convertible preferred stock, net of issuance costs $0.001 par value - 10,000 and 18,804 shares authorized, 0 and 18,753 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively		105,710
Stockholders equity (deficit)		
Common stock, $0.001 par value 500,000 and 36,000 shares authorized, 32,724 and 4,942 shares issued, 32,472, and 4,658 outstanding at June 30, 2013 and December 31, 2012, respectively	32	5
Additional paid-in capital	223,692	4,638
Accumulated deficit	(96,947)	(77,349)
Total stockholders equity (deficit)	126,777	(72,706)
Total liabilities, convertible preferred stock, and stockholders equity (deficit)	$ 150,084	$ 57,224

See accompanying notes to the condensed consolidated financial statements.

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MARIN SOFTWARE INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues, net	$ 18,218	$ 14,032	$ 35,373	$ 27,006
Cost of revenues	7,696	5,989	15,068	11,243
Gross profit	10,522	8,043	20,305	15,763
Operating expenses				
Sales and marketing	10,350	8,021	20,809	14,873
Research and development	4,904	3,078	9,983	6,045
General and administrative	4,026	2,517	8,074	6,910
Total operating expenses	19,280	13,616	38,866	27,828
Loss from operations	(8,758)	(5,573)	(18,561)	(12,065)
Interest expense, net	(109)	(102)	(293)	(212)
Other income (expenses), net	(81)	(94)	(489)	(197)
Loss before provision for income taxes	(8,948)	(5,769)	(19,343)	(12,474)
Provision for income taxes	(149)	(55)	(255)	(104)
Net loss	(9,097)	(5,824)	(19,598)	(12,578)
Other comprehensive income (loss)				
Comprehensive loss	$ (9,097)	$ (5,824)	$ (19,598)	$ (12,578)
Net loss per share available to common stockholders, basic and diluted	$ (0.28)	$ (1.37)	$ (0.99)	$ (2.94)
Weighted-average shares used to compute net loss per share available to common stockholders, basic and diluted	32,237	4,261	19,871	4,282
Stock-based compensation is allocated as follows (Note 7):				
Cost of revenues	$ 245	$ 115	$ 450	$ 171
Sales and marketing	361	124	654	556
Research and development	303	132	611	496
General and administrative	400	156	819	2,195

See accompanying notes to the condensed consolidated financial statements.

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MARIN SOFTWARE INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Operating activities		
Net loss	$ (19,598)	$ (12,578)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	2,129	1,102
Amortization of internally developed software	483	210
Noncash expenses related to warrants	383	273
Stock-based compensation	2,534	3,418
Provision for bad debts	114	227
Other noncash expenses		74
Excess tax benefits from stock-based award activities	(37)	
Changes in operating assets and liabilities		
Accounts receivable	665	(1,695)
Prepaid expenses and other current assets	(1,514)	(293)
Other assets	16	(60)
Accounts payable	(826)	56
Deferred revenue	3,139	445
Accrued expenses and other liabilities	1,879	540
Net cash used in operating activities	(10,633)	(8,281)
Investing activities		
Purchases of property and equipment	(2,934)	(2,855)
Capitalization of internally developed software	(1,548)	(834)
Net cash used in investing activities	(4,482)	(3,689)
Financing activities		
Proceeds from issuance of common stock in initial public offering, net of issuance costs	109,454	
Proceeds from issuance of note payable, net of issuance costs	1,718	7,314
Repayment of note payable	(8,034)	(3,383)
Redemption of common stock and unvested shares subject to repurchase	(45)	(4,502)
Proceeds from issuance of convertible preferred stock, net of issuance costs		34,294
Proceeds from common stock purchase agreements and option exercises	1,024	1,876
Excess tax benefits from stock-based award activities	37	
Net cash provided by financing activities	104,154	35,599
Net increase in cash and cash equivalents	89,039	23,629
Cash and cash equivalents		
Beginning of period	31,540	1,719
End of period	$ 120,579	$ 25,348

Supplemental disclosure of noncash investing and financing activities		
Accounts payable related purchases of property and equipment	1,661	350
Conversion of convertible preferred stock to common stock	105,710	
Acquisition of equipment through capital lease	1,204	
Conversion of warrant to purchase convertible preferred stock to common stock warrant	745	
Unpaid initial public offering costs	49	

See accompanying notes to the condensed consolidated financial statements.

