MARIN SOFTWARE INC
Form 10-Q
August 06, 2015

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, 2015

OR

o 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 o

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 o

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

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

As of July 31, 2015, the registrant had 36,911,178 shares of common stock outstanding.

Table of Contents

PART I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements (Unaudited).	3
	CONDENSED CONSOLIDATED BALANCE SHEETS	3
	CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS	4
	CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS	5
	Notes to Condensed Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.	19
Item 3.	Quantitative and Qualitative Disclosures About Market Risk.	30
Item 4.	Controls and Procedures.	31
PART II	OTHER INFORMATION	32
ITEM 1.	LEGAL PROCEEDINGS	32
ITEM 1A.	RISK FACTORS	32
ITEM 2.	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	48
ITEM 3.	DEFAULTS UPON SENIOR SECURITIES	48
ITEM 4.	MINE SAFETY DISCLOSURES	48
ITEM 5.	OTHER INFORMATION	49
ITEM 6.	EXHIBITS	50
SIGNATURES		51

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

MARIN SOFTWARE INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except par value)

	At June 30, 2015 (unaudited)	At December 31, 2014*
Assets		
Current assets		
Cash and cash equivalents	$ 41,470	$ 68,253
Accounts receivable, net	20,345	18,726
Prepaid expenses and other current assets	6,573	4,751
Total current assets	68,388	91,730
Property and equipment, net	19,686	16,274
Goodwill	19,619	11,527
Intangible assets, net	12,058	7,399
Other noncurrent assets	893	1,287
Total assets	$ 120,644	$ 128,217
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 2,066	$ 3,737
Accrued expenses and other current liabilities	13,044	12,053
Deferred revenues	1,008	2,052
Current portion of long-term debt	1,877	2,587
Total current liabilities	17,995	20,429
Long-term debt, less current portion	15	621
Other long-term liabilities	4,609	1,050
Total liabilities	22,619	22,100
Commitments and contingencies (Note 12)		
Stockholders' equity		
Common stock, $0.001 par value - 500,000 shares authorized, 37,235 and 35,846 shares issued, 36,881 and 35,181 outstanding at June 30, 2015, and December 31, 2014, respectively	37	35
Additional paid-in capital	267,447	253,221
Accumulated deficit	(168,099)	(146,392)
Accumulated other comprehensive loss	(1,360)	(747)
Total stockholders' equity	98,025	106,117
Total liabilities and stockholders' equity	$ 120,644	$ 128,217

*Derived from our audited consolidated financial statements as of December 31, 2014.
See accompanying notes to the condensed consolidated financial statements.

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,	
	2015	2014	2015	2014
Revenues, net	$26,775	$23,853	$53,188	$46,669
Cost of revenues	10,599	8,763	20,308	17,146
Gross profit	16,176	15,090	32,880	29,523
Operating expenses				
Sales and marketing	13,064	11,978	25,221	23,966
Research and development	9,194	6,627	17,678	12,710
General and administrative	5,655	5,368	11,375	9,786
Total operating expenses	27,913	23,973	54,274	46,462
Loss from operations	(11,737)	(8,883)	(21,394)	(16,939)
Interest expense, net	(8)	(62)	(19)	(128)
Other (expenses) income, net	(164)	(286)	80	(281)
Loss before provision for income taxes	(11,909)	(9,231)	(21,333)	(17,348)
(Provision for) benefit from income taxes	(138)	2,440	(374)	2,252
Net loss	(12,047)	(6,791)	(21,707)	(15,096)
Foreign currency translation adjustments	364	87	(613)	216
Comprehensive loss	$(11,683)	$(6,704)	$(22,320)	$(14,880)
Net loss per share available to common stockholders, basic and diluted	$(0.33)	$(0.20)	$(0.60)	$(0.45)
Weighted-average shares used to compute net loss per share available to common stockholders, basic and diluted	36,389	33,771	36,028	33,563
Stock-based compensation is allocated as follows (Note 8):				
Cost of revenues	$322	$192	$551	$403
Sales and marketing	954	449	1,669	852
Research and development	2,340	649	3,967	1,086
General and administrative	1,323	651	2,247	1,097
Amortization of intangible assets is allocated as follows (Note 4):				
Cost of revenues	$276	$57	$491	$57
Sales and marketing	247	37	427	37
Research and development	276	57	492	57
General and administrative	37	11	72	11

See accompanying notes to the condensed consolidated financial statements.

4

MARIN SOFTWARE INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

	Six Months Ended June 30,	
	2015	2014
Operating activities		
Net loss	$(21,707)	$(15,096)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	3,305	2,717
Amortization of internally developed software	1,167	910
Amortization of intangible assets	1,482	162
Loss on disposal of property and equipment	9	14
Unrealized foreign currency gain	(229)	—
Noncash interest expense related to warrants issued in connection with debt	17	92
Stock-based compensation related to equity awards and restricted stock	8,434	3,438
Provision for bad debts	309	287
Deferred income tax benefits	(80)	(2,802)
Excess tax benefits from stock-based award activities	(9)	(65)
Changes in operating assets and liabilities, net of effect of acquisitions		
Accounts receivable	(733)	(1,645)
Prepaid expenses and other current assets	(1,797)	(803)
Other assets	405	252
Accounts payable	(1,498)	524
Deferred revenues	(1,043)	(1,061)
Accrued expenses and other current liabilities	2,216	(1,167)
Net cash used in operating activities	(9,752)	(14,243)
Investing activities		
Purchases of property and equipment	(5,459)	(1,405)
Capitalization of internally developed software	(2,424)	(1,346)
Acquisitions of businesses, net of cash acquired	(7,509)	(4,151)
Net cash used in investing activities	(15,392)	(6,902)
Financing activities		
Repayment of notes payable	(2,376)	(1,657)
Repurchase of unvested shares	(2)	(6)
Proceeds from exercise of common stock options	1,028	1,532
Proceeds from employee stock purchase plan	185	726
Stock issuance costs	(51)	—
Excess tax benefits from stock-based award activities	9	65
Net cash (used in) provided by financing activities	(1,207)	660
Effect of foreign exchange rate changes on cash and cash equivalents	(432)	—
Net decrease in cash and cash equivalents	(26,783)	(20,485)

Cash and cash equivalents		
Beginning of period	68,253	104,407
End of period	$41,470	$83,922
Supplemental disclosure of noncash investing and financing activities		
Purchases of property and equipment recorded in accounts payable and accrued expenses	$1,341	$110
Issuance of common stock under employee stock purchase plan	548	715
Issuance of common stock in connection with business combination	4,337	11,195
Shares withheld to cover payroll taxes related to the vesting of restricted stock units	513	—

See accompanying notes to the condensed consolidated financial statements.

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 cross-channel performance advertising cloud, offering an integrated software-as-a-service, or SaaS, platform for search, display, and social advertising channels. The Company's platform enables digital marketers to 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, London, Dublin, Hamburg, Paris, Tokyo, Singapore, Sydney and Shanghai.

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, 2015, are not necessarily indicative of the results to be expected for the year ended December 31, 2015, 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, 2014, 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 the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014 filed with the Securities and Exchange Commission ("SEC") on February 20, 2015.

Recent Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-15, Disclosures of Uncertainties About an Entity's Ability to Continue as a Going Concern. The new standard provides guidance around management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of this ASU on the consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. The guidance requires that a performance target that affects vesting and could be achieved after the requisite service period be treated as a

performance condition. A reporting entity should apply existing guidance as it relates to such awards. This guidance is effective for the Company in its first quarter of fiscal year ending December 31, 2017. The Company is currently evaluating the impact of the adoption of this ASU on the consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which provides guidance for revenue recognition. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates when compared with the current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. This guidance will be effective for the Company in the first quarter of its fiscal year ending December 31, 2018. Early adoption is permitted for the Company in the first quarter of its fiscal year ending December 31, 2017. The Company is currently evaluating the impact of the adoption of this ASU on the consolidated financial statements.

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 $33,044 and $58,027 as of June 30, 2015, and December 31, 2014, respectively.

Fair Value of Financial Instruments

The Company's financial instruments, including cash equivalents, accounts receivable, accounts payable and accrued expenses 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).

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, 2015, and December 31, 2014, 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, 2015, and December 31, 2014.

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, 2015, and December 31, 2014, the Company recorded an allowance for potential customer credits in the amount of $902 and $508, 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.

Internally Developed 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 internally developed 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 internally developed software costs of $1,597 and $729 during the three months ended June 30, 2015 and 2014, respectively, and $2,424 and $1,346 during the six months ended June 30, 2015 and 2014, respectively. Amortization of capitalized costs related to internally developed software for the three months ended June 30, 2015 and 2014, was $625 and $465, respectively, and for the six months ended June 30, 2015 and 2014, was $1,167 and $910, respectively. As of June 30, 2015, and December 31, 2014, unamortized internally developed software costs totaled $6,732 and $5,476, respectively. Amortization of internally developed software is reflected in cost of revenues. Costs associated with minor enhancements and maintenance are expensed as incurred.

Goodwill, Intangible Assets and Impairment Assessments

Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. Intangible assets that are not considered to have an indefinite useful life are amortized over their useful lives, which generally range from two to six years. Estimated remaining useful lives of purchased intangible assets are evaluated to assess whether events or changes in circumstances warrant a revision to the remaining periods of amortization.

In addition, we evaluate our goodwill for impairment at least annually or more frequently if events or changes in circumstances indicate that these assets may be impaired. No goodwill impairment has been identified in any of the periods presented.

Impairment of Long-Lived Assets

The Company evaluates long-lived assets, excluding goodwill, for potential impairment whenever adverse events or changes in circumstances or business climate indicate that expected undiscounted future cash flows related to such long-lived assets may not be sufficient to support the net book value of such assets. An impairment exists when the carrying value of a long-lived asset exceeds its fair value. An impairment loss is recognized only if the carrying value of a long-lived asset is not recoverable and exceeds its fair value. The carrying value of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. There were no such impairment losses during the periods presented.

Operating Leases

The Company's operating lease agreements include provisions for tenant improvement allowances, certain rent holidays and escalations in the base price of the rent payment. The Company defers tenant improvement allowances and amortizes the balance as a reduction to rent expense over the lease term. The Company records rent holidays and rent escalations on a straight-line basis over the lease term. Deferred rent is included in accrued expenses and other current liabilities, as well as other long-term liabilities in the accompanying unaudited condensed consolidated balance sheets.

Revenue Recognition

The Company generates revenues principally from subscriptions either directly with advertisers or with advertising agencies to its platform for the management of search, display and social advertising. The Company's subscription agreements are generally one year or longer in length. 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 and is generally invoiced on a monthly basis. 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;

8

- 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.

The Company applies the authoritative accounting guidance regarding revenue recognition for arrangements with multiple deliverables. Professional services and training, when sold with the Company's platform subscription services, are accounted for separately when those services have standalone value. In determining whether professional services and training services can be accounted for separately from subscription services, the Company considers the following factors: availability of the services from other vendors; the nature of the services; the dependence of the subscription services on the customer's decision to buy the professional services; and whether the Company sells the Company's subscription services without professional services. If the deliverables have stand-alone value, the Company accounts for each deliverable separately and revenues are recognized for the respective deliverables as they are delivered. If one or more of the deliverables do not have stand-alone value, the deliverables that do not have stand-alone value are combined with the final deliverables within the arrangement and treated as a single unit of accounting. Revenues for arrangements treated as a single unit of accounting are recognized over the period of the contract commencing upon delivery of the final deliverable. As of June 30, 2015, the Company did not have stand-alone value for the professional services and training services. This is because the Company includes professional services and training services with the Company's subscription services and those services are not available from other vendors.