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Marin Software Incorporated

Notes to Condensed Consolidated Financial Statements

(dollars and share numbers in thousands, except per share data)

1. Summary of Business and Significant Accounting Policies

Marin Software Incorporated (the Company) was incorporated in Delaware in March 2006. The Company provides a leading cloud-based Revenue Acquisition Management platform, offering an integrated digital advertising management solution for search, display, social and mobile advertising channels. The Company s platform helps advertisers and agencies improve financial performance, realize efficiencies and time savings, and make better business decisions. The Company s corporate headquarters are located in San Francisco, California, and the Company has additional offices in the following locations: New York, Chicago, Austin, Portland, Mountain View, London, Dublin, Hamburg, Paris, Tokyo, Singapore, Sydney, and Shanghai.

On March 27, 2013, the Company closed its initial public offering (IPO) of 7,500 shares of its common stock sold by the Company. The public offering price of the shares sold in the IPO was $14.00 per share. The total gross proceeds from the IPO to the Company were $105,000. After deducting underwriting discounts and commissions and IPO expenses payable by the Company, the aggregate net proceeds totaled $94,659. On April 11, 2013, the underwriters of the IPO fully exercised the over-allotment option granted to them. As a result, the Company issued an additional 1,125 shares for net proceeds of $14,648.

Basis of Presentation and Consolidation

The accompanying unaudited condensed consolidated financial statements and condensed footnotes have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of only normal recurring items, considered necessary for fair statement have been included. The results of operations for the three and six months ended June 30, 2013 are not necessarily indicative of the results to be expected for the year ended December 31, 2013 or for other interim periods or for future years.

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated on consolidation. The condensed consolidated balance sheet as of December 31, 2012 is derived from audited financial statements as of that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in our Prospectus dated March 21, 2013 filed with the SEC (the Prospectus) pursuant to Rule 424(b)(4) under the Securities Act of 1933, as amended (the Securities Act).

Recent Accounting Pronouncement

In July 2013, the Financial Accounting Standards Board (FASB) issued a new accounting standard update on the financial statement presentation of unrecognized tax benefits. The new guidance provides that a liability related to an unrecognized tax benefit would be presented as a reduction of a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. The new guidance becomes effective for the Company on January 1, 2014 and it will be applied prospectively to unrecognized tax benefits that exist at the effective date with retrospective application permitted. The Company is currently assessing the impact of this new guidance.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original or remaining maturity from the Company s date of purchase of 90 days or less to be cash equivalents. Deposits held with financial institutions are likely to exceed the amount of insurance on these deposits. Cash equivalents consist of money market funds, which are readily convertible into cash and are stated at cost, which approximates fair market value. Cash equivalents were $116,956 and $19,930 as of June 30, 2013 and December 31, 2012, respectively.

Fair Value of Financial Instruments

The Company s financial instruments, including cash equivalents, accounts receivable and accounts payable are carried at cost, which approximates fair value because of the short-term nature of those instruments. Based on borrowing rates available to the Company for loans with similar terms and maturities, the carrying value of borrowings approximates fair value (Level 2 within the fair value hierarchy).

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The Company measures and reports certain financial assets at fair value on a recurring basis, including its investments in money market funds. The fair value hierarchy prioritizes the inputs into three broad levels:

Level 1 Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

Level 3 Inputs are unobservable inputs based on the Company s assumptions.

A financial instrument s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The Company s cash equivalents as of June 30, 2013 and December 31, 2012 consisted of money market funds with original maturity dates of less than three months from the date of their respective purchase. Cash equivalents are classified as Level 1. The fair value of the Company s money market funds approximated amortized cost and, as such, there were no unrealized gains or losses on money market funds as of June 30, 2013 and December 31, 2012.

The following table presents the changes in the preferred stock warrant obligation measured and recorded at fair value on a recurring basis, using significant unobservable inputs (Level 3) during the six months ended June 30, 2013 and 2012:

	Six Months Ended June 30,	
	2013	2012
Balances at beginning of period	$ 507	$ 145
Change in estimated fair value of warrant	238	144
Conversion to common stock warrant	(745)	
Balances at end of period	$	$ 289

Allowance for Doubtful Accounts and Revenue Credits

The allowance for doubtful accounts reflects the Company s best estimate of probable losses inherent in the Company s receivables portfolio determined on the basis of historical experience, specific allowances for known troubled accounts and other currently available evidence. The Company has not experienced significant credit losses from its accounts receivable. The Company performs a regular review of its customers payment histories and associated credit risks and it does not require collateral from its customers. Certain contracts with advertising agencies contain sequential liability provisions, whereby the agency does not have an obligation to pay the Company until payment is received from the agency s customers. In these circumstances, the Company evaluates the credit worthiness of the agency s customers, in addition to the agency itself.