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 internally developed 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 stock option 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 option awards to employees and non-employees. In applying the Black-Scholes option pricing model, the Company's determination of the fair value of the stock option award on the date of grant is affected by the Company's fair value of its 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 and the optionholders' actual and projected stock option exercise and employment termination behaviors.

For stock option awards with time-based 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.

Restricted stock units ("RSUs") are measured based on the fair market values of the underlying common stock on the dates of grant. Shares of common stock are issued on the vesting dates. For awards with time-based 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, and such vested outstanding options are recognized as liabilities on the accompanying unaudited condensed consolidated balance sheets. Non-employee stock-based compensation expense was not material for all periods presented.

See Note 8 for further information.

2. Business Combinations

The Company accounts for business combinations using the acquisition accounting method in which the tangible and identifiable assets and liabilities of each acquired company are recorded at their respective fair values as of each acquisition date, including an amount for goodwill representing the difference between the respective purchase price and fair values of identifiable net assets. The goodwill arising from each of the Company's two acquisitions described below is primarily attributable to the value of the synergies expected to arise from combining the technology and operations of the Company and the acquired entity and is not expected to be deductible for tax purposes.

Best estimates and assumptions are used in the purchase price allocation process to accurately value assets acquired and liabilities assumed at the business combination date. These estimates and assumptions are inherently uncertain and subject to further refinement. As a result, during the measurement period, which may be up to one year from the business combination date, the Company may record adjustments to the assets acquired and liabilities assumed with the corresponding adjustment to goodwill. After the measurement period, adjustments are recorded in the operating results in the period in which the adjustments were determined.

SocialMoov S.A.S.

On February 12, 2015, pursuant to the terms of a Share Purchase Agreement, the Company acquired all outstanding shares of capital stock of SocialMoov S.A.S. ("SocialMoov"), with SocialMoov surviving as a wholly-owned subsidiary of the Company. Based in Paris, France, SocialMoov is a provider of social advertising tools for advertisers and agencies.

The fair value of assets acquired and liabilities assumed was recorded based on a preliminary valuation and the Company's estimates and assumptions are subject to change within the measurement period. The primary areas of the purchase price allocation that are not yet finalized are related to the fair values of intangible assets acquired and residual goodwill. The results of operations and the preliminary fair values of the assets acquired and liabilities assumed have been included in the accompanying unaudited condensed financial statements since the acquisition date. Revenue from SocialMoov was not material for the three and six months ended June 30, 2015.

The total purchase price for the acquisition was $13,195, which consisted of 636 shares of the Company's common stock valued at $4,337 upon the closing date using the Company's closing date stock price immediately preceding the acquisition, and $8,858 in cash. Of the cash consideration paid, $1,894 is held in escrow to secure indemnification obligations of the shareholders of SocialMoov to the Company following the closing, which has not been released as of the filing date of this Quarterly Report on Form 10-Q.

In addition, the Company will issue 927 shares of common stock, valued at $6,487 upon the closing date of the acquisition using the Company's closing date stock price immediately preceding the acquisition, to existing shareholders of SocialMoov that are also employees of SocialMoov in connection with the acquisition, which are conditioned upon such employees' continuous employment with the Company. These shares have been excluded from the purchase consideration and will be recognized as post-acquisition stock-based compensation expense. The Company also agreed to grant approximately $1,802 in stock-based awards with time-based vesting to employees of SocialMoov that continued employment with SocialMoov subsequent to the acquisition. These stock-based awards were not granted as of June 30, 2015. The Company recognizes compensation expense equal to the grant date fair value of the common stock or stock-based awards on a straight-line basis over the employee's requisite service period.

The following table summarizes the fair values of tangible assets acquired, liabilities assumed, intangible assets and residual goodwill from the acquisition of SocialMoov:

	Estimated Fair Value	Estimated Useful Life
Tangible assets acquired	$ 2,829	N/A
Liabilities assumed (see Note 5)	(3,863)	N/A
Developed technology	3,800	5 years
Customer relationships	2,080	4 years
Tradename	260	3 years
Goodwill	8,089	Indefinite
Total purchase price	$ 13,195	

NowSpots, Inc.

On June 2, 2014, the Company acquired NowSpots, Inc. (which conducted business as Perfect Audience ("Perfect Audience")), which provides audience retargeting in the display and social advertising channels. The total purchase price for the acquisition was $16,470, which consisted of 1,119 shares of the Company's common stock valued upon the closing date of the acquisition using the Company's closing date stock price immediately preceding the acquisition, and $5,275 in cash. In addition, the Company issued 630 shares of common stock, valued at $6,301 upon the closing date of the acquisition using the Company's closing date stock price immediately preceding the acquisition, to existing Perfect Audience employees in connection with the acquisition, which are conditioned upon such employees' continuous employment with the Company. These shares have been excluded from the purchase consideration and will be recognized as post-acquisition stock-based compensation expense.

3. Balance Sheet Components

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

	June 30, 2015	December 31, 2014
Computer equipment	$23,675	$ 21,422
Software	13,451	11,022
Office equipment	830	795
Furniture, fixtures and leasehold improvements	5,150	2,092
	43,106	35,331
Less: Accumulated depreciation and amortization	(23,420)	(19,057)
	$19,686	$ 16,274

Depreciation and amortization of internally developed software for the six months ended June 30, 2015 and 2014, was $4,472 and $3,627, respectively.

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

	June 30, 2015	December 31, 2014
Accrued salary and payroll related expenses	$5,375	$ 6,017
Accrued accounts payable	5,066	3,709
Customer advances	1,558	1,366
Income tax payable	190	377
Sales and use tax payable	423	263
Deferred tax liabilities	222	—
Deferred rent and other	210	321
	$13,044	$ 12,053

4. Goodwill and Intangible Assets

The goodwill balance as of June 30, 2015, totaling $19,619 was the result of the business combinations disclosed in Note 2 of these unaudited condensed consolidated financial statements.