From time to time the Company provides credits to customers and an allowance is made based on historical credit activity. As of June 30, 2013 and December 31, 2012, the Company recorded an allowance for potential customer credits in the amount of $183 and $452, respectively.

Property and Equipment

Property and equipment are stated at historical cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets.

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

Computer equipment	3 to 5 years
Office equipment, furniture and fixtures	3 to 5 years

Software	3 years
Leasehold improvements	Shorter of useful life or lease term

Upon retirement or sale, the cost and related accumulated depreciation are removed from the balance sheet and the resulting gain or loss is reflected in operations. Major additions and improvements are capitalized while repairs and maintenance that do not extend the life of the asset are charged to operations as incurred. Depreciation and amortization expense is allocated to both cost of revenues and operating expenses.

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Internal Use Software

Costs incurred in the development phase are capitalized and amortized over the product s estimated useful life, which is three years. The Company expenses all costs incurred that relate to planning and post implementation phases of development. Capitalized costs related to internal use software under development are treated as construction in progress until the program, feature or functionality is ready for its intended use, at which time amortization commences. The Company capitalized internal-use software development costs of $916 and $531 during the three months ended June 30, 2013 and 2012, respectively, and $1,548 and $834 during the six months ended June 30, 2013 and 2012, respectively. Amortization of capitalized costs related to internal-use software for the three months ended June 30, 2013 and 2012 was $256 and $114, respectively, and for the six months ended June 30, 2013 and 2012 was $483 and $210, respectively. As of June 30, 2013 and December 31, 2012, unamortized internal use software development costs totaled $3,241 and $2,176, respectively. Amortization of internal use software is reflected in cost of revenues. Costs associated with minor enhancement and maintenance are expensed as incurred.

Revenue Recognition

The Company generates revenues principally from subscriptions to its platform either directly with advertisers or with advertising agencies. The Company s subscription agreements are generally six months to one year in length for direct advertisers and up to three years in length for advertising agencies. The Company s subscription fee under most contracts is variable based on the value of the advertising spend that the Company s advertisers manage through the Company s platform. Contracts with direct advertisers and certain contracts with advertising agencies also include a minimum monthly fee that is payable over the duration of the contract. The Company s customers do not have the right to take possession of the software supporting the application service at any time, nor do the arrangements contain general rights of return. The Company commences revenue recognition for both direct advertisers and advertising agencies when all of the following conditions are met:

- persuasive evidence of an arrangement exists;
- the Company s platform is made available to the customer;
- the fee is fixed or determinable, and;
- collection is reasonably assured.

The Company recognizes the total minimum fee for both direct advertisers and advertising agencies, where applicable, over the duration of the contract, commencing on the date that the Company s platform is made available to the customer, provided revenues recognized do not exceed amounts that are invoiced and due. The variable fee, which is based on a percentage of the value of the advertising spend managed through the Company s platform, is recognized once the amount is fixed or determinable, which is generally on a monthly basis concurrent with the issuance of the customer invoice. Signed contracts are used as evidence of an arrangement. The Company assesses collectability based on a number of factors such as past collection history with the customer and creditworthiness of the customer. Certain agreements with advertising agencies also contain sequential liability provisions, which provide that the agency has no obligation to pay the Company until the agency receives payment from its customers. In these circumstances, the Company evaluates the credit worthiness of the agency s customers, in addition to the agency itself, to conclude whether or not collectability is reasonably assured. If the Company determines collectability is not reasonably assured, the Company defers the revenue recognition until collectability becomes reasonably assured.

Cost of Revenues

Cost of revenues primarily consists of costs related to hosting the Company s cloud-based platform, providing implementation and ongoing customer support, data communications expenses, salaries and benefits of operations and support personnel, software license fees, costs associated with website development activities, allocated overhead, amortization expense associated with capitalized internal use software and intangible assets and property and equipment depreciation.

Stock-Based Compensation

Stock-based compensation is measured at grant date based on the fair value of the award and is expensed on a straight-line basis over the requisite service period.

Fair values of share-based payment awards are determined on the date of grant using an option-pricing model. The Company has selected the Black-Scholes option pricing model to estimate the fair value of its stock options awards to employees and non-employees. In applying the Black-Scholes option pricing model, the Company s determination of the fair value of the share-based payment award on the date of grant is affected by the Company s estimated fair value of Common Stock, as well as assumptions regarding a number of subjective variables. These variables include, but are not limited to, the Company s expected stock price volatility over the term of the stock options and the optionholders actual and projected stock option exercise and pre-vesting employment termination behaviors.

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For awards with graded vesting, the Company recognizes stock-based compensation expense over the requisite service period using the straight-line method, based on awards ultimately expected to vest. The Company estimates future forfeitures at the date of grant and revises the estimates, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Stock options issued to non-employees such as consultants are recorded at their fair value on the measurement date. The measurement of stock-based compensation is subject to periodic adjustment as the underlying equity instruments vest. The fair value of options granted to consultants is expensed when vested. Non-employee stock-based compensation expense was not material for all periods presented.

See Note 7 for further information.

2. Balance Sheet Components

The following table shows the components of property and equipment as of the dates presented:

	June 30, 2013	December 31, 2012
Computer equipment	$ 13,784	$ 8,958
Software	5,997	4,268
Office equipment	592	457
Furniture, fixtures and leasehold improvements	1,835	1,742
	22,208	15,425
Less: Accumulated depreciation and amortization	(8,782)	(6,201)
	$ 13,426	$ 9,224

Depreciation and amortization expense for the six months ended June 30, 2013 and 2012 was $2,612 and $1,312, respectively.

The following table shows the components of accrued expenses and other current liabilities as of the dates presented:

	June 30, 2013	December 31, 2012
Accrued salary and payroll related expenses	$ 5,987	$ 4,771
Accrued accounts payable	3,388	3,882
Sales and use tax payable	447	17
Other	814	991
	$ 10,636	$ 9,661

3. Debt

In February 2013, the Company entered into a capital lease arrangement with an equipment manufacturer to finance the acquisition of computer equipment. The lease has an effective interest rate of 6.0% and is repayable in 36 consecutive equal monthly installments of principal and interest. At the end of the lease period, the Company has the option to purchase the equipment at the estimated fair market value. As of June 30, 2013, the net book value of the equipment under the capital lease was $1,053 and the remaining principal balance payable was $1,107.

The maturities of all outstanding debt as of June 30, 2013 are as follows:

Years Ending	
2013	$ 1,448
2014	2,482
2015	1,817
2016	336
	6,083
Less:	
Current portion	(2,782)
Discount on long-term debt	(235)
Noncurrent portion of debt	$ 3,066

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4. Convertible Preferred Stock

Each share of Preferred Stock was automatically converted into a fully paid share of Common Stock immediately prior to the closing of the IPO. Upon the occurrence of this conversion event, the outstanding warrant to purchase Series B convertible preferred stock converted into a warrant to purchase Common Stock. All of the outstanding shares of Preferred Stock converted into Common Stock at the conversion rate of 1:1.

5. Common Stock

As of June 30, 2013 and December 31, 2012, the Company was authorized to issue 500,000 and 36,000, respectively, shares of $0.001 par value Common Stock. Reserved shares of Common Stock are as follows:

	June 30, 2013	December 31, 2012
Preferred Stock and Common Stock Warrants		114
Stock options	12,213	7,213
Employee stock purchase plan	1,000	
Convertible preferred stock		18,804
	13,213	26,131

6. Equity Award Plans

In April 2006, the Company s Board of Directors adopted and the stockholders approved the 2006 Stock Option Plan (2006 Plan). The 2006 Plan provides for the grant of incentive stock options under the federal tax laws and nonstatutory stock options. Only employees may receive incentive stock options, but nonstatutory stock options may be granted to employees, nonemployee directors and consultants. The stock options are exercisable at a price equal to the market value of the underlying shares of common stock on the date of the grant as determined by the Company s board of directors. The term of options granted under the 2006 Plan may not exceed ten years. Certain options are eligible for exercise prior to vesting. Exercised but unvested shares are subject to repurchase by the Company at the initial exercise price. The proceeds from the shares subject to repurchase are classified as a liability and reclassified to equity as the shares vest. Under the 2006 Plan s early exercise feature, the Company could have been required to repurchase 284 and 252 shares as of December 31, 2012 and June 30, 2013, respectively. The Company records cash received from early exercised shares as a long-term liability. As of June 30, 2013 and December 31, 2012, $1,496 and $1,332, respectively, has been recorded as a long-term liability on the condensed consolidated balance sheets.