Intangible assets, excluding goodwill, consisted of the following:

	June 30, 2015	Estimated Useful Life
Developed technology	$9,910	5-6 years
Customer relationships	3,370	4 years
Non-compete agreements and tradenames	1,390	2-3 years
	14,670	
Less: accumulated amortization	(2,612)	
	$12,058	

Amortization expense of intangible assets was $836 and $162 for the three months ended June 30, 2015 and 2014, respectively, and $1,482 and $162 for the six months ended June 30, 2015 and 2014, respectively.

Future estimated amortization of intangible assets as of June 30, 2015, is presented below:

Remaining six months of 2015	$1,653
Year ending December 31, 2016	3,080
Year ending December 31, 2017	2,850
Year ending December 31, 2018	2,537
Year ending December 31, 2019 and thereafter	1,938
	$12,058

5. 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, 2015 and December 31, 2014, the net book value of the equipment under the capital lease was $912 and $1,439, respectively, and the remaining principal balance payable was $1,013 and $1,542, respectively.

In September 2013, the Company entered into an amendment to its existing revolving credit facility pursuant to which Silicon Valley Bank agreed to increase the revolving credit facility to the lesser of $15,000 or 80% of the Company's eligible accounts receivable. Also, the expiration date of the revolving credit facility was extended to July 31, 2015, and the annual interest rate was amended to 0.25% over the Prime Rate payable on a monthly basis. Additionally, the Company's obligation to meet certain financial covenants will be waived while the Company's unrestricted cash balance exceeds $50,000. No amounts were outstanding pursuant to the revolving credit facility as of June 30, 2015

and December 31, 2014.

In December 2014, the Company entered into a standby letter of credit for $1,293 with Silicon Valley Bank in connection with the non-cancelable lease for the Company's corporate headquarters in San Francisco. This standby letter of credit does not impact the balances available for withdrawal under the revolving credit facility or other facilities available to the Company. As of June 30, 2015 and December 31, 2014, no amount was drawn on this standby letter of credit.

In connection with the acquisition of SocialMoov on February 12, 2015 (see Note 2), the Company assumed outstanding debt totaling approximately $1,043, which consisted primarily of individual loans payable to (a) an agency of the French government, (b) a French public-sector investment bank and (c) a French private-sector financial institution. As of June 30, 2015, these loans were fully repaid.

The maturities of all outstanding debt, including the capital lease arrangement, as of June 30, 2015, are as follows:

Year ending	
2015	1,255
2016	651
	1,906
Less:	
Current portion	(1,877)
Discount on long-term debt	(14)
Noncurrent portion of debt	$ 15

6. Common Stock

As of June 30, 2015, and December 31, 2014, the Company was authorized to issue 500,000 shares of $0.001 par value common stock. Reserved shares of common stock are as follows:

	June 30, 2015	December 31, 2014
Options or RSUs available for future grant under stock option plans	3,288	3,154
Options outstanding under stock option plans	6,951	6,376
RSUs outstanding under stock option plans	1,206	769
Shares available for future issuance under ESPP	929	1,005
Shares to be issued in connection with acquisition of SocialMoov	927	—
	13,301	11,304

7. 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 non-statutory stock options. Only employees may receive incentive stock options, but non-statutory stock options may be granted to employees, non-employee 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 of common stock are subject to repurchase by the Company at the initial exercise price. The proceeds from the shares of common stock 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 had the right to repurchase 38 and 85 shares of common stock as of June 30, 2015, and December 31, 2014, respectively. The Company records cash received from the exercise of unvested stock options as a long-term liability, as well as the fair value of vested outstanding options to non-employee consultants. As of June 30, 2015, and

December 31, 2014, $387 and $826, respectively, has been recorded as a long-term liability on the accompanying unaudited 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 of common stock were originally 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, RSUs, performance awards and stock bonuses to the Company's employees, directors, consultants, independent contractors and advisors. On January 1 of each of the first ten calendar years through 2023, the number of shares of common stock 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. Pursuant to terms of the 2013 Plan, the shares available for issuance increased by approximately 1,792 shares of common stock on January 1, 2015.

Stock Options

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

	Options Outstanding			
	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Balances at December 31, 2014	6,376	$ 7.99	7.82	$ 9,697
Options granted	1,717	6.50	8.98	
Options exercised	(531)	1.93	—	
Options forfeited and cancelled	(611)	9.08	—	
Balances at June 30, 2015	6,951	7.99	8.11	$ 4,032
Options exercisable	2,879	$ 7.53	6.51	$ 3,601
Options vested	2,589	$ 7.29	6.43	$ 3,593
Options vested and expected to vest	6,530	$ 7.97	8.04	$ 3,987

RSUs

A summary of RSUs granted and unvested under the 2013 Plan as of June 30, 2015, is as follows:

	RSUs Outstanding	
	Number of Shares	Weighted Average Grant Date Fair Value Per Unit
Granted and unvested at December 31, 2014	769	$ 9.36
RSUs granted	753	6.49
RSUs vested	(117)	10.05
RSUs cancelled and withheld to cover taxes	(199)	8.58
Granted and unvested at June 30, 2015	1,206	$ 7.63

Employee Stock Purchase Plan

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 of common stock were originally 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 common 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. Pursuant to terms of the 2013 ESPP, the shares available for issuance increased by approximately 358 shares on January 1, 2015. During the three and six months ended June 30, 2015, 105 shares were issued under the 2013 ESPP. During the three and six months ended June 30, 2014, 90 shares were issued under the 2013 ESPP.

8. Stock-Based Compensation

For stock-based awards 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 $4,939 and $1,941 for the three months ended June 30, 2015 and 2014, respectively, and $8,434 and $3,438 for the six months ended June 30, 2015 and 2014, respectively.

Stock Options

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 volatility, risk-free interest rate and the expected life of options. The Company used the following assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Dividend yield	—	—	—	—
Expected volatility	48.0%	51.3%	50.4%	51.3%
Risk-free interest rate	1.58%	1.92%	1.73%	1.92%
Expected life of options (in years)	6.25	6.25	6.25	6.25
Forfeiture rate	7.0 %	7.0 %	7.0 %	7.0 %

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 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 $1,028 and $1,532 during the six months ended June 30, 2015 and 2014, respectively.

Compensation expense is recognized ratably over the requisite service period. As of June 30, 2015, there was $15,806 of unrecognized compensation cost related to options, which is expected to be recognized over a weighted-average period of 2.8 years.

Restricted Stock and RSUs

As of June 30, 2015, there was $15,370 of unrecognized compensation cost related to restricted stock and RSUs, which is expected to be recognized over a weighted-average period of 2.3 years. The Company uses the fair market value of the underlying common stock on the dates of grant to determine the fair value of restricted stock and RSUs. Stock-based compensation expense related to these awards is recognized on a straight-line basis over the service period of the award for the estimated number of shares that are ultimately expected to vest.

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 assumptions substantially similar to those used for the valuation of our stock option awards.

9. 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 three and six months ended June 30, 2015, was $138 and $374 on pre-tax losses of $11,909 and $21,333, respectively. As of June 30, 2015, 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 income tax benefit for the three and six months ended June 30, 2014, was $2,440 and $2,252, respectively, on pre-tax losses of $9,231 and $17,348, respectively. The benefit recorded for the three and six months ended June 30, 2014, was primarily attributable to a decrease in our valuation allowances of $2,603 due to deferred tax liabilities recorded as part of our acquisition of Perfect Audience (Note 2).

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 will maintain the valuation allowances until it is more likely than not that the net deferred tax assets will be realized.

As of June 30, 2015, the Company's gross uncertain tax benefits totaled $1,581, and none of the Company's uncertain tax benefits, including related accrued interest and penalties, would affect the Company's effective tax rate if recognized.

10. 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. 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, stock options that were exercised prior to vesting, restricted stock issued and RSUs settled for shares of common stock, 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, stock options to purchase common stock, restricted common stock issued and RSUs settled for shares of common stock.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Numerator:				
Net loss	$(12,047)	$(6,791)	$(21,707)	$(15,096)
Denominator:				
Weighted average number of shares, basic and diluted	36,389	33,771	36,028	33,563
Net loss per share available to common stockholders				
Basic and diluted net loss per common share available to common stockholders	$(0.33)	$(0.20)	$(0.60)	$(0.45)

The following table presents the potential shares of common stock 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:

	Three and Six Months Ended June 30,	
	2015	2014
Options to purchase common stock	6,951	6,260
Restricted stock units	1,206	363
Restricted common stock issued	316	630
Common stock subject to repurchase	38	116
	8,511	7,369

11. Segment Reporting

The Company defines the term "chief operating decision maker" to be the Chief Executive Officer. The Chief Executive Officer reviews the financial information presented on a consolidated basis for purposes of allocating resources and evaluating of financial performance. Accordingly, the Company has determined that it operates as a single reportable and operating segment.

Revenues by geographic area, based on the billing location of the customer, were as follows for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
United States of America	$17,895	$15,800	$35,210	$30,680
International	8,880	8,053	17,978	15,989
Total revenues, net	$26,775	$23,853	$53,188	$46,669

Long-lived assets, excluding goodwill and intangible assets, by geographic area were as follows for the periods presented:

	June 30, 2015	December 31, 2014
United States of America	$18,931	$ 15,701
International	755	573
Total long-lived assets, net	$19,686	$ 16,274

12. Commitments and Contingencies

Operating Leases

Rent expense for the three months ended June 30, 2015 and 2014, was $2,248 and $1,866, respectively, and for the six months ended June 30, 2015 and 2014, was $4,217 and $3,789, respectively.

Future minimum lease payments for significant operating leases as of June 30, 2015, were as follows:

Remaining six months of 2015	$3,719
Year ending December 31, 2016	7,628
Year ending December 31, 2017	7,311
Year ending December 31, 2018	4,401
Year ending December 31, 2019 and thereafter	13,771
	$36,830

Legal Matters

From time to time, the Company may be involved in lawsuits, claims, investigations and proceedings, consisting of intellectual property, commercial, employment and other matters, which arise in the ordinary course of business. In

accordance with U.S. generally accepted accounting principles (“GAAP”), the Company records a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impact of negotiations, settlements, ruling, advice of legal counsel and other information and events pertaining to a particular case. Litigation is inherently unpredictable. If any unfavorable ruling was to occur in any specific period or if a loss becomes probable and estimable, there exists the possibility of a material adverse impact on the Company’s results of operations, financial position or cash flows.

Indemnification

The Company enters into standard indemnification agreements in the ordinary course of business. Pursuant to the agreements, each party may indemnify, defend and hold the other party harmless with respect to such claim, suit or proceeding brought against it by a third party alleging that the indemnifying party’s intellectual property infringes upon the intellectual property of the third party, or results from a breach of the indemnifying party’s representations and warranties or covenants, or that results from any acts of negligence or willful misconduct. The term of these indemnification agreements is generally perpetual any time after execution of the agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. Historically, the Company has not been obligated to make significant payments for these obligations and no liabilities have been recorded for these obligations on the unaudited consolidated condensed balance sheets as of June 30, 2015 and December 31, 2014.

The Company also indemnifies its officers and directors for certain events or occurrences, subject to certain limits, while the officer or director is or was serving at the Company’s request in such capacity. The maximum amount of potential future

indemnification is unlimited; however, the Company has a Directors and Officers insurance policy that limits its exposure and enables the Company to recover a portion of any future amounts paid. Historically, the Company has not been obligated to make any payments for these obligations and no liabilities have been recorded for these obligations on the unaudited consolidated condensed balance sheets as of June 30, 2015 and December 31, 2014.

Other Contingencies

The Company is subject to claims and assessments from time to time in the ordinary course of business. The Company's management does not believe that any such matters, individually or in the aggregate, will have a material adverse effect on the Company's financial position, results of operations or cash flows.

13. Subsequent Events

In July 2015, the Company entered into an amendment to its existing loan and security agreement pursuant to which Silicon Valley Bank agreed to increase the revolving credit facility of up to the lesser of $20,000 or 80% of the Company's eligible accounts receivable. Also, the expiration date of the revolving credit facility was extended to July 31, 2017, and the annual interest rate was amended to (a) the Prime Rate or (b) the London interbank offered rate then in effect, plus a margin of 2.75%, payable on a monthly basis. The amendment contains affirmative and negative covenants, including covenants related to the delivery of financial and other information, the maintenance of certain financial covenants, as well as limitations on dispositions, changes in business or management, mergers or consolidations, dividends and other corporate actions.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition, results of operations and cash flows should be read in conjunction with the (1) unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q, and (2) the audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the fiscal year ended December 31, 2014, included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, filed with the SEC on February 20, 2015. This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These statements are often identified by the use of words such as "believe," "may," "potentially," "will," "estimate," "continue," "anticipate," "intend," "could," "should," "would," "project," "plan," "predict," "expect," "seek" and similar expre variations. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified herein, and those discussed in the section titled "Risk Factors", set forth in Part II, Item 1A of this Form 10-Q. We disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Overview

We provide a leading cross-channel advertising cloud platform that enables digital marketers to improve performance of their online advertising campaigns, realize efficiencies and time savings, and make better business decisions. Our integrated platform is a software-as-a-service, or SaaS, analytics, workflow, and optimization solution for marketing professionals, allowing them to effectively manage their digital advertising spend across search, display, social and mobile advertising channels. Our software solution is designed to help our customers:

- measure the effectiveness of their advertising campaigns through our proprietary reporting and analytics capabilities;
- manage and execute campaigns through our intuitive user interface and underlying technology that streamlines and automates key functions, such as ad creation and bidding, across multiple publishers and channels; and
- optimize campaigns across multiple publishers and channels in real time based on market and business data to achieve desired revenue outcomes using our predictive bid management technology.

In December 2014, our customers collectively managed more than $7.2 billion in annualized advertising spend on our platform and for the quarter ended June 30, 2015, we had 853 active advertisers using our solution globally across a wide range of industries. We market and sell our solutions to advertisers directly and through leading advertising agencies. For the three months ended June 30, 2015, our revenues grew 12% to $26.8 million from $23.9 million for the three months ended June 30, 2014. For the six months ended June 30, 2015, our revenues grew 14% to $53.2 million from $46.7 million for the six months ended June 30, 2014. We incurred net losses of $12.0 million and $21.7 million for the three and six months ended June 30, 2015, respectively.

We earn revenues principally from subscription contracts under which we provide advertisers with access to our search, social and display advertising management platform, either directly or through the advertiser's relationship with an agency that has a contract with us. In accordance with the subscription contracts, we charge fees generally based upon the amount of advertising spend that our customers manage through our platform. Our contracts are generally one year or longer in length. Under our subscription contracts with most of our direct advertisers and some of our agency customers, customers are contractually committed to a monthly minimum fee, which is payable on a monthly basis over the duration of the contract and is generally greater than one-half of our estimated monthly revenues from these customers, at the time the contract is signed. However, most of our subscription contracts with our advertising agency customers do not include a committed monthly minimum fee. Our contractual arrangement is with the advertising agency and the advertiser is not a party to the terms of the contract. Accordingly, most advertisers

through our agency customers do not have a commitment to use our services and the advertisers may be added or removed from our platform at the discretion of the respective agency. We invoice the advertising agency for the amounts due under the contract. Historically, approximately half of our revenues have been earned from advertising agency customers. Our subscription fee under most contracts is variable based upon the value of advertising spend that our customers manage through our platform. Our deferred revenues consist of the unearned portion of billed subscription fees.

Our subscription contracts indicate the date at which we begin invoicing our customers, which is generally the first day of the month following the execution of the contract. We generally invoice the greater of the minimum fee or the percentage of advertising spend on our platform. The implementation process for new advertisers is typically four to six weeks; however, we generally have not charged a separate implementation fee under our standard subscription contracts.

Our implementation and customer support personnel, as well as costs associated with our operating infrastructure, are included in our cost of revenues. Our cost of revenues and operating expenses have increased in absolute dollars due to our need to increase our

headcount to grow our business and to increase data center capacity to support customer revenue growth on our platform. We expect that our cost of revenues will continue to increase in absolute dollars as we continue to invest in our growth.

In order to grow revenues, we need to invest in (1) sales activities by adding sales representatives globally to target new advertisers and agencies and (2) research and development to improve and further expand our platform and support for additional publishers. These activities will require us to make investments, particularly in research and development and sales and marketing, and if these investments do not generate additional customers or additional advertising spend managed by our platform, our future operating results could be harmed.

The majority of our revenues are derived from our advertisers in the United States. We believe the markets outside of the United States offer an opportunity for growth, and we intend to make additional investments in sales and marketing to expand in these markets. Advertisers from outside of the United States represented 33% and 34% of total revenues for the three and six months ended June 30, 2015, respectively, and 34% of total revenues for both the three and six months ended June 30, 2014.

We were incorporated in 2006 and initially focused on building the core elements of our cloud-based platform, which we currently use to service our customers. In September 2007, we launched Marin Enterprise, which targets large advertisers and agencies. We released Marin Professional Edition in March 2011, which targets mid-market advertisers and agencies. We have an iterative development process and we typically release new features every month. Additionally, we have continued to expand internationally, opening our London office in 2009, our Paris, Hamburg, Singapore and Sydney offices in 2011, our Dublin and Tokyo offices in 2012 and our Shanghai office in 2013.

We completed our acquisitions of NowSpots, Inc., which conducted business as Perfect Audience, or Perfect Audience, and SocialMoov S.A.S., or SocialMoov, in June 2014 and February 2015, respectively, to complement our product offerings. These acquisitions are more fully described in Note 2 to our accompanying unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Key Factors Affecting Our Performance

Number of Active Advertisers

We define an active advertiser as an advertiser from whom we recognized revenues in excess of $2,000 in at least one month in a period. We believe the $2,000 threshold best identifies advertisers who are actively using our platform. We focus on revenues in at least one month in a period to account for seasonality in advertising spend by our customers, some of whom may not run digital advertising campaigns in every month of a year but still represent an active advertiser on our platform. We count organizations within the same corporate structure as one advertiser, even if they have signed separate contracts with us for different brands or divisions, whether they are a direct advertiser or an advertiser through an agency. When our subscription contract is with an advertising agency, we include each advertiser whose advertising spend is managed by the agency through our platform as a different advertiser. Advertisers who have advertising spend managed by multiple agencies on our platform are counted as one advertiser. We believe that our ability to increase the number of active advertisers using our platform is a leading indicator of our ability to grow revenues. We had 853 and 776 active advertisers in the quarters ending June 30, 2015 and 2014, respectively. While our active advertiser count has increased over time, this metric can also fluctuate from quarter to quarter due to seasonality and timing and amount of revenue contributed from new active advertisers and therefore, there is not necessarily a direct correlation between the amount of increased revenues and the change in active advertisers in a particular period.

Revenue Retention Rate

We believe our ability to retain and grow revenues from our existing advertisers is an indicator of the stability of our revenue base and the long-term value of our advertiser relationships. We assess our ability to retain and grow subscription revenues using a metric we refer to as revenue retention rate. We calculate our revenue retention rate metric by dividing retained revenues by retention base revenues. We define retention base revenues as revenues from all advertisers in the corresponding prior period, and we define retained revenues as revenues from all advertisers from the prior period that remain advertisers in the current period. Although we have lost individual advertisers over time, advertisers who have remained on our platform have generally, in the aggregate, increased their advertising spend on our platform. At the same time, advertising spend on our platform may vary quarter to quarter, and as a result, quarterly revenue retention rates may fluctuate quarter to quarter.

Annualized Advertising Spend on our Platform

We calculate annualized advertising spend as advertising spend in the last month of the fourth quarter multiplied by 12. We believe that increases in annualized advertising spend generally lead to increases in revenues over time. However, we believe that

other factors related to the terms of customer agreements and seasonality can make it difficult to directly correlate annual advertising spend to changes in revenues in a particular period. Our customers collectively managed $7.2 billion in annualized advertising spend on our platform in December 2014.

Components of Results of Operations

Revenues

We generate revenues principally from subscription contracts under which we provide advertisers with access to our search, social and display advertising management platform, either directly or through the advertiser's relationship with an agency with whom we have a contract. Under our subscription contracts with most direct advertisers and some of our agency customers, customers contractually commit to a monthly minimum fee, which is generally greater than one-half of our estimated monthly revenues from these customers, at the time the contract is signed. However, most of our subscription contracts with our advertising agency customers do not include a committed monthly minimum fee. Additionally, advertisers we serve through our arrangements with our advertising agencies generally do not have a minimum commitment to continue using our services. Our subscription fee under most contracts is variable based upon the value of advertising spend that our customers manage through our platform, although some customers pay a flat monthly rate over the term of their subscription contract. Our deferred revenues consist of the unearned portion of billed subscription fees.

Cost of Revenues

Cost of revenues primarily includes personnel costs, consisting of salaries, benefits, bonuses and stock-based compensation, for employees associated with our cloud infrastructure and global services for implementation and ongoing customer service organizations. Other costs of revenues include fees paid to contractors who supplement our support and data center personnel, expenses related to the use of a third-party data center, depreciation of data center equipment, amortization of internally developed software, amortization of intangible assets and allocated overhead.

We intend to continue to invest additional resources in our global services teams and in the capacity of our hosting service infrastructure. As we continue to invest in technology innovation through our research and development organization, we expect to have increased amortization of capitalized internal-use software development costs. We expect that this investment in technology should not only expand the breadth and depth of our cross-channel performance advertising cloud platform but also increase the efficiency of how we deliver these solutions, enabling us to improve our gross margin over time. The level and timing of investment in these areas could affect our cost of revenues in the future.

Sales and Marketing Expenses

Sales and marketing expenses include personnel costs, sales commissions and other costs including travel and entertainment, marketing and promotional events, public relations, marketing activities, professional fees and allocated overhead. All of these costs are expensed as incurred, including sales commissions. Our commission plans provide that payment of commissions to our sales representatives are paid based on the actual amounts we invoice customers over a period that is generally up to five months following the execution of the applicable customer contract.

We plan to continue investing in sales and marketing by increasing the number of sales and account management employees, expanding our domestic and international sales and marketing activities, building brand awareness and sponsoring additional marketing events, which we believe will enable us to add new customers and increase penetration within our existing customer base. We expect that, in the future, sales and marketing expenses will

increase in absolute dollars and continue to be our largest operating expense category.

Research and Development Expenses

Research and development expenses consist primarily of personnel costs for our product development and engineering employees and executives, including salaries, benefits, stock-based compensation expense and bonuses. Also included are non-personnel costs such as professional fees payable to third-party development resources, amortization of intangible assets and allocated overhead.

Our research and development efforts are focused on enhancing our software architecture, adding new features and functionality to our platform and improving the efficiency with which we deliver these services to our customers. We expect that, in the future, research and development expenses will increase in absolute dollars, partially offset by the capitalization of internal-use software development costs. We believe that these investments are necessary to maintain and improve our competitive position.

General and Administrative Expenses

General and administrative expenses consist primarily of personnel costs, including salaries, benefits, stock-based compensation expense and bonuses, for our administrative, legal, human resources, finance and accounting employees and executives. Also included are non-personnel costs, such as travel-related expenses, audit fees, tax services and legal fees, as well as professional fees, insurance and other corporate expenses, along with amortization of intangible assets and allocated overhead.

We expect to incur incremental costs associated with supporting the growth of our business, both in terms of size and geographic expansion, and to meet the increased compliance requirements associated with our continued operation as a public company. Such costs include increases in our accounting and legal personnel, additional consulting, legal and audit fees, insurance costs, board of directors' compensation and the costs of achieving and maintaining compliance with the Sarbanes-Oxley Act of 2002. As a result, we expect our general and administrative expenses to increase in absolute dollars in future periods but to decrease as a percentage of revenues over time.

Results of Operations

The following table is a summary of our consolidated statements of operations. The period-to-period comparisons of results are not necessarily indicative of results for future periods.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)		(in thousands)	
Revenues, net	$26,775	$23,853	$53,188	$46,669
Cost of revenues (1) (2)	10,599	8,763	20,308	17,146
Gross profit	16,176	15,090	32,880	29,523
Operating expenses				
Sales and marketing (1) (2)	13,064	11,978	25,221	23,966
Research and development (1) (2)	9,194	6,627	17,678	12,710
General and administrative (1) (2)	5,655	5,368	11,375	9,786
Total operating expenses	27,913	23,973	54,274	46,462
Loss from operations	(11,737)	(8,883)	(21,394)	(16,939)
Interest expense, net	(8)	(62)	(19)	(128)
Other (expenses) income, net	(164)	(286)	80	(281)
Loss before (provision for) benefit from income taxes	(11,909)	(9,231)	(21,333)	(17,348)
(Provision for) benefit from income taxes	(138)	2,440	(374)	2,252
Net loss	$(12,047)	$(6,791)	$(21,707)	$(15,096)
Other financial data:				
Adjusted EBITDA (3)	$(5,131)	$(5,460)	$(8,894)	$(10,841)

(1) Stock-based compensation expense included in the unaudited condensed consolidated statements of operations data above was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)		(in thousands)	
Cost of revenues	$322	$192	$551	$403
Sales and marketing	954	449	1,669	852
Research and development	2,340	649	3,967	1,086
General and administrative	1,323	651	2,247	1,097

(2) Amortization of intangible assets included in the unaudited condensed consolidated statements of operations data above was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)		(in thousands)	
Cost of revenues	$ 276	$ 57	$ 491	$ 57
Sales and marketing	247	37	427	37
Research and development	276	57	492	57
General and administrative	37	11	72	11

(3) We define Adjusted EBITDA as net loss, adjusted for stock-based compensation expense, depreciation, the amortization of internally developed software, the amortization of intangible assets, the capitalization of internally developed software, interest expense, net, the benefit from or provision for income taxes, other income or expenses, net and non-recurring costs associated with acquisitions. Adjusted EBITDA is a financial measure that is not calculated in accordance with GAAP. Adjusted EBITDA should not be considered as an alternative to net loss, operating loss or any other measure of financial performance calculated and presented in accordance with GAAP. We prepare Adjusted EBITDA to eliminate the impact of items that we do not consider indicative of our core operating performance. You are encouraged to evaluate these adjustments and the reason we consider them appropriate.

We believe Adjusted EBITDA is useful to investors in evaluating our operating performance for the following reasons:

- Adjusted EBITDA is widely used by investors and securities analysts to measure a company's operating performance without regard to items, such as stock-based compensation expense, depreciation and amortization, capitalized software development costs, interest expense, net, benefit from or provision for income taxes, other income or expenses, net and non-recurring costs associated with acquisitions, that can vary substantially from company to company depending upon their financing, capital structures and the method by which assets were acquired;
- Our management uses Adjusted EBITDA in conjunction with GAAP financial measures for planning purposes, including the preparation of our annual operating budget, as a measure of operating performance and the effectiveness of our business strategies and in communications with our board of directors concerning our financial performance; and
- Adjusted EBITDA provides consistency and comparability with our past financial performance, facilitates period-to-period comparisons of operations and also facilitates comparisons with other peer companies, many of which use similar non-GAAP financial measures to supplement their GAAP results.

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

- Depreciation and amortization are non-cash charges, and the assets being depreciated or amortized will often have to be replaced in the future; Adjusted EBITDA does not reflect any cash requirements for these replacements;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs or contractual commitments;
- Adjusted EBITDA does not reflect cash requirements for income taxes and the cash impact of other income or expense; and
- Other companies may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

The following table presents a reconciliation of net loss, the most comparable GAAP measure, to Adjusted EBITDA for each of the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)		(in thousands)	
Net loss	$(12,047)	$(6,791)	$(21,707)	$(15,096)
Depreciation	1,675	1,367	3,305	2,717
Amortization of internally developed software	625	465	1,167	910
Amortization of intangible assets	836	162	1,482	162
Interest expense, net	8	62	19	128
Provision for (benefit from) income taxes	138	(2,440)	374	(2,252)
EBITDA	(8,765)	(7,175)	(15,360)	(13,431)
Stock-based compensation expense	4,939	1,941	8,434	3,438
Capitalization of internally developed software	(1,597)	(729)	(2,424)	(1,346)
Acquisition related expenses	128	217	536	217
Other expenses (income), net	164	286	(80)	281
Adjusted EBITDA	$(5,131)	$(5,460)	$(8,894)	$(10,841)

24

The following table sets forth our consolidated results of operations for the specified periods as a percentage of our revenues for those periods.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues, net	100 %	100 %	100 %	100 %
Cost of revenues	40	37	38	37
Gross profit	60	63	62	63
Operating expenses				
Sales and marketing	49	50	48	51
Research and development	34			