In February 2013, the Company s Board of Directors and stockholders approved the 2013 Equity Incentive Plan (2013 Plan), under which 4,500 shares have been reserved for issuance. Additionally, all reserved and unissued shares under the 2006 Plan at the time the 2013 Plan became effective are eligible for issuance under the 2013 Plan. The 2013 Plan became effective on March 21, 2013, at which time the Company ceased to grant equity awards under the 2006 Plan. The 2013 Equity Incentive Plan authorizes the award of stock options, restricted stock awards, stock appreciation rights, restricted stock units, performance awards and stock bonuses to the Company s employees, directors, consultants, independent contractors and advisors. On January 1 of each of the first 10 calendar years through 2023, the number of shares reserved under the 2013 Equity Incentive Plan will automatically increase by an amount equal to 5% of the total outstanding shares as of immediately preceding December 31, or such lesser number of shares as determined by the Company s Board of Directors.

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A summary of activity under the 2006 Plan and 2013 Plan is as follows:

	Options Outstanding			
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Balances at December 31, 2012	4,314	$ 4.17	7.61	34,439
Options granted	1,251	12.07	9.64	
Options exercised	(350)	2.79		
Options forfeited and cancelled	(222)	8.04		
Balances at June 30, 2013	4,993	$ 6.07	8.13	$ 20,822
Options exercisable as of June 30, 2013	4,426	$ 5.62	7.98	$ 19,876
Options vested as of June 30, 2013	2,014	$ 2.57	6.87	$ 15,447
Options vested and expected to vest as of June 30, 2013	4,787	$ 5.90	8.08	$ 20,775

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In February, 2013, the Company s Board of Directors and stockholders approved the 2013 Employee Stock Purchase Plan (2013 ESPP), under which 1,000 shares have been reserved for issuance. The 2013 ESPP became effective on March 22, 2013. The 2013 ESPP provides generally for six-month purchase periods and the purchase price for shares of stock purchased under the 2013 Employee Stock Purchase Plan will be 85% of the lesser of the fair market value of the common stock on (i) the first trading day of the applicable offering period and (ii) the last trading day of each purchase period in the applicable offering period. On January 1 of each of the first 10 calendar years following the first offering date, the number of shares reserved under the 2013 Employee Stock Purchase Plan will automatically increase by an amount equal to 1% of the total outstanding shares as of immediately preceding December 31, but not to exceed 700 shares. As the current offering period is March 22, 2013 through November 14, 2013, no shares were issued under the 2013 ESPP during the three and six months ended June 30, 2013.

7. Stock-Based Compensation

For stock options granted by the Company, stock-based compensation cost is measured at grant date based on the fair value of the award and is expensed over the requisite service period. The Company recorded stock-based compensation of $1,309 and $527 for the three months ended June 30, 2013 and 2012, respectively, and $2,534 and $3,418 for the six months ended June 30, 2013 and 2012, respectively.

The Company uses the Black-Scholes option pricing model to estimate the fair value of options. This model requires the input of highly subjective assumptions including the expected term of the option, expected stock price volatility and expected forfeitures. The Company used the following assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Dividend yield				
Expected volatility	55.8%	57.0%	55.8%	57.0%
Risk-free interest rate	0.89%	1.02%	1.10%	1.04%
Expected life of options (in years)	6.25	6.25	6.25	6.25
Forfeiture rate	7.0%	3.2%	7.0%	3.2%

As the Company has limited historical option exercise data, the expected term of the stock options granted to employees was calculated based on the simplified method. Under the simplified method, the expected term is equal to the average of an option s weighted-average vesting period and its contractual term. Pursuant to the Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) No. 110, the Company is permitted to continue using the simplified method until sufficient information regarding exercise behavior, such as historical exercise data or exercise information from external sources, becomes available. The Company estimates the expected volatility of its Common Stock on the date of grant based on the historical stock volatilities of similar publicly-traded entities over a period equal to the expected terms of the options, as the Company does not have sufficient trading history to use the volatility of its own common stock. The Company has no history or expectation of paying cash dividends on its Common Stock. The risk-free interest rate is based on the U.S. Treasury yield for a term consistent with the expected life of the options in effect at the time of grant.

Cash proceeds from the exercise of stock options were $1,024 and $1,376 for the six months ended June 30, 2013 and 2012, respectively.

Compensation expense is recognized ratably over the requisite service period. As of June 30, 2013, there was $13,116 of unrecognized compensation cost related to options, which is expected to be recognized over a weighted-average period of 2.9 years.

Given the lack of a public market for the Company s outstanding Common and Preferred Stock during the three and six months ended June 30, 2012 and through March 27, 2013, the Company s Board of Directors established an estimate of fair value for these securities as well as for options and warrants to purchase these securities. The fair value of the Company s Common Stock as used in the determination of the exercise price of stock options was estimated by the Board of Directors based on factors such as the liquidation preference, dividends and other rights of the outstanding Preferred Stock; recent financial and operating performance; the status of the Company s development and sales efforts, revenue growth and additional objectives; the likelihood and proximity of an initial public offering; and the valuation of comparable companies that are publicly traded. Subsequent to the closing of the Company s IPO, the Company has used the closing price of the Company s common stock on the date of the stock option grant as the fair value of the Company s Common Stock and the exercise price of the stock options.

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Employee Stock Purchase Plan

The Company estimates the fair value of purchase rights under the ESPP using the Black-Scholes valuation model. The fair value of each purchase right under the ESPP was estimated on the date of grant using the Black-Scholes option valuation model and the straight-line attribution approach with the following assumptions:

	Three and Six Months Ended June 30, 2013
Dividend yield	
Expected volatility	55.8%
Risk-free interest rate	0.81%
Expected life of options (in years)	0.65
Forfeiture rate	7.0%

8. Income Taxes

The Company s quarterly provision for income taxes is based on an estimated effective annual income tax rate. The Company s quarterly provision for income taxes also includes the tax impact of certain unusual or infrequently occurring items, if any, including changes in judgment about valuation allowances and effects of changes in tax laws or rates, in the interim period in which they occur.

Income tax expense for the six months ended June 30, 2013 was $255 on a pre-tax loss of $19,343. Income tax expense for the six months ended June 30, 2012 was $104 on a pre-tax loss of $12,474. As of June 30, 2013, the income tax rate varies from the United States statutory income tax rate primarily due to valuation allowances in the United States and taxable income generated by the Company s foreign wholly-owned subsidiaries.

The Company reviews the likelihood that it will realize the benefit of its deferred tax assets and, therefore, the need for valuation allowances on a quarterly basis. There is no corresponding income tax benefit recognized with respect to losses incurred and no corresponding income tax expense recognized with respect to earnings generated in jurisdictions with a valuation allowance. This causes variability in the Company s effective tax rate. The Company intends to maintain the valuation allowances until it is more likely than not that the net deferred tax assets will be realized.

As of June 30, 2013, the Company s gross uncertain tax benefits totaled $533. As of June 30, 2013, none of the Company s uncertain tax benefits, including related accrued interest and penalties, would affect the Company s effective tax rate if recognized.

9. Net Loss Per Share Available to Common Stockholders

Basic net loss per share available to common stockholders is calculated by dividing the net loss available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. Net loss available to common stockholders is calculated using the two class method as net loss less the preferred stock dividend for the period less the amount of net loss, if any, allocated to the preferred stock based on weighted preferred stock outstanding during the period relative to total stock outstanding during the period. As the Company s convertible preferred stockholders did not have the contractual obligations to share in the losses of the Company, no loss was allocated to the convertible preferred stockholders in the determination of net loss available to common stockholders. The weighted-average number of shares of common stock used to calculate the Company s basic net loss per share available to common stockholders excludes those shares subject to repurchase related to unvested common shares and stock options that were exercised prior to vesting as these shares are not deemed to be outstanding for accounting purposes until they vest. The diluted net loss per share of common stock is computed by dividing the net loss using the weighted-average number of shares of common stock, excluding common stock subject to repurchase, and, if dilutive, potential shares of common stock outstanding during the period. Potential shares of common stock consist of common stock subject to repurchase and stock options to purchase common stock and warrants to purchase convertible preferred stock (using the treasury stock method) and the conversion of the Company s convertible preferred stock (using the if converted method).

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The following table presents the calculation of basic and diluted net loss per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Numerator:				
Net loss	$ (9,097)	$ (5,824)	$ (19,598)	$ (12,578)
Denominator:				
Weighted average number of shares,basic and diluted	32,237	4,261	19,871	4,282
Net loss per share available to common stockholders				
Basic and diluted net loss per common share available to common stockholders	$ (0.28)	$ (1.37)	$ (0.99)	$ (2.94)

The following table presents the potential common shares outstanding that were excluded from the computation of diluted net loss per share available to common stockholders for the periods presented because including them would have been anti-dilutive: