

ACTIVE NETWORK INC  
Form 10-K  
February 27, 2013  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED December 31, 2012

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: 001-35187

**The Active Network, Inc.**

(Exact name of registrant as specified in its charter)



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necessarily a conclusive determination for other purposes.

As of February 19, 2013, the registrant had 60,953,805 shares of Common Stock (\$0.001 par value) outstanding.

### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement for the 2013 Annual Meeting of Stockholders to be held on May 23, 2013 are incorporated by reference into Part III of this Annual Report on Form 10-K to the extent stated herein.

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**The Active Network, Inc.**

**For the Fiscal Year Ended December 31, 2012**

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### **FORWARD-LOOKING STATEMENTS**

Statements in this Annual Report on Form 10-K that are not strictly historical in nature are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934 as amended. References to The Active Network, Inc. throughout this Annual Report on Form 10-K are made using the Company and first person notations of we, us and our. Any statements in this Annual Report on Form 10-K concerning our business, operations and financial performance and condition as well as our plans, objectives and expectations for our business operations and financial performance and condition are not historical facts and may be deemed to be forward-looking statements. You can identify these statements by words such as anticipate, assume, believe, can, could, due, estimate, expect, intend, goal, may, objective, plan, potential, positioned, seek should, target, will, would and other similar words. These forward-looking statements are based on current information and our expectations, estimates, forecasts and projections about our business and the industry in which we operate and our management's beliefs and assumptions and are not guarantees of future performance or development and involve known and unknown risks, uncertainties and other factors that are in some cases beyond our control. As a result, any or all of our forward-looking statements in this Annual Report on Form 10-K may turn out to be inaccurate. Factors that may cause such differences include, but are not limited to, the risks described under Risk Factors, including:

our history of significant operating losses;

our limited operating history, and new and unproven business model;

our ability to accurately forecast revenue and appropriately plan our expenses;

our ability to maintain an adequate rate of growth;

our ability to effectively manage our growth;

our ability to successfully manage our acquisitions and investments in businesses, applications and technologies;

our ability to compete successfully against current or future competitors;

our ability to successfully transition certain of our existing customers to ActiveWorks;

our ability to process, store and use personal data in a safe and secure manner;

our ability to comply with data privacy and use laws;

our ability to maintain our current relationships with credit card payment processors and associations and the card networks;

our ability to limit interruptions in service and damage to our technology systems;

our ability to attract and retain qualified employees and key personnel;

our ability to successfully enter new markets and manage our international expansion;

our ability to continue to enhance and improve the functionality and features of our ActiveWorks technology platform;

our ability to react to the impact of worldwide economic conditions, including the resulting effect on organizers and participants;

our ability to protect our intellectual property, including our proprietary ActiveWorks technology platform;

our ability to comply with changes in government regulation affecting our business; and

other risk factors included under "Risk Factors" in this prospectus.

Because the factors referred to above could cause our actual results or outcomes to differ materially from those expressed in any forward-looking statements made by us, you should not place undue reliance on any such

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forward-looking statements. Further, any forward-looking statement speaks only as of the date of this Annual Report on Form 10-K, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after such date to reflect the occurrence of unanticipated events. New factors emerge from time to time, and their emergence is impossible for us to predict. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

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### **PART I**

#### **ITEM 1. BUSINESS**

##### **Overview**

We are the leading provider of cloud-based Activity and Participant Management (APM) solutions serving a wide range of customer groups including business solutions, community activities, the public sector and outdoors and sports. We provide applications that form an online network connecting a fragmented and diverse group of activity and event organizers with a large base of potential participants. Our proprietary technology platform transforms the way organizers manage their activities and events by automating online registrations and streamlining other critical management functions, while also driving consumer participation to their events.

We power a broad range of activities, such as reserving a campsite or tee time, signing up for a marathon or sports league, purchasing a fishing or hunting license, or participating in a community event or corporate conference. From the introduction of our platform in 1999, we have experienced significant growth and now have approximately 55,000 customer organizations and drive approximately 89.9 million annual consumer registrations. Based on the results of a 2010 online survey we commissioned through Survey.com, we believe the organizations we target produce or organize activities and events for the majority of U.S. households. Our proprietary technology platform, ActiveWorks, provides cloud computing applications that reduce the cost and complexity of managing, organizing and promoting these activities and events.

In May 2011, we completed an initial public offering (IPO) of our common stock in which we sold and issued 12,650,000 shares of common stock, of which 4,427,778 were sold by selling stockholders, at an issue price of \$15.00 per share, resulting in proceeds, net of underwriting discounts and offering expenses, of approximately \$112.6 million to us providing us with the capital to continue the development of the ActiveWorks platform and invest in our sales efforts.

Our business benefits from a powerful network effect. As more organizations use our platform, we increase the breadth and depth of activities and events offered through our platform. This more comprehensive offering of activities attracts more participants. As we attract more participants, we are able to drive increased demand for our customers' activities, thus increasing registrations and revenue for both organizers and us. This revenue growth enables us to develop enhanced functionality and services through ActiveWorks and our websites, further increasing participant engagement and attracting new organizers. In this way, we build increasing value for both organizations and participants.

We serve a wide range of customers including community and sports organizations, large corporations, small and medium sized businesses, educational institutions, federal and state government agencies, non-profit organizations and other similar entities. We primarily generate revenue from technology fees paid by participants who register for our customers' activities through our cloud computing applications. During the year ended on December 31, 2012, we generated revenue of \$418.9 million, as compared to \$337.4 million in the year ended on December 31, 2011, an increase of 24.2%.

##### **Industry Overview**

Organizations of all sizes need to inform, engage and support their respective participants, which include attendees, members, registrants and other constituents. We believe activity and event registration and administration is a broad and large market with more than 800,000 potential customers in North America within our four primary customer groups of business solutions, community activities, public sector and outdoors and sports. According to the 2010 study we commissioned through Survey.com, 73% of the U.S. households surveyed pay to take part in a recreational or community activity. Based on the results of this survey and our internal analysis, we believe that our target market encompasses more than 1.8 billion total registrations annually



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in the United States, representing more than \$110 billion in registration spending. We have the opportunity to receive a fraction of each registration fee by providing the applications that our platform offers to help organize and manage activities and events. Furthermore, we believe the market opportunity outside the United States is greater than our domestic market opportunity.

The traditional methods for managing activities and events generally share the following challenges:

*Difficulty organizing event information.* Historically, activities and events have been organized and registrations tracked by using a combination of paper-based systems, basic desktop applications and spreadsheets. Participants registered for events by phone, mail or walk-up registration, which is often costly and inefficient for both organizers and participants. This manual approach to event registration can be haphazard, time-consuming and lack sufficient process controls. Mistakes due to incorrect data entry of participant information often lead to incomplete or lost registration forms. These frequent errors add incremental costs for organizers, delay registration for participants and cause problems on-site at the activity or event.

*High fixed cost structure.* The profitability of an activity or event is tied directly to the number of participants who register. Similar to airline seats and hotel rooms, unfilled spots in activities and events represent a significant lost opportunity for incremental high margin revenue and can often be the difference between profits or losses.

*Lack of ongoing communication post-registration.* Traditionally, organizers have maintained limited dialogue with participants after registration. Since organizers lack ongoing support, participants have a difficult time tracking the status of their registration and receiving any updates about the activity or event in a timely manner. Additionally, participants have challenges in finding and reaching each other. Participants have a natural desire to form communities based on shared interests and goals. We believe interaction between participants drives increased engagement and participant satisfaction, resulting in increased retention and incremental revenue for organizers.

*Ineffective targeting of event participants.* Organizers have difficulty reaching participants due to the lack of effective geo-targeting of traditional marketing methods and disparate online properties for local activities and events. This limited ability to create and maintain ongoing relationships with consumers leads to higher participant acquisition costs and lower recurring, predictable revenue from repeat customers.

*Limited resources to automate systems.* Building a fully functional management system is a costly endeavor. Most organizers cannot afford to make the investment nor do they have the necessary technical resources to develop applications sufficient to run their businesses effectively. When organizers do attempt to automate registration and administration themselves, building and maintaining an internal system often becomes technologically challenging, time intensive and cost prohibitive.

## **Our Solution**

ActiveWorks, our organization-based cloud computing platform, transforms the way organizers record, track, manage and share information regarding activities and events. We offer applications that allow our customers to reduce cost, attract new participants and focus resources on enhancing the quality of their events. ActiveWorks allows organizers to leverage our large-scale, common infrastructure to manage their activities and events more effectively. Additionally, we have created a number of mobile applications to enhance functionality and access to our solutions.

Our applications provide the following benefits to organizers:

*Create operational efficiencies by automating registration and administration.* Our applications reduce costs by automating processes such as activity and event registration, facility reservation, roster management,

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results publishing, membership management and operational reporting. The data generated and managed by our applications is presented in an easy-to-use manner and eliminates a significant amount of manual data entry.

*Manage participant and activity information.* ActiveWorks centralizes a comprehensive data set of participant information for each customer. We also provide a user-friendly interface to easily track, manage and enhance the ongoing relationship between participants and activity organizers.

*Communicate real-time with event participants.* We enable organizers to engage participants through websites and email. This empowers our customers to seamlessly and efficiently inform, motivate and support participants, thereby building greater affinity for their organizations. Additionally, the organizer is able to notify participants of future events that may interest the participant, improving future event exposure and participation.

*Provide access to efficient marketing channels.* Our integrated platform allows organizers to reach a targeted group of new potential participants through a variety of resources to provide greater exposure for their activities and events.

Our applications provide the following benefits to participants:

*Foster discovery through our comprehensive directory.* Our websites deliver content based on a participant's interests, while facilitating discovery of new relevant and targeted activities. Our directory provides access to a broad database of events, classes, leagues, tournaments, organizations, facilities as well as a wide range of other activities. Our applications are designed to enable our participants to engage in their favorite activities through seamless, secure, real-time registration.

*Support participation.* Throughout our offerings, participants can find resources and like-minded individuals to support every step of their journey. We offer free and premium access to training plans, articles, videos, discounts and experts through our websites, mobile applications and other social media channels. Our community members are passionate about their interests and together they provide a real-time support network which encourages and enables participation at every level.

## **Our Strengths**

Our applications are designed to reach many aspects of a consumer's lifestyle from community activities and sports to business solutions and the public sector and outdoors. Given this breadth, we believe the following strengths provide us with a competitive advantage within this large and growing market:

*Leader in a large and fragmented market.* We believe we have the largest customer base in our industry, including approximately 55,000 customers and approximately 89.9 million annual registrations. The scale and breadth of our platform enables us to provide the full automation capabilities required to serve a diverse set of activities for numerous organizations. Our offerings result from years of experience and participant feedback and include specialized features and support, which are difficult to replicate. Our large installed base of customers drives awareness of our services and provides us with a significant advantage in marketing our cloud computing applications to new customers.

*Proprietary technology platform.* Our cloud computing platform allows us to efficiently develop and deliver vertical specialization and feature-rich applications for customers of all sizes. We have made significant investments in our ActiveWorks platform, a secure, reliable and flexible technology infrastructure that can be easily modified to meet the unique needs of organizers and participants. We have approximately 1,300 technology and research and development personnel in the United States, Canada and China working on the development and delivery of our solutions. Our applications are tightly integrated within our organizations' operations and deliver significant cost savings and operational efficiencies.

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*Dedicated and highly engaged consumers.* We provide relevant and vertical-specific directories, content and tools that engage participants and form enthusiastic and dedicated online communities. These participants generate over 1.3 billion page views annually on our websites.

*High degree of predictable and recurring revenue.* We have long-term, exclusive contracts with many of our customers. We also have a successful track record of renewing a high percentage of these contracts for multiple successive terms. As a result, a significant percentage of our revenue is predictable and recurring. We believe our high customer retention is due to our ability to both lower costs and drive incremental revenue for our customers, delivering a significant and quantifiable return on investment for our applications.

*Powerful network effect.* Our highly complementary organization and participant offerings drive multiple revenue opportunities. The continued growth of our customers results in more participants visiting our online communities. This growing audience creates a powerful network effect where our platform becomes increasingly valuable to both our organizers and participants, driving more registrations to our customers' activities while simultaneously offering participants additional relevant activities from which to choose. In addition, growth in our participant audience attracts incremental customers who view our online resources as an effective medium for marketing their activities and events to a targeted demographic of participants.

*Alignment with our customers' interests.* Our business is uniquely aligned with the interests of our customers. Like our customers, the success of our business is directly dependent on maximizing the number of participants who register for activities and events.

*Economies of scale.* We have achieved a level of scale in our business that provides operational and technological competitive advantages. For example, we are able to leverage our significant investment in cloud infrastructure to provide high levels of service and reliability, while maintaining a low unit cost structure. We also apply our solutions experience accumulated through interactions with tens of thousands of organizations to design and develop features that can easily be configured for multiple types of customers, thus allowing us to spread our development costs across a much wider market opportunity than our competitors.

## **Growth Strategy**

To extend our leadership position in the activities and events market, we intend to:

*Grow the number of customers we serve.* We will continue to promote the migration of organizations towards online management of activities and events, and in doing so, grow our customer base. In recent years, we increased our sales and marketing personnel and plan to further increase our sales and marketing personnel in the future. We believe the low penetration of cloud computing applications in our markets provides a large potential customer base for our platform.

*Increase our online registration conversion rates.* We plan to increase participant usage of online registration services by training our customers in the execution of conversion techniques. We have developed and refined these techniques over the past 13 years through our experience working with tens of thousands of organizations. We also plan to continue providing our customers with an array of tools aimed at promoting online registration. Further, we intend to continue expanding our customers' ability to reach participants online through our websites and by leveraging emerging and alternative online channels, including complementary social media platforms and mobile applications.

*Deepen our relationships with existing customers.* We are dedicated to developing comprehensive, vertical-specific applications and features that increase the value of our platform to our customers. We proactively review customer needs, usage trends and online penetration to identify opportunities where additional applications, services and targeted marketing programs would assist our customers in meeting their goals. We enable our customers to access a targeted consumer base through our marketing services.

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*Pursue strategic acquisitions.* The competitive landscape in our core markets remains highly fragmented with many sub-scale players focusing on a small fraction of our addressable market. We may pursue acquisitions to strengthen our market position, broaden our organization base, enhance our capabilities and add new applications to our platform.

*Expand internationally.* We intend to commit additional resources to markets outside of North America. Our international sales have increased every year since we began selling our services internationally. We believe this opportunity is larger than our domestic market, and that we are well positioned to take advantage of this opportunity as our model is readily transferable to new markets.

**Our Platform**

ActiveWorks creates operational efficiencies, delivers business insights and streamlines marketing efforts for our customers. At its core, ActiveWorks is a robust back-office system that pulls together many of our customers’ participant management, operational reporting, volunteer management, service and payment processing functions into one easy-to-use hosted system. ActiveWorks provides a comprehensive view of the business and provides real-time business insights through live reporting and historical comparisons. We believe the efficiencies gained allow our organizers to spend more time focusing on what is most important to their businesses: successful activities and events.

ActiveWorks is designed to support existing marketing tactics and amplify those efforts through our expansive web, mobile and social reach. Our communities offer an attractive audience for client-marketing programs and our range of free and paid promotional services are designed to fit a broad spectrum of our customer population.

We plan to increase our operating expenses in the future as we continue to develop additional functionality and features for our applications, continue to transition our customers to ActiveWorks, increase our sales and marketing activities, expand outside of North America and enhance our customer service and call center capabilities.

|                            | <b>Organizer Offerings</b> |                              |                      |  |
|----------------------------|----------------------------|------------------------------|----------------------|--|
| <i>Market</i>              | <i>Register</i>            | <i>Operate</i>               | <i>Analyze</i>       |  |
| Email Marketing & Tracking | Online Registration        | Event & Activity Management  | Reporting Analytics  |  |
| Event Syndication          | Reservations & Ticketing   | Facility & Resource          | Customer Loyalty     |  |
| Email Advertising          | Payment Processing         | Management                   | Pricing Optimization |  |
| Websites                   | Donations & Fundraising    | Operational Reporting        | Surveys              |  |
| Social Media               | Point of Sale Merchandise  | Participant Management       |                      |  |
|                            |                            | Membership Management        |                      |  |
|                            |                            | Call Center Services         |                      |  |
|                            |                            | Volunteer & Staff Management |                      |  |

Our technology applications, media solutions and online communities provide a comprehensive search experience that connects participants with the things they love, want and need to do. Our offerings are designed to reduce the barriers to participation by enabling and supporting a consumer through each stage of The Active Journey: Find & Register, Share & Prepare and Participate & Commemorate. During the first stage, visitors find engaging activities through dynamic, market-specific search interfaces and leverage social components to share their interests and invite friends. Once an individual has committed to participate, that individual can register online through our proprietary, secure payment processing system.

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After a visitor has established their commitment to participate in an activity, our products serve as a resource and tool to help them *Share & Prepare* to ensure they are ready to get the most out of their activity. Through a mix of free and paid offerings, visitors can find articles, videos, experts and discounts on tools and gear. Visitors can also find a network of active participants looking to support like-minded individuals in their pursuits. Our portfolio of consumer offerings supports an individual up through the point of participation. Most importantly, we provide a platform to celebrate their accomplishments and a conduit to commit to the next endeavor.

|                            | <b>Participant Offerings</b> |                            |                                      |
|----------------------------|------------------------------|----------------------------|--------------------------------------|
| <i>Find &amp; Register</i> |                              | <i>Share &amp; Prepare</i> | <i>Participate &amp; Commemorate</i> |
| Featured Listings          | Articles                     |                            | Results                              |
| Search                     | Videos                       |                            | Photo Sharing                        |
| Directory                  | Tell a Friend                |                            | Social Media                         |
| Aggregations               | Experts                      |                            | Ambassadors                          |
| Best of Active.com         | How-To Guides                |                            | Free Product Samples                 |
| Targeted Recommendations   | Social Sharing               |                            | Community                            |
| <b>Customers</b>           |                              |                            |                                      |

We work with organizations of all sizes. We currently have approximately 55,000 business solutions, community activities, public sector and outdoors and sports customers and we received technology fees from approximately 89.9 million registrations in 2012. Based on the results of a 2010 online survey we commissioned through Survey.com, we believe the organizations we target produce or organize activities and events for the majority of U.S. households.

In 2012, none of our customers accounted for more than five percent of our total revenue. Our technology customers can be categorized in the following four groups and can be further broken down into the verticals listed in the table below:

| <i>Sports</i>    | <i>Community Activities</i>    | <i>Public Sector and Outdoors</i> | <i>Business Solutions</i> |
|------------------|--------------------------------|-----------------------------------|---------------------------|
| Endurance Events | Parks & Recreation Departments | State Campgrounds                 | Conferences               |
| Leagues & Teams  | Schools & Districts            | National Parks                    | Conventions               |
| Golf Courses     | City & County Governments      | Fishing Licenses                  | Association Gatherings    |
| Clubs            | Camps & Retreats               | Hunting Permits                   | Meetings & Seminars       |
| Tournaments      | Faith-Based Organizations      | Marinas                           | Trade Shows & Expos       |
|                  | Resorts and Attractions        |                                   |                           |

We currently rely on agreements with large payment processing organizations in order to provide certain services to our customers. We do not believe our business is substantially dependent on these organizations because we believe we can replace the services provided by these payment processors with alternate providers.

## **Sales and Marketing**

Our sales and marketing efforts are focused on the following primary goals: increase the number of organization customers, increase revenue from existing accounts and increase consumer traffic to our online properties. We deploy our sales force first by customer group and then by geography.

*Increase the number of customers.* We have dedicated account executives focused on creating and leveraging strategic relationships to drive sales to large enterprises. Account executives also work directly with prospective customers to increase awareness of the value of our applications and services. A significant amount of our sales are generated through referrals or through our marketing efforts. We employ an inbound sales staff to

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convert these leads to sales. As our products become more intuitive and thus easy-to-use, more organizations are becoming capable of directly using our services without the need for interactions with our sales personnel. Our strategy is to make this self set-up process a larger part of our sales and marketing efforts, particularly with respect to small and medium sized customers.

*Increase revenue from existing customers.* We have dedicated account management personnel focused on maximizing client retention, online registration penetration and utilization of our applications and services. We work with our customers to maximize the value of our platform, which includes training in conversion techniques to drive participants to register online for their activities and events.

*Increase consumer traffic to our online properties.* We use a variety of consumer acquisition strategies to maximize participation in our online communities. These include proprietary customer relationships, strategic partnerships, social media initiatives and email marketing campaigns.

We consider North America our primary market. As part of our growth strategy, we are expanding globally. We focus our global sales effort on winning large, strategic customers to gain exposure in new geographies. We plan to increase our direct sales force and build partnerships to support international expansion and gain local credibility.

### **Professional Services**

We provide consulting and implementation services to certain customers to facilitate the adoption of our cloud computing applications. Consulting services consist primarily of business mapping, project management services and guidance on best practices in using our services. Implementation services include system set-up and configuration, data conversion as well as developing customized training and education programs relating to both the use and administration of our services.

### **Customer Support**

We believe that superior customer support is integral to retaining and expanding our customer base. Our support group handles inquiries from both organizers and participants. We answer email and phone requests regarding activity and event registration and confirmation, payments and event details for our organizations registrants. We have invested in an advanced communications system that allows us to manage and track the number of incoming calls and emails, enabling us to accurately forecast our customer support personnel needs.

Our technical support staff trains our customers on effective methods for increasing registrations, and offers training on our application services, including data management and technical support. Our technical support group helps organizers promote their activities and events using online marketing and communication tools. The technical support staff also helps organizers download reports and set up new events in the system as needed. We have a comprehensive technical support program to assist our customers in the use of our applications, and we continue to explore ways to deliver efficient problem resolution and feedback channels.

Additionally, we provide call centers for certain customers such as state hunting and fishing departments who contractually require call centers. We continue to work on maintaining and improving the overall quality and level of customer service and support we provide our customers and participants. As such, we focus on reducing registration and customer support calls by providing self-service features on our website, such as the ability to register for events and report problems. We are exploring new avenues to deliver efficient and intuitive online registrations, problem resolution and feedback channels. As our consumer-facing cloud computing applications become increasingly intuitive, we expect the percentage of registrations conducted online will grow.

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### **Technology**

We introduced our first service, a registration system and online community for organizers and participants of running events, in 1999.

Over the last few years, one of our key corporate strategies has been to develop a robust technology platform that augments our initial registration system, moving us into a number of new markets and adding a significant amount of new functionality. In that effort, we are currently devoting significant resources to both developing our highly scalable and flexible ActiveWorks platform and maintaining a number of vertical-specific legacy systems. A large number of our customers are currently being served by our ActiveWorks architecture at varying levels of integration. We are in the process of transitioning to ActiveWorks certain customers who continue to use both our internally developed systems and acquired legacy systems. We are developing the additional features required to complete this transition. As legacy systems are transitioned to ActiveWorks, we will end any further development on those products and retire the applications.

As part of our strategy to strengthen our position as the leading provider of organization-based cloud computing applications, we built our offering on a service-oriented architecture. By implementing this as a Platform as a Service (PaaS), our investment in ActiveWorks allows us to build vertical-specific applications that capitalize on our library of core services. Likewise, ActiveWorks allows us to acquire and integrate high-quality applications directly into our platform. This serves the purpose of creating barriers to entry around our existing customer groups and allows us to scale into new verticals and customers more quickly and at a lower cost.

Our cloud application functions like a traditional Software as a Service (SaaS) platform and quickly and efficiently delivers high quality and comprehensive solutions via the Internet. As a cloud provider, we do not need to develop our software for different hardware, operating systems or database application platforms, and access to our application services is delivered over the Internet to any connected device. The entire platform is built and developed utilizing industry accepted security guidelines to enable compliance with the industry's stringent requirements.

We designed our system to be easy-to-use, secure and user-configurable with open standards for fast integration. Our solution is a highly-scalable, multi-tenant, technology-agnostic platform. This enables us to spread the cost of service delivery across a large customer base. Moreover, all of our core development work can be utilized to deliver new functionality for use by our customers as a whole or on an as-desired basis.

We also offer additional capabilities that enable participants to register for activities and events, buy memberships, purchase goods and services, and make donations. This allows organizers to focus fully on the organization of the event. ActiveWorks was designed so that credit card transactions are processed securely through payment card industry compliant architecture with automatic failover through redundant paths, and to separate payment processors that have multiple layers of redundancy for fault tolerance. We believe these layers of redundancy offer high levels of reliability for large-scale online registration.

Our primary production infrastructure is hosted within industry compliant datacenters on the East Coast and West Coast within the United States, as well as facilities in Canada and Europe. These centers are configured to utilize technologies that provide fast delivery of infrastructure services to the platform. All our primary datacenters rank as Tier 3 or higher, and are monitored in real-time by enterprise monitoring tools that are utilized by our 24x7 network operation centers located both within and outside of the United States. These facilities serve as backups for each other and have all the current technology to support near real-time replication, data security, storage and recovery strategies.

Our ongoing research and development efforts are focused on enhancing the features, functionality and security of our existing service offerings. We are also developing new proprietary offerings in an expanding number of verticals and transitioning acquired technology to our platform. We have extensive technology capabilities, with approximately 1,300 technology and research and development personnel located in the United States, Canada and China working on the development and delivery of our services.

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### **Competition**

The market for technology applications for activity and event organizers is fragmented and rapidly evolving. As a result of the functionality and features of our technology platform and the breadth of our coverage of activities and events, we do not believe any single company competes with our current applications or business model across our four customer groups. Our primary competition comes from traditional pen-and-paper processing methods, which activity and event organizers are accustomed to using, spreadsheet software, basic desktop applications and registration by phone, mail or walk-up. Additional sources of competition include:

Applications custom developed for an activity or event by the technical staff of an organizer or by an outside custom service provider;

Companies that offer generalized business software that has features or functionality that organizers can use to help register participants and/or manage the other important aspects of activities, such as content or contact management software programs, e-commerce solutions, enterprise resource planning software and other services having separate software modules; and

Companies that offer integrated software applications in one or a limited number of markets within the activities and events industry. It is often difficult to displace a competitor or a competitive solution once selected and used by an activity or event organizer. We expect to encounter new and evolving competition as the market becomes aware of the advantages of cloud computing applications for the activities and events industry. In addition, we expect our competition will include larger, better capitalized companies with greater operational, strategic, financial, personnel and other resources to be able to enter our markets and attempt to compete with us. Competitors and potential competitors may enter into business combinations or alliances that strengthen their competitive positions.

### **Intellectual Property**

Our intellectual property is important to our business. We rely on a combination of trade secret, trademark, copyright, trade dress, domain name and patent laws in the United States and in the other jurisdictions in which we operate, together with confidentiality agreements and technological measures, to protect our intellectual property. We pursue the registration of our trademarks, service marks and domain names in the United States. Our registered trademarks in the United States include THE ACTIVE NETWORK, ACTIVE, ACTIVE.COM, ACTIVENET, ACTIVEWORKS, REGONLINE, RESERVEAMERICA and STARCITE. As of December 31, 2012, we have been granted five patents by the United States Patent and Trademark Office and have six patent applications pending in the United States. Our issued patents begin to expire in February 2019. We rely more heavily on trade secret protection than patents to protect our proprietary technology. To protect our trade secrets, we control access to our proprietary systems and technology and enter into confidentiality and invention assignment agreements with our employees and consultants and confidentiality agreements with other third parties. In addition, because of the relatively high cost we would experience in registering all of our copyrights, we generally rely on common-law copyright laws in the United States and in other jurisdictions to protect our copyrights.

### **Government Regulation**

We are subject to a number of foreign and domestic laws and regulations that affect companies conducting business on the Internet. Many of these laws and regulations are still evolving and could be interpreted in ways that could impose additional compliance burdens on us or otherwise adversely affect our business.

As a business that deals with transactions involving credit card and other forms of electronic, non-cash payment methods, we are subject to various payment card and banking industry laws and regulations. In addition, in the area of information security and data protection, many states have passed laws requiring notification to



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users when there is a security breach for personal data, such as the 2002 amendment to California's Information Practices Act, or requiring the adoption of minimum information security standards that are often vaguely defined and difficult to practically implement. The costs of compliance with these laws may increase in the future as a result of changes in interpretation. Furthermore, any failure on our part to comply with these laws may subject us to significant liabilities.

We are also subject to federal, state and foreign laws regarding privacy and protection of customer and user data. We post on our website our privacy policy and user agreement, which describe our practices concerning the use, transmission and disclosure of user data. Any failure by us to comply with our posted privacy policy or privacy related laws and regulations could result in proceedings against us by governmental authorities or others, which could harm our business. In addition, the interpretation of data protection laws, and their application to the Internet is unclear and in a state of flux. There is a risk that these laws may be interpreted and applied in conflicting ways from state to state, country to country, or region to region, and in a manner that is not consistent with our current data protection practices. Complying with these requirements could cause us to incur additional costs and change our business practices. Further, any failure by us to adequately protect user privacy and data could result in a loss of customer and user confidence in our services, which could adversely affect our business.

In the United States and abroad, laws relating to the liability of providers of online services for activities of their customers, users and other third parties are currently being tested by a number of claims, including actions based on invasion of privacy and other torts, unfair competition, copyright and trademark infringement, and other theories based on the nature and content of the materials searched, the advertisements posted, or the content provided by customers or users. Any court ruling or other governmental action that imposes liability on providers of online services for the activities of their customers, users or other third parties could harm our business.

In addition, because our services are accessible worldwide, certain foreign jurisdictions may claim that we are required to comply with their laws, including in jurisdictions where we have no local entity, employees, or infrastructure.

## **Our Employees, Values and Company Culture**

Many of our employees came to us directly from, and are still active within, the customer verticals we target. They bring us energy, passion and valuable knowledge regarding our customers' needs. Assembling a talented team to address the challenges of powering the world's activities and connecting people with the things they love, want and need to do is critical to our success. We believe we have created an industry-leading team, and will continue to hire and retain the best players to accomplish our mission.

As of December 31, 2012, we had 3,036 full-time employees and 194 part-time employees and independent contractors. We typically engage more than 350 temporary employees and independent contractors during the first, second and third fiscal quarters to address seasonal peaks in registrations for our customers' activities and events. We believe that relations with our employees, temporary employees and independent contractors are good.

Our culture reflects our values, norms and inner workings as a company. It comes to life not only within the walls of our offices but externally through interactions within our communities. Our employees have not only shaped this culture, but helped us to define it. We identify our culture with the following:

*Inspired by our Customers.* We believe in the value our customers provide to the world. It is truly inspiring to see the impact our customers have on their communities and we want to help them make an even greater difference. This makes our focus on customer improvement a constant.

*Fueled by Challenge.* We are solutions-oriented and thrive on challenges. We are conditioned to step up to challenges we set.

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*Champions of Respect.* Recognize a job well done. Get involved. Provide constructive feedback. Listen to opposing viewpoints. These are the simple principles that add up to an environment in which respect is key and our employees can thrive.

*Focused on Results.* We set goals, measure results, and optimize our approach. Responsibility and accountability rule. Working smarter helps us meet our goals to grow and scale, and to do more with less.

Our culture is built upon the foundation of our values and are the principles by which we manage our day-to-day business and facilitate decision making. Our core values are: Commitment, Drive, Openness, Team and Fun. We believe that we are making a difference in the world. We strive to work together and to treat each other with respect. We encourage each other to defend our beliefs. We are dedicated to connecting ourselves and others with the things we love, want and need to do. Our employees created ActiveX, a company-wide program focused on exercise and wellness to further this mission. We sponsor company hackathons and innovation awards. Outsiders tell us there is a refreshing passion that radiates from our employees. As a company, we believe our ultimate advantage is our people.

## **Corporate Information**

We were originally incorporated in California in October 1998 as Racegate.com, Inc. and became a Delaware corporation through a stock exchange agreement in July 1999. In May 2001, we changed our name to The Active Network, Inc. Our principal executive offices are located at 10182 Telesis Court, Suite 100, San Diego, California. Our corporate website address is [www.activenetwork.com](http://www.activenetwork.com), and our primary participant website is [www.active.com](http://www.active.com). Information contained on our websites is not a part of this Annual Report on Form 10-K and the inclusion of our website addresses in this Annual Report on Form 10-K is an inactive textual reference only.

## **Available Information**

We file reports with the Securities and Exchange Commission ( SEC ), including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any other filings required by the SEC. We make available on our website ([www.activenetwork.com](http://www.activenetwork.com)) our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. These materials are available free of charge on or through our website via the Investor Relations page at [www.activenetwork.com](http://www.activenetwork.com). None of the information contained on our website is part of this report or incorporated in this report by reference.

The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (<http://www.sec.gov>) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

## **ITEM 1A. RISK FACTORS**

*Investing in our common stock involves a high degree of risk. You should carefully consider the following risks and all other information contained in this Annual Report on Form 10-K, including our consolidated financial statements and the related notes, before investing in our common stock. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, also may become important factors that affect us. If any of the following risks materialize, our business, financial condition and results of operations could be materially harmed. In that case, the trading price of our common stock could decline, and you may lose some or all of your investment.*

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### **Risks Related To Our Business**

#### **We have a history of significant net losses, and we may not be able to achieve or maintain consistent profitability on an annual basis.**

We have incurred fiscal year net losses since our inception in 1998. Our net losses were approximately \$43.0 million for the year ended December 31, 2012, \$15.3 million for the year ended December 31, 2011, and \$27.3 million for the year ended December 31, 2010. At December 31, 2012, we had an accumulated deficit of approximately \$318.3 million. Our operating expenses will continue to increase during the next few years as we complete the transition of our customers to ActiveWorks, continue to develop additional functionality and features for our applications, make additional acquisitions, increase our sales and marketing activities, expand outside of North America and enhance our customer service and call center capabilities. If our revenue grows at a slower rate than we anticipate, or if our operating expenses increase unexpectedly, we may not be able to achieve or maintain consistent profitability.

#### **Our limited operating history, new and unproven business model and rapidly evolving market make it difficult to evaluate our future prospects and increase the risk that we will not be successful.**

We launched our application services in 1999, and we have made a number of changes to our operations, technology platform and online communities since that time. As a result, we have a limited operating history with our current business upon which to predict our future operating results. In addition, the business of providing cloud computing applications to activity and event organizers and building and supporting online communities for activity and event participants is relatively new and subject to rapid change. You must consider our business and prospects in light of the risks and difficulties we will continue to encounter as a company with a new and unproven business model and operating in a new and rapidly evolving market. These risks and difficulties include our ability to, among other things:

attract new customers;

deepen our relationships with our existing customers;

continue to transition our existing customers to ActiveWorks;

continue to earn the trust of organizers and participants with respect to the processing, storage and use of their confidential information and personal data in compliance with our own high standards of care and applicable governmental and other legal obligations related to privacy and data protection;

develop a scalable, high performance technology infrastructure that can securely, efficiently and reliably handle increased usage globally;

continue to manage and successfully integrate acquired businesses, applications and technologies;

successfully compete with other companies that engage in the activity and event registration and management market;

continue to build and support online communities and applications for activity and event participants;

successfully introduce and deploy new features and functionality for our technology platform;

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increase revenue from our applications, websites and online communities;

avoid interruptions or disruptions in our service;

avoid problems with the functionality of our applications;

continue to hire, integrate and retain highly skilled team members who embrace our values and culture; and

successfully expand our business outside of North America.

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We may not be able to address these risks and difficulties or others that we may encounter, including those described elsewhere in this risk factors section. Our failure to adequately address risks and difficulties as we encounter them could cause our reputation to suffer and harm our business. We base our current and future expense levels on our management's estimates of the size of our market and the number of potential customers and registrations, operating forecasts and estimates of future revenue. However, our revenue and operating results are difficult to forecast due to the uncertainty of our market and our ability to increase our customer base and the number of participants who elect to register for activities using our applications. In addition, certain of our expenses are fixed, and we may be unable to adjust our spending in a timely manner to compensate for any unexpected shortfall in revenue. As a result, we may make errors in predicting our revenue and expenses, which would harm our business and financial condition.

**Our growth rate over the past few years may not be sustainable. If we fail to maintain an adequate growth rate, our business will be adversely affected and we may not achieve or maintain profitability.**

Our revenue has grown rapidly over the past few years, increasing to \$418.9 million in 2012 from \$337.4 million in 2011, and \$279.6 million in 2010, representing a compound annual growth rate over this period of 22.4%. We may not be able to sustain this level of growth in future periods, and you should not rely on the revenue growth of any prior quarterly or annual period as an indication of our future performance. Further, a portion of our revenue growth in each year resulted from acquisitions. We may not complete acquisitions in the future that increase our revenue at the same rate as in prior periods. The identification of suitable acquisition candidates can be difficult, time-consuming and costly, and we may not be able to successfully complete the acquisitions we do identify. If we are unable to maintain an adequate rate of growth, our business will be adversely affected and we may not achieve or maintain profitability.

**If we fail to effectively manage our growth, our business and operating results could be harmed.**

The substantial growth in our business over the past few years has placed, and may continue to place, significant demands on our management, our operating infrastructure and our internal controls and procedures. As our operations grow in size and complexity, we will need to improve and upgrade our operating systems and infrastructure to offer an increasing number of organizers and participants enhanced applications, features, functionality and support. In addition, we will be required to strengthen our internal controls and our risk management policies and procedures. The expansion of our operating systems and infrastructure and the strengthening of our controls, policies and procedures will require us to commit substantial financial, operational and technical resources in advance of an increase in the volume of our business, with no assurance that our business will actually increase. Continued growth could also strain our ability to maintain reliable service levels for organizers and participants, as well as to recruit, train and retain highly skilled personnel. If we fail to effectively manage our growth, our business and operating results could be harmed.

**Acquisitions could prove difficult to integrate, disrupt our business, dilute stockholder value, strain our resources and impair our operating results, financial conditions and prospects.**

Acquisitions have been an important part of our growth to date. We have completed a significant number of acquisitions over the past few years. We may continue to seek to acquire and invest in businesses, applications and technologies that we believe could complement or expand our business, augment our market coverage, enhance our technology platform, provide us with valuable customer contacts or otherwise offer growth opportunities.

Acquisitions and investments involve numerous risks and difficulties, including:

difficulties in integrating operations, technologies, accounting functions and personnel;

difficulties in supporting and transitioning customers of our acquired companies to our technology platform;

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difficulties in maintaining the security and reliability of acquired applications;

delays in strengthening internal controls and risk management policies and procedures;

diversion of financial and management resources from existing operations;

potential loss of key employees;

inability to generate sufficient revenue to offset acquisition or investment costs;

assumption of unknown liabilities and claims;

potential disputes and litigation;

potential diminishment in the value of any acquired brands; and

potential write-offs of acquired assets.

Acquisitions also frequently result in recording of goodwill and other intangible assets, which are subject to potential impairments in the future that could harm our operating results. In addition, if we finance acquisitions by issuing convertible debt or equity securities, our existing stockholders may be diluted. Such dilution could adversely affect the market price of our stock. Moreover, if we are unable to identify suitable future acquisition candidates, reach agreement with these parties or obtain the financing needed to complete such acquisitions, we could lose market share to competitors who are able to complete such acquisitions. This loss of market share could negatively impact our business, revenue and future growth. If we fail to achieve the anticipated benefits of any acquisitions we have completed or may complete in the future, our business, operating results, financial condition and prospects may be impaired.

**Any failure to compete successfully against current or future competitors would materially adversely affect our business and prospects.**

The market for technology applications for activity and event organizers is fragmented, competitive and rapidly evolving. Our primary competition comes from traditional registration processing methods used by activity and event organizers, such as paper-based registrations submitted by mail or in person or reservations submitted by telephone. We also face competition from:

custom-developed applications created by an organizer's technical staff or an outside custom service provider;

companies that offer generalized functional software that have features and functionality that organizers can use to register participants and manage their activities, such as content or contact management software programs, e-commerce solutions, enterprise resource planning software and other products having separate software modules; and

companies that offer organizers integrated hosted software solutions in one or more verticals within the activities and events market. Our competitors may announce new products, services or enhancements that better address changing industry standards or the needs of organizers and participants. In addition, competitors and potential competitors may enter into business combinations or alliances that strengthen their competitive positions. For example, companies who we do not consider to be significant competitors could acquire one or more of the

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various companies in our fragmented industry and, over a short period of time, become a significant competitor in the markets we service. If any of these competitors were to aggressively price their competing services in our market, we may be required to reduce our prices, which could adversely affect our operating results and financial condition. In addition, it may be difficult to displace a competitor once they have established a relationship with an organizer.

We expect to encounter new and evolving competition as the market becomes aware of the advantages of cloud computing applications for activity and event organizers. For example, social networking companies with a

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large number of online users could develop competing applications or partner with third parties to do so. Future or existing competitors may introduce different pricing models, and offer users applications at minimal or no cost. In addition, larger, better capitalized companies with greater operational, strategic, financial, personnel, customer or user bases and other resources than we have could also enter our market and attempt to compete with us. If we do not successfully compete with existing and future competitors, our business and prospects will be adversely affected.

### **Our business may be harmed if we fail to successfully transition certain of our existing customers to ActiveWorks.**

We have made a significant investment in developing ActiveWorks, and a large number of our customers are currently being served by our ActiveWorks architecture at varying levels of integration. We are in the process of transitioning to ActiveWorks certain customers who continue to use both our internally developed systems and acquired legacy systems. We are developing the additional features required to complete this transition. As legacy systems are transitioned to ActiveWorks, we will end any further development on those products and retire the applications. In addition, as part of our growth strategy, we expect to continue to inherit legacy systems through acquisitions. We will evaluate these systems to determine, based on their sophistication and compatibility, whether to integrate them into ActiveWorks or to migrate the customers using them to ActiveWorks. This process is time consuming and requires the investment of significant technical and human resources. During this process, we will continue to incur the costs and face the risks and difficulties associated with maintaining multiple legacy systems. During that transition period, we may also experience service interruptions, system failures and security breaches due to the shortcomings of certain of the legacy systems. Further, as we transition legacy systems to ActiveWorks, we may discontinue certain brands associated with those legacy systems and we may encounter resistance from customers who have affinity for these brands. If we fail to complete the transition to ActiveWorks in a cost-effective and timely manner and without service interruptions, system failures, security breaches or resistance from customers, our business may be harmed.

### **If our computer systems are compromised, we could be subject to fines, damages, litigation and enforcement actions and organizers and participants could curtail or cease using our applications, the occurrence of which would harm our business.**

Our computer systems involve the storage and transmission of non-public personal and credit card information provided by our customers and participants. Despite our security measures, our computer systems are vulnerable to computer viruses, break-ins and other attacks that could lead to the unauthorized access, disclosure and use of non-public personal information, including credit card data. The techniques used by criminal elements to attack our computer systems are sophisticated, change frequently and may originate from less regulated and remote areas of the world. As a result, we may not be able to address these techniques proactively or implement adequate preventative measures. In one instance, we became aware of a security breach in one of the legacy computer systems we inherited through one of our acquisitions. This type of breach could potentially result in the unauthorized acquisition and use of credit card data of a number of participants. We promptly isolated the affected computer system, conducted a forensic analysis of this breach, took steps to clean the affected computer system and implemented a remediation plan to prevent any further breach. We cooperated with the federal authorities investigating the criminals who perpetrated the attack. We cannot guarantee that we will be able to prevent a breach of our computer systems in the future. The breach of our computer systems may subject us to fines, damages from claims asserted by payment processors, merchant banks, organizers and participants, litigation and enforcement actions. In addition, if we experience further compromises of our computer systems, payment processors, merchant banks, organizers and participants may lose confidence and cease using our applications, which would harm our business.



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**We are subject to data privacy laws and regulations as well as contractual privacy obligations, and our failure to comply could subject us to fines and damages and would harm our reputation and business.**

We are subject to the data privacy laws and regulations adopted by federal, state and foreign governmental agencies. Data privacy is highly regulated, and may become the subject of additional regulation in the future. Privacy laws restrict our storage, use, processing, disclosure, transfer and protection of non-public personal information, including credit card data, provided to us by our customers and participants. In addition, we are subject to the privacy-related obligations in our contracts with our customers and other third parties (including voluntary third-party certification bodies such as TRUSTe). Any failure by us to comply with applicable privacy laws or regulations, our contractual privacy obligations or our own privacy policies, may result in fines, statutory or contractual damages or litigation or governmental enforcement actions. Additionally, violations of our legal or contractual privacy obligations could cause organizers and participants to lose trust in us, which would harm our reputation and business.

**Our technology systems are vulnerable to damage, interruptions or failures, any of which could harm our reputation and business.**

Our technology systems rely on computer hardware and communications systems located either in our facilities or at third-party facilities, including our main web-hosting facilities in Las Vegas, Nevada, Ashburn, Virginia and Toronto, Ontario. We do not control the operation of the third-party facilities and must rely on third parties to provide the physical security, facilities management and communications infrastructure services to ensure the reliable and consistent delivery of our solutions to our customers. Our web-hosting technology systems located at our facilities and at third-party facilities are vulnerable to damage or interruption from catastrophic occurrences such as earthquakes, floods, fires, power loss, telecommunications failures, terrorist attacks and similar unforeseen events. Despite any precautions we may take, the occurrence of a natural disaster or other unexpected problems at one of our facilities or the facilities operated by third parties who house our equipment could result in lengthy interruptions in our services.

We are in the process of implementing procedures designed to allow us to move our production operations over to a backup datacenter in the event of a catastrophe. Although this program is functional, it does not provide a real-time failover in all instances, so if one of our websites shuts down it would remain shut down for a period of time while the transition takes place, and during that time, the website would not be accessible. In addition, the prolonged interruption of service of one or more of our websites that process transactions could result in potentially significant losses.

We carry business interruption insurance but our coverage may not be sufficient to compensate us for the potentially significant losses that may result from prolonged interruptions in our services as a result of system failures.

**If credit card payment processors and service providers fail or no longer agree to provide their services, change their services or terms of service or increase processing fees, our customer relationships could be adversely affected and we could lose business and revenue.**

We rely on agreements with large payment processing organizations to enable us to provide credit card authorization, data capture, settlement and merchant accounting services, and access to various reporting tools for the customers we serve. Our credit card processors and service providers could terminate their arrangements with us or fail to perform their services efficiently, become unwilling or unable to provide payment processing services to us or change the services or terms of service provided to us, each of which would adversely affect our relationships with customers and could cause customers to discontinue using our applications and adversely affect our operating results. In addition, we cannot guarantee that credit card companies will not increase the transaction fees we incur for each registration we process. Any increase in transaction fees would require us to increase the prices we charge for our products and services or negatively impact our profitability, either of which

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could adversely affect our business, financial condition and results of operations. In addition, if credit card payment processors and service providers fail or no longer agree to provide their services, our customer relationships could be adversely affected and we could lose business and revenue.

**We are subject to the rules and regulations adopted by the card networks, such as Visa, MasterCard and American Express, and if we fail to adhere to their rules and regulations, we would be in breach of our contractual obligations to payment processors and merchant banks, which could subject us to damages and liability and could eventually prevent us from processing or accepting credit cards.**

The card networks, such as Visa, MasterCard and American Express, have adopted rules and regulations that apply to all merchants who process and accept credit cards for payment of goods and services. We are obligated to comply with these rules and regulations as part of the contracts we enter into with payment processors and merchant banks. The rules and regulations adopted by the card networks include the Payment Card Industry Data Security Standards, or the PCI DSS. Under the PCI DSS, we are required to adopt and implement internal controls over the use, storage and security of card data to help prevent credit card fraud. We assess our compliance with the PCI DSS on a periodic basis, and make necessary improvements to our internal controls. If we fail to comply with the rules and regulations adopted by the card networks, including the PCI DSS, we would be in breach our contractual obligations to payment processors and merchant banks. Such failure to comply may subject us to fines, penalties, damages and civil liability, and could eventually prevent us from processing or accepting credit cards and reduce our working capital. Further, there is no guarantee that even if we comply with the rules and regulations adopted by the card networks, we will be able to maintain our compliance. We also cannot guarantee that such compliance will prevent illegal or improper use of our payments systems or the theft, loss or misuse of the credit card data of customers or participants. Any such event would harm our reputation and business.

**We face potential liability for the fraudulent activities of organizers and their employees, participants and our employees.**

We have potential liability for losses caused by the fraudulent activities of our organizers or their employees. An organizer, or one of an organizer's employees, could use a stolen or counterfeit credit card or credit card number to record a false sales transaction, or intentionally fail to deliver merchandise, events, activities or services sold in an otherwise valid transaction. We may also face potential liability for credit card fraud by participants who register for an activity or complete a transaction through our applications. A participant could use a stolen credit card or a stolen credit card number in a credit card-not-present transaction, to register for an activity or event or purchase merchandise or services. In a traditional credit card-present transaction, if the merchant uses the credit card, receives authorization for the transaction from the credit card issuing bank and verifies the signature on the back of the credit card against the paper receipt signed by the individual using the credit card, the credit card issuing bank remains liable for any loss. In a fraudulent credit card-not-present transaction, we could be liable to the credit card issuing bank for any loss arising from the transaction, even if we receive authorization for the transaction from the same credit card issuing bank. In addition, we face potential fraud if our employees misappropriate or disclose to others who misappropriate the credit card or other sensitive information of organizers or participants. We have implemented systems and procedures designed to detect and reduce the impact of organizer, participant and employee fraud, but we cannot guarantee that these measures are or will be effective. It is possible that incidents of fraud could increase in the future, and they may remain undetected for extended periods of time if our systems and procedures are not effective. Significant or recurring credit card fraud could adversely affect our business, financial condition and operating results.

**We may face significant chargeback liability if our customers refuse or cannot reimburse chargebacks resolved in favor of participants who register through our applications.**

We may have potential liability for chargebacks associated with the transactions we process for certain of our organizer customers. If a billing dispute relating to a transaction is not ultimately resolved in favor of the organizer, the disputed transaction is charged back to our bank and credited to the credit card account of the

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participant. If we or our processing banks are unable to collect the chargeback from the organizer's account, or if the organizer refuses or is financially unable to reimburse us for the chargeback amount, we bear the risk of loss for the amount of the refund paid to the participant's credit card account. We have in the past experienced chargebacks related to cancelled and fraudulent events and transactions. Significant or recurring chargeback amounts could adversely affect our business, operating results and financial condition.

### **Our business is subject to a variety of U.S. and foreign laws, many of which are unsettled and still developing, and which could subject us to claims or otherwise harm our business.**

We are subject to a variety of laws in the United States and abroad that are continuously evolving and developing, and that are costly to comply with, can require significant management time and effort and can subject us to claims or other remedies. Existing and future laws and regulations may be adopted, interpreted or implemented in a manner that is inconsistent with our current business practices or that require changes to such practices, our privacy policy, the features and functionality of our applications or the design of our websites. These regulations and laws may cover employment, immigration, taxation, tariffs, user privacy, data protection, pricing, content, copyrights, distribution, electronic contracts and other communications, consumer protection, broadband residential Internet access and the characteristics and quality of services. It is not clear how existing laws governing issues such as property ownership, sales and other taxes, libel and personal privacy apply to the Internet. If we are not able to comply with these laws and regulations or if we become liable under them, we could be directly harmed, and we may be forced to implement new measures to reduce our exposure to this liability. This may require us to expend substantial resources or to discontinue certain practices, which could negatively affect our business, financial condition and results of operations. In addition, the increased attention focused on liability as a result of lawsuits and legislative proposals could harm our reputation or otherwise harm our business.

### **Our quarterly operating results are volatile, subject to seasonal fluctuations and difficult to predict, all of which may adversely affect our stock price.**

Our quarterly operating results have fluctuated in the past and may fluctuate significantly in the future due to a variety of factors, many of which are outside of our control. For example, we generally experience seasonality due to the greater number of activities and events during the spring and summer months in North America. Other factors that may contribute to the variability of our quarterly and annual results include:

our ability to accurately forecast revenue and appropriately plan our operating expenses;

our ability to attract new, and increase the engagement and penetration of our existing, activity and event organizers;

our ability to increase the number of participants who register for the activities and events offered by our customers using our applications;

our ability to control the cost and time required to transition certain customers to ActiveWorks;

our ability to maintain and effectively manage an adequate rate of growth;

our ability to successfully enter new markets and manage our planned global expansion;

our ability to successfully manage and integrate our past and any future acquisitions of businesses, applications or technologies;

our ability to limit interruptions in service and prevent the compromise of customer or participant data;

the effects of natural or man-made catastrophic events;

changes in the laws, regulations and legal standards affecting our business;

our ability to keep pace with changes in technology and the offerings by our competitors;

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our ability to provide a high-quality participant experience through our applications and online communities;

our ability to design and implement effective internal controls and processes;

our ability to attract and retain qualified employees and key personnel;

our ability to protect our intellectual property, including our technology platform and our key brands;

our ability to control the costs associated with defending intellectual property infringement and other claims by third parties; and

the impact of worldwide economic conditions, including the resulting effect on consumer spending.

As a result, we believe that quarterly comparisons of our operating results are not necessarily meaningful and that you should not rely on the results of one quarter as an indication of our future performance. In addition, our operating results may continue to vary significantly from one quarter to the next as part of our normal business cycle, which may adversely affect our stock price.

**If we do not continue to enhance and improve our existing applications and successfully introduce new applications, our ability to maintain the pricing of our applications and to attract and retain organizer customers will be harmed.**

In the past we have grown our business in part through improving the functionality and features of our existing applications and introducing new applications to our customers, such as fundraising, real-time event tracking and merchandising for activities and events. If we fail to continue to offer new applications that increase the number of participants who register online for our customers' activities and events, and improve the ability of our customers to manage their activities and events, we may be unable to maintain the pricing of our applications. We cannot assure you that we will be able to timely and adequately develop additional functions and features or introduce new applications to satisfy the demands of our customers. Further, developing new technologies and applications entails significant technical and business risks. We cannot assure you that any new functions, features or applications will achieve the level of acceptance required for us to generate sufficient revenue to offset our development costs. If we do not continue to enhance and improve the functions and features of our existing applications and successfully introduce new applications, our ability to maintain the pricing of our applications and to attract and retain organizer customers will be harmed.

**Activity and event organizers may not widely adopt our applications to manage the important aspects of their activities and events, which would limit our ability to grow our business.**

Our ability to grow our business and increase revenue depends on our success in educating activity and event organizers about the potential benefits of our cloud computing applications. Cloud computing applications for organizing and managing important aspects of activities and events are relatively new, and have not been widely adopted by activity and event organizers. Concerns about cost, fraud, privacy, security, reliability and other issues may cause activity and event organizers not to adopt our applications. Moreover, activity and event organizers who have already invested substantial resources in other registration and management systems or methods may be reluctant to adopt a new approach like ours to supplement or replace existing systems or methods. If activity and event organizers do not widely adopt applications such as ours, our ability to grow our business will be limited.

**If we fail to expand our customers' use of our applications, our ability to execute our growth strategy and increase our revenue will be limited.**

Many of our organizer customers initially make a purchase of only one or a limited number of our available applications or use our applications for only one or a limited number of their activities or events. Our ability to

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grow our business and increase revenue is dependent on our ability to further penetrate our existing customers by selling additional applications to them, and by increasing the number of activities and events for which they deploy our applications. If we fail to expand the usage of our applications by our existing customers, our ability to execute our growth strategy and increase our revenue will be limited.

**Many individuals are using devices other than personal computers to access the Internet. If users of these devices do not widely adopt solutions we develop for these devices, our business could be adversely affected.**

The number of people who access the Internet through devices other than personal computers, including mobile telephones, personal digital assistants, smart phones and handheld tablets or computers, has increased dramatically in the past few years and is projected to continue to increase. If we are unable to develop mobile solutions to meet the needs of our users, our business could suffer. Additionally, as new devices and new platforms are continually being released, it is difficult to predict the problems we may encounter in developing versions of our solutions for use on these alternative devices, and we may need to devote significant resources to the creation, support, and maintenance of such devices.

**If we are unable to increase the percentage of participants who register through our websites, our ability to grow our business will be impaired.**

In addition to expanding and increasing penetration within our organizer customer base, the growth of our business depends on our ability to increase the percentage of participants who elect to register for activities and events through our websites. Our ability to increase the percentage of participants who register through our websites depends on our ability to make our online registration and reservation processes simple, efficient, secure and cost-effective, as well as on our ability to develop applications, such as our online communities, activity and event information and searchable database of events, that encourage participants to use our websites. Our ability to increase participant use of our websites also depends on the ability and willingness of our organizer customers to increase the awareness of our websites to their participants. We cannot control the level of effort that organizers expend or the extent to which any of them will be successful in increasing awareness of our websites among their participants. We may not be able to prevent organizers from devoting greater resources to support other registration methods developed by them or other third parties. If we are unable to increase the percentage of participants who register for activities and events through our websites, our ability to grow our business will be impaired.

**We may not be successful in expanding into new business areas within the activity and event registration and management market, which could harm our business and future prospects.**

Our long-term strategic plan involves expanding our applications into new business areas within the activity and event registration and management market. We cannot assure you that our efforts to expand our business in this manner will succeed. We also cannot assure you that we will develop any new applications required to successfully compete in these new business areas in a cost-effective or timely manner. The lack of market acceptance of such efforts or our inability to generate satisfactory revenue to offset the development costs could harm our business and limit our future prospects.

**The sales cycle for certain of our applications can be long, and we may not recognize revenue until completion of the entire sale, which makes it difficult for us to forecast our operating results.**

It can take us between three and nine months to complete a sale to an activity or event organizer, and at times it may take up to one year or longer. The period between our initial contact with a potential customer and the completion of a sale may be relatively long due to several factors, including:

many activities and events occur only annually;

our need to educate potential customers about the uses, benefits, safety and reliability of our applications;

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activity and event organizers have budget cycles which can affect the timing of purchases; and

some organizers, such as park and recreation department administrators, have lengthy internal approval processes before having the required authority to purchase our applications.

In addition, our customers may demand customization of the applications we provide them. As a result, these sales opportunities may require us to devote greater sales and technical resources, increasing the cost and time required to complete sales. As a result, it is difficult to predict when particular sales will occur or be completed, which adversely impacts our ability to accurately forecast our operating results.

### **Negative factors affecting the activities and events market have an adverse effect on our business and revenue.**

We primarily generate revenue from the registration and reservation fees paid by the participants in the activities and events offered by our organizer customers. As a result, our business is directly affected by factors affecting the activities and events market, including global, national or local consumer trends, adverse weather, security concerns or environmental disasters. Our performance is also subject to economic conditions and their impact on levels of consumer spending, which may remain depressed, or be subject to further deterioration, for the foreseeable future. Some of the factors that have had and may continue to have an adverse impact on discretionary consumer spending include general economic conditions, unemployment, consumer debt, reductions in net worth, disruptions in the residential real estate or mortgage markets, higher taxation, energy prices or interest rates and decreases in consumer confidence and other macroeconomic factors. Because spending for activities is generally considered to be discretionary, declines in consumer spending may have a more negative effect on our business than on those businesses that sell products or services considered to be necessities. Unfavorable changes in the above factors or in other business and economic conditions affecting our activity and event customers and their participants could cause organizers to cancel activities, result in fewer participants using our applications to register for activities, lower our profit margins, cause our activity and event customers to terminate their relationship with us or default on their payment obligations to us, any of which would have a material adverse effect on our financial condition and operating results.

### **If our customers do not renew their agreements for our applications, our business and operating results will suffer.**

We currently generate a majority of our revenue from customers who have entered into contracts with us with terms ranging from three to seven years. However, we have a number of customers with contract terms under three years. Our customers are not obligated to renew their contracts with us. Even if our customers perceive our applications to be of value, budgetary, economic or other competitive pressures may prevent some customers from renewing their contracts. If we are not successful in continuing to renew or extend the terms of our contracts with our existing customers, our business and operating results will suffer.

### **Our ability to grow our business will be impaired if we do not provide high quality customer support in a timely and cost-effective manner.**

Our ability to maintain and increase our customer base and the number of participants who use our applications depends significantly on our ability to provide high quality levels of service and support. Complaints or negative publicity about our service or support could severely diminish confidence in or use of our applications. We spend significant time and resources to hire, train and retain our service and support personnel. In addition, we are required to hire temporary employees each year to provide customer service and support during peak registration seasons. These temporary employees require training and education and take time to reach full productivity. If we are not successful in timely hiring, training and retaining our service and support personnel or otherwise fail to provide high quality service and support to organizers and participants, our ability to grow our business will be impaired.

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### **Our ability to improve our operating margins may be limited by the requirements imposed by our government agency customers.**

We acquired the state hunting and fishing business of Automated License Systems and Central Trust Bank in October 2008 and the campground registration business of ReserveAmerica in January 2009. As of December 31, 2012, we had approximately 55 state or provincial customers in North America that are utilizing our technology for registration and management services related to hunting, fishing, and campgrounds. Our government agency customers often require us to customize our applications and provide additional services to their participants to qualify for these contracts. For example, we are typically required to maintain call centers for these customers to allow participants to register telephonically and receive telephonic customer service and support. We continue to focus on ways to encourage participants to use the self-service features available through our websites, however, each year we are required to hire temporary employees and independent contractors to staff our call centers during peak registration periods. A number of our state customers require us to maintain a physical call center located in their particular state. Additionally, our state customers typically require us to provide third-party audits of our operations. These additional requirements are costly to comply with and add to the complexity of our business. If we are unable to properly manage and control the cost of the additional services required by our government agency customers, our operating margins will suffer and our business and results would be harmed.

### **We may be unsuccessful in expanding our operations outside of North America, which could negatively impact our growth strategy, revenue and future growth.**

Our headquarters are located in the United States. To date, we have operated primarily in North America. Expansion outside of North America is an important aspect of our future growth strategy. Our ability to expand outside of North America involves various risks and difficulties, including:

incurring significant expenses in advance of generating material revenue as we attempt to establish our presence in international markets;

operating in unfamiliar competitive environments;

distraction of management and company resources;

different participant preferences and participation patterns than those in North America;

varied, unfamiliar and unclear legal and regulatory requirements and restrictions;

potentially greater susceptibility to fraud and security breaches;

pricing controls, legal, political or systemic restrictions on the ability of U.S. companies to compete with foreign competitors or otherwise do business in foreign countries;

less extensive adoption of the Internet as a commerce medium or information source and increased restrictions on privacy or the use of customer and participant data;

lack of infrastructure to adequately conduct electronic commerce transactions and data storage and management;



difficulties in staffing and managing foreign operations;

greater difficulty in accounts receivable collection;

currency fluctuations or other restrictions on foreign currency; and

potential adverse tax consequences.

As a result of these obstacles, we may find it difficult to expand outside of North America or we may be unsuccessful in our attempt to do so, which would negatively impact our growth strategy, revenue and future growth.

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### **We may not timely and effectively scale and adapt our existing technology and network infrastructure to ensure that our websites are accessible with little or no perceptible load times.**

A key element in our continued growth is the ability of organizers and participants to access our websites at all times with little or no perceptible load times. This has become increasingly difficult to achieve as our applications have become more complex and our user traffic has increased. Strains on the capacity of our technology infrastructure caused by growth in the numbers of organizers and participants accessing our websites, new applications and features and overall engagement on our websites, especially at the opening of the registration period for a popular activity, have in the past resulted, and may in the future result in, slower load times or system failures. We have experienced website disruptions, outages and other performance problems due to a variety of factors, including maintaining multiple legacy systems, infrastructure changes, power failure, telecommunication outages, human or software errors and capacity constraints caused by overwhelming numbers of users accessing our websites simultaneously. If our websites are not available when users attempt to access them or do not function as expected, our customers may select another option to organize and manage their activities and events and participants may select alternative means of researching and registering for activities and events, each of which would negatively impact our business.

We expect to continue to make significant investments to upgrade our technology and network infrastructure to handle increased usage and to enable the timely and effective release of new applications. These upgrades and expansions are complex and in the past have resulted, and in the future could result, in website outages or inefficiencies or operational failures. To the extent that we do not effectively address infrastructure challenges, upgrade our systems as needed and continually develop our technology and network architecture, our business and operating results may be harmed.

### **If Internet search engines methodologies are modified or our search result page rankings decline for other reasons, participant engagement in our websites and online communities could decline.**

We depend in part on various Internet search engines to direct a significant amount of traffic to our websites. Our ability to maintain the number of potential participants directed to our websites is not entirely within our control. Our competitors' search engine optimization, or SEO, efforts may result in their websites receiving a higher search result page ranking than ours, or Internet search engines could revise their methodologies in an attempt to improve search results, which could adversely affect placement of our search result page rankings. If search engine companies revise their search algorithms in ways that are detrimental to new participant growth on our websites or in ways that make it more difficult for organizers or participants to use our websites, or if competitors' SEO efforts are more successful than ours, the overall growth in the numbers of organizers and participants using our websites could slow, participant engagement could decrease, and we could lose existing participants and become less attractive to existing and prospective organizer customers. Our websites have experienced fluctuations in search result rankings in the past, and we anticipate similar fluctuations in the future. Any reduction in the number of participants directed to our website would harm our business and operating results.

### **Our ability to establish, maintain and strengthen our brands in the activities and events market is critical to our growth strategy.**

Promoting and maintaining our brands is critical to our efforts to attract and retain our organizer customers and to increase the number of participants who use our applications. We also believe brand recognition is critical to allow us to effectively compete against the growing number of Internet sites and relatively low initial barriers to entry in certain of our markets. Maintaining, protecting and enhancing our brands is also critical to expanding our base of organizers, end users, advertisers, and other strategic partners, and increasing their engagement with our websites, and will depend largely on our ability to be a technology leader and continue to provide high-quality applications, which we may not do successfully. If we are unable to establish and maintain our brands,

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including THE ACTIVE NETWORK, ACTIVE, ACTIVE.COM, ACTIVENET, ACTIVEWORKS, REGONLINE, RESERVEAMERICA and STARCITE, as leaders for online registration and management applications in the activities and events market, our business and prospects would be materially and adversely affected.

### **We may experience difficulty in developing marketing services that are attractive to advertisers and promoters.**

The market for marketing services such as ours is relatively new and rapidly evolving. We cannot be certain this market will continue to grow. Our marketing services customers may determine that it is in their best interest to spend their marketing budgets through other forms of promotional or advertising activities. As a result, if we fail to develop compelling marketing services for advertisers and promoters, our ability to sustain and grow our marketing services business would be adversely affected.

### **If we fail to maintain and grow our user base of participants and the data we gain access to from such participants, potential advertisers may not utilize our marketing services, which may result in reduced revenue.**

We use a wide range of data to expand, refine and target our marketing services on behalf of our customers. We gain access to most of this data from participants as they opt-in to receive special offers and other direct marketing opportunities from our marketing services customers and us and the registration process for activities and events using our application services. If we are unable to maintain and grow our user base of participants and the data we gain access to from such participants, potential advertisers may not utilize our marketing services and we may lose significant marketing services revenue.

### **We might not be able to attract and retain employees, which could impede our ability to grow and successfully generate our business.**

Any failure to attract and retain qualified, experienced employees could adversely affect our ability to grow our business. To execute our continuing growth plans, we need to increase the size and maintain the quality of our staff of direct sales and business development representatives and technology development staff. To be successful, we must attract and retain highly qualified sales and other personnel with specialized skill sets focused on the activities and events industry. Competition for qualified and experienced sales and other personnel can be intense, and we might not be successful in attracting and retaining such individuals. We have from time to time experienced, and we expect to continue to experience in the future, difficulty in hiring and retaining a sufficient number of highly skilled employees with appropriate qualifications for our business.

### **Our business and prospects could be harmed if we lose members of our senior management team.**

Our performance is substantially dependent on the continued services and on the performance of our senior management and other key personnel, particularly David Alberga, our Chairman of the Board and Executive Chairman, Matthew Landa, our Chief Executive Officer and Director, Darko Dejanovic, our President, and Scott Mendel, our Chief Financial Officer. Our performance also depends on our ability to retain and motivate other officers and key employees. We do not have long-term employment agreements with the members of our senior management or other key personnel. In addition, we do not maintain key-man insurance on these individuals. The loss of the services of any member of our senior management or other key employee for any reason would harm our business.

### **If we cannot maintain our corporate culture as we grow and evolve, we could lose the innovation, creativity and teamwork that this culture has fostered.**

We believe that a critical contributor to our success has been our corporate culture, which we believe fosters innovation, creativity and teamwork. Maintaining this corporate culture will become increasingly difficult as we

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grow and implement the more complex organizational management structures necessary to support our growth and to comply with the requirements imposed on public companies. Failure to maintain and further develop our culture could negatively impact our future success. In addition, our IPO may have created disparities in wealth among our employees, which could adversely impact relations among employees and our corporate culture in general.

### **If the protection of our technology platform, domain name, trademarks and other proprietary rights is inadequate, our business would be harmed.**

Our commercial success is dependent in part on obtaining, maintaining and enforcing our intellectual property rights. We rely on a combination of trade secret, trademark, copyright, trade dress, domain name and patent laws in the United States and in the other jurisdictions in which we operate, together with confidentiality agreements and technical measures, to protect our intellectual property. We pursue the registration of our trademarks, service marks and domain names in the United States. Our registered trademarks in the United States include THE ACTIVE NETWORK, ACTIVE, ACTIVE.COM, ACTIVENET, ACTIVEWORKS, REGONLINE, RESERVEAMERICA and STARCITE. As of December 31, 2012, we have been granted five patents by the United States Patent and Trademark Office and have six patent applications pending in the United States. Our issued patents begin to expire in February 2019. We rely more heavily on trade secret protection than patents to protect our proprietary technology. To protect our trade secrets, we control access to our proprietary systems and technology and enter into confidentiality and invention assignment agreements with our employees and consultants and confidentiality agreements with other third parties. In addition, due to the relatively high cost associated with registering all of our copyrights, we generally rely on common-law copyright laws to protect these rights.

The steps we have taken and take in the future to protect our proprietary rights may be inadequate. For example, confidentiality agreements with our employees, licenses, independent contractors and other advisors may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, third parties may independently discover trade secrets and proprietary information, and in such cases, we may not be able to successfully assert trade secret rights against such parties. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights. If we are unable to obtain, maintain and enforce intellectual property protection covering our technology platform, brands and domain names, others may be able to make, use or sell products that are substantially similar to ours without incurring the sizeable development costs that we have incurred, which would adversely affect our ability to compete.

In addition, the domain names for the websites that we maintain are important to our business. The regulation of domain names in the United States and in foreign countries is unclear and subject to change. Governing bodies may establish additional top-level domains, appoint additional domain name registrars or modify the requirements for holding domain names. As a result, we cannot assure you that we will be able to acquire or maintain relevant domain names. The relationship between regulations governing domain names and laws protecting trademarks and similar proprietary rights is also unclear. As a result, we may be unable to prevent third parties from acquiring domain names that are similar to, infringe upon or otherwise decrease the value of our domain names, and trademarks and other proprietary rights. Any such inability could have a material adverse effect on our business, results of operations, financial condition and prospects.

### **Intellectual property claims against us could be costly and could hurt our business, operating results, financial condition and prospects.**

We cannot predict whether third parties will assert claims of infringement or other intellectual property claims against us. If we are forced to defend against third party claims, whether they are with or without merit or are determined in our favor, we could face expensive and time consuming litigation, which could distract our technical and management personnel. In the past, we received a notice from a third party alleging that our

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Internet fundraising program and related website operations infringe patents published by such third party. In the future, we may receive other notices from, or have lawsuits filed against us by, third parties alleging infringement. If an infringement claim is determined against us, we may be required, or deem it advisable, to develop non-infringing intellectual property or enter into costly royalty or licensing agreements. Such royalty or licensing agreements, if required, may be unavailable on terms that are acceptable to us, or at all. If a third party successfully asserts an infringement claim against us and we are required to pay monetary damages or royalties or we are unable to develop suitable non-infringing alternatives or license the infringed or similar intellectual property on reasonable terms and on a timely basis, it could significantly harm our business. In addition, third parties may seek to invalidate our intellectual property.

### **As a result of becoming a public company, we are obligated to develop and maintain proper and effective internal controls over financial reporting practices.**

We maintain a documented system of internal controls, which is reviewed and monitored by the Audit Committee and tested by the Company's internal audit department. The internal audit department reports the results of testing to the Audit Committee who in turn report the results to the Board of Directors. We believe we have a well-designed system to maintain adequate internal controls over the business; however, we cannot be certain that our controls will be adequate in the future or that adequate controls will be effective in preventing or detecting all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of any system of control is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

### **Our reserves for state sales taxes may not be sufficient.**

Certain states in which we operate impose sales, purchase and use taxes on transactions completed through our applications. At this time, many of our systems do not automatically capture the sales, purchase and use taxes we are required to remit to these states.

As a result, we are required to analyze our transactions, and reserve an appropriate amount for the payment of state sales, purchase and use taxes. We regularly review the procedures we use to calculate our sales tax obligations as well as our sales tax reserves, and make adjustments when appropriate. Although we believe that our sales tax reserves are adequate, we may not be fully reserved and it is possible that we may be obligated to pay amounts in excess of our reserves.

### **We may not be able to realize the tax benefits associated with the net operating losses we have recorded to date.**

As of December 31, 2012, we had federal tax net operating loss carry forwards of approximately \$182 million which will begin to expire in 2019 and continue to expire through 2032 and state tax net operating loss carry forwards of approximately \$142 million which began to expire between 2013 and 2032 and foreign NOL carryforwards of approximately \$11 million as of December 31, 2012 which expire between 2029 and 2032. If we do not maintain sufficient profitability prior to the expiration of these net operating loss carry forwards, then we will not be able to fully use such tax attributes to our benefit. Additional limitations on the annual use of these net operating loss carry forwards may also apply due to subsequent issuances of our stock.

### **Covenants in our Credit Agreement may restrict our operations, and if we do not effectively manage our business to comply with these covenants, our financial condition and liquidity could be adversely affected.**

In December 2011, we entered into a Credit Agreement (the "Credit Agreement"), which was subsequently amended in June 2012, with Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPFS") and J.P Morgan Securities LLC (upon

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the amendment of the Credit Agreement), as Joint Lead Arrangers, MLPFS as Sole Book Manager, and the lenders from time to time party thereto. We must comply with various covenants under our Credit Agreement that limit our ability to, among other things:

incur or assume liens or additional debt or provide guarantees in respect of obligations of other persons;

pay cash dividends or distributions or redeem or repurchase capital stock;

prepay, redeem or repurchase debt;

make loans and investments;

enter into agreements that restrict distributions from our subsidiaries;

sell assets and capital stock of our subsidiaries;

enter into certain transactions with affiliates; and

consolidate or merge with or into, or sell substantially all of our assets to, another person.

In addition, under our Credit Agreement, we are required to maintain specified financial ratios. Our ability to meet these financial covenants can be affected by events beyond our control, and we may be unable to meet these tests. In addition, our failure to maintain effective internal controls to measure compliance with these financial covenants could affect our ability to take corrective actions on a timely basis, and could result in us being in breach of this covenant. Our Credit Agreement provides that our breach or failure to satisfy certain covenants constitute an event of default. Upon the occurrence of an event of default, the lenders could elect to terminate any commitment under our Credit Agreement and declare all amounts outstanding to be immediately due and payable. If we are unable to repay those amounts, our financial condition could be adversely affected. In addition, termination of our Credit Agreement could also adversely impact our liquidity.

### **Our cash, cash equivalents and short-term investments are subject to a risk of loss based upon the solvency of the financial institutions in which they are maintained.**

We maintain the majority of our cash and cash equivalents in accounts with major financial institutions within the United States, in the form of demand deposits and money market accounts. Our deposits in these institutions may generally exceed the amounts of insurance provided, or deposits may not at all be covered by insurance. If any of these institutions become insolvent, it could substantially harm our financial condition and we may lose some, or all, of such deposits.

### **If our goodwill, amortizable intangible assets or property, plant and equipment become impaired, we may be required to record a significant charge to earnings.**

We review our goodwill, intangible and long-lived assets for impairment annually in the fourth quarter or whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Significant negative industry or economic trends, a decline in the market price of our common stock, reduced estimates of future cash flows or disruptions to our business could indicate that goodwill, intangible or long-lived assets might be impaired. If, in any period, our stock price decreases to the point where our market capitalization is less than our book value, this too could indicate a potential impairment and we may be required to record an impairment charge in that period.

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Our valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and to rely on projections of future operating performance. We operate in highly competitive environments and projections of future operating results and cash flows may vary significantly from actual results. Additionally, if our analysis results in impairment to our goodwill, intangibles or long-lived assets, we would be required to record a non-cash charge to earnings in our financial statements during a period in which such impairment is determined to exist. Any of these factors could have a negative impact on our operating results.

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### **Changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters could significantly change our reported or expected financial results.**

Generally accepted accounting principles and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business, including but not limited to, revenue recognition, allowances for doubtful accounts, software development costs, stock-based compensation, business combinations, impairment of goodwill, intangible assets and long-lived assets, and accounting for income taxes are highly complex and involve many subjective assumptions, estimates and judgments by our management. Changes in these rules or their interpretation or changes in underlying assumptions, estimates or judgments by our management could significantly change our reported or expected financial performance.

### **We are currently in the process of transitioning certain of our customers who are using the legacy systems we inherited in our acquisitions to ActiveWorks. Until we complete this transition, we may not be able to compare our key business metrics on a period-to-period basis in a manner consistent with the rest of our business, and as a result, our ability to manage our business could be adversely affected.**

We manage our business based in part on key business metrics regarding the total number of customer organizations we serve and the total number of registrations we process during a specific financial period. We are currently in the process of transitioning our customers who are currently using the legacy systems we inherited in our acquisitions to ActiveWorks. Until we complete this transition, participants for certain activities and events will continue registering through these legacy systems. Certain of these legacy systems do not track customers and registrations in a manner consistent with the rest of our business. As a result, we need to use manual processes to accumulate these metrics, which could lead to errors. If we are unable to accurately compare our key business metrics on a period-to-period basis, our ability to manage our business could be adversely affected.

### **If the estimates and assumptions we use to determine the size of our target market, customer groups or the verticals within customer groups are inaccurate, our future growth rate may be limited and our business would be harmed.**

We calculate the size of our target market, customers groups and verticals within customer groups, based on data published by third parties and on assumptions that we have made based on that data. We have not independently verified any third-party information and cannot assure you of its accuracy or completeness. While we believe our market size information is generally reliable, such information is inherently imprecise. In addition, our projections, assumptions and estimates of future opportunities within our target market are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described in this risk factors section. If third-party data proves to be inaccurate or we make errors in our assumptions based on that data, our future growth rate may be limited. In addition, these inaccuracies or errors may cause us to misallocate capital and other business resources, which could harm our business. For example, in the third quarter of 2011, we identified previously unreported registration data during the first and second quarters of 2011. As a result, we underreported the number of registrations for these prior periods. We identified that the underreporting resulted primarily from the prior lack of the reporting systems of two new state customers. The underreporting had no impact on our prior financial statements, nor do we believe the underreporting had a material adverse effect on our business.

## **Risks Relating To Ownership Of Our Common Stock**

### **Our stock price may be volatile.**

The market price of our common stock may be subject to significant fluctuations. Factors that could affect our stock price include the following:

fluctuations in our operating results or the operating results of our competitors;

changes in estimates of our financial results or recommendations by securities analysts;



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changes in the estimates of the future size and growth rate of our markets;

changes in accounting principles or changes in interpretations of existing principles, which could affect our financial results;

conditions and trends in the markets we serve;

changes in general economic, industry and market conditions;

success of competitive applications and services;

changes in market valuations or earnings of our competitors;

changes in our pricing policies or the pricing policies of our competitors;

announcements of significant new applications, contracts, acquisitions or strategic alliances by us or our competitors;

changes in legislation or regulatory policies, practices or actions;

the commencement or outcome of litigation involving our company, our general industry or both;

recruitment or departure of key personnel;

changes in our capital structure, such as future issuances of securities or the incurrence of debt;

actual or expected sales of our common stock by the holders of our common stock; and

the trading volume of our common stock.

In addition, the U.S. and worldwide stock markets in general have experienced significant price and trading volume fluctuations, and the market prices of technology and Internet companies have generally been extremely volatile and have experienced sharp share price and trading volume changes. These broad market fluctuations may adversely affect the trading price of our common stock.

**The requirements of being a public company may strain our resources, divert management's attention and affect our ability to attract and retain qualified board members.**

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Act, the listing requirements of the New York Stock Exchange and other applicable securities rules and regulations. Compliance with these rules and regulations increase our legal and financial compliance costs, make some activities more difficult, time-consuming or costly and increase demand on our systems and resources. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and operating results. The Sarbanes-Oxley Act requires, among other things,

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that we maintain effective disclosure controls and procedures and internal controls over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal controls over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could harm our business and operating results. Although we have already hired additional employees to comply with these requirements, we may need to hire more employees in the future, which will increase our costs and expenses.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time-consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance

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practices. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us and our business may be harmed.

Any new rules and regulations may increase the cost for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified executive officers and members of our board of directors, particularly to serve on our Board committees.

As a result of our public disclosure requirements, our business and financial condition has become more visible, which we believe may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business and operating results could be harmed, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and harm our business and operating results.

### **We do not expect to declare any dividends on our common stock in the foreseeable future.**

We currently intend to invest our future earnings, if any, to fund the development and growth of our business. The payment of dividends will be at the discretion of our Board of Directors and will depend on our results of operations, capital requirements, financial condition, future prospects, restrictions imposed by applicable law, any limitations on payments of dividends present in any debt agreements we may enter into and other factors our Board of Directors may deem relevant. Consequently, stockholders may need to rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking cash dividends should not purchase our common stock.

### **Our directors, executive officers and significant stockholders hold a substantial portion of our stock, which may lead to conflicts of interest with other stockholders over corporate transactions and other corporate matters.**

As of December 31, 2012, our directors, executive officers and beneficial holders of 10% or more of our outstanding common stock beneficially owned approximately 35% of our outstanding common stock, including restricted stock units awards vested and stock options exercisable within 60 days after December 31, 2012. We are not aware of any stockholder or voting agreements or understandings between or among our directors, officers or current beneficial holders of 10% or more of our outstanding common stock except with respect to an agreement between Scott Schultz, a former director, and the United States Tennis Association, pursuant to which the United States Tennis Association received the pecuniary benefit upon exercise of any options granted to Mr. Schultz. However, these stockholders, acting together, would be able to influence significantly all matters requiring stockholder approval, including the election of directors and significant corporate transactions such as mergers or other business combinations. This control could delay, deter or prevent a third party from acquiring or merging with us, which could adversely affect the market price of our common stock.

### **A large number of shares eligible for public sale or subject to rights requiring us to register them for public sale could depress the market price of our common stock.**

The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market in the future, and the perception that these sales could occur may also depress the market price of our common stock. From time to time, we may raise additional capital through issuances of equity or convertible debt securities, or issue additional equity for future acquisitions and may be required to register these securities with the SEC. Sales of our common stock pursuant to registration rights could cause our stock price to fall and make it more difficult for you to sell shares of our common stock.

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**If securities or industry analysts do not publish or cease publishing research or reports about us, our business or our market, or if they change their recommendations regarding our stock adversely or publish negative reports about our company or business, our stock price and trading volume could decline.**

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts may publish about us, our business, our market or our competitors. If any of the analysts who may cover us change their recommendation regarding our stock adversely, publish negative reports about our company or business, or provide more favorable relative recommendations about our competitors, our stock price would likely decline. If any analyst who may cover us were to cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

**Our future capital needs are uncertain, and we may need to raise additional funds in the future, which may not be available on acceptable terms or at all.**

Our capital requirements will depend on many factors, including:

acceptance of, and demand for, our applications;

the costs of developing new applications or technology;

the timing of transitioning our customers to ActiveWorks;

the number and timing of acquisitions and other strategic transactions; and

the costs associated with the growth of our business.

Our existing sources of cash and cash flows may not be sufficient to fund all of our activities. While we believe we have sufficient capital available through our credit facility and cash flows from operations to conduct our plan of business for at least the next 12 months, we may need to raise additional funds following such time, and such funds may not be available on reasonable terms, or at all. Further, if we incur additional debt, it may increase our leverage relative to our earnings or to our equity capitalization. If we cannot raise funds on acceptable terms, we may not be able to develop or enhance our applications, execute our business plan, take advantage of future opportunities or respond to competitive pressures or unanticipated customer requirements.

**If we issue additional shares of common stock to raise capital or for future acquisition purposes, it may have a dilutive effect on your investment.**

If we raise additional capital through further issuances of equity or convertible debt securities, or issue additional equity for future acquisitions, our existing stockholders could suffer significant dilution in their percentage ownership of us. Moreover, any new equity securities we issue could have rights, preferences and privileges senior to those of holders of our common stock.

**A further tightening of the credit markets may have an adverse effect on our ability to obtain short-term debt financing.**

The recent deterioration of the global economy threatens to cause further tightening of the credit markets, more stringent lending standards and terms and higher volatility in interest rates. Persistence of these conditions could have a material adverse effect on our access to short-term debt and the terms and cost of that debt. As a result, we may not be able to secure additional financing in a timely manner, or at all, to meet our future capital needs which may have an adverse effect on our business, operating results and financial condition.

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**Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of us more difficult, limit attempts by our stockholders to replace or remove our current directors and management team and limit the market price of our common stock.**

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that may delay or prevent a change in control, discourage bids at a premium over the market price of our common stock and adversely affect the market price of our common stock and the voting and other rights of the holders of our common stock. These provisions include:

dividing our board into three classes, with each class serving a staggered three-year term;

prohibiting our stockholders from calling a special meeting of stockholders or acting by written consent;

permitting our board to issue additional shares of our preferred stock, with such rights, preferences and privileges as they may designate, including the right to approve an acquisition or other changes in control;

establishing an advance notice procedure for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for election to our board of directors;

providing that our directors may be removed only for cause;

providing that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum; and

requiring the approval of our board of directors or the holders of a supermajority of our outstanding shares of capital stock to amend our bylaws and certain provisions of our certificate of incorporation.

Although we believe these provisions collectively provide for an opportunity to receive higher bids by requiring potential acquirers to negotiate with our board, they would apply even if the offer may be considered beneficial by some stockholders. In addition, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management team by making it more difficult for stockholders to replace members of our board, which is responsible for appointing the members of our management.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

## **ITEM 2. PROPERTIES**

Our principal executive offices are located at 10182 Telesis Court, Suite 100, San Diego, California. This leased facility is 122,798 square feet and currently houses our headquarters. The lease for our San Diego facility expires on October 31, 2017. Our other material facilities are located in Frostburg, Maryland; Burnaby, Canada; Nashville, Tennessee; Irving, Texas and Philadelphia, Pennsylvania. We undertake development, sales and warehouse activities in these facilities. Our main web-hosting facilities are located in Las Vegas, Nevada, Ashburn, Virginia and Toronto, Ontario. We believe that our facilities are in good operating condition and adequately serve our current business operations. We also anticipate that suitable additional or alternative space, including those under lease options, will be available at commercially reasonable terms for future expansion.

## **ITEM 3. LEGAL PROCEEDINGS**

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From time to time, we are subject to various claims and legal actions during the ordinary course of business, including potential liabilities under government regulations and various claims and legal actions that are pending or may be asserted by third parties. These matters arise in the ordinary course and conduct of our business, and,

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at times, as a result of our acquisitions. They include, for example, commercial, intellectual property and employment matters. Some are expected to be covered, at least partly, by insurance. We intend to continue to defend ourselves vigorously in such matters. We are not aware of any pending or threatened litigation that we believe is reasonably likely to have a material adverse effect on our results of operations, financial position or liquidity.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**Table of Contents****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information**

Our common stock has been listed on the NYSE under the symbol `ACTV` since May 25, 2011. Prior to that date, there was no public trading market for our common stock. Our initial public offering ( `IPO` ) was priced at \$15.00 per share on May 24, 2011. The following table sets forth for the periods indicated the high and low prices per share of our common stock as reported on the NYSE:

| Quarter        | 2012     |          |
|----------------|----------|----------|
|                | Low      | High     |
| First Quarter  | \$ 13.19 | \$ 17.74 |
| Second Quarter | \$ 12.64 | \$ 16.96 |
| Third Quarter  | \$ 10.80 | \$ 15.46 |
| Fourth Quarter | \$ 4.65  | \$ 12.06 |

**Registered Shareholders**

On February 19, 2013, the closing sales price of our common stock on the NYSE was \$5.30 and there were approximately 250 registered holders of record as of that date. This approximate number excludes an indeterminable number of stockholders whose shares are held in street or nominee name. As a result, we believe the number of beneficial owners is substantially greater than the number of registered holders of record.

**Dividends**

We have never declared or paid any cash dividends on shares of our common stock. We currently intend to retain our earnings, if any, and cash to fund working capital and for general corporate purposes and, therefore, do not anticipate paying any cash dividends on our common stock in the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our Board of Directors and will depend upon our financial condition, results of operations and capital requirements.

**Performance Graph**

The graph set forth below compares the cumulative total stockholder return on our common stock between May 25, 2011 (the date of our IPO) and December 31, 2012, with the cumulative total return of the (i) the NASDAQ Composite Index and (ii) the NASDAQ-100 Technology Sector Index. This graph assumes the investment of \$100 on May 25, 2011 in our common stock, the NASDAQ Composite Index and the NASDAQ-100 Technology Sector Index, and assumes the reinvestment of dividends. No cash dividends have been declared or paid on our common stock. The comparisons in the graph below are required by the SEC and are not intended to forecast or be indicative of possible future performance of our common stock.

The following graph and related information shall not be deemed soliciting material or be deemed to be filed with the SEC, nor shall such information be incorporated by reference into any future filing, except to the extent that we specifically incorporate it by reference into such filing.



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|                                     | May 25,<br>2011 | June 30,<br>2011 | September 31,<br>2011 | December 31,<br>2011 | March 31,<br>2012 | June 30,<br>2012 | September 31,<br>2012 | December 31,<br>2012 |
|-------------------------------------|-----------------|------------------|-----------------------|----------------------|-------------------|------------------|-----------------------|----------------------|
| <b>The Active Network, Inc.</b>     | <b>100.00</b>   | <b>110.69</b>    | <b>92.77</b>          | <b>85.53</b>         | <b>105.85</b>     | <b>96.79</b>     | <b>78.81</b>          | <b>30.88</b>         |
| <b>NASDAQ Composite</b>             | <b>100.00</b>   | <b>95.66</b>     | <b>84.51</b>          | <b>92.31</b>         | <b>105.43</b>     | <b>102.50</b>    | <b>107.86</b>         | <b>103.69</b>        |
| <b>NASDAQ 100 Technology Sector</b> | <b>100.00</b>   | <b>95.30</b>     | <b>90.44</b>          | <b>98.29</b>         | <b>122.26</b>     | <b>113.58</b>    | <b>121.94</b>         | <b>113.42</b>        |

**Unregistered Sales of Equity Securities**

None.

**Use of Proceeds from Registered Securities**

Our IPO of common stock was effected through a Registration Statement on Form S-1 (File No. 333-172254) that was declared effective by the Securities and Exchange Commission on May 24, 2011, which registered an aggregate of 12,650,000 shares of our common stock, including 1,650,000 shares that the underwriters had the option to purchase. On May 31, 2011, 8,222,222 shares of common stock were sold on our behalf and 4,427,778 shares of common stock were sold on behalf of the selling stockholders, including 1,650,000 shares sold by the selling stockholders upon exercise in full of the underwriters' option to purchase additional shares, at an IPO price of \$15.00 per share, for an aggregate gross offering price of \$123,333,330 to us, and \$66,416,670 to the selling stockholders. Merrill Lynch, Pierce, Fenner & Smith and Citigroup Global Markets Inc. served as the managing underwriters of the initial public offering. Following the sale of the shares in connection with the closing of the IPO, the offering terminated.

As a result of the IPO, we received net proceeds of approximately \$112.6 million, after deducting underwriting discounts and commissions of approximately \$8.6 million and additional IPO-related expenses, net of reimbursements, of approximately \$2.1 million. We did not receive any proceeds from the sale of shares by the selling shareholders. No IPO expenses were paid directly or indirectly to (i) any of our officers or directors or their associates, (ii) any persons owning 10% or more of any class of our equity securities, or (iii) any of our affiliates.

There was no material change in the use of proceeds from our IPO as described in our final prospectus filed with the SEC pursuant to Rule 424(b). From the effective date of the registration statement through December 31, 2012, we have used the net proceeds of the IPO for repayment of debt, funding for acquisitions and for general corporate purposes, including expenditures for financing growth, developing additional application services functionality and features, acquiring new customers and funding capital expenditures.

**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**

The selected consolidated financial data below have been derived from our audited financial statements. The following table should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operation and our Consolidated Financial Statements and notes thereto included elsewhere in this Annual Report on Form 10-K. The historical results presented below are not indicative of any future results.

|   | 2012        | Year Ended December 31, |             |             | 2008        |
|---|-------------|-------------------------|-------------|-------------|-------------|
|   |             | 2011                    | 2010        | 2009        |             |
| (In thousands, except per share data)   |             |                         |             |             |             |
| <b>Net revenue:</b>   |             |                         |             |             |             |
| Technology revenue  | \$ 370,472  | \$ 290,488              | \$ 237,688  | \$ 210,483  | \$ 145,789  |
| Marketing services revenue  | 48,421      | 46,910                  | 41,912      | 32,401      | 27,407      |
| Total net revenue   | 418,893     | 337,390                 | 279,600     | 242,884     | 173,196     |
| Cost of net revenue   | 191,819     | 150,914                 | 121,351     | 107,188     | 79,681      |
| Gross profit  | 227,074     | 186,476                 | 158,249     | 135,696     | 93,515      |
| Total operating expenses  | 266,700     | 203,092                 | 178,764     | 167,269     | 137,421     |
| Loss from operations  | (39,626)    | (16,616)                | (20,515)    | (31,573)    | (43,906)    |
| Interest expense, net   | (577)       | (2,771)                 | (5,288)     | (5,043)     | (3,296)     |
| Other income (expense), net   | 1,157       | (14)                    | 455         | (1,196)     | (268)       |
| Loss before provision (benefit) for income taxes  | (39,046)    | (19,401)                | (25,348)    | (35,420)    | (47,470)    |
| Provision (benefit) for income taxes  | 3,980       | (4,074)                 | 1,924       | 2,439       | 1,506       |
| Net loss  | (43,026)    | (15,327)                | (27,272)    | (37,859)    | (48,976)    |
| Accretion of redeemable convertible preferred stock   |             | (11,810)                | (28,157)    | (25,774)    | (15,639)    |
| Net loss attributable to common stockholders  | \$ (43,026) | \$ (27,137)             | \$ (55,429) | \$ (63,633) | \$ (64,615) |
| Net loss per share attributable to common stockholders:   |             |                         |             |             |             |
| Basic and diluted   | \$ (0.73)   | \$ (0.75)               | \$ (7.83)   | \$ (10.86)  | \$ (11.68)  |
| Weighted-average shares used to compute net loss per share attributable to common stockholders <sup>(1)</sup> : |             |                         |             |             |             |
| Basic and diluted   | 58,804      | 36,072                  | 7,080       | 5,862       | 5,530       |

|  | 2012      | Year Ended December 31, |           |           | 2008       |
|--|-----------|-------------------------|-----------|-----------|------------|
|  |           | 2011                    | 2010      | 2009      |            |
| (In thousands)                               |           |                         |           |           |            |
| <b>Other Financial and Operational Data:</b> |           |                         |           |           |            |
| Adjusted EBITDA <sup>(2)</sup>               | \$ 38,417 | \$ 36,036               | \$ 25,120 | \$ 15,746 | \$ (2,672) |
| Organizations                                | 54.9      | 51.3                    | 47.3      | 44.9      | 41.5       |
| Registrations                                | 89,900    | 80,274                  | 70,182    | 65,461    | 25,074     |

- (1) Effective May 25, 2011, all shares of convertible preferred stock and redeemable convertible preferred stock were converted into 8,807,090 and 25,824,801 shares of common stock, respectively, in connection with our IPO. Upon completion of IPO in May 2011, we amended and restated our certificate of incorporation to authorize 100,000,000 shares of preferred stock.

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- (2) We define Adjusted EBITDA as net loss, plus: interest expense (net), provision (benefit) for income taxes, depreciation and amortization, stock-based compensation, and other income (expense), net. Please see Adjusted EBITDA below for more information and for a reconciliation of Adjusted EBITDA to net loss, the most directly comparable financial measure calculated and presented in accordance with U.S. generally accepted accounting principles, or GAAP.

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|   | Year Ended December 31, |            |           |           |           |
|---|-------------------------|------------|-----------|-----------|-----------|
|   | 2012                    | 2011       | 2010      | 2009      | 2008      |
|   | (In thousands)          |            |           |           |           |
| <b>Consolidated Balance Sheet Data:</b> |                         |            |           |           |           |
| Cash and cash equivalents               | \$ 58,493               | \$ 108,699 | \$ 31,441 | \$ 26,381 | \$ 33,395 |
| Restricted cash                         | 1,145                   | 1,502      | 5,000     | 5,000     | 5,000     |
| Property and equipment, net             | 41,236                  | 33,830     | 28,181    | 26,742    | 20,093    |
| Software development costs, net         | 51,151                  | 45,093     | 37,013    | 27,003    | 14,890    |
| Working deficit                         | (41,312)                | (42,035)   | (57,985)  | (38,676)  | (17,376)  |
| Total assets                            | 542,470                 | 600,557    | 390,548   | 381,871   | 325,936   |
| Total long-term debt                    |                         | 5,000      | 44,403    | 48,727    | 54,045    |
| Convertible preferred stock             |                         |            | 21,187    | 21,187    | 21,187    |
| Redeemable convertible preferred stock  |                         |            | 371,126   | 343,021   | 269,534   |
| Total stockholders' equity (deficit)    | 332,447                 | 346,639    | (185,981) | (141,343) | (96,622)  |
| <b>Adjusted EBITDA</b>                  |                         |            |           |           |           |

To provide investors with additional information regarding our financial results, we have disclosed in the table above and within this Annual Report on Form 10-K Adjusted EBITDA, a non-GAAP financial measure. We have provided a reconciliation below of Adjusted EBITDA to net loss, the most directly comparable GAAP financial measure.

We have included Adjusted EBITDA in this Annual Report on Form 10-K because we seek to manage our business to an improving level of Adjusted EBITDA as a percentage of revenue, and it is a key basis upon which we assess the performance of our operations and management. We also use Adjusted EBITDA for business planning, evaluation of acquisition opportunities and as a measurement to incentivize and compensate our management. In particular, the exclusion of certain expenses in calculating Adjusted EBITDA can provide a useful measure for period-to-period comparisons.

Our use of Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our financial results as reported under GAAP. Some of these limitations are:

Adjusted EBITDA does not reflect our cash expenditures for capital equipment, internally developed software costs or certain other contractual commitments;

although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may need to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements;

Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

Adjusted EBITDA does not consider the potentially dilutive impact of equity-based compensation to our management team or employees;

Adjusted EBITDA does not reflect tax payments that may represent a reduction in cash available to us; and

other companies, including companies in our industry, may calculate Adjusted EBITDA differently, which reduces its usefulness as a comparative measure.

Because of these limitations, you should consider Adjusted EBITDA alongside other financial performance measures, including various cash flow metrics, net loss and our other GAAP financial results.



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The following table presents a reconciliation of Adjusted EBITDA for each of the periods indicated:

|   | 2012        | Year Ended December 31, |             |             | 2008        |
|---|-------------|-------------------------|-------------|-------------|-------------|
|   |             | 2011                    | 2010        | 2009        |             |
| (In thousands)  |             |                         |             |             |             |
| <b>Reconciliation of Adjusted EBITDA to Net Loss:</b> |             |                         |             |             |             |
| Net loss  | \$ (43,026) | \$ (15,327)             | \$ (27,272) | \$ (37,859) | \$ (48,976) |
| Interest expense, net                                 | 577         | 2,771                   | 5,288       | 5,043       | 3,296       |
| Provision (benefit) for income taxes                  | 3,980       | (4,074)                 | 1,924       | 2,439       | 1,506       |
| Depreciation and amortization                         | 61,315      | 44,857                  | 40,287      | 36,079      | 26,697      |
| Stock-based compensation                              | 16,728      | 7,795                   | 5,348       | 11,240      | 14,537      |
| Other expense (income), net                           | (1,157)     | 14                      | (455)       | (1,196)     | 268         |
| Adjusted EBITDA                                       | \$ 38,417   | \$ 36,036               | \$ 25,120   | \$ 15,746   | \$ (2,672)  |

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*You should read the following in conjunction with the Selected Financial Data and our consolidated financial statements and the related notes thereto that appear elsewhere in this Annual Report on Form 10-K. In addition to historical information, the following discussion and analysis includes forward looking information that involves risks, uncertainties and assumptions. Actual results and the timing of events could differ materially from those anticipated by these forward looking statements as a result of many factors, including those discussed under Risk Factors elsewhere in this Annual Report.*

**Overview**

We are leaders in cloud-based Activity and Participant Management solutions serving a wide range of customer groups including business solutions, community activities, public sector and outdoors and sports. We provide applications that form an online network connecting a fragmented and diverse group of activity and event organizers with a large base of potential participants. Our proprietary technology platform transforms the way organizers manage their activities and events by automating online registrations and streamlining other critical management functions, while also driving consumer participation to their events.

We power a broad range of activities, such as reserving a campsite or tee time, signing up for a marathon or sports league, purchasing a fishing or hunting license, or participating in a community event or corporate conference. From the introduction of our platform in 1999, we have experienced significant growth and in 2012, we had approximately 55,000 customer organizations that drove approximately 89.9 million annual consumer registrations. Based on the results of a 2010 online survey we commissioned through Survey.com, we believe the organizations we target produce or organize activities and events for the majority of U.S. households. Our proprietary technology platform, ActiveWorks, provides cloud computing applications that reduce the cost and complexity of managing, organizing and promoting these activities and events.

Our business benefits from a powerful network effect. As more organizations use our platform, we increase the breadth and depth of activities and events offered through our platform. This more comprehensive offering of activities attracts more participants. As we attract more participants, we are able to drive increased demand for our customers' activities, thus increasing registrations and revenue for both organizers and us. This revenue growth enables us to develop enhanced functionality and services through ActiveWorks and our websites, further increasing participant engagement and attracting new organizers. In this way, we build increasing value for both organizations and participants.

We serve a wide range of customers including community and sports organizations, large corporations, small and medium-sized businesses, educational institutions, federal and state government agencies, non-profit

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organizations and other similar entities. We primarily generate revenue from technology fees paid by participants who register for our customers activities through our cloud computing applications. During the year ended December 31, 2012, we generated revenue of \$418.9 million, as compared to \$337.4 million in the year ended December 31, 2011, and \$279.6 million in the year ended December 31, 2010, an increase of 24% and 21% respectively.

A large number of our customers are currently being served by our ActiveWorks architecture at varying levels of integration. We are in the process of transitioning to ActiveWorks certain customers who continue to use both our internally developed systems and acquired legacy systems. In addition, part of our growth strategy has included acquisitions, which resulted in the acquisition of additional legacy systems. In the future, we will evaluate acquired systems to determine, based on their sophistication and compatibility, whether to integrate them into ActiveWorks or to migrate the customers using these systems to ActiveWorks. This process is time consuming and requires the investment of significant technical and human resources. During this process, we expect to continue to incur costs associated with maintaining multiple legacy systems.

In addition, our long-term strategic plan involves expanding our applications into new business areas within the activity and event registration and management market. A lack of market acceptance of such efforts or our inability to generate satisfactory revenue to offset the development costs could have a material adverse effect on our results of operations and future growth prospects. As we establish and expand our operational capabilities internationally, we will incur additional operating expenses and capital-related costs.

## **Business Model**

*Technology Revenue.* Our technology revenue was 88% of our total revenue for the year ended December 31, 2012. Of our technology revenue recognized during the year ended December 31, 2012, 74% related to registration revenue and 26% related to licensed software, maintenance, hosting, and implementation revenue.

Our technology fee is a percentage of the total registration amount that is paid by a participant at the time of sign up. Participants typically use a credit card to register for an activity either online or offline, and in the case of some of our large contracts, by using a call center. Upon registration, the consumer is charged for the total event registration fee, including the technology fee, and the funds are remitted to bank accounts that we control. We record revenue for our technology fee and we remit the remaining funds to the organizer. The organizer has the option of absorbing our technology fee and presenting a total event registration fee to the participant, or adding the technology fee as a separate line item in the event registration fee. Pricing for our cloud offerings is based on a portion of the total dollars processed for a registration and typically has a fixed and variable component. A number of our offerings also include a fee for setup, support or hosting. Our technology platform serves the entire spectrum of organizations, from large to small. Our standard contract for our registration customers is three years. Less than 2% of our revenue represents pre-purchased registrations and the technology revenue associated with these registrations represents the sales price to the participant, in addition to the technology fee. In cases where we have pre-purchased registrations, we retain the funds received upon registration. The technology fee and the revenue from pre-purchased registrations represent net registration revenue, since they are the direct result of participant registrations.

Licensed software, maintenance, hosting and implementation revenue was 26% of our technology revenue for the year ended December 31, 2012. In previous acquisitions, we acquired licensed software products which include licensed software, maintenance and services. As the market has become more receptive, we have begun transitioning these customers to our solutions. We anticipate that our licensed software, maintenance and services revenue will continue to decline as a percentage of our overall business. In the future, we anticipate sales in our technology segment will be primarily driven by technology fees from our cloud offerings.

*Marketing Services Revenue.* Our marketing services revenue was 12% of our total revenue for the year ended December 31, 2012. The marketing services segment works to provide the organizations within our

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technology segment and their participants with marketing solutions, online communities, membership programs and hosted websites. We group these sales as online services, field marketing and commerce. Online services include online advertising, email marketing and targeted newsletter promotions. We provide field marketing services including event promotions and sponsorships. Our commerce revenue consists of membership programs, training programs and websites. Contracts within our marketing services segment vary in length but are generally less than one year. We obtain customers through direct sales, inside sales and self-setup.

*Research and Development Expense.* Our research and development expenses are primarily the costs for employees engaged in the development and ongoing maintenance of our offerings and services. Primarily as a result of our acquisitions, we currently maintain numerous solutions that allow us to service customers of various types and sizes. In 2007, we began to develop ActiveWorks while continuing to maintain our existing products. As a result, we have incurred an increase in our research and development expense as well as capitalized software. We review spending on our research and development projects monthly and group the expenses in categories attributable to surviving products, end-of-life products and capitalized software. We expect that as development work is completed on our surviving products we will see a reduction in the research and development expenses attributable to our end-of-life products as well as the related spending associated with capitalized software for new products. For the year ended December 31, 2012, we capitalized \$23.5 million of software development.

### **Key Factors that Affect Our Business**

*Seasonality.* Our total revenue experiences seasonality with the three months ended June 30 and September 30 having the highest revenue. This seasonality is mainly due to trends in net registration revenue, as many of our larger customers experience peak business activity during the warmer months of the year.

*Acquisitions.* As a part of our growth strategy, we have completed a number of acquisitions in recent years. Our growth has been significantly affected by these acquisitions. In general, we pursue acquisitions for several reasons, such as acquiring a key technology or feature set, gaining access to a new customer group or acquiring domain expertise. We did not complete any significant acquisitions in 2012.

In February 2011, we acquired Fellowship Technologies, Inc. ( Fellowship ), a provider of web based software to religious institutions. The acquisition enables us to strengthen our position as a technology leader and broaden our customer base in the faith space. The purchase consideration was approximately 1,125,000 shares of our common stock valued at approximately \$8.9 million.

In October 2011, we acquired ServiceU, a provider of web-based solutions for giving, event registration, ticketing, calendaring and resource management in exchange for \$11.1 million in cash. The acquisition enables us to strengthen our position as a technology leader and broaden our customer base in the faith space.

In November 2011, we acquired RTP, LLC, a provider of integrated resort software and solutions in exchange for \$21.5 million in cash. The acquisition enables us to broaden our existing product capabilities and our customer base in the resorts space.

In December 2011, we acquired StarCite, Inc., a provider of a technology platform that delivers content and services for meetings and event planning to corporations, hotels, venues and meetings suppliers for consideration of \$57.4 million in cash and shares of our common stock. Total consideration comprised \$38.1 million in cash, 1,329,680 shares of common stock with a fair value of approximately \$18.2 million and 150,000 shares of contingently issuable common stock with a fair value of approximately \$1.1 million to be issued in the event that shares of our common stock did not close trading at or above \$15.00 per share on the New York Stock Exchange for at least three consecutive days at any time during the sixty day period following the effective date of a registration statement filed to register the shares issued or issuable, as consideration in the merger. The acquisition enables us to provide an integrated solution for the events space and broaden its customer base.



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During the year ended December 31, 2011, we acquired operations from two other businesses including a provider of web-based church management solutions and a provider of online registration for endurance events, in exchange for \$4.6 million in cash. These acquisitions enable us to strengthen our position as a technology leader and broaden our customer base in the faith and endurance spaces.

**Key Business Metrics**

*Net Registration Revenue.* We calculate our net registration revenue by summing the technology fees generated by our registrations and revenue from the sale of pre-purchased registrations in a given period. Technology fees are generally recognized as revenue at the time a transaction is processed, and are typically a percentage of the total registration price paid by a participant. Revenue from the sale of pre-purchased registrations is comprised of the registration price paid by a participant and the technology fee and is recognized at the time the event is held.

*Registrations.* We define a registration as when a participant registers one or more people for an event being held by an organization who is using our technology to register that participant. We determine that a registration has taken place when a participant registers one or more people for an activity or an event being held by one of our customers.

|   | Year Ended December 31,                      |            |            | % Change     |              |
|---|--|------------|------------|--------------|--------------|
|   | 2012   | 2011       | 2010       | 2012 to 2011 | 2011 to 2010 |
|   | (In thousands, except per registration data) |            |            |              |              |
| Organizations                             | 54.9   | 51.3       | 47.3       | 7%           | 8%           |
| Net registration revenue (1)              | \$ 275,826                                   | \$ 228,453 | \$ 197,575 | 21%          | 16%          |
| Registrations                             | 89,900                                       | 80,274     | 70,182     | 12%          | 14%          |
| Net registration revenue per registration | \$ 3.07                                      | \$ 2.85    | \$ 2.82    | 8%           | 1%           |

(1) Includes revenue of \$6.5 million and \$2.2 million, related to pre-purchased registrations with associated technology fees of \$0.6 million, \$0.2 million during the years ended December 31, 2012, and 2011, respectively. There were no revenues associated with pre-purchased registrations during the year ended December 31, 2010.

**Net Registration Revenue and Registrations**

*2012 compared to 2011.* Registrations increased 9.6 million or 12%. Approximately one-third of our growth was due to additional registrations from our acquisition of StarCite, a provider of a technology platform that delivers content and services for meetings and event planning, which we acquired in December 2011. We also had higher registrations across all other customer groups from both existing and new customers. The average revenue per registration increased 8%, due in part to a change in type of registrations sold resulting from the acquisition of StarCite, which has a higher revenue per registration than our overall average.

*2011 compared to 2010.* Registrations increased 10.1 million or 14%. The growth was due to additional registrations from new large state customers in our public sector and outdoors customer group and growth from sales to new organizations mainly in our communities and business solutions customer groups. The average revenue per registration increased 1%, mainly as a result of the registrations growth in our public sector and outdoors and communities customer groups, which have higher revenue per registration than our overall average.

*Mobile Devices.* During the twelve months ended December 31, 2012, less than 10% of our registrations were made on a mobile or tablet device. We anticipate that revenue attributable to mobile usage will increase in future years due to users increasingly accessing the Internet through mobile devices.

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### **Basis of Presentation**

#### ***General***

The consolidated financial statements include the accounts of The Active Network, Inc. and its wholly-owned subsidiaries. All intercompany balances have been eliminated.

Acquisitions that have been accounted for as purchase transactions are included in the consolidated results from their date of purchase.

#### ***Revenue***

We report our revenue in two segments:

##### Technology

##### Marketing services

The technology revenue segment is comprised of net registration revenue, which is primarily comprised of the technology fee we charge a participant when they register for one of our organization's events. The types of events we offer on our platform can be categorized into the following four primary groups: business solutions, community activities, public sector and outdoors, and sports. We generate technology revenue for our services based on the technology fee we charge a consumer when they register for one of the events. Consumers generally pay us the registration fee at the time of booking, and we pay the event organizer at a later date. The technology fee is recognized as revenue net of the organization registration fee which is collected directly from our consumer and then we make payment to the event organizer typically on a two week basis. Net registration revenue is recognized when services are provided, net of estimated refunds and other chargebacks. The timing difference between when the cash is collected from our consumers and when payments are made to the event organizers improves our operating cash flow and represents a source of liquidity for us. Technology revenue also includes software licensing, installation, training, maintenance, hosting subscriptions, and the sale of pre-purchased registrations. In certain circumstances we pre-purchase registrations from event organizers and bear the risk and rewards of ownership. Net registration revenue associated with these transactions is recognized when the event occurs and includes the total registration price paid by a customer and the technology fee.

The marketing services revenue segment includes online services, field marketing services and membership programs. Registrations lead participants to our network of websites and create opportunities for us to sell our online commerce and other marketing services to participants. Our network of websites enables like-minded consumers to engage in our online communities.

#### ***Costs and Expenses***

*Cost of Revenue.* Our cost of revenue consists of credit card processing fees for registrations, payroll and related costs including allocated facilities costs, stock-based compensation for employees associated with registration, subscription or software implementation, customer support and onsite event support including travel costs. Costs also include expenses related to our call center operations, amortization of capitalized software development costs and certain acquired intangibles including acquired technology, customer supply costs, inventory costs related to pre-purchased registrations, and internet hosting costs.

*Sales and Marketing.* Our sales and marketing costs are primarily salaries, benefits, incentive compensation, stock-based compensation and allocated facilities costs for our sales and marketing employees. Costs also include expenses for travel, trade shows and other promotional and marketing activities including direct and online marketing.

*Research and Development.* Our research and development costs are primarily salaries, benefits, incentive compensation, stock-based compensation and allocated facilities costs for employees and contractors engaged in the development and ongoing maintenance of our products and services.

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*General and Administrative.* Our general and administrative costs are primarily salaries, benefits, incentive compensation, stock-based compensation and allocated facilities costs for employees engaged in support activities including executive, finance, accounting, human resources, legal and internal information technology support. Also included are professional fees and contractor costs for legal and accounting services. Software expenses and travel costs for support employees, taxes, fees and licenses are also included.

*Amortization of Intangibles.* Intangible assets with finite lives are amortized using a combination of straight-line and accelerated methods based on the expected cash flows from the asset over their estimated useful lives. This includes assets recorded in conjunction with certain acquisitions.

*Other Income (Expense), Net.* Other income (expense), net consists primarily of the interest income earned on our cash and cash equivalents, interest paid on our debt, foreign exchange gains and losses and other one-time gains and losses.

*Provision (benefit) for Income Taxes.* Provision for income taxes consists of federal and state income taxes in the United States and income taxes in certain foreign jurisdictions.

**Adjusted EBITDA**

To provide investors with additional information regarding our financial results, we have disclosed within this Annual Report on Form 10-K adjusted EBITDA, a non-GAAP financial measure. We have provided a reconciliation below of adjusted EBITDA to net loss, the most directly comparable GAAP financial measure.

We have included adjusted EBITDA in this Annual Report on Form 10-K because it is a key measure used by our management and board of directors to understand and evaluate our core operating performance and trends, to prepare and approve our annual budget and to develop short and long-term operational plans. In particular, the exclusion of certain expenses in calculating adjusted EBITDA can provide a useful measure for period-to-period comparisons of our core business. Additionally, adjusted EBITDA is a key financial measure used by the compensation committee of our board of directors in connection with the payment of bonuses to our executive officers. Accordingly, we believe that adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors.

For additional information on the limitations of adjusted EBITDA, see [Adjusted EBITDA](#) in Item 6 [Selected Financial Data](#) for more information.

|   | Year Ended December 31, |             |             |             |             |
|---|-------------------------|-------------|-------------|-------------|-------------|
|   | 2012                    | 2011        | 2010        | 2009        | 2008        |
| (In thousands)  |                         |             |             |             |             |
| <b>Reconciliation of Adjusted EBITDA to Net Loss:</b> |                         |             |             |             |             |
| Net loss  | \$ (43,026)             | \$ (15,327) | \$ (27,272) | \$ (37,859) | \$ (48,976) |
| Interest expense, net                                 | 577                     | 2,771       | 5,288       | 5,043       | 3,296       |
| Provision (benefit) for income taxes                  | 3,980                   | (4,074)     | 1,924       | 2,439       | 1,506       |
| Depreciation and amortization                         | 61,315                  | 44,857      | 40,287      | 36,079      | 26,697      |
| Stock-based compensation                              | 16,728                  | 7,795       | 5,348       | 11,240      | 14,537      |
| Other expense (income), net                           | (1,157)                 | 14          | (455)       | (1,196)     | 268         |
| Adjusted EBITDA                                       | \$ 38,417               | \$ 36,036   | \$ 25,120   | \$ 15,746   | \$ (2,672)  |

**Critical Accounting Policies**

The discussion and analysis of our financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with GAAP. The preparation of

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these financial statements requires us to make estimates, assumptions and judgments that can have a significant impact on the reported amounts of assets and liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities at the date of our financial statements. We base our estimates, assumptions and judgments on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. On a regular basis we evaluate our estimates, assumptions and judgments and make changes accordingly. We also discuss our critical accounting estimates with the Audit Committee of our Board of Directors. We believe that the estimates, assumptions and judgments involved in revenue recognition, returns and discounts, software development costs, stock-based compensation, business combinations, impairment of goodwill, intangible assets and long-lived assets, and accounting for income taxes have the greatest potential impact on our Consolidated Financial Statements, so we consider these to be our critical accounting policies.

We discuss below the critical accounting estimates associated with these policies. Historically, our estimates, assumptions and judgments relative to our critical accounting policies have not differed materially from actual results. For further information on our significant accounting policies, see Note 2 to our Consolidated Financial Statements included in this Annual Report on Form 10-K.

**Revenue Recognition**

We recognize technology revenue primarily from registration fees and related hosting and implementation services. Technology revenue also includes software licensing, training services, software maintenance fees and revenue from the sale of pre-purchased registrations. Technology revenue was 88%, 86%, and 85% of total revenue for the years December 31, 2012, 2011, and 2010, respectively. We also record revenue for marketing services which primarily consists of online and integrated field marketing campaigns and membership programs. Marketing revenue was 12%, 14%, and 15% of total revenue for the years ended December 31, 2012, 2011, and 2010, respectively.

We recognize revenue when a signed contract or other persuasive evidence of an arrangement exists, the product has been delivered or services have been rendered, the fee is fixed or determinable, and collection of the resulting receivable is probable. Our arrangements do not contain general rights of return.

We assess whether the fee is fixed or determinable, and collection is probable, at the time of the transaction. In determining whether the fee is fixed or determinable, we compare the payment terms of the transaction to our standard payment terms and whether payment is free of contingencies or significant uncertainties. If a significant portion of the fee is considered to have extended payment terms or the fee is subject to adjustment, we account for the fee as not being fixed or determinable and recognize revenue as the payments become due. We assess whether collection is probable based on a number of factors, including the customer's past transaction history and credit-worthiness. We do not request collateral from our customers. If we determine that collection of a fee is not probable, we defer the fee and recognize revenue at the time collection becomes probable, which is generally upon receipt of cash.

We also enter into multiple element revenue arrangements in which a customer may purchase a combination of hosting, implementation, training, maintenance, or marketing services. Revenue arrangements with multiple deliverables are divided into separate units and the arrangement consideration is allocated to all deliverables based on the relative selling price method. In such circumstances, we use the selling price hierarchy of: (i) vendor specific objective evidence of fair value ( VSOE ), if available, (ii) third-party evidence of selling price ( TPE ), and (iii) best estimate of selling price ( BESP ). VSOE is limited to the price charged when the same element is sold separately by us. Due to the unique nature of some of our multiple deliverable revenue arrangements, we may not be able to establish selling prices based on historical stand-alone sales using VSOE or TPE; therefore we may use its best estimate to establish selling prices for these arrangements. We establish the best estimates within a range of selling prices considering multiple factors including, but not limited to, factors such as customer base, size of transaction, customer demand, historic contractually stated prices and our price lists.

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Significant management judgments and estimates must be made in connection with determination of the revenue to be recognized in any accounting period. If we make different judgments or utilize different estimates for any period, material differences in the amount and timing of revenue recognized could result.

### **Technology Revenue**

Registration revenue is recognized when received, net of registration fees paid to event organizers, refunds, and chargebacks, where we are acting as an agent of event organizers. Net registration revenue comprised 66%, 67% and 71% of total net revenue for the years ended December 31, 2012, 2011 and 2010, respectively.

In certain circumstances, we pre-purchase registrations from event organizers. The decision to record revenue gross versus net is a matter of significant judgment that is dependent upon the relevant facts and circumstances. We evaluate the presentation of revenue on a gross or net basis based on the qualitative weight of various indicators in the authoritative accounting guidance in order to determine whether we recognize (a) the gross amount billed to a customer because it has earned revenue from the sale of the goods or service or (b) the net amount retained (that is, the amount billed to a customer less the amount paid to a supplier because it has earned a commission or fee). Registration revenue associated with pre-purchased registration transactions is recorded on a gross basis at the time the event occurs, as we bear inventory risk, have latitude in establishing price, bear credit risk and assume many of the responsibilities of the primary obligor, except for the actual fulfillment of the event.

For the sale of pre-purchased registrations recorded on a gross basis, cash collected in advance of the event is recorded as deferred revenue until the event occurs. Revenue recognized on a gross basis comprised 1.6%, 0.7% and 0% for each of the three years ended December 31, 2012, 2011 and 2010, respectively.

Many customers who use our hosting services or license our software also enter into professional services and training arrangements with us. In addition, certain of our hosting agreements include up-front fees for implementation of hosting services. In determining whether professional services and implementation revenue should be accounted for separately, we evaluate (among other factors): the nature of the deliverables; whether they are ready for their intended use by the customer upon receipt; the nature of the implementation services; the availability of services from other vendors; whether the timing of payments for license revenue is coincident with performance of services and whether milestones or acceptance criteria exist that affect the realizability of the hosting or software license fee.

For hosting arrangements with up-front fees for implementation services where the hosting and implementation do not have stand-alone value, we defer the related revenue and record revenue as a single unit over the term of the hosting contract.

For license and professional services that qualify for separate accounting, such as arrangements that involve off-the-shelf software, the services do not include significant alterations to the features and functionality of the software, the services are primarily comprised of implementation services and fair value exists for the undelivered elements, software revenue is generally recognized when the software is delivered and service revenue is recognized when the services are performed.

For license and professional service arrangements that do not qualify for separate accounting, such as arrangements that involve significant modification or customization of the software, arrangements that include milestones or customer specific acceptance criteria, or where payment for the software license is tied to the performance of professional services, software license revenue is generally recognized together with the professional services revenue when the services have been performed.

Maintenance revenue consists of fees for providing software updates on a when-and-if available basis and technical support to software products ( PCS ). Maintenance revenue is recognized ratably over the term of the agreement.

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Penalties from customers related to power outages or other technical disruptions are recognized in the period in which such amounts are incurred based on our estimated liability and are recorded as a reduction of revenue or an increase to cost of revenue.

### **Marketing Revenue**

Marketing services revenue consists of online and integrated field marketing campaigns and membership programs. Our online marketing services include online advertising, e-mail marketing and targeted newsletter promotions. Banner, button and e-mail advertisements are impression-based, with the revenue based on the number of times the advertisement is displayed or delivered over the contract period. Impression-based contract revenue is primarily recognized as the impression is displayed on our web site or delivered by e-mail to the intended addressee. Our field marketing services include event promotions, sponsorships and sample placements and are defined contractually with individual customers. Field marketing revenue is recognized over the term of the contract or when revenue is earned based on the performance of services associated with a series of events. Revenue from membership programs is recognized over the term of the membership period.

### **Software Development Costs**

We capitalize costs related to software acquired, developed or modified solely to meet our internal use, with no substantive plans to market such software at the time of development, in accordance with authoritative guidance for internal-use software. Such costs are capitalized during the application development stage once preliminary planning activities have been successfully completed and management approves continuation of the project. We amortize these costs on a straight-line basis over the estimated useful life of the related asset, generally over two to five years. Costs incurred prior to meeting these criteria together with costs incurred for training and maintenance are expensed as incurred and recorded as research and development on our consolidated statements of operations. Costs incurred for enhancements that are expected to result in additional features or functionality are capitalized and expensed over the estimated useful lives of the enhancements.

### **Business Combinations**

We determine the estimated fair value of acquired companies' tangible and intangible assets, liabilities assumed and in-process research and development at the acquisition date. The process of determining fair value requires management to make significant estimates and assumptions, especially at the acquisition date with respect to intangible assets, support obligations assumed, estimated restructuring liabilities and pre-acquisition contingencies.

Although we believe the assumptions and estimates we have made in the past have been reasonable and appropriate, they are based in part on historical experience and information obtained from the management of the acquired companies and is inherently uncertain. The estimation of fair value requires us to use significant estimates and assumptions, including fair value estimates, as of the business combination date including:

estimated fair values of intangible assets acquired from the acquiree;

estimated fair values of software license updates and product support obligations assumed from the acquiree;

estimated income tax assets and liabilities assumed from the acquiree;

estimated value of restructuring liabilities to reorganize the acquiree's pre-acquisition operations;

estimated fair values of stock awards assumed from the acquiree that are included in the purchase price; and

estimated fair value of pre-acquisition contingencies assumed from the acquiree.



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**Table of Contents****Impairment of Goodwill, Indefinite-Lived Intangible Assets and Long-Lived Assets**

Our goodwill and intangible assets result from our corporate acquisition transactions. Goodwill and intangible assets with indefinite useful lives are not amortized, but are instead tested for impairment at least annually or as circumstances indicate their value may no longer be recoverable. Examples of such events or circumstances include: a significant adverse change in legal factors or in the business climate, a significant decline in our stock price, a significant decline in our projected revenue or cash flows, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, or the presence of other indicators that would indicate a reduction in the fair value of a reporting unit. To date we have not performed an interim impairment test. We do not carry any intangible assets with indefinite useful lives other than goodwill. We evaluate our recorded goodwill balances for potential impairment by comparing the fair value of each reporting unit to its carrying value, including recorded goodwill. Our annual testing date is October 1. Goodwill impairment testing is a two-step process. For the first step, we screen for impairment, and if any possible impairment exists, we undertake a second step of measuring such impairment by performing discounted cash flow analyses. These analyses are based on cash flow assumptions that are consistent with the plans and estimates being used to manage our business. In the first step, we compare the carrying amount of our reporting units to the fair value of the reporting units. An excess carrying value over fair value would indicate that goodwill may be impaired. If we determined that goodwill may be impaired, then we would complete the second step of the test and compare the implied fair value of the goodwill to the carrying amount of goodwill. We periodically re-evaluate our business and have determined that we continue to operate in two segments, which we consider our reporting units given the similarities in economic characteristics between our operations and the common nature of our products, services and customers within each segment.

Determining the fair value of a reporting unit for purposes of the goodwill impairment test is judgmental in nature and involves the use of estimates and assumptions. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge. Estimates of fair value are primarily determined using discounted cash flows and market multiples from publicly traded comparable companies. These approaches use significant estimates and assumptions including projected future cash flows, discount rate reflecting the inherent risk in future cash flows, perpetual growth rate and determination of appropriate market comparables. For fiscal year 2012, the discounted cash flows for each reporting unit were based on discrete two-year financial forecasts developed by management for planning purposes. Cash flows beyond the two-year discrete forecasts were estimated based on projected growth rates and financial ratios, influenced by an analysis of historical ratios and by calculating a terminal value at the end of five years for each reporting unit.

We evaluate the recoverability of our long-lived assets including amortizable intangible and tangible assets in accordance with authoritative guidance. When events or changes in circumstances indicate that the carrying amount of long-lived assets may not be recoverable, we recognize such impairment in the event the net book value of such assets exceeds the future undiscounted cash flows attributable to such assets. Our acquired intangible assets with definite useful lives are amortized using a combination of straight-line and accelerated methods based on the expected cash flows from the assets, and periodically tested for impairment.

As of December 31, 2012, we had \$243.7 million of goodwill, \$41.2 million of net property and equipment and \$62.8 million of acquired net intangible assets. Changes in the valuation of long-lived assets could materially impact our operating results and financial position. We have not recorded any impairment losses in the three years ended December 31, 2012, 2011, and 2010.

**Income Taxes**

We recognize tax benefits for tax positions that are more likely than not to be sustained based solely upon the technical merits positions as of the reporting date. We then measure the benefit to be recognized using a cumulative probability approach and recognize the largest amount of benefit that is more likely than not to be



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sustained. We consider many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes.

As part of the process of preparing our Consolidated Financial Statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves us estimating our current tax exposure under the most recent tax laws. It also involves us making estimates and judgments in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes. These temporary differences result in deferred tax assets and liabilities, which are included in our Consolidated Balance Sheets.

We assess the likelihood that we will be able to recover our deferred tax assets and the need for a valuation allowance. We consider all available evidence, both positive and negative, including historical levels of income, expectations and risks associated with estimates of future taxable income, and ongoing prudent and feasible tax planning strategies. We will increase our provision for income tax by creating a valuation allowance if we are not able to determine that recovery of our deferred tax assets is more likely than not. Based on the available evidence as of December 31, 2012, we were not able to conclude that realization of our domestic deferred tax assets is more likely than not and we recorded a valuation allowance of \$86.5 million.

We conduct business globally, and as a result, are subject to taxation in the United States and various state jurisdictions and foreign jurisdictions. In the normal course of business, we are subject to examination by taxing authorities in many of the jurisdictions in which the Company operates. Effectively, all of our historical tax filings are subject to examination by the Internal Revenue Service and various state and foreign jurisdictions due to the generation of net operating loss carryforwards.

Certain of our subsidiaries are currently under tax audit. It is possible that within the next twelve months, ongoing tax examinations in the U.S and in foreign jurisdictions may be resolved, that new tax exams may commence and that other issues may be effectively settled. However, we are unable to make a reasonably reliable estimate as to when or if cash settlements with taxing authorities may occur. Although audit outcomes and the timing of audit payments are subject to uncertainty, we do not anticipate that the resolution of these tax matters or any events related thereto will result in a material adverse change to our consolidated financial position, results of operations or cash flows.

### **Stock-Based Compensation**

Our stock based compensation expense is comprised of stock options, stock options with market conditions ( Market Stock Options ), restricted stock units with service conditions ( RSUs ), restricted stock units with market conditions ( MSUs ), and performance-based restricted stock units ( PRSUs or Performance RSUs ) which are issued under our 2002 and 2011 equity incentive plans, as well as common stock issued under the Employee Stock Purchase Plan ( ESPP ). The ESPP allows eligible officers and employees to purchase a limited amount of common stock at a discount to the market price in accordance with the terms of the plan as described in Note 16 of our consolidated financial statements.

#### ***Stock Options and ESPP***

Stock-based compensation related to stock options and ESPP is measured at the grant date based on the fair value of the award and is recognized as expense, net of estimated forfeitures, over the requisite service period, which is generally the vesting period of the respective award. We utilize the Black-Scholes pricing model for determining the estimated fair value of our stock options and the common stock issued under our ESPP. The Black-Scholes pricing model requires the use of subjective assumptions including the option s expected term, the price volatility of the underlying stock and the expected forfeiture rate.

#### ***RSUs***

We recognize compensation cost for restricted stock awards using the closing price of the stock on the grant date as the fair value, net of an estimate for pre-vesting forfeitures, and recognize the expense over the indicated service period of the award.

**Table of Contents****Market Stock Options and MSUs**

We utilize the Monte Carlo simulation model for determining the estimated fair value of our Market Stock Options and MSUs which estimates the potential outcome of reaching the market condition based on simulated future stock prices at the grant date. Stock-based compensation for Market Stock Options and MSUs is recognized over the requisite service period, which is generally the vesting period. The input factors used in the valuation model are based on subjective future expectation combined with management judgment.

**Performance RSUs**

We recognize compensation cost for awards with performance conditions when the performance conditions have been determined and based upon the probability of that performance condition being met, net of an estimate for pre-vesting forfeitures, at the closing market price on the date of the grant.

The unrecognized compensation cost associated with the maximum number of PRSUs that could ultimately be issued is \$9.3 million and is expected to be recognized if and when the performance conditions are estimated to be probable of achievement over the requisite service period. If our estimate associated with achievement of the targets changes, we will be required to record the cumulative expense from the grant date through the date our assessment changes, which could have a material impact on our financial statements.

**Results of Operations**

The following tables set forth our results of operations for the periods presented and as a percentage of our revenue for those periods. The period-to-period comparison of financial results is not necessarily indicative of future results.

|  | 2012       | Year Ended December 31,<br>2011<br>(In thousands) | 2010       |
|--|------------|---|------------|
| Net revenue:                                     |            |   |            |
| Technology revenue                               | \$ 370,472 | \$ 290,480  | \$ 237,688 |
| Marketing services revenue                       | 48,421     | 46,910  | 41,912     |
| Total net revenue                                | 418,893    | 337,390   | 279,600    |
| Cost of net revenue:                             |            |   |            |
| Cost of technology revenue                       | 184,954    | 144,962   | 115,148    |
| Cost of marketing services revenue               | 6,865      | 5,952   | 6,203      |
| Cost of net revenue                              | 191,819    | 150,914   | 121,351    |
| Gross profit                                     | 227,074    | 186,476   | 158,249    |
| Operating expenses:                              |            |   |            |
| Sales and marketing                              | 97,091     | 70,251  | 59,106     |
| Research and development                         | 81,408     | 66,753  | 61,107     |
| General and administrative                       | 65,924     | 51,126  | 42,404     |
| Amortization of intangibles                      | 22,277     | 14,962  | 16,147     |
| Total operating expenses                         | 266,700    | 203,092   | 178,764    |
| Loss from operations                             | (39,626)   | (16,616)  | (20,515)   |
| Interest income                                  | 87         | 119   | 150        |
| Interest expense                                 | (664)      | (2,890)   | (5,438)    |
| Other income (expense), net                      | 1,157      | (14)  | 455        |
| Loss before provision (benefit) for income taxes | (39,046)   | (19,401)  | (25,348)   |
| Provision (benefit) for income taxes             | 3,980      | (4,074)   | 1,924      |

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|   |             |             |             |
|---|-------------|-------------|-------------|
| Net loss  | (43,026)    | (15,327)    | (27,272)    |
| Accretion of redeemable convertible preferred stock (1) |             | (11,810)    | (28,157)    |
| Net loss attributable to common stockholders            | \$ (43,026) | \$ (27,137) | \$ (55,429) |

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- (1) Effective May 25, 2011, all shares of convertible preferred stock and redeemable convertible preferred stock were converted into 8,807,090 and 25,824,801 shares of common stock, respectively, in connection with our IPO. Upon completion of our IPO in May 2011, we amended and restated our certificate of incorporation to authorize 100,000,000 shares of preferred stock.

|  | Year Ended December 31,          |      |       |
|--|----------------------------------|------|-------|
|  | 2012                             | 2011 | 2010  |
|  | (As a percentage of net revenue) |      |       |
| Net revenue                                      | 100%                             | 100% | 100%  |
| Cost of net revenue                              | 46                               | 45   | 43    |
| Gross profit                                     | 54                               | 55   | 57    |
| Operating expenses:                              |                                  |      |       |
| Sales and marketing                              | 23                               | 21   | 21    |
| Research and development                         | 19                               | 20   | 22    |
| General and administrative                       | 16                               | 15   | 15    |
| Amortization of intangibles                      | 5                                | 4    | 6     |
| Total operating expenses                         | 64                               | 60   | 64    |
| Loss from operations                             | (9)                              | (5)  | (7)   |
| Interest income                                  |                                  |      |       |
| Interest expense                                 |                                  | (1)  | (2)   |
| Other income (expense), net                      |                                  |      |       |
| Loss before provision (benefit) for income taxes | (9)                              | (6)  | (9)   |
| Provision (benefit) for income taxes             | (1)                              | (1)  | 1     |
| Net loss   | (10)%                            | (5)% | (10)% |

**Years ended December 31, 2012, 2011 and 2010****Net Revenue**

|                            | Year Ended December 31, |            |            | % Change     |              |
|----------------------------|-------------------------|------------|------------|--------------|--------------|
|                            | 2012                    | 2011       | 2010       | 2012 to 2011 | 2011 to 2010 |
|                            | (In thousands)          |            |            |              |              |
| Net revenue:               |                         |            |            |              |              |
| Technology revenue         | \$ 370,472              | \$ 290,480 | \$ 237,688 | 28%          | 22%          |
| Marketing services revenue | 48,421                  | 46,910     | 41,912     | 3%           | 12%          |
| Net revenue                | \$ 418,893              | \$ 337,390 | \$ 279,600 | 24%          | 21%          |

2012 compared to 2011. Total net revenue increased \$81.5 million, or 24% from 2011 to 2012 as discussed below.

*Technology revenue.* Net registration revenue increased \$47.4 million, or 21%, driven by registrations growth related to our acquisition of StarCite in December 2011, as well as higher registrations across all customer groups from both existing and new customers. Software revenue increased \$32.6 million or 53% as a result of revenue from acquisitions in our faith customer group and also due to growth in hosting and implementation revenue in our business solutions and communities customer groups. In total, technology revenue increased \$80.0 million or 28%.

*Marketing services revenue.* Revenue increased \$1.5 million, or 3%. We experienced growth in our membership programs, wellness programs and promotions, as well as growth in website development resulting

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from an acquisition in 2011. Offsetting this growth was a decline in online advertising mainly related to the expiration of an online advertising contract that we had in 2011.

*2011 compared to 2010.* Total net revenue increased \$57.8 million, or 21% from 2010 to 2011 as discussed below.

*Technology revenue.* Net registration revenue increased \$30.9 million, or 16%, driven by registrations growth in our business solutions and communities customer groups and additional revenue from new large state customers in our public sector and outdoors customer group. Software revenue increased \$21.9 million or 55% as a result of revenue from acquisitions in our faith customer group and also due to growth in hosting and implementation revenue in our business solutions and communities customer groups. In total, technology revenue increased \$52.8 million or 22%.

*Marketing services revenue.* Revenue increased \$5.0 million, or 12%, mainly as a result of growth in membership programs, online advertising and promotions.

**Costs and Expenses**

*Employee related expenses.* Headcount and its related expenses make up a significant portion of our total expenses. We define employee related expenses as salaries, fringe benefits, facilities costs, employee travel, commissions, bonuses and other employee expenses.

**Cost of Net Revenue**

|  | Year Ended December 31, |      |      | % Change     |              |
|--|-------------------------|------|------|--------------|--------------|
|  | 2012                    | 2011 | 2010 | 2012 to 2011 | 2011 to 2010 |

|                           | (Dollars in thousands) |            |            |     |     |
|---------------------------|------------------------|------------|------------|-----|-----|
| Cost of net revenue       | \$ 191,819             | \$ 150,914 | \$ 121,351 | 27% | 24% |
| Headcount (at period end) | 1,380                  | 1,258      | 1,122      | 10% | 12% |

*2012 compared to 2011.* Cost of net revenue increased \$40.9 million, or 27% from 2011 to 2012. Employee related costs increased \$16.7 million or 29%, mainly due to an increase in headcount. Headcount increased 10%, made up of a 3% decline in seasonal and other call center employees due to efficiencies in operations and a 27% increase in other employees mainly in information technology and implementation support.

Depreciation of fixed assets and amortization of intangibles and software that were capitalized in earlier periods increased \$9.2 million. Costs related to sales of hardware inventory increased \$3.4 million from hardware sales in our resorts business which we acquired (RTP) in November 2011. Costs related to pre-purchased registrations increased \$2.6 million. Credit card fees increased \$2.3 million or 6% and were approximately 16% of net registration revenue compared to 18% last year, with the decline resulting from savings initiatives and from lower fees related to debit card transactions. Expenses for contractors and outside services increased \$2.7 million to support our website development business (RTP) which we acquired in November 2011, large state implementations in our outdoors customer group, and our promotions business. Software and hardware maintenance expenses increased \$1.9 million primarily related to investments in new software products and maintenance agreements to support our data centers and infrastructure growth for new products, and other cost of net revenue increased \$2.9 million or 18% to support the revenue growth. Additionally, an expense of \$0.8 million to record a contingency related to a state contract implementation was recorded in 2011, and this did not reoccur in 2012.

*2011 compared to 2010.* Cost of net revenue increased \$29.6 million, or 24% from 2010 to 2011. Headcount increased 12% due to the addition of information technology and implementation support employees to support the revenue growth, leading to higher employee related costs of \$7.3 million or 15%. Call center headcount and

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costs remained flat in 2011 compared to 2010 due to efficiencies in our call center operations. Credit card fees increased \$6.2 million or 18% resulting from the increase in net registration revenue. Depreciation for fixed assets and amortization of intangibles and software that was capitalized in earlier periods increased \$8.3 million. 2011 included an expense of \$0.8 million to record a contingency related to a state contract implementation. Software and hardware maintenance expenses increased \$1.7 million primarily related to investments in new software products and maintenance agreements to support our data centers and infrastructure growth for new products, and other cost of net revenue increased \$5.2 million or 25% to support the revenue growth.

*Sales and Marketing*

|                           | Year Ended December 31, |           |           | % Change     |              |
|---------------------------|-------------------------|-----------|-----------|--------------|--------------|
|                           | 2012                    | 2011      | 2010      | 2012 to 2011 | 2011 to 2010 |
|                           | (Dollars in thousands)  |           |           |              |              |
| Sales and marketing       | \$ 97,091               | \$ 70,251 | \$ 59,106 | 38%          | 19%          |
| Headcount (at period end) | 638                     | 540       | 435       | 18%          | 24%          |

*2012 compared to 2011.* Sales and marketing expense increased \$26.8 million, or 38% from 2011 to 2012. The increase was primarily due to higher employee related costs of \$24.3 million, or 40% as we invested in our sales and marketing staff for future business growth. Headcount increased 18% or 98 employees, with headcount added from our acquisitions of RTP and StarCite occurring in late 2011 or the beginning of 2012, and other net hiring occurring in late 2011 and continuing throughout the year during 2012, leading to an increase in salaries and other costs that outpaced the period-ending headcount increase. Marketing expenses also increased \$1.1 million due to increases in trade show and online marketing expenses.

*2011 compared to 2010.* Sales and marketing expense increased \$11.1 million, or 19% from 2010 to 2011. The increase was primarily due to higher employee related costs of \$8.9 million as a result of a 24% increase in headcount as we invested in our sales and marketing staff for future business growth. Marketing expenses also increased \$1.8 million as we increased our marketing and trade show spending mainly due to large trade shows in the first six months of the year.

*Research and Development*

|                           | Year Ended December 31, |           |           | % Change     |              |
|---------------------------|-------------------------|-----------|-----------|--------------|--------------|
|                           | 2012                    | 2011      | 2010      | 2012 to 2011 | 2011 to 2010 |
|                           | (Dollars in thousands)  |           |           |              |              |
| Research and development  | \$ 81,408               | \$ 66,753 | \$ 61,107 | 22%          | 9%           |
| Headcount (at period end) | 1,037                   | 982       | 856       | 6%           | 15%          |

*2012 compared to 2011.* Research and development expense increased \$14.7 million, or 22% from 2011 to 2012. Headcount increased 6% to support our continued development of ActiveWorks and implementations for new large state customers. Employee related costs increased \$20.5 million or 27% related to the increase in headcount and a higher average salary cost per employee as new hiring included improvements to our team with highly skilled employees. The increase in employee related costs was offset by additional capitalized software of \$4.4 million, a decline in contractor expenses of \$1.1 million and lower depreciation of \$0.6 million.

*2011 compared to 2010.* Research and development expense increased \$5.6 million, or 9% from 2010 to 2011. Employee related costs increased \$10.2 million or 16% resulting from a 15% increase in headcount to support our continued development of ActiveWorks and implementations for new large state customers. The increase in employee related costs was offset by additional capitalized software of \$3.0 million, a decline in contractor expenses of \$1.3 million and lower depreciation of \$1.2 million.

**Table of Contents***General and Administrative*

|                            | Year Ended December 31, |           |           | % Change     |              |
|----------------------------|-------------------------|-----------|-----------|--------------|--------------|
|                            | 2012                    | 2011      | 2010      | 2012 to 2011 | 2011 to 2010 |
|                            | (Dollars in thousands)  |           |           |              |              |
| General and administrative | \$ 65,924               | \$ 51,126 | \$ 42,404 | 29%          | 21%          |
| Headcount (at period end)  | 341                     | 282       | 223       | 21%          | 26%          |

*2012 compared to 2011.* Our general and administrative expenses increased \$14.8 million, or 29%, from 2011 to 2012. Employee related expenses increased \$12.9 million as a result of a 21% increase in headcount to allow us to support the business, including employees added from our acquisition of StarCite at the beginning of 2012. In addition, contractor costs increased \$2.4 million primarily due to an increase in audit and legal fees of \$1.9 million and a settlement expense of \$0.6 million recorded in December 2012 related to an acquisition in a prior period. These increases were offset by \$1.9 million in severance payments related to the acquisition of StarCite during 2011, which did not reoccur in 2012.

*2011 compared to 2010.* Our general and administrative expenses increased \$8.7 million, or 21%, from 2010 to 2011. Employee related expenses increased \$5.4 million as a result of \$1.9 million in severance payments in 2011 related to the acquisition of StarCite and higher costs resulting from a 26% increase in headcount to allow us to support the business, offset by a change in our annual incentive plan accrual. Software expenses increased \$1.2 million primarily related to our increased investment in Oracle licenses to support our growth, stock based compensation expense increased \$0.9 million, and other expenses primarily related to higher costs associated with operating as a public company increased \$1.3 million or 12%.

*Amortization of Intangibles*

|                             | Year Ended December 31, |           |           | % Change     |              |
|-----------------------------|-------------------------|-----------|-----------|--------------|--------------|
|                             | 2012                    | 2011      | 2010      | 2012 to 2011 | 2011 to 2010 |
|                             | (In thousands)          |           |           |              |              |
| Amortization of intangibles | \$ 22,277               | \$ 14,962 | \$ 16,147 | 49%          | (7%)         |

*2012 compared to 2011.* Amortization of intangibles increased \$7.3 million, or 49%, from 2011 to 2012. Intangibles are amortized over their expected life. This increase is predominantly related to the StarCite and RTP acquisitions completed during the fourth quarter of 2011.

*2011 compared to 2010.* Amortization of intangibles decreased \$1.2 million, or 7%, from 2010 to 2011. Intangibles are amortized over their expected life. Amortization expense on acquisitions completed prior to 2010 decreased as useful lives on certain intangibles were met. This was slightly offset by higher amortization expense on acquisitions completed since 2010.

*Interest and Other Income (Expense), Net*

|  | Year Ended December 31, |            |            | % Change     |              |
|--|-------------------------|------------|------------|--------------|--------------|
|  | 2012                    | 2011       | 2010       | 2012 to 2011 | 2011 to 2010 |
|  | (In thousands)          |            |            |              |              |
| Interest income                          | \$ 87                   | \$ 119     | \$ 150     | (27%)        | (21%)        |
| Interest expense                         | (664)                   | (2,890)    | (5,438)    | (77%)        | (47%)        |
| Other income (expense), net              | 1,157                   | (14)       | 455        | 8,364%       | (103%)       |
| Interest and other income (expense), net | \$ 580                  | \$ (2,785) | \$ (4,833) | 121%         | (42%)        |

*2012 compared to 2011.* Interest income for the year ended December 31, 2012 decreased by less than \$0.1 million, due to a decrease in cash balances held in interest bearing accounts throughout the year.





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Interest expense decreased 77% to \$0.7 million due to a lower average debt balance.

Other income (expense), net increased \$1.2 million for the year ended December 31, 2012 primarily due to a gain on contingent consideration in connection with the StarCite acquisition of approximately \$1.1 million, offset by foreign exchange losses of \$0.1 million.

*2011 compared to 2010.* Interest income for the year ended December 31, 2011 was \$0.1 million compared to \$0.2 million for the year ended December 31, 2010, a decrease of less than \$0.1 million. The decrease was due to our transition to bank Earnings Credit Rate, which offsets bank fees with interest income resulting in lower interest income.

Interest expense decreased 47% to \$2.9 million due to a lower average debt balance. Our average debt balance was lower in 2011 because, subsequent to our public offering in May 2011, we paid all of our outstanding debt at that time in full, and the remaining interest expense is related to capital lease obligations.

Other income (expense), net was \$14,000 expense in 2011 and approximately \$0.5 million income in 2010. The amounts in both periods are mainly related to gains or losses on foreign exchange.

*Income Taxes*

|                                      | Year Ended December 31, |            |          | % Change     |              |
|--------------------------------------|-------------------------|------------|----------|--------------|--------------|
|                                      | 2012                    | 2011       | 2010     | 2012 to 2011 | 2011 to 2010 |
| Provision (benefit) for income taxes | \$ 3,980                | \$ (4,074) | \$ 1,924 | 198%         | (312%)       |

*2012 compared to 2011.* Income taxes for the year ended December 31, 2012 resulted in an expense of \$4.0 million compared to a benefit of \$4.1 million for the year ended December 31, 2011. The difference in taxes between periods is principally due to discrete events in both 2012 and 2011. In 2012, we recorded an additional expense of \$1.3 million related to a transfer pricing methodology tax assessment from the Canadian Revenue Agency, and an additional expense of \$0.4 million related to the utilization of net operating losses carried back to offset adjustments related to 2006 and 2007. In 2011 we concluded, as a result of a plan to amalgamate our Canadian subsidiaries, that it was more likely than not that we would realize deferred tax assets of approximately \$4.8 million associated with one of our Canadian subsidiaries that was previously offset by a valuation allowance. In addition in 2011, we realized \$3.9 million of tax benefit from the reduction in our domestic valuation allowance as a result of net deferred tax liabilities assumed in connection with the acquisition of ServiceU. In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary difference become deductible.

The effective tax rate of (10.2)% for the year ended December 31, 2012 differs from the statutory rate primarily due to state taxes, foreign taxes, nondeductible stock option expenses, the increase in the deferred tax liability from the amortization of tax deductible goodwill, and the change in the valuation allowance, as described above.

*2011 compared to 2010.* Income taxes for the year ended December 31, 2011 resulted in a benefit of \$4.1 million compared to an expense of \$1.9 million for the year ended December 31, 2010. The difference in taxes between periods is principally due to discrete events in 2011 that impacted our assessment regarding the realization of deferred tax assets. In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those

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temporary difference become deductible. During the fourth quarter of 2011, we concluded as a result of a plan to amalgamate our Canadian subsidiaries that it was more likely than not that we would realize deferred tax assets of approximately \$2.6 million associated with one of our Canadian subsidiaries that was previously offset by a valuation allowance. In addition, during the fourth quarter of 2011, we realized \$3.9 million of tax benefit from the reduction in our domestic valuation allowance as a result of net deferred tax liabilities assumed in connection with the acquisition of ServiceU.

The effective tax rate of 21.0% for the year ended December 31, 2011 differs from the statutory rate primarily due to state taxes, foreign taxes, nondeductible stock option expenses, the increase in the deferred tax liability from the amortization of tax deductible goodwill, and the change in the valuation allowance, and the additional expenses related to the transfer pricing methodology and utilization of net operating losses, as described above.

**Liquidity and Capital Resources****Condensed Consolidated Statements of Cash Flows Data:**

|  | 2012     | Year Ended<br>December 31,<br>2011<br>(In thousands) | 2010     |
|--|----------|--|----------|
| Net cash provided by operating activities            | 27,552   | 65,703   | 42,095   |
| Net cash used in investing activities                | (78,966) | (66,934)   | (32,725) |
| Net cash provided by (used in) financing activities  | 1,225    | 78,530   | (4,349)  |
| Effect of exchange rates on cash                     | (17)     | (41)   | 39       |
| Net increase (decrease) in cash and cash equivalents | (50,206) | 77,258   | 5,060    |

As of December 31, 2012, we had cash and cash equivalents of \$58.5 million and restricted cash of \$1.1 million. We did not have any short-term or long-term investments. Cash and cash equivalents consist of cash and non-interest bearing accounts. Restricted cash consists of cash restricted from withdrawal and held by banks as collateral for letters of credit. We believe that our existing cash and cash equivalents together with cash flows from our operating activities and cash available under our credit facility will be sufficient to fund our operations for at least the next 12 months.

On December 16, 2011, we entered into a Credit Agreement (the "Credit Agreement") with Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPFS"), as Sole Lead Arranger and Sole Book Manager, and the lenders from time to time a party thereto. On July 2, 2012, we amended the Credit Agreement to, among other things, add J.P. Morgan Securities LLC, as a Joint Lead Arranger. The Credit Agreement, as amended, provides for a five-year, senior secured revolving credit facility in an initial aggregate principal amount of \$100.0 million (the "Credit Facility"). The Credit Facility includes a \$25.0 million sublimit for the issuance of standby letters of credit and a \$5.0 million sublimit for swing line loans, which will be available on a same-day basis. The Credit Amendment also contains an "accordion" feature which allows us, subject to certain terms and conditions, to increase the lending commitments by up to \$50 million.

At December 31, 2011 outstanding swing line loans were \$5.0 million. In January 2012, we fully repaid the \$5.0 million swing line loan and immediately borrowed \$10.0 million under the revolving Credit Facility. We fully repaid the \$10.0 million outstanding balance under the Credit Facility in August 2012 and we had no amounts outstanding under the Credit Facility as of December 31, 2012.

The Company had \$93.9 million available under the Credit Facility as of December 31, 2012, net of \$6.1 million in outstanding letters of credit.

Under the Credit Facility we are also required to comply with certain financial covenants and ratios. As of December 31, 2012, we were in compliance with all specified financial covenants and ratios.

**Table of Contents***Operating Activities*

In 2012, net cash provided by operating activities was \$27.6 million, resulting from a net loss of \$43.0 million and adjusted for \$76.7 million in non-cash items and \$6.2 million of cash outflows from the net change in assets and liabilities. The non-cash items included \$33.3 million of depreciation and amortization of property and equipment, \$28.0 million of amortization of intangibles, \$16.7 million of stock-based compensation, and \$1.3 million of deferred tax liability, offset by \$2.7 million in other non-cash items. Net change in assets and liabilities benefitted from an \$11.9 million increase in deferred revenue resulting from growth in the business, a \$1.9 million increase in other liabilities, a \$1.9 million decrease in accounts receivable, and a \$0.4 million decrease in restricted cash. These were offset by a net \$11.1 million reduction in registration fees payable which resulted from an increase in payables from growth in the business offset by timing differences in the remittance cycle for a few large customers, a \$3.1 million decrease in accounts payable and accrued expenses, a \$3.1 million increase in inventory balance resulting from an increase in purchases of registrations from event organizers, a \$2.5 million increase in prepaid expenses and other assets, and a \$2.2 million increase in registration receivable.

In 2011, net cash provided by operating activities was \$65.7 million, resulting from a net loss of \$15.3 million and adjusted for \$47.8 million in non-cash charges and a \$33.2 million net change in assets and liabilities. The non-cash charges included \$24.4 million of depreciation and amortization of property and equipment, \$20.5 million of amortization of intangibles, \$7.8 million of stock-based compensation, and \$0.2 million of other non-cash charges, offset by a \$5.0 million reduction in the deferred tax liability. Net change in assets and liabilities generated operating cash as follows, mainly due to increased volume: \$31.7 million from the increase in registration fees payable, \$6.4 million from the increase in deferred revenue, a \$4.2 million reduction in restricted cash related to the termination of a Loan and Security Agreement with Square 1 Bank and a \$2.9 million net change in other assets and liabilities offset by a \$7.0 million increase in accounts receivable, and a \$5.4 million increase in registration receivable.

Net cash provided by operating activities for the year ended December 31, 2010 was \$42.1 million, resulting from a net loss of \$27.3 million and adjusted for \$47.4 million in non-cash charges and a \$22.0 million net change in assets and liabilities. The non-cash charges included \$19.2 million of depreciation and amortization of property and equipment, \$21.1 million of amortization of intangibles, \$5.3 million of stock-based compensation, \$1.2 million deferred income taxes and \$0.5 million of other non-cash charges. Net change in assets and liabilities generated operating cash as follows: \$10.5 million from the increase in registration fees payable, \$8.8 million from the increase in deferred revenue, \$5.5 million from the increase in accrued expenses, \$3.5 million increase in other items, offset by a \$4.6 million decrease in accounts receivable due to seasonality and a \$1.7 million decrease in registrations receivable. Cash generated by the increase in registration fees payable and deferred revenue resulted from growth in the business.

*Investing Activities*

In 2012, net cash used in investing activities was \$79.0 million, including \$38.1 million for acquisitions, \$23.0 million of capitalized software development costs, and capital expenditures of \$17.8 million as we continue to expand the business.

In 2011, net cash used in investing activities was \$66.9 million, including \$35.1 million for acquisitions, \$18.7 million of capitalized software development costs, capital expenditures of \$12.5 million, and \$0.6 million in payment of contingent consideration related to an acquisition.

Net cash used in investing activities for the year ended December 31, 2010, was \$32.7 million, resulting primarily from \$15.7 million for capitalized software development costs, cash used of \$14.8 million in capital expenditures and \$2.2 million in payment of contingent consideration related to the Automated License Systems acquisition.

*Financing Activities*

In 2012, net cash provided by financing activities was \$1.2 million, primarily due to \$11.0 million in net proceeds from the issuance of stock, offset by a \$5.0 million net reduction in debt as we paid down our swing line Credit Facility and a \$4.7 million reduction from payments on capital lease obligations.

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In 2011, net cash provided by financing activities was \$78.5 million, primarily due to \$112.6 million in net proceeds from our initial public offering in May 2011 and \$5.2 million in proceeds from the exercise of stock options and warrants, offset by \$39.2 million net reduction in debt and capital lease obligations.

Net cash used in financing activities for the year ended December 31, 2010 was \$4.3 million, resulting primarily from \$8.0 million repayment of long-term obligations and \$1.9 million repayment of capital lease obligations less \$3.0 million proceeds from debt and \$2.6 million cash received from the exercise of stock options.

### *Letters of Credit*

At December 31, 2012 and 2011, we had \$0.8 million and \$1.5 million, respectively, of cash restricted from withdrawal and held by banks as collateral for letters of credit.

### *2008 Loan and Security Agreement*

In October 2008, the Company entered into a Loan and Security Agreement ( LSA ) with Square 1 Bank ( Square 1 ) which allowed the Company to borrow up to \$5.0 million under a term loan and up to \$7.0 million under a line of credit ( Line ), which was later amended in 2010 allowing the Company to borrow up to \$12.0 million under the Line less borrowings outstanding under the term loan. For borrowings under the term loan, the Company was required to make interest-only payments on a monthly basis for the first six months, after which borrowings were repayable over 30 months. The interest rate for the term loan was prime plus 1% and was due to mature in October 2011. For borrowings under the LSA, the Company was required to maintain a cash balance of \$5.0 million in an account with Square 1. Under the terms of the Line, borrowings could not exceed 80% of the Company's eligible accounts receivable and carried an interest rate for advances under the Line of the greater of (i) prime plus 1% or (ii) 5% and was to mature on July 2010, which was amended in 2011 to extend the maturity date to August 2012. The loan was collateralized by substantially all of the Company's assets, excluding certain client cash and intellectual property, and was subject to certain covenants which, if not met, could have constituted an event of default. These covenants included maintaining the required quick ratio and the non-occurrence of a material adverse change in the business, operations or conditions of the Company.

In December 2011, in connection with the Credit Agreement entered into by the Company, the LSA was terminated. In connection with the termination of the LSA, the Company reduced its restricted cash balance to \$0.8 million.

### *2011 Credit Agreement*

In December 2011, the Company entered into a five-year, senior secured revolving credit facility, with certain institutional lenders, for an initial aggregate principal amount of \$50 million. On July 2, 2012, we amended the Credit Agreement to, among other things, add J.P. Morgan Securities LLC, as a Joint Lead Arranger. The Credit Agreement, as amended, provides for a five-year, senior secured revolving credit facility in an initial aggregate principal amount of \$100.0 million (the Credit Facility ). The Credit Facility includes a \$25.0 million sublimit for the issuance of standby letters of credit and a \$5.0 million sublimit for swing line loans, which will be available on a same-day basis. The credit amendment also contains an accordion feature which allows us, subject to certain terms and conditions, to increase the lending commitments by up to \$50 million.

The Credit Facility has a maturity date of December 16, 2016, but the outstanding amounts may be prepaid at any time without penalty or premium (except for certain customary break funding payments in connection with LIBOR loans) and is available to fund acquisitions and ongoing operations.

Any advance under the Credit Facility will accrue interest at rates per annum that are equal to, based on certain conditions, either (a) 1.5% above the applicable LIBOR rate, or (b) 0.5% above (i) the greatest of (x) the

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prime rate, (y) the federal funds effective rate plus 0.5% or (z) a daily rate equal to one-month LIBOR plus 1.00%. The unused portion of the Credit Facility will also be subject to an unused fee that will be calculated at a per annum rate of 0.25%. The interest rate under the Credit Facility was 1.81% as of December 31, 2012.

Under the Credit Facility, the Company is required to comply with certain financial covenants and ratios, including a quarterly consolidated leverage ratio of consolidated funded indebtedness to EBITDA of not more than 2.5 to 1.0 and a quarterly consolidated fixed charge coverage ratio of not less than 1.5 to 1.0. Substantially all of the Company's tangible and intangible assets are considered collateral security under the secured Credit Facility. As of December 31, 2012, the Company was in compliance with all specified financial covenants and ratios.

Payment of the amounts owed under the Credit Facility may be accelerated, and the lenders' commitments under the Credit Agreement may be terminated, upon an event of default, as defined in the Credit Agreement, such as failure to pay amounts owed when due, breach of a covenant, material inaccuracy of a representation or occurrence of bankruptcy, subject in some cases to cure periods.

At December 31, 2011, amounts outstanding under the swing line Credit Facility were \$5.0 million. In January 2012, we fully repaid the \$5.0 million swing line loan and immediately borrowed \$10 million under the revolving Credit Facility. We fully repaid the \$10.0 million outstanding balance under the Credit Facility in August 2012 and we had no amounts outstanding as of December 31, 2012.

The Company had \$93.9 million available under the Credit Facility as of December 31, 2012, net of \$6.1 million in outstanding letters of credit.

*Contractual Obligations*

We have certain fixed contractual obligations and commitments that include future estimated payments for general operating purposes. Changes in our business needs, contractual cancellation provisions, fluctuating interest rates and other factors may result in actual payments differing from the estimates. Although certain payments occur on a fixed schedule (see *Indebtedness*), we cannot provide certainty regarding the timing and amounts of all these payments. We have presented below a summary of the most significant assumptions used in our determination of amounts presented in the table in order to assist in the review of this information within the context of our consolidated financial position and results of operations. The following table summarizes our fixed contractual obligations and commitments (in thousands), as of December 31, 2012:

|                                      | Total            | Contractual Obligations |                  |                  |                      |
|--------------------------------------|------------------|-------------------------|------------------|------------------|----------------------|
|                                      |                  | Less than<br>1 Year     | 1-3<br>Years     | 3-5<br>Years     | More than<br>5 Years |
|                                      |                  | (in thousands)          |                  |                  |                      |
| Long-term Debt Obligations           | \$               | \$                      | \$               | \$               | \$                   |
| Operating Lease Obligations          | 47,109           | 11,506                  | 17,194           | 15,672           | 2,737                |
| Capital Leases                       | 5,450            | 2,932                   | 2,519            |                  |                      |
| Purchase Obligations                 | 1,725            | 575                     | 1,150            | 38               |                      |
| <b>Total Contractual Obligations</b> | <b>\$ 54,284</b> | <b>\$ 15,013</b>        | <b>\$ 20,863</b> | <b>\$ 15,709</b> | <b>\$ 2,737</b>      |

*Guarantee Arrangement*

We enter into arrangements with third-party customers to guarantee performance by the Company. We may provide a corporate guarantee, irrevocable letter of credit, surety bond or any other form of guarantee acceptable to the third-party customer. As of December 31, 2012, we had guarantees of \$7.2 million.

*Leases*

We lease our facilities and certain fixed assets under non-cancelable operating and capital leases. Rent expense under operating lease agreements was \$14.2 million, \$11.4 million, and \$9.6 million for the years ended 2012, 2011 and 2010, respectively.



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### *Sales and Use Tax*

We believe that we may have established sales and use tax nexus in a number of states where we have not previously paid applicable sales and use taxes. We performed an analysis of our potential liability in states where we have not previously remitted these taxes. Based on the results of the analysis, we established a reserve for estimated claims from states where sales and use tax had not been remitted. The reserve was \$5.1 million and \$4.3 million as of the year ended December 31, 2012 and 2011, respectively. In the future we plan on collecting and remitting sales and use taxes for sales as required by applicable state laws.

### **Off Balance Sheet Arrangements**

As of December 31, 2012, we did not have any off balance sheet arrangements.

### **Recently Issued Accounting Standards**

See Note 2 to our Consolidated Financial Statements in Part II, Item 8 of this report for a description of recent accounting pronouncements, including our expected dates of adoption and the estimated effects on our results of operations and financial condition.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to market risks in the ordinary course of our business. These risks primarily include interest rate fluctuations, foreign exchange risk and inflation.

### **Interest Rate Fluctuations**

Our investments include cash and cash equivalents, which consists of cash and money market accounts. The primary objective of our investment activities is to preserve principal while maximizing income without significantly increasing risk. We do not enter into investments for trading or speculative purposes. Our investments are exposed to market risk due to a fluctuation in interest rates, which may affect our interest income and the fair market value of our investments. Due to the short-term nature of our investment portfolio, we do not believe an immediate 10% increase in interest rates would have a material effect on the fair market value of our portfolio, and therefore we do not expect our operating results or cash flows to be materially affected to any degree by a sudden change in market interest rates.

On December 16, 2011, we entered into a new Credit Facility that bears interest at floating rates based upon either (a) 1.5% above the applicable LIBOR rate, or (b) 0.5% above (i) the greatest of (x) the prime rate, (y) the federal funds effective rate plus 0.5% or (z) a daily rate equal to one-month LIBOR plus 1.00%. Our exposure to market risk for changes in interest rates relates primarily to the floating interest rate. Accordingly, interest rate increases would increase our interest expense on outstanding Credit Facility balances. As of December 31, 2012, no amounts were drawn under the Credit Facility, limiting our interest rate exposure during 2012. Based on a sensitivity analysis, an increase of 1% in the floating interest rate would increase our borrowing costs by less than \$0.1 million for each \$1.0 million of borrowings under the Credit Facility, assuming such borrowings were outstanding for the entire year, or a maximum of \$1.0 million if we utilized our entire line of credit.

### **Foreign Currency Exchange Risk**

We have foreign currency risks related to our revenue and operating expenses denominated in currencies other than the U.S. dollar, principally the Canadian dollar and the British pound sterling. We do not believe movements in the foreign currencies in which we transact will significantly affect future net earnings. Foreign currency risk can be quantified by estimating the change in cash flows resulting from a hypothetical 1% adverse

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change in foreign exchange rates. We believe such a change would not have a material impact on our results of operations.

### **Inflation**

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Reference is made to the Index to the Consolidated Financial Statements that appears on page F-1 of this Annual Report on Form 10-K. The Reports of Independent Registered Public Accounting Firm from Ernst & Young LLP, the Consolidated Financial Statements and the Notes to Consolidated Financial Statements listed in the Index to the Consolidated Financial Statements, which appear beginning on page F-2 of this Annual Report on Form 10-K, are incorporated by reference into this Item 8.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## **ITEM 9A. CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of December 31, 2012. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives as specified above. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, the design of a control system must reflect that there are resource constraints, thus, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the probability of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

### **Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) and 15d-15(f) of under the Exchange Act. Internal control over financial



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reporting refers to the process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our Board of Directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Management has used the framework set forth in the report entitled *Internal Control – Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission to evaluate the effectiveness of the Company's internal control over financial reporting. Management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2012.

Ernst & Young LLP, the Company's independent registered public accounting firm, audited the effectiveness of our internal control over financial reporting as of December 31, 2012 and has issued an attestation report on the Company's internal control over financial reporting which is included herein.

## **Changes in Internal Control over Financial Reporting**

We are involved in ongoing evaluations of internal controls. In anticipation of the filing of this Form 10-K, our Chief Executive Officer and Chief Financial Officer, with the assistance of other members of our management, performed an evaluation of any change in internal control over financial reporting that occurred during our last fiscal quarter that has materially affected, or is likely to materially affect, our internal controls over financial reporting. There has been no change to our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is likely to materially affect, our internal controls over financial reporting.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders of

The Active Network, Inc.

We have audited The Active Network, Inc.'s internal control over financial reporting as of December 31, 2012 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Active Network, Inc. and its subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, The Active Network, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012 based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of The Active Network, Inc. as of December 31, 2012 and 2011 and the related consolidated statements of operations, comprehensive loss, stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2012, and our report dated February 26, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Diego, California

February 26, 2013

**Table of Contents****ITEM 9B. OTHER INFORMATION**

None.

**PART III****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this Item relating to our directors and the committees of our Board of Directors is incorporated by reference from the sections entitled Proposal One: Election of Directors, Director Compensation, and Corporate Governance to be contained in our Proxy Statement for the 2013 Annual Meeting of Stockholders and to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2012.

The information required by this item relating to Section 16 reporting compliance is incorporated by reference from the section entitled Section 16(a) Beneficial Ownership Reporting Compliance to be contained in our Proxy Statement for the 2013 Annual Meeting of Stockholders and to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2012.

The information required by this item relating to our code of ethics is incorporated by reference from the section entitled Corporate Governance Code of Conduct to be contained in our Proxy Statement for the 2013 Annual Meeting of Stockholders and to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2012.

**Executive Officers**

The following table sets forth information regarding our executive officers as of the date of this Annual Report on Form 10-K:

| <b>Name</b>                      | <b>Age</b> | <b>Position(s)</b>  |
|----------------------------------|------------|---|
| <b><u>Executive Officers</u></b> |            |   |
| David Alberga                    | 50         | Chairman of the Board and Executive Chairman                                  |
| Matthew Landa                    | 48         | Chief Executive Officer   |
| Darko Dejanovic                  | 42         | President   |
| Scott Mendel                     | 46         | Chief Financial Officer   |
| Kourosh Vossoughi                | 44         | Chief Legal Officer, General Counsel, SVP, Business Development and Secretary |
| Dennis Triplett                  | 41         | SVP, Operations   |

**David Alberga** has served as our Executive Chairman since September 2012, as Chairman of the Board since February 2011 and as a member of our Board of Directors since December 1999. From December 1999 to September 2012, Mr. Alberga served as our Chief Executive Officer, and from December 1999 to February 2002, Mr. Alberga also served as our President. From January 1996 to November 1999, Mr. Alberga served in various positions at TicketMaster Online-CitySearch, a portal and transaction company. Mr. Alberga initially served as general manager of established markets for CitySearch City Guides, a leading integrated local search, directory and media company, and was promoted to executive vice president and subsequently to chief operating officer of the company's City Guides business. Mr. Alberga has also held positions with Linear Technology, an analog semiconductor manufacturer, The Boston Consulting Group, a global management consulting company, and Procter & Gamble, a global consumer products company. Mr. Alberga earned a B.S. from the United States Military Academy at West Point and both an M.B.A. and an M.A. from Stanford University.

**Matthew Landa** has been our Chief Executive Officer since September 2012 and has served on our Board of Directors since November 2005. From February 2002 to September 2012, Mr. Landa served as our President, and from March 2000 to February 2002, Mr. Landa was our Chief Commerce Officer. From June 1999 to March 2000, Mr. Landa was president of ACT Manufacturing, a Nasdaq Stock Market listed company providing value-added electronics manufacturing services for original equipment manufacturers in the networking and

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telecommunications, computer, industrial and medical equipment markets. From 1995 to 1999, Mr. Landa was the president and chief executive officer of CMC Industries, a Nasdaq Stock Market listed company providing electronics manufacturing services. ACT Manufacturing acquired CMC Industries in 1999. Mr. Landa also previously worked at Monitor Company, a global strategy consulting firm. Mr. Landa earned an A.B. from Dartmouth College and an M.B.A. from Stanford University.

**Darko Dejanovic** has been our President since September 2012. From August 2011 to September 2012, Mr. Dejanovic served as our Chief Technology, Product and Innovation Officer. Prior to joining us, Mr. Dejanovic served for four years as the EVP, global CIO and head of product at Monster Worldwide, where he was responsible for global IT strategy, operations and development, product innovation and design, as well as consumer advertising businesses. Previously he held CTO roles for more than a decade at the Tribune Company and its subsidiary, Tribune Publishing Company. Earlier in his career, Mr. Dejanovic held various senior technology roles in the U.S. and Europe. He holds an MBA from Northwestern University and a B.S. in Computer Science from Florida Metropolitan University.

**Scott Mendel** has been our Chief Financial Officer since March 2010. Prior to joining us, Mr. Mendel held finance positions at General Electric, a diversified technology, media and financial services company, for over 20 years, including chief financial officer from March 2003 to March 2010 for General Electric's Healthcare IT division, a leading provider of medical technologies and services. Mr. Mendel earned a B.S. in finance from Indiana University and an M.B.A. from Northwestern University, Kellogg School of Management.

**Kourosh Vossoughi** has been our Chief Legal Officer and General Counsel since March 2000. Mr. Vossoughi has also served as our Senior Vice President, Business Development since March 2000 and our Secretary since May 2001. From 1998 to 2000, Mr. Vossoughi was an associate at the law firm of Brobeck, Phleger and Harrison. From 1996 until 1998, Mr. Vossoughi was an associate at the law firm of Luce, Forward, Hamilton & Scripps. Mr. Vossoughi earned a J.D. from the University of San Diego School of Law and a B.A. from the University of California, Berkeley.

**Dennis Triplett** has been our Senior Vice President of Operations since July 2008. From February 2006 to June of 2008, Mr. Triplett was vice president, operations for a division of The Nielsen Company, a global leader in measurement and information. From December 2002 until February 2006, Mr. Triplett was director of operations and information technology for Gateway, Inc., a retailer of consumer electronics. Mr. Triplett earned a B.S. in business administration from the University of Florida.

## **ITEM 11. EXECUTIVE COMPENSATION**

The information required by this item is incorporated by reference from the sections entitled Director Compensation, Compensation Discussion and Analysis, Executive Compensation, Compensation Committee Report and Corporate Governance Compensation Committee Interlocks and Insider Participation to be contained in our Proxy Statement for the 2013 Annual Meeting of Stockholders and to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2012.

## **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this item regarding security ownership of certain beneficial owners and management is incorporated by reference from the sections entitled Stock Ownership of Principal Stockholders and Management, and Equity Compensation Plan Information, to be contained in our Proxy Statement for the 2013 Annual Meeting of Stockholders and to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2012.

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**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this item regarding certain relationships and related party transactions is incorporated by reference from the sections entitled Director Compensation, Compensation Discussion and Analysis, Executive Compensation, and Certain Relationships and Related Party Transactions to be contained in our Proxy Statement for the 2013 Annual Meeting of Stockholders and to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2012.

The information required by this item regarding director independence is incorporated by reference from the section entitled Corporate Governance to be contained in our Proxy Statement for the 2013 Annual Meeting of Stockholders and to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2012.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by this item is incorporated by reference from the section entitled Independent Registered Public Accountants to be contained in our Proxy Statement for the 2013 Annual Meeting of Stockholders and to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2012.

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**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) The following documents are filed as part of this Annual Report on Form 10-K:

1. *Financial Statements*. Please see the accompanying Index to the Consolidated Financial Statements, which appears on page F-1 of this Annual Report on Form 10-K. The Report of Independent Registered Public Accounting Firm, the Consolidated Financial Statements and the Notes to Consolidated Financial Statements listed in the Index to the Consolidated Financial Statements, which appear beginning on page F-2 of this Annual Report on Form 10-K, are incorporated by reference into Item 8 above.

2. *Financial Statement Schedules*. Schedule II-Valuation Accounts. All other financial statement schedules have been omitted because the information required to be set forth therein is either not applicable or is included in the Consolidated Financial Statements or the Notes to Consolidated Financial Statements.

3. *Exhibits*. See Item 15(b) below. Each management contract and compensatory plan or arrangement required to be filed has been identified.

(b) *Exhibits*. The exhibits listed in the accompanying Exhibit Index are filed or incorporated by reference as part of this Annual Report on Form 10-K.

(c) *Financial Statement Schedules*. Reference is made to Item 15(a)(2) above.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

The Active Network, Inc.

Date: February 26, 2013

By: */s/* Matthew Landa  
**Matthew Landa**  
**Chief Executive Officer**  
  
**(Principal Executive Officer)**

**Table of Contents****POWER OF ATTORNEY**

KNOW ALL THESE, PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints David Alberga and Scott Mendel, and each of them, his attorneys-in-fact, each with full power of substitution, for him in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each said attorneys-in-fact or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <b>Signature</b>                             | <b>Title</b>  | <b>Date</b>       |
|--|---|-------------------|
| /s/ MATTHEW LANDA<br><br>Matthew Landa       | Chief Executive Officer and Director ( <i>Principal Executive Officer</i> )                     | February 26, 2013 |
| /s/ SCOTT MENDEL<br><br>Scott Mendel         | Chief Financial Officer ( <i>Principal Financial Officer and Principal Accounting Officer</i> ) | February 26, 2013 |
| /s/ David Alberga<br><br>David Alberga       | Chairman of the Board and Executive Chairman  | February 26, 2013 |
| /s/ Thomas N. Clancy<br><br>Thomas N. Clancy | Director  | February 26, 2013 |
| /s/ Bruns H. Grayson<br><br>Bruns H. Grayson | Director  | February 26, 2013 |
| /s/ Stephen L. Green<br><br>Stephen L. Green | Director  | February 26, 2013 |
| /s/ Joseph Levin<br><br>Joseph Levin         | Director  | February 26, 2013 |
| /s/ Edward Neppi<br><br>Edward Neppi         | Director  | February 26, 2013 |



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**THE ACTIVE NETWORK, INC.**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders of

The Active Network, Inc.

We have audited the accompanying consolidated balance sheets of The Active Network, Inc. as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive loss, stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2012. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Active Network, Inc. at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Active Network, Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Diego, California  
February 26, 2013

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**THE ACTIVE NETWORK, INC.**  
**CONSOLIDATED BALANCE SHEETS**

(In thousands, except par value)

|  | December 31,      |                   |
|--|-------------------|-------------------|
|  | 2012              | 2011              |
| <b>Assets</b>  |                   |                   |
| Current assets:  |                   |                   |
| Cash and cash equivalents  | \$ 58,493         | \$ 108,699        |
| Restricted cash  | 1,145             | 1,502             |
| Registrations receivable   | 16,260            | 14,006            |
| Accounts receivable, net   | 51,363            | 52,463            |
| Inventories  | 4,809             | 1,662             |
| Prepaid expenses and other current assets  | 8,922             | 7,509             |
| <b>Total current assets</b>  | <b>140,992</b>    | <b>185,841</b>    |
| Property and equipment, net  | 41,236            | 33,830            |
| Software development costs, net  | 51,151            | 45,093            |
| Goodwill   | 243,716           | 243,320           |
| Intangible assets, net   | 62,806            | 90,340            |
| Other long-term assets   | 2,569             | 2,133             |
| <b>Total assets</b>  | <b>\$ 542,470</b> | <b>\$ 600,557</b> |
| <b>Liabilities and stockholders equity</b>   |                   |                   |
| Current liabilities:   |                   |                   |
| Accounts payable   | \$ 8,174          | \$ 8,516          |
| Registration fees payable  | 61,272            | 72,405            |
| Accrued expenses   | 38,865            | 41,106            |
| Deferred revenue   | 66,846            | 54,919            |
| Current portion of long-term debt  |                   | 5,000             |
| Capital lease obligations, current portion   | 2,774             | 3,317             |
| Other current liabilities  | 4,373             | 42,613            |
| <b>Total current liabilities</b>   | <b>182,304</b>    | <b>227,876</b>    |
| Capital lease obligations, net of current portion  | 2,462             | 1,652             |
| Other long-term liabilities  | 6,192             | 6,147             |
| Deferred tax liability   | 19,065            | 18,243            |
| <b>Total liabilities</b>   | <b>210,023</b>    | <b>253,918</b>    |
| Commitments and contingencies (Note 13)  |                   |                   |
| Stockholders equity:   |                   |                   |
| Preferred stock, \$0.001 par value authorized, 100,000 shares; no shares issued and outstanding at December 31, 2012 and 2011, respectively  |                   |                   |
| Common stock, \$0.001 par value authorized, 1,000,000 shares ; issued, 62,670 and 58,219 shares; outstanding, 60,894 and 56,443 shares at December 31, 2012 and 2011, respectively | 62                | 58                |
| Treasury stock (at cost, 1,776 shares at December 31, 2012 and 2011, respectively)   | (11,959)          | (11,959)          |
| Additional paid-in capital   | 653,694           | 625,875           |
| Accumulated other comprehensive income   | 8,934             | 7,923             |
| Accumulated deficit  | (318,284)         | (275,258)         |
| <b>Total stockholders equity</b>   | <b>332,447</b>    | <b>346,639</b>    |

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|  |            |            |
|--|------------|------------|
| Total liabilities and stockholders' equity | \$ 542,470 | \$ 600,557 |
|--|------------|------------|

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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**Table of Contents****THE ACTIVE NETWORK, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share data)**

|   | 2012        | Year Ended<br>December 31,<br>2011 | 2010        |
|---|-------------|------------------------------------|-------------|
| Net Revenue:  |             |                                    |             |
| Technology revenue  | \$ 370,472  | \$ 290,480                         | \$ 237,688  |
| Marketing services revenue  | 48,421      | 46,910                             | 41,912      |
| Total net revenue   | 418,893     | 337,390                            | 279,600     |
| Cost of net revenue:  |             |                                    |             |
| Cost of technology revenue  | 184,954     | 144,962                            | 115,148     |
| Cost of marketing services revenue  | 6,865       | 5,952                              | 6,203       |
| Total cost of net revenue   | 191,819     | 150,914                            | 121,351     |
| Gross profit  | 227,074     | 186,476                            | 158,249     |
| Operating expenses:   |             |                                    |             |
| Sales and marketing   | 97,091      | 70,251                             | 59,106      |
| Research and development  | 81,408      | 66,753                             | 61,107      |
| General and administrative  | 65,924      | 51,126                             | 42,404      |
| Amortization of intangibles   | 22,277      | 14,962                             | 16,147      |
| Total operating expenses  | 266,700     | 203,092                            | 178,764     |
| Loss from operations  | (39,626)    | (16,616)                           | (20,515)    |
| Interest income   | 87          | 119                                | 150         |
| Interest expense  | (664)       | (2,890)                            | (5,438)     |
| Other income (expense), net   | 1,157       | (14)                               | 455         |
| Loss before provision (benefit) for income taxes  | (39,046)    | (19,401)                           | (25,348)    |
| Provision (benefit) for income taxes  | 3,980       | (4,074)                            | 1,924       |
| Net loss  | (43,026)    | (15,327)                           | (27,272)    |
| Accretion of redeemable convertible preferred stock   |             | (11,810)                           | (28,157)    |
| Net loss attributable to common stockholders  | \$ (43,026) | \$ (27,137)                        | \$ (55,429) |
| Net loss per share attributable to common stockholders:   |             |                                    |             |
| Basic and diluted   | \$ (0.73)   | \$ (0.75)                          | \$ (7.83)   |
| Weighted-average shares used to compute net loss per share attributable to common stockholders: |             |                                    |             |
| Basic and diluted   | 58,804      | 36,072                             | 7,080       |

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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**THE ACTIVE NETWORK, INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

**(In thousands)**

|   | <b>2012</b> | <b>December 31,<br/>2011</b> | <b>2010</b> |
|---|-------------|------------------------------|-------------|
| Net loss                                | \$ (43,026) | \$ (15,327)                  | \$ (27,272) |
| Other comprehensive (loss) income:      |             |                              |             |
| Foreign currency translation            | 1,011       | (943)                        | 2,271       |
| Total other comprehensive (loss) income | 1,011       | (943)                        | 2,271       |
| Comprehensive loss                      | \$ (42,015) | \$ (16,270)                  | \$ (25,001) |

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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**Table of Contents****THE ACTIVE NETWORK, INC.****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT)**

(In thousands, except share data)

|  | Common Stock |        | Treasury Stock |             | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Accumulated<br>Deficit | Total<br>Stockholders<br>Equity<br>(Deficit) |
|--|--------------|--------|----------------|-------------|----------------------------------|---|------------------------|--|
|  | Shares       | Amount | Shares         | Amount      |                                  |   |                        |  |
| Balance at December 31, 2009   | 8,126,621    | \$ 7   | (1,775,640)    | \$ (11,959) | \$ 56,706                        | \$ 6,595  | \$ (192,692)           | \$ (141,343)                                 |
| Exercise of stock options and warrants   | 1,338,105    | 2      |                |             | 1,466                            |   |                        | 1,468  |
| Stock-based compensation   |              |        |                |             | 5,348                            |   |                        | 5,348  |
| Issuance of common shares for acquisitions   | 290,628      |        |                |             | 1,070                            |   |                        | 1,070  |
| Issuance of warrants   |              |        |                |             | 634                              |   |                        | 634  |
| Accretion of redeemable convertible preferred stock to redemption value                  |              |        |                |             |                                  |   | (28,157)               | (28,157)                                     |
| Other comprehensive loss   |              |        |                |             |                                  | 2,271   |                        | 2,271  |
| Net loss   |              |        |                |             |                                  |   | (27,272)               | (27,272)                                     |
| Balance at December 31, 2010   | 9,755,354    | \$ 9   | (1,775,640)    | \$ (11,959) | \$ 65,224                        | \$ 8,866  | \$ (248,121)           | \$ (185,981)                                 |
| Exercise of stock options and warrants   | 2,846,730    | 3      |                |             | 4,865                            |   |                        | 4,868  |
| Issuance of employee stock purchase plan shares  | 50,576       |        |                |             | 631                              |   |                        | 631  |
| Stock-based compensation   |              |        |                |             | 7,795                            |   |                        | 7,795  |
| Issuance of common shares for acquisitions   | 2,500,000    | 3      |                |             | 27,223                           |   |                        | 27,226                                       |
| Repurchase of common stock and stock options   | (6,773)      |        |                |             | (13)                             |   |                        | (13)   |
| Conversion of preferred stock to common stock in connection with initial public offering | 34,631,891   | 35     |                |             | 404,088                          |   |                        | 404,123                                      |
| Issuance of common stock in connection with initial public offering                      | 8,222,222    | 8      |                |             | 112,558                          |   |                        | 112,566                                      |
| Issuance of common stock in connection with conversion of debt                           | 218,989      |        |                |             | 3,504                            |   |                        | 3,504  |
| Accretion of redeemable convertible preferred stock to redemption value                  |              |        |                |             |                                  |   | (11,810)               | (11,810)                                     |
| Other comprehensive loss   |              |        |                |             |                                  | (943)   |                        | (943)  |
| Net loss   |              |        |                |             |                                  |   | (15,327)               | (15,327)                                     |
| Balance at December 31, 2011   | 58,218,989   | \$ 58  | (1,775,640)    | \$ (11,959) | \$ 625,875                       | \$ 7,923  | \$ (275,258)           | \$ 346,639                                   |
| Exercise of stock options and release of awards  | 4,226,159    | 4      |                |             | 9,743                            |   |                        | 9,747  |
| Issuance of employee stock purchase plan shares  | 244,947      |        |                |             | 1,623                            |   |                        | 1,623  |
| Stock-based compensation   |              |        |                |             | 16,728                           |   |                        | 16,728                                       |
| Cancellation of escrow common shares in connection with acquisitions                     | (20,320)     |        |                |             | (275)                            |   |                        | (275)  |
| Other comprehensive loss   |              |        |                |             |                                  | 1,011   |                        | 1,011  |
| Net loss   |              |        |                |             |                                  |   | (43,026)               | (43,026)                                     |
| Balance at December 31, 2012   | 62,669,775   | \$ 62  | (1,775,640)    | \$ (11,959) | \$ 653,694                       | \$ 8,934  | \$ (318,284)           | \$ 332,447                                   |

The accompanying Notes are an integral part of these Consolidated Financial Statements.





**Table of Contents****THE ACTIVE NETWORK, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

|   | Year Ended December 31, |             |             |
|---|-------------------------|-------------|-------------|
|   | 2012                    | 2011        | 2010        |
| <b>Operating activities</b>   |                         |             |             |
| Net loss  | \$ (43,026)             | \$ (15,327) | \$ (27,272) |
| Adjustments to reconcile net loss to net cash provided by operating activities: |                         |             |             |
| Depreciation and amortization of property and equipment                         | 33,343                  | 24,386      | 19,230      |
| Amortization of intangible assets   | 27,972                  | 20,471      | 21,057      |
| Stock-based compensation expense  | 16,728                  | 7,795       | 5,348       |
| Allowance for doubtful accounts, net of write-offs                              | (648)                   | 258         | (566)       |
| Deferred income taxes   | 1,370                   | (5,016)     | 1,239       |
| Amortization of acquisition-related costs                                       | (897)                   | (813)       |             |
| Gain on contingent consideration  | (1,123)                 |             |             |
| Accretion of discount on debt   |                         | 191         | 1,055       |
| Loss on extinguishment of debt  |                         | 538         |             |
| Gain on bargain purchase in business combination                                |                         |             | (21)        |
| Loss on disposition of assets   |                         |             | 46          |
| Change in operating assets and liabilities, net of effect of acquisitions:      |                         |             |             |
| Restricted cash   | 357                     | 4,190       |             |
| Registrations receivable  | (2,254)                 | (5,378)     | (1,685)     |
| Accounts receivable   | 1,849                   | (6,961)     | (4,586)     |
| Inventories   | (3,147)                 | (1,662)     |             |
| Prepaid expenses and other assets   | (2,513)                 | 1,071       | (262)       |
| Accounts payable  | (237)                   | (279)       | 1,080       |
| Registration fees payable   | (11,133)                | 31,738      | 10,509      |
| Accrued expenses  | (2,904)                 | 1,166       | 5,486       |
| Deferred revenue  | 11,894                  | 6,400       | 8,800       |
| Other liabilities   | 1,921                   | 2,935       | 2,637       |
| Net cash provided by operating activities                                       | 27,552                  | 65,703      | 42,095      |
| <b>Investing activities</b>   |                         |             |             |
| Purchases of property and equipment   | (17,765)                | (12,514)    | (14,767)    |
| Capitalized software development  | (23,026)                | (18,651)    | (15,651)    |
| Cash paid for acquisitions, net of cash acquired                                | (38,175)                | (35,144)    | (125)       |
| Payment of contingent consideration   |                         | (625)       | (2,182)     |
| Net cash used in investing activities   | (78,966)                | (66,934)    | (32,725)    |
| <b>Financing activities</b>   |                         |             |             |
| Proceeds from issuance of common stock  | 10,955                  | 5,200       | 2,584       |
| Payments on capital lease obligations   | (4,730)                 | (2,595)     | (1,898)     |
| Proceeds from long-term debt  | 10,000                  | 5,000       | 3,000       |
| Repayment of long-term debt   | (15,000)                | (41,628)    | (8,035)     |
| Repurchase of unvested common stock   |                         | (13)        |             |
| Net proceeds from initial public offering                                       |                         | 112,566     |             |
| Net cash provided by (used in) financing activities                             | 1,225                   | 78,530      | (4,349)     |
| Effect of exchange rates on cash  | (17)                    | (41)        | 39          |
| Net increase (decrease) in cash and cash equivalents                            | (50,206)                | 77,258      | 5,060       |
| Cash and cash equivalents at beginning of year                                  | 108,699                 | 31,441      | 26,381      |
| Cash and cash equivalents at end of year  | \$ 58,493               | \$ 108,699  | \$ 31,441   |

**Supplemental disclosures of cash flow information**

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|   |    |       |    |         |    |       |
|---|----|-------|----|---------|----|-------|
| Cash paid during the year for interest  | \$ | 573   | \$ | 2,252   | \$ | 3,425 |
| Cash paid during the year for taxes   | \$ | 1,350 | \$ | 1,533   | \$ | 727   |
| <b>Supplemental disclosures of noncash financing and investing activities</b> |    |       |    |         |    |       |
| Fixed asset purchases included in accounts payable and accrued liabilities    | \$ | 3,784 | \$ | 3,362   | \$ | 2,006 |
| Acquisition of equipment and software under capital leases                    | \$ | 4,997 | \$ | 3,437   | \$ |       |
| Issuance of warrants  | \$ |       | \$ |         | \$ | 634   |
| Conversion of preferred stock   | \$ |       | \$ | 404,123 | \$ |       |
| Conversion of debt  | \$ |       | \$ | 3,504   | \$ |       |
| Consideration payable in connection with acquisition                          | \$ |       | \$ | 40,046  | \$ |       |
| Issuance (cancellation) of common stock in connection with acquisitions       | \$ | (177) | \$ | 27,225  | \$ | 875   |

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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**The Active Network, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Business**

The Active Network, Inc., a Delaware corporation, and its subsidiaries ( Active or the Company ), provide cloud based Activity and Participant Management solutions that form an online network connecting a fragmented and diverse group of activity and event organizers with a large base of potential participants. The Company s technology platform transforms the way organizers manage their activities and events by automating online registrations and streamlining other critical management functions, while driving consumer participation to their activities and events.

***Initial Public Offering***

In May 2011, the Company completed an initial public offering ( IPO ) of its common stock in which it sold and issued 12,650,000 shares of common stock, of which 4,427,778 were sold by its selling shareholders, at an issue price of \$15.00 per share, resulting in proceeds, net of underwriting discounts and offering expenses, of approximately \$112.6 million to the Company. As a result of the IPO, all shares of the Company s convertible preferred stock and redeemable convertible preferred stock converted into 34,631,891 shares of common stock and certain warrants to purchase common stock were net exercised into 420,365 shares of common stock.

**2. Basis of Presentation and Summary of Significant Accounting Policies**

***Principles of Consolidation***

The accompanying consolidated financial statements include the accounts of Active and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

***Use of Estimates***

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles in the United States of America ( GAAP ) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

***Revenue Recognition***

The Company recognizes technology revenue primarily from registration fees and related hosting and implementation services. Technology revenue also includes software licensing, training services, software maintenance fees and revenue from the sale of pre-purchased registrations. Technology revenue was 88%, 86%, and 85% of total revenue for the years December 31, 2012, 2011, and 2010, respectively. The Company also records revenue for marketing services which primarily consists of online and integrated field marketing campaigns and membership programs. Marketing revenue was 12%, 14%, and 15% of total revenue for the years ended December 31, 2012, 2011, and 2010, respectively.

The Company recognizes revenue when a signed contract or other persuasive evidence of an arrangement exists, the services have been rendered, the fee is fixed or determinable, and collection of the resulting receivable is probable. The Company s arrangements do not contain general rights of return.

The Company assesses whether the fee is fixed or determinable, and collection is probable, at the time of the transaction. In determining whether the fee is fixed or determinable, the Company compares the payment terms of the transaction to its standard payment terms and whether payment is free of contingencies or significant

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uncertainties. If a significant portion of the fee is considered to have extended payment terms or the fee is subject to adjustment, the Company accounts for the fee as not being fixed or determinable and recognizes revenue as the payments become due. The Company assesses whether collection is probable based on a number of factors, including the customer's past transaction history and credit-worthiness. The Company does not request collateral from its customers. If the Company determines that collection of a fee is not probable, the Company defers the fee and recognizes revenue at the time collection becomes probable, which is generally upon receipt of cash.

The Company also enters into multiple element revenue arrangements in which a customer may purchase a combination of hosting, implementation, training, and maintenance services. Revenue arrangements with multiple deliverables are divided into separate units and the arrangement consideration is allocated to all deliverables based on the relative selling price method. In such circumstances, the Company uses the selling price hierarchy of (i) vendor specific objective evidence of fair value ( VSOE ) if available,(ii) third-party evidence of selling price ( TPE ) if VSOE is not available, and (iii) best estimate of selling price ( BEBP ), if neither VSOE nor TPE is available. VSOE generally exists when the Company sells the deliverable separately as it is limited to the price charged when the same element is sold separately. Due to the unique nature of some of the Company's multiple deliverable revenue arrangements, the Company may not be able to establish selling prices based on historical stand-alone sales using VSOE or TPE, therefore the Company may use its best estimate to establish selling prices for these arrangements. The Company establishes its best estimates within a range of selling prices considering multiple factors including, but not limited to, customer base, size of transaction, customer demand, historic Company contractually stated prices and the Company's price lists.

Significant management judgments and estimates are made in connection with determination of the revenue to be recognized in any accounting period. If the Company makes different judgments or utilized different estimates for any period, material differences in the amount and timing of revenue recognized could result.

### **Technology Revenue**

The Company generally recognizes registration revenue when received, net of registration fees paid to event organizers, refunds, and chargebacks, where the Company is acting as an agent of event organizers. Net registration revenue comprised 66%, 67%, and 71% of total net revenue for fiscal years 2012, 2011 and 2010, respectively.

In certain circumstances, the Company pre-purchases registrations from event organizers. The decision to record revenue gross versus net is a matter of significant judgment that is dependent upon the relevant facts and circumstances. The Company evaluates the presentation of revenue on a gross or net basis based on the qualitative weight of various indicators in the authoritative accounting guidance in order to determine whether the Company recognizes (a) the gross amount billed to a customer because it has earned revenue from the sale of the goods or service or (b) the net amount retained (that is, the amount billed to a customer less the amount paid to a supplier because it has earned a commission or fee). Registration revenue associated with pre-purchased registration transactions is recorded on a gross basis at the time the event occurs, as the Company bears inventory risk, has latitude in establishing price, bears credit risk and assumes many of the responsibilities of the primary obligor, except for the actual fulfillment of the event.

For the sale of pre-purchased registrations recorded on a gross basis, cash collected prior to an event is recorded as deferred revenue until the event occurs. Revenue recognized on a gross basis associated with these transactions comprised 1.6%, 0.7% and 0% of total net revenue for fiscal years 2012, 2011 and 2010, respectively.

Many customers who use the Company's hosting services or license its software also enter into professional services and training arrangements with the Company. In addition, certain of the Company's hosting agreements include up-front fees for implementation of hosting services. In determining whether professional services and implementation revenue should be accounted for separately, the Company evaluates (among other factors): the nature of the deliverables; whether they are ready for their intended use by the customer upon receipt; the nature

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of the implementation services; the availability of services from other vendors; whether the timing of payments for license revenue is coincident with performance of services and whether milestones or acceptance criteria exist that affect the realizability of the hosting or software license fee.

For hosting arrangements with up-front fees received for implementation services where the hosting and implementation do not have stand-alone value, the Company defers the related revenue and records revenue as a single unit over the term of the hosting contract.

For license and professional services that qualify for separate accounting, such as arrangements that involve off-the-shelf software, the services do not include significant alterations to the features and functionality of the software, the services are primarily comprised of implementation services and fair value exists for the undelivered elements, software revenue is generally recognized when the software is delivered and service revenue is recognized when the services are performed.

For license and professional service arrangements that do not qualify for separate accounting, such as arrangements that involve significant modification or customization of the software, arrangements that include milestones or customer specific acceptance criteria, or where payment for the software license is tied to the performance of professional services, software license revenue is generally recognized together with the professional services revenue when services have been rendered.

Maintenance revenue consists of fees for providing software updates on a when-and-if available basis and technical support to software products ( post contract customer support or PCS ). Maintenance revenue is recognized ratably over the term of the agreement.

Penalties from customers related to power outages or other technical disruptions are recognized in the period in which such amounts are incurred based on the Company's estimated liability and are recorded as a reduction of revenue or an increase to cost of revenue.

## **Marketing Revenue**

Marketing services revenue consists of online and integrated field marketing campaigns and membership programs. The Company's online marketing services include online advertising, e-mail marketing and targeted newsletter promotions. Banner, button and e-mail advertisements are impression-based, with the revenue based on the number of times the advertisement is displayed or delivered over the contract period. Impression-based contract revenue is primarily recognized as the impression is displayed on the Company's web site or delivered by e-mail to the intended addressee. The Company's field marketing services include event promotions, sponsorships and sample placements and are defined contractually with individual customers. Field marketing revenue is recognized over the term of the contract or when revenue is earned based on the performance of services associated with a series of events. Revenue from membership programs is recognized over the term of the membership period.

## ***Fair Value of Financial Instruments***

Carrying amounts of the Company's financial instruments including accounts receivable, inventories, prepaid expenses and other current assets, accounts payable, registration fees payable and accrued liabilities approximate fair value due to their short maturities. Carrying amounts of the Company's acquisition-related notes payable, term loans and line of credit approximate fair value as the interest rates on these instruments are primarily based on market rates of interest. The fair value of acquisition-related contingent consideration issued is detailed further in Note 5.

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### ***Concentration of Credit Risk***

The Company's cash, cash equivalents and accounts receivable are potentially subject to concentration of credit risk. Cash and cash equivalents are deposited with financial institutions that management believes are creditworthy. As of December 31, 2012 and 2011, substantially all of the Company's cash has been deposited in non-interest bearing accounts. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from its customers. The Company maintains an allowance for doubtful accounts receivable based on various factors, including the Company's review of credit profiles of its customers, contractual terms and conditions, current economic trends and historical payment experience (Note 6).

### ***Cash and Cash Equivalents***

The Company considers all highly liquid investment securities with remaining maturities at the date of purchase of three months or less to be cash equivalents. Management determines the appropriate classification of marketable securities at the time of purchase and evaluates such designation as of each balance sheet date.

### ***Restricted Cash***

At December 31, 2012 and 2011, the Company had \$1.1 million and \$1.5 million, respectively, of cash restricted from withdrawal and held by banks as collateral for letters of credit.

### ***Registration Fees Receivable***

Registration fees receivable represent amounts due from payment processors for credit card transactions processed for our customers. Registration fees receivable includes the Company's technology fee and the registration fees payable our customers.

### ***Accounts Receivable***

Accounts receivable includes trade accounts receivables from the Company's invoiced customers.

### ***Inventories***

Inventories are stated at the lower of cost or market on a first in, first out ( FIFO ) basis. Inventories are comprised of pre-purchased registrations from event organizers for customer activities and events that are intended to be sold directly to end-user participants. The Company reviews its inventory for estimated excess inventory based on estimated future usage and sales. Inventory reserves are established based upon such judgments for any inventories that are identified as having a net realizable value less than their cost, which is further reduced by related selling expenses. Whenever inventory is written down, a new cost basis is established and the inventory is not subsequently written up if conditions improve.

### ***Property and Equipment***

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally two to five years.

Significant improvements which substantially extend the useful lives of assets are capitalized. Amortization of leasehold improvements is computed using the shorter of the estimated useful lives or the terms of their

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respective leases, generally one to nine years. Expenditures for maintenance and repairs are charged to expense as incurred.

Assets held under capital leases are recorded at the net present value of the minimum lease payments of the leased asset at the inception of the lease. Amortization expense is computed using the straight-line method over the shorter of the estimated useful lives of the assets or the period of the related lease and is included in depreciation expense.

### ***Capitalized Software Development Costs***

Costs to develop internal use software are capitalized provided these costs are expected to be recoverable, and are amortized on a product-by-product basis using the straight-line method over the estimated economic life of the application, which is generally two to five years, beginning when the asset is substantially ready for use. Costs incurred during the preliminary development stage, as well as maintenance and training costs are expensed as incurred. The Company capitalized software development costs of \$23.5 million, \$18.7 million, and \$15.7 million for the years ended December 31, 2012, 2011 and 2010, respectively. Amortization of internal software development costs is reflected in cost of revenue.

### ***Business Combinations***

Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the acquired net tangible and intangible assets. While the Company uses its best estimates and assumptions as a part of the determination of fair value to accurately value assets acquired and liabilities assumed on the business combination date, the Company's estimates and assumptions are inherently subject to refinement. As a result, during the preliminary determination of fair value, which may be up to one year from the business combination date, the Company records adjustments to the assets acquired and liabilities assumed, with a corresponding offset to goodwill. After the completion of the determination of fair value, the Company records adjustments to the assets acquired or liabilities assumed subsequent to the completion of the determination of fair value in the Company's operating results in the period in which the adjustments were determined.

The Company also incurs acquisition-related and other expenses including legal, banker, accounting and other advisory fees of third parties and severance costs for certain employees of the acquired company that were terminated as of the acquisition date which are recorded as general and administrative expenses as incurred.

### ***Goodwill***

Goodwill and intangible assets with indefinite useful lives are not amortized, but are tested for impairment at least annually or as circumstances indicate that their value may no longer be recoverable. The Company does not have intangible assets with indefinite useful lives other than goodwill. Goodwill impairment testing is a two-step process: first, the Company tests for impairment, and if any possible impairment exists, undertakes a second step of measuring such impairment. The Company performs its goodwill impairment test annually in its fourth fiscal quarter, and more frequently if events or changes in circumstances occur that indicate a potential reduction in the fair value of our reporting units are below their respective carrying values. Examples of such events or circumstances include: a significant adverse change in legal factors or in the business climate, a significant decline in our stock price, a significant decline in our projected revenue or cash flows, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, or the presence of other indicators that would indicate a reduction in the fair value of a reporting unit. To date we have not performed an interim impairment test and the last impairment test was as of October 1. The guidance for goodwill and other intangible assets requires impairment testing based on reporting units. The Company periodically re-evaluates its business and has determined that it operates in two segments, which the Company also considers its reporting units given the similarities in economic characteristics between our operations and the common nature of our products, services and customers within each segment. Therefore, goodwill is tested at the reporting unit level.

For purposes of goodwill impairment testing, the Company estimates its fair value using generally accepted valuation methodologies, including market and income based approaches, and relevant data available through and as of the testing date. The market approach is a valuation method in which fair value is estimated based on observed prices in actual transactions and on asking prices for similar assets. Under the market approach, the valuation process is essentially that of comparison and correlation between the subject asset and other similar

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assets. The income approach is a method in which fair value is estimated based on the cash flows that an asset could be expected to generate over its useful life, including residual value cash flows. These cash flows are then discounted to their present value using a rate of return that accounts for the relative risk of not realizing the estimated annual cash flows and for the time value of money. To date, the Company has determined that there has been no impairment of goodwill.

### ***Long-Lived Assets***

The Company evaluates the recoverability of its long-lived assets which includes amortizable intangible and tangible assets in accordance with authoritative guidance on accounting for the impairment or disposal of long-lived assets. Acquired intangible assets with definite useful lives are amortized over their useful lives. The Company evaluates long-lived assets, other than goodwill, for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. The Company recognizes such impairment in the event the net book value of such assets exceeds their fair value. No long-lived assets impairment losses were incurred in the fiscal periods presented.

### ***Penalty Accruals***

In the normal course of business, the Company may incur penalties from customers related to power outages or various technical disruptions. The Company records a liability, on a contract-by-contract basis, for specific matters when it determines that the likelihood of an unfavorable outcome is probable and the loss is reasonably estimable. The Company subsequently reduces the liability as these matters are settled. Penalties are reflected as a reduction in revenue or as an increase in cost of revenue in the Company's consolidated statement of operations.

### ***Registration Fees Payable***

Registration fees payable represent the portion of the registration fees payable to event organizers, park and recreation department administrators, league administrators and other customers. Cash collected on behalf of customers are included in cash and cash equivalents prior to remitting the amounts owed to the Company's customers.

### ***Deferred Revenue***

Deferred revenue represents amounts received from customers in advance of the delivery or performance of products and/or services or before the satisfaction of all revenue recognition requirements. Costs directly attributable to the deferred revenue are also deferred until the related revenue is recognized.

### ***Stock-Based Compensation***

Stock based compensation expense is comprised of stock options, stock options with market conditions ( Market Stock Options ), restricted stock units with service conditions ( RSUs ), restricted stock units with market conditions ( MSUs ), and performance-based restricted stock units ( PRSUs or Performance RSUs ) which are issued under the Company's 2002 and 2011 equity incentive plans, as well as common stock issued under the Employee Stock Purchase Plan ( ESPP ). The ESPP allows eligible officers and employees to purchase a limited amount of common stock at a discount to the market price in accordance with the terms of the plan as described in Note 16 of the Company's consolidated financial statements.

### ***Stock Options and ESPP***

Stock-based compensation related to stock options and ESPP is measured at the grant date based on the fair value of the award and is recognized as expense, net of estimated forfeitures, over the requisite service period,



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which is generally the vesting period of the respective award. The Company utilizes the Black-Scholes pricing model for determining the estimated fair value of our stock options and the common stock issued under the ESPP. The Black-Scholes pricing model requires the use of subjective assumptions including the option's expected term, the price volatility of the underlying stock and the expected forfeiture rate.

### ***RSUs***

Stock-based compensation cost for restricted stock awards is recognized using the closing price of the stock on the grant date as the fair value, net of an estimate for pre-vesting forfeitures, and recognize the expense over the indicated service period of the award.

### ***Market Stock Options and MSUs***

Stock-based compensation related to market stock options and MSUs is measured using the Monte Carlo simulation model which estimates the potential outcome of reaching the market condition based on simulated future stock prices and is recognized over the requisite service period. The input factors used in the valuation model are based on subjective future expectation combined with management judgment.

### ***Performance RSUs***

Compensation cost for awards with performance conditions is recognized when the performance conditions have been determined and based upon the probability of that performance condition being met, net of an estimate for pre-vesting forfeitures, at the closing market price on the date of the grant.

### ***Income Taxes***

The Company makes certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes.

The Company assesses the likelihood that it will be able to recover its deferred tax assets. The Company considers all available evidence, both positive and negative, including historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. If it is more likely than not that the Company will not recover its deferred tax assets, the Company will increase its provision for taxes by recording a valuation allowance against the deferred tax assets that it estimates will not ultimately be recoverable.

The Company's income tax returns are based on calculations and assumptions that are subject to examination by the Internal Revenue Service and other tax authorities. In addition, the calculation of the Company's tax liabilities involves dealing with uncertainties in the application of complex tax regulations. The Company recognizes liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. While the Company believes it has appropriate support for the positions taken on its tax returns, the Company regularly assesses the potential outcomes of examinations by tax authorities in determining the adequacy of its provision for income taxes. The Company continually assesses the likelihood and amount of potential adjustments and adjusts the income tax provision, income taxes payable and deferred taxes in the period in which the facts that give rise to a revision become known.

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### ***Advertising Expense***

Advertising costs are expensed as they are incurred. The Company incurred advertising costs of approximately \$3.7 million, \$3.3 million and \$2.2 million for years ended December 31, 2012, 2011 and 2010, respectively. Advertising costs are included in sales and marketing on the consolidated statements of operations.

### ***Foreign Currencies***

The functional currency for the majority of the Company's foreign subsidiaries is the local currency. For those subsidiaries, the assets and liabilities are translated into U.S. dollars at exchange rates in effect at the balance sheet date. Income and expense items are translated at average exchange rates for the period. Certain foreign subsidiaries designate the U.S. dollar as the functional currency. For those subsidiaries, assets and liabilities denominated in foreign currency are remeasured into U.S. dollars at current exchange rates for monetary assets and liabilities and historical exchange rates for nonmonetary assets and liabilities. Foreign currency translation adjustments are included in accumulated other comprehensive income as a separate component of stockholders' equity (deficit) or in other income (expense) in the consolidated statements of operations.

Foreign currency exchange gains and losses are recorded in other income (expense), net. Foreign currency transaction gains and losses were \$0.1 million, \$0.1 million and \$0.3 million for the years ended December 31, 2012, 2011 and 2010, respectively.

### ***Comprehensive Loss***

Comprehensive loss consists of two components, net loss and other comprehensive loss. Other comprehensive loss refers to revenue, expenses, gains and losses that under U.S. generally accepted accounting principles are recorded as an element of stockholders' equity (deficit) but are excluded from net loss. The Company's other comprehensive loss consists of foreign currency translation adjustments from those subsidiaries not using the U.S. dollar as their functional currency. The Company has disclosed comprehensive loss as a component of stockholders' equity (deficit).

### ***Reclassification***

Certain prior year amounts in the consolidated financial statements have been reclassified to conform to the 2012 presentation. The Company reclassified deferred tax assets previously included in deferred tax liability to prepaid expenses and other current assets, in the consolidated financial statements for the period ended December 31, 2011 resulting in an increase in current assets and a corresponding increase in deferred tax liability of \$1.3 million.

## **3. Recent Accounting Pronouncements**

In December 2011, the FASB issued a pronouncement to the accounting guidance for disclosure of offsetting assets and liabilities and related arrangements. The pronouncement requires an entity to disclose information about offsetting and the related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. These amendments will enhance disclosures by requiring improved information about financial instruments and derivative instruments that are either offset or subject to an enforceable master netting arrangement or similar arrangement. The pronouncement is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013, and will be applied retrospectively. This pronouncement was later amended to limit the scope of the disclosure to derivatives within the balance sheet. The Company does not expect this pronouncement to have a material impact on our consolidated financial statements.

In July 2012, the FASB issued a pronouncement that simplifies the guidance for testing the decline in the realizable value (impairment) of indefinite-lived intangible assets other than goodwill. The pronouncement

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allows an organization the option to first assess qualitative factors to determine whether it is necessary to perform the quantitative impairment test. An organization electing to perform a qualitative assessment is no longer required to calculate the fair value of an indefinite-lived intangible asset unless the organization determines, based on a qualitative assessment, that it is more likely than not that the asset is impaired. This pronouncement is effective for annual and interim impairment tests performed for fiscal beginning after September 15, 2012, with early adoption permitted. We will adopt this pronouncement in the first quarter of fiscal year 2013. The Company does not expect this pronouncement to have a material impact on our consolidated financial statements.

### **4. Business Combinations**

#### ***Acquisition of StarCite, Inc.***

On December 30, 2011, the Company completed the acquisition of all of the outstanding shares of StarCite, Inc. ( StarCite ), a provider of a technology platform that delivers content and services for meetings and event planning to corporations, hotels, venues and meetings suppliers for total consideration of \$57.4 million. The acquisition enables the Company to provide an integrated solution for the events space and broaden its customer base.

Total consideration comprised \$38.1 million in cash, 1,350,000 shares of common stock with a fair value of approximately \$18.4 million and 150,000 shares of contingently issuable common stock with an acquisition date fair value of approximately \$1.1 million to be issued in the event that the Company's shares of common stock did not close trading at or above \$15.00 per share for at least three consecutive days at any time during the sixty day period following the effective date of a registration statement filed to register the shares issued, pursuant to the agreement and plan of merger.

The estimated fair value of the contingent consideration was determined using the Monte Carlo Simulation approach, which involves key assumptions including the estimated contingency period and volatility of the Company's common stock to assess the probability of achieving the targeted price and was included in other current liabilities in the consolidated balance sheet at December 31, 2011. The Company's common stock traded at or above \$15.00 per share for three consecutive days subsequent to April 11, 2012, the effective registration date of the shares; accordingly the contingently issuable shares were not issuable to the former StarCite security holders. Immediately prior to the effective date of the registration statement, the estimated fair value of the contingent consideration was approximately \$38,000. The change in the estimated fair value of the contingent consideration was recorded in other income in the Company's condensed consolidated statements of operations and the remaining fair value was transferred from other current liabilities to equity.

The acquisition agreement included an initial escrow of approximately \$0.3 million in cash to cover potential expenses of the security holders agent and 300,000 common shares valued at approximately \$4.1 million, based on the closing price of the Company's common stock on the last trading day of fiscal 2011 to satisfy any claims under the indemnification provisions of the agreement for a period of 12 months following the acquisition date. During the year ended December 31, 2012, 20,320 escrow shares valued at approximately \$0.3 million were cancelled in order to satisfy indemnification claims related to the acquisition, 34,197 escrow shares valued at \$0.5 million were set aside by the Company as a share reserve to satisfy unresolved indemnification claims related to the acquisition and 245,483 shares were issued and released from escrow. The cancellation of the shares was recorded as a purchase price adjustment with a corresponding reduction to goodwill, as the estimated fair value of assets acquired and liabilities assumed was preliminary.

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The estimated fair values of assets acquired and liabilities assumed for the StarCite acquisition, as of the date of the acquisition, are as follows (in thousands):

|                           |               |
|---------------------------|---------------|
| Cash                      | \$ 572        |
| Restricted cash           | 692           |
| Accounts receivable       | 14,566        |
| Prepaid and other assets  | 1,301         |
| Fixed assets              | 1,912         |
| Goodwill                  | 21,690        |
| Intangible assets         | 36,500        |
| Accounts payable          | (1,398)       |
| Accrued expenses          | (5,459)       |
| Deferred revenue          | (11,286)      |
| Capital lease obligations | (480)         |
| Other liabilities         | (528)         |
| Unfavorable leases        | (695)         |
| <br>Total purchase price  | <br>\$ 57,387 |

The acquisition was accounted for as a purchase business combination. The following table summarizes the identifiable intangible assets acquired as of the date of the acquisition (dollars in thousands):

|                             | <b>Gross Amount<br/>at Acquisition<br/>Date</b> | <b>Amortization<br/>Period</b> |
|-----------------------------|---|--------------------------------|
| Trademarks                  | \$ 5,100  | 9 years                        |
| Customer relationships      | 17,300  | 9 years                        |
| Customer contracts          | 6,800   | 3 years                        |
| Complete technology         | 6,500   | 9 years                        |
| Non-compete agreements      | 800   | 1 year                         |
| <br>Total intangible assets | <br>\$ 36,500                                   |                                |

Goodwill of \$21.7 million, none of which is deductible for tax purposes, represents the excess of the purchase price over the estimated fair value assigned to tangible and identifiable intangible assets acquired and liabilities assumed from StarCite. The carrying amount of goodwill is allocated to the technology operating segment of the Company.

The Company also entered into termination agreements with certain StarCite executives in connection with the acquisition resulting in an expense of approximately \$1.9 million. These costs were treated as acquisition-related expenses and were included in the consolidated statements of operations during the year ended December 31, 2011.

***Pro Forma Financial Information (unaudited)***

The following table presents the unaudited pro forma results for fiscal 2011 and 2010. The unaudited pro forma financial information combines the results of operations of the Company and StarCite as though the companies had been combined as of the beginning of fiscal 2010. The pro forma financial information for all periods presented also includes the business combination accounting effects resulting from this acquisition including amortization charges from acquired intangible assets as though StarCite was combined as of the beginning of fiscal year 2010. The pro forma financial information as presented below is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition of StarCite had taken place at the beginning of fiscal year 2010.



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|  | Twelve Months Ended<br>December 31,   |             |
|--|---------------------------------------|-------------|
|  | 2011                                  | 2010        |
|  | (Unaudited)                           |             |
|  | (In thousands, except per share data) |             |
| Net revenue  | \$ 382,480                            | \$ 324,088  |
| Net loss attributable to common shareholders                             | \$ (30,632)                           | \$ (67,920) |
| Basic and diluted net loss per share attributable to common shareholders | \$ (0.82)                             | \$ (8.06)   |

**Acquisition of RTP, LLC**

In November 2011, the Company completed the purchase of all of the outstanding units of RTP, LLC ( RTP ), a provider of integrated resort software and solutions. The acquisition enables the Company to strengthen its position as a technology leader and broaden its customer base into the resort space. The purchase consideration was approximately \$21.5 million in cash.

The estimated fair values of assets acquired and liabilities assumed for the RTP acquisition, as of the date of the acquisition, are as follows (in thousands):

|                             |                  |
|-----------------------------|------------------|
| Cash                        | \$ 903           |
| Accounts receivable         | 5,648            |
| Prepaid and other assets    | 1,050            |
| Fixed assets                | 309              |
| Goodwill                    | 3,394            |
| Intangible assets           | 15,960           |
| Accounts payable            | (2,821)          |
| Accrued expenses            | (435)            |
| Deferred revenue            | (2,375)          |
| Other liabilities           | (133)            |
| <b>Total purchase price</b> | <b>\$ 21,500</b> |

The acquisition was accounted for as a purchase business combination. The following table summarizes the identifiable intangible assets acquired as of the date of the acquisition (dollars in thousands):

|                                | Gross Amount<br>at Acquisition<br>Date | Amortization<br>Period |
|--------------------------------|--|------------------------|
| Trademarks                     | \$ 1,350                               | 5 years                |
| Customer relationships         | 9,700                                  | 13 years               |
| Customer contracts             | 510                                    | 2 years                |
| Complete technology            | 2,900                                  | 9 years                |
| Non-compete agreements         | 1,500                                  | 3 years                |
| <b>Total intangible assets</b> | <b>\$ 15,960</b>                       |                        |

Goodwill of \$3.4 million, which is deductible for tax purposes, represents the excess of the purchase price over the estimated fair value assigned to tangible and identifiable intangible assets acquired and liabilities assumed from RTP. Approximately \$3.0 million and \$0.4 million of the carrying amount of goodwill are allocated to the technology and marketing services operating segments of the Company, respectively.

**Table of Contents****Acquisition of ServiceU**

In October 2011, the Company acquired all of the outstanding common shares of ServiceU, a provider of web-based solutions for giving, event registration, ticketing, calendaring and resource management. The acquisition enables the Company to strengthen its position as a technology leader and broaden its customer base in the faith space. The purchase consideration was approximately \$11.1 million in cash.

The estimated fair values of assets acquired and liabilities assumed for the ServiceU acquisition, as of the date of the acquisition, are as follows (in thousands):

|                           |               |
|---------------------------|---------------|
| Cash                      | \$ 13         |
| Accounts receivable       | 201           |
| Prepaid and other assets  | 51            |
| Fixed assets              | 249           |
| Goodwill                  | 4,388         |
| Intangible assets         | 10,377        |
| Accounts payable          | (21)          |
| Accrued expenses          | (132)         |
| Deferred revenue          | (42)          |
| Capital lease obligations | (120)         |
| Deferred tax liability    | (3,914)       |
| <br>Total purchase price  | <br>\$ 11,050 |

The acquisition was accounted for as a purchase business combination. The following table summarizes the identifiable intangible assets acquired as of the date of the acquisition (dollars in thousands):

|                             | <b>Gross Amount<br/>at Acquisition<br/>Date</b> | <b>Amortization<br/>Period</b> |
|-----------------------------|---|--------------------------------|
| Trademarks                  | \$ 250  | 2 years                        |
| Customer relationships      | 8,300   | 14 years                       |
| Complete technology         | 1,229   | 6 years                        |
| Non-compete agreements      | 598   | 3 years                        |
| <br>Total intangible assets | <br>\$ 10,377                                   |                                |

Goodwill of \$4.4 million, none of which is deductible for tax purposes, represents the excess of the purchase price over the estimated fair value assigned to tangible and identifiable intangible assets acquired and liabilities assumed from ServiceU. The carrying amount of goodwill is allocated to the technology operating segment of the Company.

**Acquisition of Fellowship Technologies, Inc.**

In February 2011, the Company acquired Fellowship Technologies, Inc. ( Fellowship ), a provider of web-based software to religious institutions. The acquisition enables the Company to strengthen its position as a technology leader and broaden its customer base in the faith space. The purchase consideration was approximately 1,125,000 shares of the Company's common stock valued at approximately \$8.9 million.

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The estimated fair values of assets acquired and liabilities assumed for the Fellowship acquisition, as of the date of the acquisition, are as follows (in thousands):

|                             |                 |
|-----------------------------|-----------------|
| Cash                        | \$ 520          |
| Accounts receivable         | 195             |
| Prepaid and other assets    | 15              |
| Fixed assets                | 530             |
| Security deposits           | 58              |
| Goodwill                    | 5,680           |
| Intangible assets           | 3,568           |
| Accounts payable            | (101)           |
| Deferred revenue            | (528)           |
| Capital lease obligations   | (481)           |
| Other liabilities           | (187)           |
| Unfavorable leases          | (404)           |
| <b>Total purchase price</b> | <b>\$ 8,865</b> |

The acquisition was accounted for as a purchase business combination. The following table summarizes the identifiable intangible assets acquired as of the date of the acquisition (dollars in thousands):

|                                  | <b>Gross Amount<br/>at<br/>Acquisition<br/>Date</b> | <b>Amortization<br/>Period</b> |
|----------------------------------|---|--------------------------------|
| Trademarks                       | \$ 197  | 3 years                        |
| Customer contracts/relationships | 2,730   | 4 years                        |
| Complete technology              | 641   | 4 years                        |
| <b>Total intangible assets</b>   | <b>\$ 3,568</b>                                     |                                |

Goodwill of \$5.7 million, which is deductible for tax purposes, represents the excess of the purchase price over the estimated fair value assigned to tangible and identifiable intangible assets acquired and liabilities assumed from Fellowship. The carrying amount of goodwill is allocated to the technology operating segment of the Company.

**Other Business Combinations**

During the year ended December 31, 2011, the Company acquired operations from two other businesses including a provider of web-based church management solutions and a provider of online registration for endurance events. The Company acquired the assets of these two businesses in exchange for \$4.6 million in cash. These acquisitions enable the Company to strengthen its position as a technology leader and broaden its customer base in the faith and endurance spaces. The estimated fair values of assets acquired and liabilities assumed were as follows (in thousands):

|                          |       |
|--------------------------|-------|
| Cash                     | \$ 14 |
| Accounts receivable      | 145   |
| Prepaid and other assets | 12    |
| Goodwill                 | 1,362 |
| Intangible assets        | 3,427 |
| Accounts payable         | (20)  |



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|                      |          |
|----------------------|----------|
| Accrued expenses     | (27)     |
| Deferred revenue     | (296)    |
| Total purchase price | \$ 4,617 |

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The acquisitions were accounted for as purchase business combinations. The excess of the purchase price over the estimated fair value assigned to tangible and identifiable intangible assets acquired and liabilities assumed was recorded as goodwill, which is deductible for tax purposes and is allocated to the technology operating segment of the Company. The following table summarizes the identifiable intangible assets acquired as of the date of the acquisition (dollars in thousands):

|                                 | <b>Gross Amount<br/>at Acquisition<br/>Date</b> | <b>Amortization<br/>Period</b> |
|---------------------------------|---|--------------------------------|
| Customer contract/relationships | \$ 3,392  | 3 years                        |
| Complete technology             | 35  | 3 years                        |
| <b>Total intangible assets</b>  | <b>\$ 3,427</b>                                 |                                |

During the year ended December 31, 2010, the Company acquired operations from an integrated website provider and certain assets of a provider of online and mobile communications software and related technology services for event registrations in exchange for \$0.1 million in cash and 223,500 shares of the Company's common stock valued at approximately \$0.9 million. In addition, the Company may be required to make earn-out payments between fiscal 2011 through 2015 based on the achievement of certain sales milestones in each of the respective years. The Company determined that the achievement of the milestones is not likely, and therefore, no liability was recorded as of December 31, 2012 or 2011. These acquisitions enable the Company to strengthen its position as a technology leader and broaden its customer base. The estimated fair values of assets acquired and liabilities assumed were as follows (in thousands):

|                             |                 |
|-----------------------------|-----------------|
| Accounts receivable         | \$ 136          |
| Goodwill                    | 155             |
| Intangible assets           | 752             |
| Other liabilities           | (22)            |
| Gain on bargain purchase    | (21)            |
| <b>Total purchase price</b> | <b>\$ 1,000</b> |

The acquisitions were accounted for as purchase business combinations. For one acquisition, the excess of the purchase price over the estimated fair value assigned to tangible and identifiable intangible assets acquired and liabilities assumed was recorded as goodwill, which is deductible for tax purposes. For the other acquisition, the Company realized an immaterial benefit in the consolidated statements of operations for the excess of the estimated fair value of the assets acquired over the purchase price. The following table summarizes the identifiable intangible assets acquired as of the date of the acquisition (dollars in thousands):

|                                 | <b>Gross Amount<br/>at Acquisition<br/>Date</b> | <b>Amortization<br/>Period</b> |
|---------------------------------|---|--------------------------------|
| Customer contract/relationships | \$ 752  | 3 years                        |

As part of one acquisition, the Company received approximately \$3.0 million to subsidize certain costs of building and maintaining the infrastructure necessary to service customer contracts. This amount has been deferred on the Company's consolidated balance sheets and is being amortized to general and administrative expenses on the Company's consolidated statements of operations over the expected life of the contract. Amortization was approximately \$0.8 million, \$0.8 million and \$0.2 million for the years ended December 31, 2012, 2011 and 2010, respectively.

**Table of Contents****5. Fair Value Measurements**

FASB guidance for fair value measurements clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the guidance establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs other than the quoted prices in active markets that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which require the Company to develop its own assumptions. This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

The Company's assets and liabilities that are measured at fair value on a recurring basis at December 31, 2012 and 2011 are as follows (in thousands):

|  | December 31, 2012 |            |         |       |
|--|-------------------|------------|---------|-------|
|  | Level 1           | Level 2(1) | Level 3 | Total |
| <b>Assets:</b>                                   |                   |            |         |       |
| Deferred compensation plan investments (Note 21) | \$                | \$ 31      | \$      | \$ 31 |
| <b>Liabilities:</b>                              |                   |            |         |       |
| Deferred compensation plan liability (Note 21)   | \$                | \$ 31      | \$      | \$ 31 |

|  | December 31, 2011 |         |          |          |
|--|-------------------|---------|----------|----------|
|  | Level 1           | Level 2 | Level 3  | Total    |
| <b>Liabilities:</b>  |                   |         |          |          |
| Contingent consideration associated with business combination (Note 4) | \$                | \$      | \$ 1,124 | \$ 1,124 |

(1) The fair value of this obligation is based on the closing market prices of the participants elected investments.

Level 2 liabilities are comprised of the Company's deferred compensation plan contributions and deferred compensation plan liability, which are currently reflected by the underlying assets in the money market fund. The fair value of this investment is determined using similar securities market prices.

Level 3 liabilities include contingent consideration payables to selling stockholders arising from the acquisition of StarCite, the values of which were determined based on the probability of achieving specific targets. Any change in the fair value of the contingent milestone consideration subsequent to the acquisition date is recognized in earnings. This fair value measurement is based on inputs not observed in the market that are supported by little or no market activity and reflect the Company's own assumptions in measuring fair value.

The following table provides a reconciliation of liabilities measured at fair value using significant unobservable inputs (Level 3) for the years ended December 31, 2012 and 2011 (in thousands):

|  |         |
|--|---------|
| Balance at December 31, 2010   | \$ 625  |
| Payment of contingent consideration                                    | (625)   |
| Contingent consideration associated with a business combination        | 1,124   |
| Balance at December 31, 2011   | 1,124   |
| Changes in fair value of contingent consideration                      | (1,123) |
| Contingent consideration transferred to equity classification (Note 4) | (1)     |
| Deferred Compensation Plan Liability                                   | 31      |
| Balance at December 31, 2012   | \$ 31   |



**Table of Contents****6. Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable, net, by category is as follows (in thousands):

|                                       | December 31,<br>2012 | December 31,<br>2011 |
|---------------------------------------|----------------------|----------------------|
| Accounts receivable                   | \$ 52,353            | \$ 54,101            |
| Less: Allowance for doubtful accounts | (990)                | (1,638)              |
| Accounts receivable, net              | \$ 51,363            | \$ 52,463            |

Allowances for doubtful accounts are established based on various factors including credit profiles of the Company's customers, contractual terms and conditions, historical payments, and current economic trends. The Company reviews its allowances by assessing individual accounts receivable over a specific aging and amount, and all other balances on a pooled basis based on historical collection experience. Accounts receivable are written off on a case-by-case basis, net of any amounts that may be collected. The Company had write-offs of the allowance for doubtful accounts of \$1.2 million and \$0.9 million for the years ended December 31, 2012 and 2011, respectively.

**7. Property and Equipment**

Property and equipment by category is as follows (in thousands):

|                                | December 31,<br>2012 | December 31,<br>2011 |
|--------------------------------|----------------------|----------------------|
| Computer and software          | \$ 80,521            | \$ 63,947            |
| Furniture and fixtures         | 10,307               | 10,586               |
| Leasehold improvements         | 6,485                | 3,438                |
| Property and equipment         | 97,313               | 77,971               |
| Less: Accumulated depreciation | (56,077)             | (44,141)             |
| Property and equipment, net    | \$ 41,236            | \$ 33,830            |

Depreciation expense was \$15.9 million, \$14.0 million, and \$13.4 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Included in fixed assets are \$14.5 million and \$9.5 million of equipment under capital lease at December 31, 2012 and 2011, respectively. Accumulated amortization of assets under capital lease totaled \$7.9 million and \$5.5 million at December 31, 2012 and 2011, respectively.

**8. Software Development Costs**

Capitalized software development costs are as follows (in thousands):

|                                 | December 31,<br>2012 | December 31,<br>2011 |
|---------------------------------|----------------------|----------------------|
| Software development costs      | \$ 89,221            | \$ 65,696            |
| Less: Accumulated amortization  | (38,070)             | (20,603)             |
| Software development costs, net | \$ 51,151            | \$ 45,093            |

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Amortization expense was \$17.4 million, \$10.4 million and \$5.8 million for the years ended December 31, 2012, 2011 and 2010, respectively.

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**Table of Contents****9. Goodwill**

The change in the carrying amount of goodwill for the fiscal years ended December 31, 2012 and 2011 is as follows (in thousands):

|  | Technology<br>Services | Marketing<br>Services | Total      |
|--|------------------------|-----------------------|------------|
| Balance at December 31, 2010                   | \$ 194,789             | \$ 12,324             | \$ 207,113 |
| Goodwill arising from acquisitions             | 36,297                 | 394                   | 36,691     |
| Effect of exchange rate changes                | (484)                  |                       | (484)      |
| Balance at December 31, 2011                   | \$ 230,602             | \$ 12,718             | \$ 243,320 |
| Adjustments related to prior year acquisitions | (177)                  |                       | (177)      |
| Effect of exchange rate changes                | 573                    |                       | 573        |
| Balance at December 31, 2012                   | \$ 230,998             | \$ 12,718             | \$ 243,716 |

Adjustments to goodwill for the year ended December 31, 2012 represent adjustments for indemnification claims recorded during the year that related to acquisitions made in the preceding year. These adjustments to goodwill were not material to the Company's prior and current period financial statements or results of operations.

**10. Acquired Intangible Assets**

Acquired intangible assets are amortized using a combination of straight-line and accelerated methods based on the expected cash flows from the assets. Estimated useful lives as of December 31, 2012 are as follows:

|                        | Estimated Life | Weighted<br>Average<br>Remaining<br>Life |
|------------------------|----------------|--|
| Intellectual property  | 1 to 9 years   | 3.7 years                                |
| Non-compete agreements | 1 to 3 years   | 1.8 years                                |
| Customer relationships | 3 to 14 years  | 6.5 years                                |
| Trade names            | 1 to 10 years  | 6.4 years                                |
| Customer contracts     | 2 to 6 years   | 1.3 years                                |

Certain of the Company's intangible assets were recorded in foreign currencies and both the gross carrying amounts and accumulated amortization are subject to foreign exchange adjustments. The carrying values of acquired amortized intangible assets are as follows (in thousands):

|                            | December 31, 2012           |                             |                           | December 31, 2011           |                             |                           |
|----------------------------|-----------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|
|                            | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount |
| Intellectual property      | \$ 24,800                   | \$ (14,124)                 | \$ 10,676                 | \$ 36,609                   | \$ (20,351)                 | \$ 16,258                 |
| Non-compete agreements     | 2,098                       | (832)                       | 1,266                     | 3,850                       | (1,085)                     | 2,765                     |
| Customer relationships     | 44,132                      | (11,256)                    | 32,876                    | 67,891                      | (26,799)                    | 41,092                    |
| Trade names                | 13,385                      | (4,113)                     | 9,272                     | 16,568                      | (5,566)                     | 11,002                    |
| Customer contracts         | 46,888                      | (38,172)                    | 8,716                     | 52,219                      | (32,996)                    | 19,223                    |
| Acquired Intangible assets | 131,303                     | \$ (68,497)                 | \$ 62,806                 | 177,137                     | \$ (86,797)                 | \$ 90,340                 |





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Amortization of acquired intellectual property is recorded in cost of revenue, while the amortization of other acquired intangible assets is included in operating expenses. The following table summarizes the amortization expense of acquired intangible assets for the periods indicated (in thousands):

|  | Year Ended December 31, |           |           |
|--|-------------------------|-----------|-----------|
|  | 2012                    | 2011      | 2010      |
| Cost of technology revenue                       | \$ 5,360                | \$ 4,992  | \$ 4,376  |
| Cost of marketing services revenue               | 335                     | 517       | 534       |
| Operating expenses                               | 22,277                  | 14,962    | 16,147    |
| Total amortization of acquired intangible assets | \$ 27,972               | \$ 20,471 | \$ 21,057 |

The estimated future amortization of acquired intangible assets as of December 31, 2012 is as follows (in thousands):

| Year Ending December 31, |           |
|--------------------------|-----------|
| 2013                     | \$ 20,090 |
| 2014                     | 11,240    |
| 2015                     | 7,622     |
| 2016                     | 6,591     |
| 2017                     | 5,845     |
| Thereafter               | 11,418    |
| Total                    | \$ 62,806 |

**11. Accrued Expenses**

The following table presents the detail of accrued expenses for the periods presented (in thousands):

|                               | December 31,<br>2012 | December 31,<br>2011 |
|-------------------------------|----------------------|----------------------|
| Accrued compensation          | \$ 14,569            | \$ 17,875            |
| Sales and other foreign taxes | 6,065                | 5,006                |
| Accrued penalties (Note 13)   | 1,507                | 3,154                |
| Accrued rebates               | 4,234                | 1,846                |
| Other accrued expenses        | 12,490               | 13,225               |
| Accrued expenses              | \$ 38,865            | \$ 41,106            |

As of December 31, 2012, accrued compensation was primarily comprised of accrued salaries and accrued personal time off of \$9.1 million, accrued bonuses of \$3.1 million, accrued self-insurance of \$1.2 million, amounts payable for 401K contributions of less than \$0.1 million, and accumulated employee deductions for stock purchase under the Company's Employee Stock Purchase Plan of \$1.1 million. As of December 31, 2011, accrued compensation was primarily comprised of accrued salaries and accrued personal time off of \$11.7 million, accrued bonuses of \$4.9 million, accrued self-insurance of \$0.8 million, amounts payable for 401K contributions of \$0.1 million, and accumulated employee deductions for stock purchase under the Company's Employee Stock Purchase Plan of \$0.4 million.

**12. Long-Term Debt and Lines of Credit****2011 Credit Agreement**

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In December 2011, the Company entered into a five-year, senior secured revolving credit facility, with certain institutional lenders, for an initial aggregate principal amount of \$50 million (the Credit Facility ). The Company has the ability to issue up to \$15 million for letters of credit and \$5 million for swing line loans under

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the Credit Facility. The Credit Facility also includes an accordion feature which allows the Company, subject to certain terms and conditions, to increase the lending commitments by up to \$25 million. The Credit Facility has a maturity date of December 16, 2016, but the outstanding amounts may be prepaid at any time without penalty or premium (except for certain customary break funding payments in connection with LIBOR loans) and is available to fund acquisitions and ongoing operations.

In July 2012, the Company amended the Credit Facility by increasing the aggregate principal amount to \$100 million, increasing the ability to issue letters of credit by up to \$25 million and increasing the accordion feature by up to \$50 million.

Any advance under the Credit Facility will accrue interest at rates per annum that are equal to, based on certain conditions, either (a) 1.5% above the applicable LIBOR rate, or (b) 0.5% above (i) the greatest of (x) the prime rate, (y) the federal funds effective rate plus 0.5% or (z) a daily rate equal to one-month LIBOR plus 1.00%. The unused portion of the Credit Facility will also be subject to an unused fee that will be calculated at a per annum rate of 0.25%. The interest rate under the Credit Facility was 1.81% and 3.75% as of December 31, 2012 and 2011, respectively.

Under the Credit Facility, the Company is required to comply with certain financial covenants and ratios, including a quarterly consolidated leverage ratio of consolidated funded indebtedness to EBITDA of not more than 2.5 to 1.0 and a quarterly consolidated fixed charge coverage ratio of not less than 1.5 to 1.0. Substantially all of the Company's tangible and intangible assets are considered collateral security under the secured Credit Facility. As of December 31, 2012 and 2011, the Company was in compliance with all specified financial covenants and ratios.

At December 31, 2012 and 2011, outstanding swing line Credit Facility loans were \$0 and \$5.0 million, respectively. In January 2012, the Company fully repaid the \$5.0 million swing line loan and immediately borrowed \$10.0 million under the revolving Credit Facility. The Company fully repaid the \$10.0 million outstanding balance under the Credit Facility in August 2012. The Company had no amounts outstanding under the Credit Facility as of December 31, 2012 and \$5.0 million outstanding under the Credit Facility as of December 31, 2011.

Amounts available under the Credit Facility were \$93.9 million and \$39.8 million as of December 31, 2012 and 2011, respectively, net of \$6.1 and \$5.2 million in outstanding letters of credit, respectively.

***Convertible Debt Purchase Agreement***

In September 2009, the Company entered into a convertible debt purchase agreement ( Convertible Debt ) for up to \$10 million with certain lenders whereby the Company issued convertible unsecured promissory notes totaling \$4 million payable in two years at a non-compounded annual stated and effective interest rate of 10%. The Convertible Debt was repayable at any time after the six-month anniversary of the issuance date.

In June 2011, the Company fully repaid \$1.0 million of the outstanding principal amount. The early repayment did not result in any gain or loss on extinguishment of the debt. The remaining \$3.0 million of outstanding principal and \$0.5 million of accrued interest was converted into 218,989 shares of the Company's common stock in June 2011, reducing the outstanding principal amount to \$0 million at December 31, 2011. The option to convert was considered substantive, and therefore no incremental charge was recorded upon conversion of the debt.

At December 31, 2012, 2011 and 2010 outstanding borrowings under the Convertible Debt were \$0, \$0 and \$4.0 million, respectively.

***2008 Loan and Security Agreement***

In October 2008, the Company entered into a Loan and Security Agreement ( LSA ) with Square 1 Bank ( Square 1 ), which was later amended to grant Central Bank a junior lien on an asset, which allowed the

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Company to borrow up to \$5.0 million under a term loan and up to \$7.0 million under a line of credit ( Line ). For borrowings under the term loan, the Company was required to make interest-only payments on a monthly basis for the first six months, after which borrowings were repayable over 30 months. The interest rate for the term loan was prime plus 1% and was due to mature in October 2011. For borrowings under the LSA, the Company was required to maintain a cash balance of \$5.0 million in an account with Square 1 which was presented as restricted cash on the Company s consolidated balance sheets at December 31, 2010. Under the terms of the Line, borrowings cannot exceed 80% of the Company s eligible accounts receivable and carry an interest rate of prime plus 1% and was to mature on July 2010. The loan was collateralized by substantially all of the Company s assets, excluding certain client cash and intellectual property, and was subject to certain covenants which, if not met, could constitute an event of default. These covenants included maintaining the required quick ratio and the non-occurrence of a material adverse change in the business, operations or conditions of the Company.

In July 2010, the LSA was amended to change the interest rate for advances under the Line to the greater of (i) prime plus 1% or (ii) 5% and further extended the maturity date to July 2011. The amendment also changed the amount the Company is allowed to borrow under the Line to \$12.0 million less borrowings outstanding under the term loan.

In May 2011, the Company fully repaid \$4.7 million of the outstanding principal of the term loan under the LSA. The early repayment of the debt did not result in any gain or loss on extinguishment.

In August 2011, the LSA was amended to extend the maturity date to August 2012.

In December 2011, in connection with the 2011 Credit Agreement, the LSA was terminated. In connection with termination of the LSA, the Company reduced its restricted cash balance to \$0.8 million.

In connection with the 2011 Credit Agreement, the LSA with Square 1 Bank was terminated. In addition, during the year ended December 31, 2011, amounts under the Company s LSA and various other convertible debt purchase agreements and notes payable were fully repaid.

As of December 31, 2012, 2011 and 2010, outstanding borrowings from Square 1 were \$0, \$0 and \$1.7 million, respectively under the term loan and \$0, \$0 and \$7.3 million, respectively, under the Line.

***ALS Acquisition Notes Payable***

In connection with the ALS acquisition, the Company assumed approximately \$7.3 million of debt held by Pinnacle Financial Partners ( Pinnacle ) and the Bank of Celina ( Celina ). Subsequent to the acquisition, the Company refinanced approximately \$1.8 million of the debt with Pinnacle. Under the terms of the loans held by Pinnacle, the Company was required to make principal and interest payments, on a monthly basis, over a period of 36 months to 60 months at interest rates ranging from 6.25% to 9.25% per annum. Under the terms of the loan held by Celina, the Company was required to make principal and interest payments, on a monthly basis, over a period of 180 months at an interest rate of 3.5% per annum.

In May 2011, the Company fully repaid \$2.0 million of the outstanding principal amount of the long-term debt held by Pinnacle and Celina. The early repayment did not result in any gain or loss on extinguishment of the debt.

At December 31, 2012, 2011 and 2010, respectively, outstanding borrowings from Pinnacle were \$0, \$0 and \$2.6 million and outstanding borrowings from Celina were \$0, \$0 and \$0.2 million.

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### ***ALS Acquisition Earn Out Agreement***

In connection with the ALS acquisition, the Company entered into an earn-out payment agreement to pay \$1.9 million over a three-year period commencing November 2009 at an interest rate of 5% per annum. Principal and interest was payable on a quarterly basis.

In May 2011, the Company fully repaid \$0.8 million of the outstanding principal amount of the earn-out payment. The early repayment did not result in any gain or loss on extinguishment of the debt.

At December 31, 2012, 2011 and 2010, the remaining earn-out payable to ALS was \$0, \$0 and \$1.0 million, respectively.

### ***2007 Loan and Security Agreement***

In March 2007, the Company entered into a loan and security agreement (the Agreement) with Escalate Capital I, L.P. (Escalate) and Gold Hill Capital Venture Lending 03, L.P. (Gold Hill) which allowed the Company to draw a minimum of \$15 million, up to a maximum of \$20 million from a financial institution. Under the terms of the Agreement, the Company was required to make interest-only payments on a monthly basis through February 2009 bearing an interest rate of 6.75% per annum, after which borrowings under the Agreement were repayable over 24 months. In addition, a payment-in-kind (PIK) interest was added to the outstanding principal amount at a rate of 3.15% compounded monthly and was payable at the earlier of maturity or repayment of the loan. The Company had the option to repay the loans without penalty prior to maturity. In conjunction with the Agreement, the Company issued 146,710 warrants to Escalate and 107,530 warrants to Gold Hill. The loan was collateralized by substantially all of the Company's assets, excluding certain registration cash and intellectual property and restricted the Company's ability to raise additional debt financing and pay dividends.

In December 2007, the Agreement was amended to increase borrowings up to \$35 million.

In April 2009, the Agreement was amended to extend the repayment commencement dates and the maturity dates of Gold Hill advances. Outstanding borrowings were repayable over a 24 month period beginning in March 2010 through December 2012. The amendment required the payment of certain fees and costs of up to \$0.1 million to the financial institution, and at the end of the repayment period, the Company was required to make a final payment of \$0.3 million. If any portion of the loan made by this financial institution was prepaid, a corresponding portion of the final payment would also be required to be prepaid.

In April 2010, the Agreement was amended to change the interest rate for Escalate from 6.75% to 12% and eliminate the 3.15% PIK interest commencing on February 1, 2010. In addition, the Company issued 20,000 warrants to Escalate to purchase the Company's common stock.

In December 2010, the Company entered into an amendment to the Agreement with Gold Hill and Escalate to change the principal payment schedule of the remaining balance and to extend the maturity date to May 2012, which the Company treated as a modification to its existing debt. The amendment to the Agreement also changed the interest rate from 6.75% to 12% and eliminated the 3.15% PIK interest commencing on December 1, 2010. In addition, Gold Hill and Escalate were issued warrants to purchase 23,500 and 31,500 shares of common stock, respectively.

In May 2011, the Company fully repaid \$23.7 million of the outstanding principal and the Agreement was terminated. The early repayment resulted in a loss on extinguishment of the debt of \$0.5 million, which is reflected in interest expense in the Company's consolidated statements of operations. The warrants were net exercised on the closing date of the Company's IPO and the Company issued 131,021 and 198,196 shares of common stock to Gold Hill and Escalate, respectively. Interest expense related to the amortization of the

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warrants was approximately \$0.7 million and \$0.5 million for the years ended December 31, 2011 and 2010, respectively.

As of December 31, 2012, 2011 and 2010, the Company had outstanding borrowings of \$0, \$0 and \$13.0 million with Escalate, respectively and outstanding borrowings of \$0, \$0 and \$14.6 million with Gold Hill, respectively.

**13. Commitments and Contingencies****Leases**

The Company leases its office and datacenter facilities under non-cancelable operating leases that expire at various times through 2021. The Company is also responsible for certain real estate taxes, utilities and maintenance costs on its office facilities. Rent expense was approximately \$14.2 million, \$11.4 million and \$9.6 million for year ended December 31, 2012, 2011 and 2010, respectively.

The Company also has capital lease obligations as of December 31, 2012. Capital lease obligations expire at various dates with the last maturity in 2015. Assets held under capital leases are included in property and equipment on the consolidated balance sheets.

Future minimum lease payments under non-cancelable operating and capital lease agreements as of December 31, 2012 are as follows (in thousands):

| Year Ending December 31,                        | Operating<br>Leases | Capital<br>Leases |
|---|---------------------|-------------------|
| 2013  | \$ 11,506           | \$ 2,932          |
| 2014  | 8,931               | 2,239             |
| 2015  | 8,263               | 280               |
| 2016  | 8,370               |                   |
| 2017  | 7,302               |                   |
| Thereafter                                      | 2,737               |                   |
| <b>Total minimum lease payments</b>             | <b>\$ 47,109</b>    | <b>5,450</b>      |
| Less amount representing interest               |                     | (215)             |
| <b>Present value of capital lease payments</b>  |                     | <b>5,235</b>      |
| Less current portion of capital lease           |                     | (2,774)           |
| <b>Long-term obligation under capital lease</b> |                     | <b>\$ 2,462</b>   |

**Guarantees**

The Company enters into arrangements with third-party customers to guarantee performance by the Company. The Company may provide a corporate guarantee, irrevocable letter of credit, surety bond or any other form of guarantee acceptable to the third-party customer. As of December 31, 2012 and 2011, the Company had guarantees of \$7.2 million and \$14.2 million, respectively.

**Self-Insured Health Plan**

The Company is generally self-insured for losses and liabilities related to health benefits. The Company's self-insurance accruals are based on estimates, and while the Company believes that the amounts accrued are adequate, the ultimate claims may be in excess of the amounts provided. The Company's accrued health benefits liability was \$1.2 million and \$0.8 million at December 31, 2012 and 2011, respectively.

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### ***Sales and Use Tax***

The Company accrues for sales and use taxes in certain states. The Company estimates a potential liability in states where it had not previously remitted these taxes. The Company has established a reserve for estimated claims from states where sales and use tax had not been remitted of \$5.1 million and \$4.3 million at December 31, 2012 and 2011, respectively.

### ***Indemnification***

The Company enters into indemnification arrangements in the ordinary course of business. Pursuant to these arrangements, the Company indemnifies, holds harmless and agrees to reimburse the indemnified parties for losses suffered or incurred by the indemnified party, in connection with any trade secret, copyright, patent or other intellectual property infringement claim by any third-party with respect to its technology. The term of these indemnification agreements is generally perpetual any time after the execution of the agreement. The maximum potential amount of future payments the Company could be required to make under these agreements is not determinable because it involves claims that may be made against the Company in the future, but have not yet been made. The Company has not incurred costs to defend lawsuits or settle claims related to these indemnification agreements.

The Company has entered into indemnification agreements with its directors and officers that may require the Company to indemnify its directors and officers against liabilities that may arise by reason of their status or service as directors or officers, other than liabilities arising from willful misconduct of the individual.

### ***Penalty Accruals***

The Company maintains a liability of \$1.5 million and \$3.2 million at December 31, 2012 and December 31, 2011, respectively, as a result of the potential exposure for penalties from its customers for various technical disruptions. The decrease in the liability for the year ended December 31, 2012 primarily relates to a settlement with a customer for approximately \$1.5 million, which reduced the accounts receivable due from the customer, as well as the liability associated with the penalty accrual.

### ***Security Breach***

In December 2010, the Company became aware of a security breach in one of the legacy computer systems it acquired in an acquisition. This breach could potentially result in an unauthorized acquisition and use of credit card data and could result in assessments or damages from claims asserted by organizers or participants. The Company has performed an internal investigation to assess the potential exposure of the breach and determined it to be insignificant; accordingly, no amounts have been accrued as of December 31, 2012 or 2011. To date the Company has paid approximately \$0.2 million in assessments associated with this breach, of which \$0.1 million is reimbursable under the Company's insurance policy.

## **14. Legal Proceedings**

From time to time, the Company is involved in disputes, litigation and other legal actions. The Company records a charge equal to at least the minimum estimated liability for a loss contingency only when both of the following conditions are met: (i) information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements, and (ii) the range of loss can be reasonably estimated. The actual liability in any such matters may be materially different from the Company's estimates, which could result in the need to adjust the liability and record additional expenses. The Company is not aware of any pending or threatened litigation that is reasonably likely to have a material adverse effect on our results of operations, financial position or liquidity.

**Table of Contents*****Monster Litigation***

On December 16, 2011, Monster Worldwide, Inc. ( Monster ) filed a complaint in the United States District Court for the Southern District of New York against a former Monster employee and current Active executive (the Active Executive ). The complaint asserts various claims contending that the Active Executive violated the non-solicitation terms in certain of the Active Executive s agreements with Monster by soliciting and hiring two former technology employees of Monster who are current employees of the Company.

On February 7, 2012, Monster filed an amended complaint to add additional allegations, and on June 7, 2012, Monster filed a second amended complaint to add allegations and claims against (1) Active; and (2) a second former Monster employee and current Active employee. The claims against this employee are similar to the claims alleged in the original complaint against the Active Executive and arise from alleged violations of this second employee s non-solicitation agreement with Monster claiming the second employee solicited for hire a third former employee of Monster that is a current employee of the Company. The Company was added as a defendant to the complaint resulting from allegations by Monster that it interfered with the non-solicitation agreements by hiring the three former employees of Monster. Additionally, the second amended complaint included a new claim for breach of fiduciary duty against the Active Executive was also added.

On February 5, 2013, the parties reached a provisional settlement agreement whereby Monster would release all claims upon the Company s payment of \$1.0 million. The Court has discontinued the action without prejudice and provided Monster until March 1, 2013 to memorialize any settlement. The Company anticipates that no less than \$0.75 million of the \$1.0 million settlement will be paid by the Company s insurer.

**15. Stockholders Equity*****Common Stock***

The Company is authorized to issue 1.0 billion shares of \$0.001 par value common stock. As of December 31, 2012, 62,669,775 shares of common stock were issued and 60,894,135 shares of common stock were outstanding. The outstanding shares of common stock include approximately 2,529,183 shares of restricted stock which remain unvested as of December 31, 2012. The balance of unvested restricted stock will be forfeited and automatically transferred back to the Company in the event the holder is no longer employed with the Company prior to vesting.

Holders of common stock are entitled to dividends if and when declared by the Board of Directors and after obtaining the majority consent of preferred stockholders. Each share of common stock has the right to one vote per share. Each restricted stock purchase right has the right to one vote per share and the right to receive dividends or other distributions paid or made with respect to common shares, subject to restrictions for continued employment service.

***Common Stock Reserved for Future Issuance***

As of December 31, 2012, the Company reserved the following shares of common stock for future issuances in connection with the following:

|   |                   |
|---|-------------------|
| Equity awards outstanding   | 10,898,204        |
| Shares available for future grants                                      | 3,240,199         |
| Shares available to be purchased under the employee stock purchase plan | 1,390,910         |
| Warrants to purchase common stock                                       | 634               |
| <b>Total common stock reserved for future issuance</b>                  | <b>15,529,947</b> |



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### ***Preferred Stock***

The Company is authorized to issue 100.0 million shares of \$0.001 par value preferred stock. As of December 31, 2012, no preferred stock was issued or outstanding.

## **16. Stock Plans and Stock-Based Compensation**

### ***Equity Incentive Plans***

In January 2002, the Company adopted the 2002 Stock Option Plan (the "2002 Plan") and retired the 1999 Stock Option Plan (the "1999 Plan") and assumed certain options under the 1999 Plan. Grants under the 2002 Plan may be incentive stock options or nonqualified stock options. The 2002 Plan is administered by the Company's compensation committee, which has the authority to designate participants and determine the number and type of awards to be granted, the time at which awards are exercisable, the method of payment and any other terms or conditions of the awards. The vesting of these awards vary subject to the participant's period of future service, or otherwise at the discretion of the compensation committee. The majority of awards issued under the 2002 Plan vest over two to four years and the awards have a term of ten years. Upon the Company's IPO in May 2011, the Company's ability to grant awards under the 2002 Plan was terminated. As of December 31, 2012 and 2011, options to purchase 6,791,290 and 11,201,208 shares of common stock were outstanding under the 2002 Plan, respectively. The 2002 Plan will continue to govern the terms and conditions of the outstanding equity awards granted under the 2002 Plan.

In April 2011, the Company's stockholders approved the 2011 Equity Incentive Plan (the "2011 Plan"), which became effective upon the Company's IPO. The 2011 Plan provides for the grant of incentive stock options, nonqualified stock options, restricted stock purchase rights, restricted stock bonuses, restricted stock units ("RSUs"), performance shares, performance restricted stock units ("PRSUs"), market stock units, cash-based awards and other stock-based awards. The 2011 Plan is administered by the Company's compensation committee, which has the authority to designate participants and determine the number and type of awards to be granted, the time at which awards are exercisable, the method of payment and any other terms and conditions of the awards. Stock options expire on terms as determined by the compensation committee, but not more than ten years after the date of grant. The majority of awards issued under the 2011 Plan vests over one to four years. Incentive stock options may be granted only to employees (including officers and directors who are employees). Nonqualified stock options, restricted stock purchase rights, restricted stock bonuses, RSUs, PRSUs, MSUs and other stock-based awards may be granted to employees and consultants. As of December 31, 2012, the maximum number of shares of common stock issuable pursuant to the 2011 Plan is 6,945,244, plus the shares of common stock subject to options or other equity awards outstanding pursuant to the 2002 Plan that expire, terminate, cancel, forfeit, or are repurchased after the adoption of the 2011 Plan. As of December 31, 2012 and 2011, there were 3,240,199 and 3,298,733 shares available for grant under the 2011 Plan, respectively.

**Table of Contents****Stock Options**

The Company granted 1,350,754 stock options during the year ended December 31, 2012, of which 749,839 stock options contain a market condition. Stock option activity for the year ended December 31, 2012 is as follows (in thousands, except share, per share and term data):

| Stock Options  | Number of Shares Underlying Options | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
|--|-------------------------------------|---------------------------------|---|---------------------------|
| Outstanding at December 31, 2011                         | 11,604,808                          | \$ 3.71                         | 6.74  | \$ 115,144                |
| Granted  | 1,350,754                           | 6.06                            |   |                           |
| Exercised  | (4,072,124)                         | 2.29                            |   |                           |
| Cancelled or expired                                     | (514,417)                           | 8.93                            |   |                           |
| Outstanding at December 31, 2012                         | 8,369,021                           | \$ 5.78                         | 6.89  | \$ 12,923                 |
| Options exercisable at December 31, 2012                 | 7,095,256                           | \$ 4.27                         | 6.47  | \$ 12,923                 |
| Options vested and expected to vest at December 31, 2012 | 5,294,100                           | \$ 7.78                         | 7.95  | \$ 4,953                  |

The aggregate intrinsic value represents the difference between the quoted closing market price of the Company's common stock on December 31, 2012 of \$4.91 and the exercise price of outstanding, in-the-money options. The total intrinsic value of options exercised was approximately \$49.1 million, \$27.0 million and \$0.6 million for the years ended December 31, 2012, 2011 and 2010, respectively.

The weighted-average grant date fair value of options granted that contain only a service condition as a requirement for vesting was \$14.26, \$6.43 and \$1.14 for the years ended December 31, 2012, 2011 and 2010, respectively, and was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

|                          | Year Ended December 31, |            |            |
|--------------------------|-------------------------|------------|------------|
|                          | 2012                    | 2011       | 2010       |
| Volatility               | 51.8-52.8%              | 48.5-51.5% | 49.7-51.8% |
| Expected dividend yield  |                         |            |            |
| Risk-free rate           | 0.7-1.1%                | 0.8-2.2%   | 1.3-2.2%   |
| Expected term (in years) | 5.0                     | 4.9        | 4.7        |

The weighted-average grant date fair value of options granted that contain a market condition was \$13.06 for the year ended December 31, 2012, and was estimated on the date of grant using the Monte Carlo Simulation valuation model, which estimates the potential outcome of reaching the market condition based on simulated future stock prices, with the following assumptions: contractual life of six years; expected volatility of 47% and risk free interest rate of 0.74%. These options vest over four years and are exercisable only if specified stock prices are achieved. No options containing a market condition were granted during the years ended December 31, 2011 and 2010.

Total unrecognized compensation cost, adjusted for estimated forfeitures, related to non-vested stock options is approximately \$14.7 million as of December 31, 2012 and is expected to be recognized over a weighted-average period of 2.5 years.

**Table of Contents****Restricted Stock Activity**

A summary of restricted stock activity during the year ended December 31, 2012, is presented as follows:

| <b>RSUs and PRSUs</b>         | <b>Number of<br/>RSUs</b> | <b>Weighted-<br/>Average<br/>Grant<br/>Date Fair<br/>Value of<br/>RSUs</b> | <b>Weighted-<br/>Average<br/>Remaining<br/>Contractual<br/>Term of<br/>RSUs</b> | <b>Number of<br/>PRSUs</b> | <b>Weighted-<br/>Average<br/>Grant<br/>Date Fair<br/>Value of<br/>PRSUs</b> | <b>Weighted-<br/>Average<br/>Remaining<br/>Contractual<br/>Term of<br/>PRSUs</b> |
|-------------------------------|---------------------------|--|---|----------------------------|---|--|
| Unvested at December 31, 2011 | 663,127                   | \$ 15.23   | 3.74  |                            | \$  |  |
| Granted                       | 1,464,527                 | 14.18  |   | 791,632                    | 12.11   |  |
| Released                      | (178,308)                 | 15.34  |   |                            |   |  |
| Cancelled or expired          | (163,045)                 | 14.99  |   | (48,750)                   | 11.69   |  |
| Unvested at December 31, 2012 | 1,786,301                 | \$ 13.97   | 9.26  | 742,882                    | \$ 12.14  | 9.49   |

The number of PRSUs granted in the table above represents the maximum number of awards that could ultimately be issued if Company financial or individual operational targets, as defined under the applicable grant notices, are achieved. The PRSUs, if any, will vest following the end of the applicable performance period, subject to the participant's continued service through the applicable vesting dates. Certain PRSUs allow for stock or cash settlement at the discretion of the compensation committee if Company performance metrics are achieved above a specified amount. The cash portion of the PRSUs will be classified as a liability when the performance metrics are determined to be probable of achievement.

During the year ended December 31, 2012, 60,378 PRSUs that previously required cash settlement on the vest date were modified to allow for settlement in cash or shares at the election of the Company. Compensation cost associated with these awards is measured using the fair value of the Company's common stock on the modification date.

The fair value of RSUs and PRSUs is based on closing stock price of the Company's common stock on the New York Stock Exchange on the date of grant and is recognized as expense over the requisite service period. The weighted-average grant date fair value of RSUs granted was \$14.18, \$15.23 and \$0 for the years ended December 31, 2012, 2011 and 2010, respectively. The weighted-average grant date fair value of PRSUs granted was \$12.11, for the year ended December 31, 2012, and no PRSUs were granted during fiscal years 2011 and 2010. The PRSUs vest over a two to four year period following the date of grant, subject to achievement of performance objectives and the participant's continued service through the applicable vesting dates. The RSUs vest over a one to four year period following the date of grant, subject to the participant's continued service through the applicable vesting dates.

At December 31, 2012, remaining unrecognized compensation cost, adjusted for estimated forfeitures, related to RSUs is \$19.7 million and is expected to be recognized over a weighted-average period of 3.1 years. The remaining unrecognized compensation cost associated with the maximum number of PRSUs that could ultimately be issued of \$9.3 million is expected to be recognized if and when the performance conditions are estimated to be probable of achievement over the requisite service period.

**Employee Stock Purchase Plan**

In April 2011, the Company's stockholders approved the 2011 Employee Stock Purchase Plan (the 2011 ESPP), which became effective upon the Company's IPO. The 2011 ESPP allows participating employees to contribute up to 20% of their earnings, up to a maximum of \$25,000 per annum, to purchase shares of the Company's common stock at a price per share equal to the lower of (a) 85% of the fair market value of a share of the Company's common stock on the first date of the offering period, or (b) 85% of the fair market value of a share of the Company's common stock on the date of purchase. The Company's compensation committee may

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specify offerings with durations of not more than 27 months, and may specify shorter purchase periods within each offering. Each offering will have one or more purchase dates on which shares of the Company's common stock will be purchased for employees participating in the offering. As of December 31, 2012 and 2011, there were 1,390,910 and 1,071,424 shares of common stock available for issuance under the 2011 ESPP, respectively. As the 2011 ESPP is a compensatory plan as defined by the authoritative guidance for stock compensation, stock-based compensation expense has been recorded during the fiscal years ended December 31, 2012 and 2011.

A summary of ESPP activity is as follows (in thousands, except share, and per share data):

|  | Year Ended December 31, |          |      |
|--|-------------------------|----------|------|
|  | 2012                    | 2011     | 2010 |
| Shares issued                                | 244,947                 | 50,576   |      |
| Weighted average fair value of shares issued | \$ 7.80                 | \$ 14.69 |      |
| Employee contributions                       | \$ 1,623                | \$ 631   |      |

The fair value of each purchase option under the 2011 ESPP is estimated at the beginning of each six-month offering period using the Black-Scholes model with the following weighted-average assumptions:

|                          | Year Ended December 31, |            |      |
|--------------------------|-------------------------|------------|------|
|                          | 2012                    | 2011       | 2010 |
| Volatility               | 43.1-44.5%              | 47.6-57.9% |      |
| Expected dividend yield  |                         |            |      |
| Risk-free rate           | 0.1                     | 0.2%       | 0.1% |
| Expected term (in years) | 0.5                     | 0.4        |      |

As of December 31, 2012, total unrecognized compensation cost related to non-vested stock-based compensation arrangements granted under the 2011 ESPP was \$0.2 million, which is expected to be recognized over a weighted-average period of less than six months.

**Stock-Based Compensation Expense**

The following table presents the effects of stock-based compensation related to stock-based awards to employees on the Company's consolidated statements of operations during the periods presented (in thousands):

|                                | Year Ended December 31, |          |          |
|--------------------------------|-------------------------|----------|----------|
|                                | 2012                    | 2011     | 2010     |
| Cost of revenue                | \$ 657                  | \$ 168   | \$ 111   |
| Sales and marketing            | 3,763                   | 1,413    | 562      |
| Research and development       | 2,404                   | 915      | 244      |
| General and administrative     | 9,904                   | 5,299    | 4,431    |
| Total stock-based compensation | \$ 16,728               | \$ 7,795 | \$ 5,348 |

The components of stock-based compensation expense were as follows (in thousands):

|                  | Year Ended December 31, |          |          |
|------------------|-------------------------|----------|----------|
|                  | 2012                    | 2011     | 2010     |
| Stock options    | \$ 7,956                | \$ 6,803 | \$ 4,767 |
| Restricted Stock | 7,814                   | 698      | 581      |
| PRsUs            | 214                     |          |          |
| ESPP             | 745                     | 294      |          |

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|                                |           |          |          |
|--------------------------------|-----------|----------|----------|
| Total stock-based compensation | \$ 16,728 | \$ 7,795 | \$ 5,348 |
|--------------------------------|-----------|----------|----------|

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**Table of Contents****Common Stock Subject to Repurchase**

The Company issued 19,132, 76,658, and 563,959 shares of common stock during the years ended December 31, 2012, 2011 and 2010, respectively for stock options exercised prior to vesting. The unvested shares are subject to the Company's repurchase right at the lesser of the original exercise price or market price. The proceeds from the early exercise of stock options are recorded in other long-term liabilities and reclassified to common stock as the shares vest and the Company's repurchase rights lapse.

There were 225,704 and 415,017 shares held by employees that were subject to repurchase for early exercise of stock options at an aggregate purchase price of \$0.5 million and \$0.8 million at December 31, 2012 and 2011, respectively.

**17. Net Loss Attributable to Common Stockholders**

Basic net loss per share attributable to common stockholders is presented in conformity with the two-class method required for participating securities. Prior to the IPO, holders of Redeemable Convertible Preferred shares were each entitled to receive 8% per annum cumulative dividends, payable prior and in preference to any dividends on any other shares of the Company's capital stock. Under the two-class method, basic net loss per share attributable to common stockholders is computed by dividing the net loss attributable to common stockholders by the weighted average number of common shares outstanding during the period.

The following tables present the calculation of basic and diluted net loss per share attributable to common stockholders (in thousands, except per share data):

|  | Year Ended December 31, |             |             |
|--|-------------------------|-------------|-------------|
|  | 2012                    | 2011        | 2010        |
| <b>Net loss per share:</b>                                     |                         |             |             |
| Net loss   | \$ (43,026)             | \$ (15,327) | \$ (27,272) |
| Less: accretion of redeemable convertible preferred stock      |                         | (11,810)    | (28,157)    |
| Net loss attributable to common stockholders                   | \$ (43,026)             | \$ (27,137) | \$ (55,429) |
| <b>Weighted-average common shares outstanding:</b>             |                         |             |             |
| Basic and diluted  | 58,804                  | 36,072      | 7,080       |
| <b>Net loss per share attributable to common stockholders:</b> |                         |             |             |
| Basic and diluted  | \$ (0.73)               | \$ (0.75)   | \$ (7.83)   |

Potentially dilutive securities not included in the calculation of diluted net loss per share because their effect would have been anti-dilutive for the periods presented are as follows:

|   | Year Ended December 31, |            |            |
|---|-------------------------|------------|------------|
|   | 2012                    | 2011       | 2010       |
| Options to purchase common stock and common stock subject to repurchase | 9,578,551               | 12,727,002 | 12,001,346 |
| Restricted stock  | 1,458,431               | 50,759     | 148,060    |
| Employee stock purchase plan shares                                     | 124,312                 | 9,588      |            |
| Convertible Preferred   |                         | 3,474,578  | 8,807,092  |
| Redeemable Convertible Preferred  |                         | 10,188,415 | 25,824,801 |
| Common stock warrants   | 634                     | 100,773    | 247,711    |
| Common stock issuable upon conversion of debt                           |                         | 116,237    | 281,438    |
|   | 11,161,928              | 26,667,352 | 47,310,448 |



**Table of Contents****18. Segment Information**

The Company's Chief Executive Officer who is considered to be the chief operating decision maker ( CODM ) reviews financial information presented on a consolidated basis, accompanied by information about operating segments for purposes of making operating decisions and assessing financial performance. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the CODM in deciding how to allocate resources and in assessing performance.

The Company determined its operating segments to be technology and marketing services. Technology derives substantially all of its revenue from technology fees, software licensing, installation, training, maintenance, and hosting subscriptions. Marketing services derives substantially all of its revenue from online services, field marketing services, and membership programs.

The Company evaluates the performance of its operating segments based on net revenues and operating income before interest, taxes, depreciation, amortization and stock-based compensation expense. The Company does not allocate most of its assets, depreciation and amortization expense, stock-based compensation expense, interest income, interest expense or income tax expense by segment. Accordingly, the Company does not report such information.

Summarized information by segment was as follows (in thousands):

|  | Year Ended December 31, |             |             |
|--|-------------------------|-------------|-------------|
|  | 2012                    | 2011        | 2010        |
| Net revenue by segment:  |                         |             |             |
| Technology   | \$ 370,472              | \$ 290,480  | \$ 237,688  |
| Marketing services   | 48,421                  | 46,910      | 41,912      |
| Total net revenue  | \$ 418,893              | \$ 337,390  | \$ 279,600  |
| Segment operating income before depreciation, amortization, stock-based compensation expense and unallocated corporate costs:      |                         |             |             |
| Technology   | \$ 66,066               | \$ 61,257   | \$ 47,559   |
| Marketing services   | 16,559                  | 19,262      | 14,405      |
| Total segment operating income before depreciation, amortization, stock-based compensation expense and unallocated corporate costs | 82,624                  | 80,519      | 61,964      |
| Depreciation and amortization  | (61,315)                | (44,857)    | (40,287)    |
| Stock-based compensation expense   | (16,728)                | (7,795)     | (5,348)     |
| Unallocated corporate costs  | (44,208)                | (44,483)    | (36,844)    |
| Loss from operations   | \$ (39,626)             | \$ (16,616) | \$ (20,515) |

The Company allocates its net revenue to geographic regions based on the customer's location. The following tables set forth net revenue and long-lived assets by geographic region (in thousands):

|                   | Year Ended December 31, |            |            |
|-------------------|-------------------------|------------|------------|
|                   | 2012                    | 2011       | 2010       |
| Net revenue:      |                         |            |            |
| North America     | \$ 406,395              | \$ 326,717 | \$ 273,028 |
| Europe and other  | 12,498                  | 10,673     | 6,572      |
| Total net revenue | \$ 418,893              | \$ 337,390 | \$ 279,600 |





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|                                | December 31,<br>2012 | December 31,<br>2011 |
|--------------------------------|----------------------|----------------------|
| <b>Assets:</b>                 |                      |                      |
| North America                  | \$ 537,220           | \$ 597,369           |
| Europe and other               | 5,250                | 3,188                |
| <b>Total assets</b>            | <b>\$ 542,470</b>    | <b>\$ 600,557</b>    |
| <b>Long-lived assets:</b>      |                      |                      |
| North America                  | \$ 399,647           | \$ 413,461           |
| Europe and other               | 1,831                | 1,255                |
| <b>Total long-lived assets</b> | <b>\$ 401,478</b>    | <b>\$ 414,716</b>    |

**19. Income Taxes**

The components of the loss before provision (benefit) for income taxes were as follows (in thousands):

|   | Year Ended December 31, |                    |                    |
|---|-------------------------|--------------------|--------------------|
|   | 2012                    | 2011               | 2010               |
| United States   | \$ (34,910)             | \$ (8,253)         | \$ (19,117)        |
| Foreign   | (4,136)                 | (11,148)           | (6,231)            |
| <b>Total loss before provision (benefit) for income taxes</b> | <b>\$ (39,046)</b>      | <b>\$ (19,401)</b> | <b>\$ (25,348)</b> |

The components of the provision (benefit) for income taxes are as follows (in thousands):

|   | Year Ended December 31, |                   |                 |
|---|-------------------------|-------------------|-----------------|
|   | 2012                    | 2011              | 2010            |
| <b>Current:</b>                                   |                         |                   |                 |
| Federal   | \$                      | \$                | \$              |
| State   | 549                     | 1,030             | 469             |
| Foreign   | 2,078                   | (453)             | 242             |
| <b>Total current</b>                              | <b>2,627</b>            | <b>577</b>        | <b>711</b>      |
| <b>Deferred:</b>                                  |                         |                   |                 |
| Federal   | 3,140                   | (273)             | 2,851           |
| State   | (187)                   | 152               | 568             |
| Foreign   | (1,600)                 | (4,530)           | (2,206)         |
| <b>Total deferred</b>                             | <b>1,353</b>            | <b>(4,651)</b>    | <b>1,213</b>    |
| <b>Total provision (benefit) for income taxes</b> | <b>\$ 3,980</b>         | <b>\$ (4,074)</b> | <b>\$ 1,924</b> |

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The reconciliation of the federal statutory income tax rate to the Company's effective tax rate is as follows:

|  | Year Ended December 31, |        |        |
|--|-------------------------|--------|--------|
|  | 2012                    | 2011   | 2010   |
| U.S. Federal statutory rate            | 34.0%                   | 34.0%  | 34.0%  |
| State taxes, net of Federal benefit    | 1.4                     | (1.2)  | 1.7    |
| Stock-based compensation               | (3.8)                   | (4.8)  | (2.1)  |
| Meals and entertainment                | (0.7)                   | (1.2)  | (0.8)  |
| Foreign income taxed at different rate | (1.1)                   | 2.9    | (1.7)  |
| Amortization of intangibles            | (9.4)                   | (19.3) | (13.7) |
| Change in valuation allowance          | (25.1)                  | 5.3    | (33.6) |
| Change in tax rates                    | 1.8                     | 0.9    | 3.5    |
| Research and development credits       | 1.2                     | 10.2   | 7.8    |
| Foreign income inclusion               | (0.3)                   |        |        |
| Tax Settlement                         | (4.6)                   |        |        |
| Expired Loss Carryovers                | (1.9)                   | (2.6)  |        |
| Other                                  | (1.7)                   | (3.2)  | (2.7)  |
| Effective tax rate                     | (10.2)%                 | 21.0%  | (7.6)% |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 2012 and 2011 are presented below (in thousands):

|   | December 31, |             |
|---|--------------|-------------|
|   | 2012         | 2011        |
| Deferred tax assets:  |              |             |
| Net operating loss carryforwards  | \$ 51,573    | \$ 50,203   |
| Sales tax reserve   | 1,945        | 1,673       |
| Bad debt reserve  | 426          | 715         |
| Accrued compensation  | 987          | 1,512       |
| Depreciation and amortization   | 1,693        |             |
| Stock-based compensation  | 9,755        | 7,995       |
| Foreign deferred tax assets   | 4,014        | 3,419       |
| Tax credits   | 7,515        | 5,885       |
| Deferred revenue  | 8,880        | 3,758       |
| Other   | 3,563        | 3,748       |
| Total deferred tax assets   | 90,351       | 78,908      |
| Less: valuation allowance   | (86,491)     | (73,834)    |
| Net deferred tax assets   | 3,860        | 5,074       |
| Deferred tax liabilities:   |              |             |
| Foreign deferred taxes  | (4,704)      | (5,844)     |
| Depreciation and amortization   |              | (1,621)     |
| Acquired goodwill amortization  | (17,445)     | (14,522)    |
| Total net deferred tax liabilities  | \$ (18,289)  | \$ (16,913) |
| Reported as:  |              |             |
| Current Deferred Tax Asset, included in prepaid expenses and other current assets | 776          | 1,330       |
| Noncurrent deferred tax liabilities   | (19,065)     | (18,243)    |

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|                                    |             |             |
|------------------------------------|-------------|-------------|
| Total net deferred tax liabilities | \$ (18,289) | \$ (16,913) |
|------------------------------------|-------------|-------------|

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The Company had federal net operating loss ( NOL ) carryforwards of approximately \$182 million as of December 31, 2012 which expire between 2019 and 2032. In addition, the Company had state NOL carryforwards of approximately \$142 million as of December 31, 2012 which expire between 2013 and 2032 and foreign NOL carryforwards of approximately \$11 million as of December 31, 2012 which expire between 2029 and 2032.

The Company had federal and state research and experimentation credits of approximately \$4.9 million and \$2.9 million, respectively, at December 31, 2012. The federal research experimentation credits begin to expire in 2029. State research and experimentation credits do not expire.

The U.S. tax code imposes limitations on the annual utilization of operating loss and credit carryforwards whenever a greater than fifty percent change in ownership of a company occurs within a three year period. Companies with operating loss and credit carryforwards are required to test the cumulative three year change whenever there is an equity transaction that impacts the ownership of holders of more than five percent of the Company's stock. During 2012, the Company completed an analysis of its prior ownership changes and concluded that none of the operating loss and credit carryforwards generated through December 31, 2011 would expire solely as a result of annual limitations on the utilization of those attributes caused by prior ownership changes. Additional changes in the ownership of the Company could create further restrictions on the future utilization of operating loss and credit carryforwards arising through December 31, 2012.

The Company reduces the deferred tax asset resulting from future tax benefits by a valuation allowance if, based on the weight of the available evidence, it is more likely than not that some portion or all of these deferred taxes will not be realized. The timing of the reversal of deferred tax liabilities associated with tax deductible goodwill is not certain and thus not available to assure the realization of deferred tax assets. Similarly, state deferred tax liabilities in excess of state deferred tax assets are not available to ensure the realization of federal deferred tax assets. After consideration of these limitations associated with deferred tax liabilities, the Company has deferred tax assets in excess of deferred tax liabilities for the periods presented. As the Company has no history of generating book income, the ultimate future realization of these excess deferred tax assets is not more likely than not and thus subject to a valuation allowance. Accordingly, the Company has established a valuation allowance against its domestic deferred tax assets. A valuation allowance has not been recorded against the Company's foreign deferred tax assets as there are sufficient future taxable temporary differences in foreign jurisdictions to assure the realization of foreign deferred tax assets.

The following is a reconciliation of the amount of gross unrecognized tax benefits (in thousands):

|  | Year ended<br>December 31, |        |
|--|----------------------------|--------|
|  | 2012                       | 2011   |
| Balance at January 1                               | \$ 340                     | \$ 340 |
| Additions for tax positions of prior years         | 2,285                      |        |
| Reductions for settlements with taxing authorities | (1,308)                    |        |
| Balance at December 31                             | \$ 1,317                   | \$ 340 |

During the year ended December 31, 2012, the Company received its transfer pricing methodology tax assessment from the Canadian Revenue Agency in the amount of \$2.2 million, including interest and penalties of \$0.9 million. The assessment related to the 2005, 2006 and 2007 tax years and was due to the transfer pricing methodology related to royalties paid by the Company's Canadian subsidiary. The Company previously recorded expense of \$0.3 million in prior years for uncertain tax positions related to the audit by the Canadian Revenue Agency. As a result of the settlement, the Company recorded an additional expense of \$1.3 million in the Company's provision for income taxes on the consolidated statements of operations for the year ended December 31, 2012. The Company also recorded an expense of \$0.4 million during the year ended December 31, 2012 related to the utilization of net operating losses carried back to offset adjustments related to 2006 and 2007.

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During the year ended December 31, 2012, the Company also recorded \$1.3 million in uncertain positions relating to the recognition of revenues for tax purposes. After the settlement with the Canadian Revenue Agency, the balance of uncertain tax positions as of December 31, 2012 is \$1.3 million. Due to the Company's valuation allowance on deferred tax assets, no portion of the accrued uncertainty, if reversed, would impact the Company's effective tax rate. At December 31, 2012 and 2011, \$0 and \$0.2 million have been accrued for interest and penalties on uncertain tax positions which is recorded as a component of income tax expense. During the years ended December 31, 2012, 2011 and 2010 the Company recorded interest and penalties of \$0.9 million, \$0 and \$0, respectively.

The Company conducts business globally, and as a result, is subject to taxation in the United States and various state jurisdictions and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities in many of the jurisdictions in which the Company operates. Effectively, all of the Company's historical tax filings are subject to examination by the Internal Revenue Service and various state and foreign jurisdictions due to the generation of net operating loss carryforwards.

It is possible that new tax exams may commence and that other issues may be effectively settled. However, the Company is unable to make a reasonably reliable estimate as to when or if cash settlements with taxing authorities may occur. Although audit outcomes and the timing of potential audit payments are subject to uncertainty, the Company does not anticipate that the resolution of these tax matters or any events related thereto will result in a material adverse change to its consolidated financial position, results of operations or cash flows.

As of December 31, 2012, the Company had approximately \$3.3 million of undistributed earnings related to its foreign subsidiaries. Management considers these earnings to be indefinitely reinvested. Accordingly, the Company has not provided for any income taxes related to these earnings. However, upon distribution of these earnings, the Company would be subject to both U.S. income taxes and withholding taxes payable to the various foreign countries.

**20. Related Party Transactions**

ESPN Online Investments, Inc. ( ESPN ) is a significant common stockholder in the Company. The Company also sells its services to ESPN and its affiliates. The Company recorded revenues from ESPN and its affiliates of less than \$0.1 million, \$6.5 million and \$6.5 million for the years ended December 31, 2012, 2011 and 2010, respectively.

ESPN is a wholly-owned subsidiary of The Walt Disney Company ( Disney ). The Company entered into an online services agreement with Disney to provide registration and advertising. The Company recorded revenues from Disney of \$1.4 million, \$1.5 million and \$0.9 million for the years ended December 31, 2012, 2011 and 2010, respectively.

In August 2006, the Company entered into a Master Services Agreement and certain other related agreements with the United States Tennis Association ( USTA ) as amended in December 2010. A former member of the Company's Board of Directors is the managing director for recreational tennis at the USTA and a current member is the CFO. Pursuant to the terms of these agreements, the USTA purchases certain software services from the Company. Net revenue from the USTA and its affiliates was approximately \$5.1 million, \$5.0 million and \$4.7 million for the years ended December 31, 2012, 2011 and 2010, respectively. In addition, under the USTA agreement, the Company issued warrants to purchase 239,027 shares of the Company's common stock at an exercise price of \$9.28 per share. The warrants were net exercised on the closing date of the Company's IPO and the Company issued 91,148 shares of common stock to the USTA. The amortization of the warrants was approximately \$0.1 million and \$0.2 million for the years ended December 31, 2011 and 2010, respectively and is included in interest expense.

**Table of Contents****21. Employee Benefit Plans*****Defined Contribution Plan***

The Company has a defined contribution plan under Section 401(k) of the Internal Revenue Code ( 401(k) Plan ) covering all full-time employees who meet certain eligibility requirements. Eligible employees may defer up to 4% of their pre-tax compensation, up to the annual maximum allowed by the Internal Revenue Service. Under the 401(k) Plan, the Company may, but is not obligated to, match a portion of the employee contributions up to a defined maximum. The Company made matching contributions of \$1.0 million, \$0.8 million and \$0.6 million for the years ended December 31, 2012, 2011 and 2010, respectively.

***Deferred Compensation Plan***

In July 2012, the Company approved an unfunded, non-qualified deferred compensation plan for certain employees. Under the deferred compensation plan, participants may elect to defer up to 80% of their base salaries and up to 100% of performance-based compensation and commissions. The Company may also, at its discretion, match a portion of the employee contributions up to a defined maximum for each deferral election as prescribed in the deferred compensation plan. The Company contributions vest annually over a four year period, subject to the employee's continued service with the Company. The Company's liability for the deferred compensation plan totaled less than \$0.1 million and \$0 million as of December 31, 2012 and 2011, respectively, and is included in other liabilities in the consolidated balance sheets.

**22. Quarterly Financial Data (Unaudited)**

The table below includes quarterly data (in thousands, except per share data):

|   | Year Ended December 31, 2012 |            |            |             | Total       |
|---|------------------------------|------------|------------|-------------|-------------|
|   | 1st                          | 2nd        | 3rd        | 4th         |             |
| Net revenue                             | \$ 94,438                    | \$ 121,564 | \$ 109,219 | \$ 93,672   | \$ 418,893  |
| Gross profit                            | \$ 47,467                    | \$ 68,637  | \$ 61,822  | \$ 49,148   | \$ 227,074  |
| Income (loss) from operations           | \$ (21,002)                  | \$ 733     | \$ (4,310) | \$ (15,047) | \$ (39,626) |
| Net income (loss)                       | \$ (20,338)                  | \$ (2,325) | \$ (6,022) | \$ (14,341) | \$ (43,026) |
| Basic net income (loss) per share (1)   | \$ (0.36)                    | \$ (0.04)  | \$ (0.10)  | \$ (0.24)   | \$ (0.73)   |
| Diluted net income (loss) per share (1) | \$ (0.36)                    | \$ (0.04)  | \$ (0.10)  | \$ (0.24)   | \$ (0.73)   |

  

|   | Year Ended December 31, 2011 |           |            |             | Total       |
|---|------------------------------|-----------|------------|-------------|-------------|
|   | 1st                          | 2nd       | 3rd        | 4th         |             |
| Net revenue                             | \$ 72,712                    | \$ 99,005 | \$ 89,628  | \$ 76,045   | \$ 337,390  |
| Gross profit                            | \$ 38,562                    | \$ 58,818 | \$ 49,738  | \$ 39,358   | \$ 186,476  |
| Income (loss) from operations           | \$ (8,845)                   | \$ 7,501  | \$ (412)   | \$ (14,860) | \$ (16,616) |
| Net income (loss)                       | \$ (10,942)                  | \$ 5,529  | \$ (1,432) | \$ (8,482)  | \$ (15,327) |
| Basic net income (loss) per share (1)   | \$ (2.16)                    | \$ 0.04   | \$ (0.03)  | \$ (0.16)   | \$ (0.75)   |
| Diluted net income (loss) per share (1) | \$ (2.16)                    | \$ 0.03   | \$ (0.03)  | \$ (0.16)   | \$ (0.75)   |

- (1) Net income (loss) per share is computed separately for each quarter and the full year using the respective weighted-average shares. Therefore, the sum of the quarterly earnings per share amounts may not equal the annual amounts reported.

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**23. Subsequent Events**

***Equity Award (unaudited)***

On January 4, 2013, the Company granted 442,500 restricted stock units and 190,000 market stock units that contain a market condition. Total unrecognized compensation cost related to non-vested restricted stock units is approximately \$2.5 million as of January 4, 2013 and is expected to be recognized over a weighted-average period of 3 years. Total unrecognized compensation cost related to non-vested restricted stock units that contain a market condition is approximately \$1.1 million as of January 4, 2013 and is expected to be recognized over a weighted-average period of 3 years.

***Legal Settlement***

On January 24, 2013, the Company settled a disputed amount in connection with a 2004 asset purchase agreement earn-out provision for \$0.6 million. The amount has been expensed to general and administrative expenses and recorded in other current liabilities on the Company's balance sheet at December 31, 2012.



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**The Active Network, Inc.**

**SCHEDULE II**

**VALUATION AND QUALIFYING ACCOUNTS**

**Years Ended December 31, 2012, 2011 and 2010**

**(in thousands)**

|  | <b>Balance at<br/>Beginning<br/>of Year</b> | <b>Additions</b> | <b>Deductions</b> | <b>Balance at<br/>End<br/>of Year</b> |
|--|---|------------------|-------------------|---------------------------------------|
| <b>Allowance for Doubtful Accounts</b> |   |                  |                   |                                       |
| Year Ended December 31, 2012           | \$ 1,638                                    | \$ 297           | \$ (945)          | \$ 990                                |
| Year Ended December 31, 2011           | \$ 1,380                                    | \$ 680           | \$ (422)          | \$ 1,638                              |
| Year Ended December 31, 2010           | \$ 2,546                                    | \$ 774           | \$ (1,940)        | \$ 1,380                              |

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**Table of Contents****EXHIBIT INDEX****Exhibit**

| <b>Number</b> | <b>Exhibit Description</b>  |
|---------------|---|
| 2.1           | Agreement and Plan of Merger, dated December 30, 2012, by and among The Active Network, Inc., Active Acquisition Corporation, StarCite, Inc. and Internet Capital Group Operations, Inc., as securityholders agent (incorporated by reference from Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed with the SEC on January 5, 2012, File No. 001-35187).   |
| 3.1           | Amended and Restated Certificate of Incorporation (incorporated by reference from Exhibit 3.2 to the Registrant's Form S-1, filed with the SEC on February 14, 2011, File No. 333-172254).  |
| 3.2           | Amended and Restated Bylaws (incorporated by reference from Exhibit 3.4 to the Registrant's Form S-1, filed with the SEC on February 14, 2011, File No. 333-172254).  |
| 4.1           | Specimen Common Stock Certificate (incorporated by reference from Exhibit 4.1 to the Registrant's Form S-1, filed with the SEC on May 10, 2011, File No. 333-172254).   |
| 4.2           | Tenth Amended and Restated Investors' Rights Agreement, dated as of August 22, 2008, by and among the Registrant and Stockholders named therein (incorporated by reference from Exhibit 4.2 to the Registrant's Form S-1, filed with the SEC on February 14, 2011, File No. 333-172254).  |
| 4.3           | Amendment No. 1 to the Tenth Amended and Restated Investors' Rights Agreement, dated as of April 25, 2011, by and among the Registrant and the stockholders as listed on Schedule A (incorporated by reference from Exhibit 4.3 to the Registrant's Form S-1, filed with the SEC on May 20, 2011, File No. 333-172254).   |
| 4.4           | Form of Warrant Assumption Agreement issued by the Registrant to each of the investors set forth on Schedule A (incorporated by reference from Exhibit 4.4 to the Registrant's Form S-1, filed with the SEC on February 14, 2011, File No. 333-172254).   |
| 4.5           | Form of Warrant issued by the Registrant to each of the investors set forth on Schedule A (incorporated by reference from Exhibit 4.5 to the Registrant's Form S-1, filed with the SEC on February 14, 2011, File No. 333-172254).  |
| 4.6           | Note Purchase Agreement, dated September 29, 2009, by and among the Registrant and the investors set forth on Schedule A (incorporated by reference from Exhibit 4.6 to the Registrant's Form S-1, filed with the SEC on February 14, 2011, File No. 333-172254).   |
| 4.7           | Form of Convertible Promissory Note issued by the Registrant to each of the investors set forth on the Schedule of Lenders thereto (incorporated by reference from Exhibit 4.7 to the Registrant's Form S-1, filed with the SEC on February 14, 2011, File No. 333-172254).   |
| 10.1A         | Seaview Corporate Center Office Lease, dated November 11, 2006, by and between Seaview PFG, LLC and the Registrant (incorporated by reference from Exhibit 10.2 to the Registrant's Form S-1, filed with the SEC on February 14, 2011, File No. 333-172254).  |
| 10.1B         | First Amendment to Lease (Seaview Corporate Center), dated October 31, 2010, by and between AG/POP Seaview Corporate, L.P. and the Registrant (incorporated by reference from Exhibit 10.3 to the Registrant's Form S-1, filed with the SEC on February 14, 2011, File No. 333-172254).   |
| 10.1C         | Second Amendment to Lease (Seaview Corporate Center), dated March 31, 2011, by and between AG/POP Seaview Corporate, L.P. and the Registrant (incorporated by reference from Exhibit 10.43 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, filed with the SEC on August 8, 2012, File No. 001-35187).  |
| 10.1D         | Third Amendment to Seaview Corporate Center Office Lease, dated May 11, 2012, by and between John Hancock Life Insurance Company (U.S.A.) (a wholly owned subsidiary of Manulife Financial Corporation), a Michigan Corporation, and the registrant (incorporated by reference from Exhibit 10.43 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, filed with the SEC on August 8, 2012, File No. 001-35187). |

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| <b>Number</b> | <b>Exhibit Description</b>   |
|---------------|--|
| 10.2A         | Indenture of Lease, dated September 13, 1999, by and between HOOPP Realty Inc. and The Active Network, Ltd. (incorporated by reference from Exhibit 10.4 to the Registrant's Form S-1, filed with the SEC on February 14, 2011, File No. 333-172254).  |
| 10.2B         | Lease Expansion and Extension and Amending Agreement, dated June 25, 2004, by and between Newvest Realty Corporation and The Active Network, Ltd. (incorporated by reference from Exhibit 10.5 to the Registrant's Form S-1, filed with the SEC on February 14, 2011, File No. 333-172254).      |
| 10.2C         | Lease Expansion and Amending Agreement, dated November 10, 2005, by and between Newvest Realty Corporation and The Active Network, Ltd. (incorporated by reference from Exhibit 10.6 to the Registrant's Form S-1, filed with the SEC on February 14, 2011, File No. 333-172254).                |
| 10.2D         | Lease Expansion and Amending Agreement, dated September 29, 2006, by and between Newvest Realty Corporation and The Active Network, Ltd. (incorporated by reference from Exhibit 10.7 to the Registrant's Form S-1, filed with the SEC on February 14, 2011, File No. 333-172254).               |
| 10.2E         | Lease Expansion, Extension and Amending Agreement, dated July 25, 2008, by and between Newvest Realty Corporation and The Active Network, Ltd. (incorporated by reference from Exhibit 10.8 to the Registrant's Form S-1, filed with the SEC on February 14, 2011, File No. 333-172254).         |
| 10.3A         | Office Lease, dated February 6, 2007, by and between the Registrant and Allegany Research Properties, LLC (incorporated by reference from Exhibit 10.9 to the Registrant's Form S-1, filed with the SEC on February 14, 2011, File No. 333-172254).  |
| 10.3B         | First Lease Modification, dated August 17, 2007, by and between the Registrant and Allegany Research Properties, LLC (incorporated by reference from Exhibit 10.3B to the Registrant's Form S-1, filed with the SEC on April 11, 2011, File No. 333-172254).                                     |
| 10.3C         | Second Lease Modification, dated November 21, 1007, by and between Allegany Research Properties, LLC and the Registrant (incorporated by reference from Exhibit 10.3C to the Registrant's Form S-1, filed with the SEC on April 11, 2011, File No. 333-172254).                                  |
| 10.3D         | Third Lease Modification, dated February 1, 2008, by and between Allegany Research Properties, LLC and the Registrant (incorporated by reference from Exhibit 10.3D to the Registrant's Form S-1, filed with the SEC on April 11, 2011, File No. 333-172254).                                    |
| 10.4A         | Office Lease Agreement, dated September 24, 1999, by and between Donelson Corporate Centre, L.P. and Automated License Systems, Inc. (incorporated by reference from Exhibit 10.11 to the Registrant's Form S-1, filed with the SEC on February 14, 2011, File No. 333-172254).                  |
| 10.4B         | First Amendment to Office Lease Agreement, dated April 28, 2005, by and between Donelson Corporate Centre, L.P. and Automated License Systems, Inc. (incorporated by reference from Exhibit 10.12 to the Registrant's Form S-1, filed with the SEC on February 14, 2011, File No. 333-172254).   |
| 10.4C         | Second Amendment to Office Lease Agreement, dated June 29, 2005, by and between Donelson Corporate Centre, L.P. and Automated License Systems, Inc. (incorporated by reference from Exhibit 10.13 to the Registrant's Form S-1, filed with the SEC on February 14, 2011, File No. 333-172254).   |
| 10.4D         | Third Amendment to Office Lease Agreement, dated January 10, 2007, by and between Donelson Corporate Centre, L.P. and Automated License Systems, Inc. (incorporated by reference from Exhibit 10.14 to the Registrant's Form S-1, filed with the SEC on February 14, 2011, File No. 333-172254). |
| 10.4E         | Fourth Amendment to Office Lease Agreement, dated March 25, 2008, by and between Donelson Corporate Centre, L.P. and Automated License Systems, Inc. (incorporated by reference from Exhibit 10.15 to the Registrant's Form S-1, filed with the SEC on February 14, 2011, File No. 333-172254).  |

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| <b>Number</b> | <b>Exhibit Description</b>  |
|---------------|---|
| 10.4F         | Fifth Amendment to Office Lease Agreement, dated February 11, 2011, by and between Donelson Corporate Centre, L.P. and Automated License Systems, Inc. (incorporated by reference from Exhibit 10.4F to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, filed with the SEC on August 12, 2011, File No. 001-35187). |
| 10.5A         | Lease Agreement, dated September 19, 2008, by and between Wells REIT Las Colinas Corporate Center II, L.P. and Fellowship Technologies, L.P. (incorporated by reference from Exhibit 10.5A to the Registrant's Form S-1, filed with the SEC on May 5, 2011, File No. 333-172254).   |
| 10.5B         | Consent to Assignment, dated February 3, 2011 between Wells REIT Las Colinas Corporate Center II, L.P., Fellowship Technologies, L.P. and Registrant (incorporated by reference from Exhibit 10.5B to the Registrant's Form S-1, filed with the SEC on May 5, 2011, File No. 333-172254).   |
| 10.6A         | Loan and Security Agreement, dated October 30, 2008, by and between Square 1 Bank and Registrant (incorporated by reference from Exhibit 10.5A to the Registrant's Form S-1, filed with the SEC on April 11, 2011, File No. 333-172254).  |
| 10.6B         | Consent and First Amendment to Loan and Security Agreement, dated September 29, 2009, by and between Square 1 Bank and Registrant (incorporated by reference from Exhibit 10.5B to the Registrant's Form S-1, filed with the SEC on April 11, 2011, File No. 333-172254).   |
| 10.6C         | Second Amendment to Loan and Security Agreement, dated October 29, 2009, by and between Square 1 Bank and Registrant (incorporated by reference from Exhibit 10.5C to the Registrant's Form S-1, filed with the SEC on April 11, 2011, File No. 333-172254).  |
| 10.6D         | Third Amendment to Loan and Security Agreement, dated November 30, 2009, by and between Square 1 Bank and Registrant (incorporated by reference from Exhibit 10.5D to the Registrant's Form S-1, filed with the SEC on April 11, 2011, File No. 333-172254).  |
| 10.6E         | Fourth Amendment to Loan and Security Agreement, dated January 26, 2010, by and between Square 1 Bank and Registrant (incorporated by reference from Exhibit 10.5E to the Registrant's Form S-1, filed with the SEC on April 11, 2011, File No. 333-172254).  |
| 10.6F         | Fifth Amendment and Waiver to Loan and Security Agreement, March 31, 2010, by and between Square 1 Bank and Registrant (incorporated by reference from Exhibit 10.5F to the Registrant's Form S-1, filed with the SEC on April 11, 2011, File No. 333-172254).  |
| 10.6G         | Sixth Amendment to Loan and Security Agreement, dated April 21, 2010, by and between Square 1 Bank and Registrant (incorporated by reference from Exhibit 10.5G to the Registrant's Form S-1, filed with the SEC on April 11, 2011, File No. 333-172254).   |
| 10.6H         | Seventh Amendment to Loan and Security Agreement, dated May 27, 2010 by and between Square 1 Bank and Registrant (incorporated by reference from Exhibit 10.5H to the Registrant's Form S-1, filed with the SEC on April 11, 2011, File No. 333-172254).  |
| 10.6I         | Eighth Amendment to Loan and Security Agreement, dated July 15, 2010, by and between Square 1 Bank and Registrant (incorporated by reference from Exhibit 10.5I to the Registrant's Form S-1, filed with the SEC on April 11, 2011, File No. 333-172254).   |
| 10.6J         | Ninth Amendment to Loan and Security Agreement, dated May 17, 2011, by and between Square 1 Bank and Registrant (incorporated by reference from Exhibit 10.6J to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, filed with the SEC on August 12, 2011, File No. 001-35187).  |
| 10.6K         | Tenth Amendment to Loan and Security Agreement, dated July 26, 2011, by and between Square 1 Bank and Registrant (incorporated by reference from Exhibit 10.6K to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, filed with the SEC on August 12, 2011, File No. 001-35187).                                       |

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| <b>Number</b> | <b>Exhibit Description</b>  |
|---------------|---|
| 10.6L         | Eleventh Amendment to Loan and Security Agreement, dated August 15, 2011, by and between Square 1 Bank and Registrant (incorporated by reference from Exhibit 10.6L to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, filed with the SEC on November 14, 2011, File No. 001-35187). |
| 10.7A         | Loan and Security Agreement, dated March 22, 2007, by and among Registrant, Escalate Capital I, L.P. and Gold Hill Venture Lending 03, LP (incorporated by reference from Exhibit 10.6A to the Registrant's Form S-1, filed with the SEC on April 11, 2011, File No. 333-172254).   |
| 10.7B         | First Amendment to Loan and Security Agreement, dated June 6, 2007, by and among Registrant, Escalate Capital I, L.P. and Gold Hill Venture Lending 03, LP (incorporated by reference from Exhibit 10.6B to the Registrant's Form S-1, filed with the SEC on April 11, 2011, File No. 333-172254).                            |
| 10.7C         | Second Amendment to Loan and Security Agreement, dated December 18, 2007, by and among Registrant, Escalate Capital I, L.P. and Gold Hill Venture Lending 03, LP (incorporated by reference from Exhibit 10.6C to the Registrant's Form S-1, filed with the SEC on April 11, 2011, File No. 333-172254).                      |
| 10.7D         | Consent and Third Amendment to Loan and Security Agreement, dated October 30, 2008, by and among Registrant, Escalate Capital I, L.P. and Gold Hill Venture Lending 03, LP (incorporated by reference from Exhibit 10.6D to the Registrant's Form S-1, filed with the SEC on April 11, 2011, File No. 333-172254).            |
| 10.7E         | Fourth Amendment to Loan and Security Agreement, dated April 14, 2009, by and among Registrant, Escalate Capital I, L.P. and Gold Hill Venture Lending 03, LP (incorporated by reference from Exhibit 10.6E to the Registrant's Form S-1, filed with the SEC on April 11, 2011, File No. 333-172254).                         |
| 10.7F         | Consent and Fifth Amendment to Loan and Security Agreement, dated September 29, 2009, by and among Registrant, Escalate Capital I, L.P. and Gold Hill Venture Lending 03, LP (incorporated by reference from Exhibit 10.6F to the Registrant's Form S-1, filed with the SEC on April 11, 2011, File No. 333-172254).          |
| 10.7G         | Sixth Amendment to Loan and Security Agreement, dated April 28, 2010, by and among Registrant, Escalate Capital I, L.P. and Gold Hill Venture Lending 03, LP (incorporated by reference from Exhibit 10.6G to the Registrant's Form S-1, filed with the SEC on April 11, 2011, File No. 333-172254).                          |
| 10.7H         | Seventh Amendment to Loan and Security Agreement, dated December 20, 2010, by and among Registrant, Escalate Capital I, L.P. and Gold Hill Venture Lending 03, LP (incorporated by reference from Exhibit 10.6H to the Registrant's Form S-1, filed with the SEC on April 11, 2011, File No. 333-172254).                     |
| 10.8          | Business Loan Agreement, dated November 3, 2008, by and between Automated License Systems, Inc. and Pinnacle National Bank (incorporated by reference from Exhibit 10.7 to the Registrant's Form S-1, filed with the SEC on April 11, 2011, File No. 333-172254).   |
| 10.9#         | 2002 Stock Option/Stock Issuance Plan, as amended (incorporated by reference from Exhibit 10.9 to the Registrant's Form S-1, filed with the SEC on May 20, 2011, File No. 333-172254).  |
| 10.10#        | Form of Stock Option Agreement under 2002 Stock Option/Stock Issuance Plan, as amended (incorporated by reference from Exhibit 10.10 to the Registrant's Form S-1, filed with the SEC on May 10, 2011, File No. 333-172254).  |
| 10.11#        | Addendum to Stock Option Agreement under 2002 Stock Option/Stock Issuance Plan (incorporated by reference from Exhibit 10.27 to the Registrant's Form S-1, filed with the SEC on February 14, 2011, File No. 333-172254).   |

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| <b>Exhibit</b> |  |
|----------------|--|
| <b>Number</b>  | <b>Exhibit Description</b>   |
| 10.12#         | Form of Stock Purchase Agreement under 2002 Stock Option/Stock Issuance Plan (incorporated by reference from Exhibit 10.28 to the Registrant's Form S-1, filed with the SEC on February 14, 2011, File No. 333-172254).                    |
| 10.13#         | Addendum to Stock Purchase Agreement under 2002 Stock Option/Stock Issuance Plan (incorporated by reference from Exhibit 10.29 to the Registrant's Form S-1, filed with the SEC on February 14, 2011, File No. 333-172254).                |
| 10.14#         | Form of Stock Issuance Agreement under 2002 Stock Option/Stock Issuance Plan (incorporated by reference from Exhibit 10.30 to the Registrant's Form S-1, filed with the SEC on February 14, 2011, File No. 333-172254).                    |
| 10.15#         | Addendum to Stock Issuance Agreement under 2002 Stock Option/Stock Issuance Plan (incorporated by reference from Exhibit 10.31 to the Registrant's Form S-1, filed with the SEC on February 14, 2011, File No. 333-172254).                |
| 10.16#         | 2011 Equity Incentive Award Plan (incorporated by reference from Exhibit 10.16 to the Registrant's Form S-1, filed with the SEC on May 5, 2011, File No. 333-172254).  |
| 10.17#         | Form of Stock Option Agreement under 2011 Equity Incentive Award Plan (incorporated by reference from Exhibit 10.17 to the Registrant's Form S-1, filed with the SEC on May 5, 2011, File No. 333-172254).                                 |
| 10.18#         | Form of Restricted Stock Agreement under 2011 Equity Incentive Award Plan (incorporated by reference from Exhibit 10.18 to the Registrant's Form S-1, filed with the SEC on May 5, 2011, File No. 333-172254).                             |
| 10.19#         | Form of Restricted Stock Unit Agreement under 2011 Equity Incentive Award Plan (incorporated by reference from Exhibit 10.19 to the Registrant's Form S-1, filed with the SEC on May 5, 2011, File No. 333-172254).                        |
| 10.20#         | 2011 Employee Stock Purchase Plan (incorporated by reference from Exhibit 10.20 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, filed with the SEC on August 12, 2011, File No. 001-35187).         |
| 10.21A#        | Indemnification Agreement, dated May 17, 2011, by and between the Registrant and David Alberga (incorporated by reference from Exhibit 10.21A to the Registrant's Form S-1, filed with the SEC on May 20, 2011, File No. 333-172254).      |
| 10.21B#        | Indemnification Agreement, dated May 17, 2011, by and between the Registrant and Matthew Landa (incorporated by reference from Exhibit 10.21B to the Registrant's Form S-1, filed with the SEC on May 20, 2011, File No. 333-172254).      |
| 10.21C#        | Indemnification Agreement, dated May 17, 2011, by and between the Registrant and Scott Mendel (incorporated by reference from Exhibit 10.21C to the Registrant's Form S-1, filed with the SEC on May 20, 2011, File No. 333-172254).       |
| 10.21D#        | Indemnification Agreement, dated May 17, 2011, by and between the Registrant and Jon Belmonte (incorporated by reference from Exhibit 10.21D to the Registrant's Form S-1, filed with the SEC on May 20, 2011, File No. 333-172254).       |
| 10.21E#        | Indemnification Agreement, dated May 17, 2011, by and between the Registrant and Kouros Vossoughi (incorporated by reference from Exhibit 10.21E to the Registrant's Form S-1, filed with the SEC on May 20, 2011, File No. 333-172254).   |
| 10.21F#        | Indemnification Agreement, dated May 17, 2011, by and between the Registrant and Matthew Ehrlichman (incorporated by reference from Exhibit 10.21F to the Registrant's Form S-1, filed with the SEC on May 20, 2011, File No. 333-172254). |

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| <b>Exhibit</b> |   |
|----------------|---|
| <b>Number</b>  | <b>Exhibit Description</b>  |
| 10.21G#        | Indemnification Agreement, dated May 17, 2011, by and between the Registrant and Sheryl Roland (incorporated by reference from Exhibit 10.21G to the Registrant's Form S-1, filed with the SEC on May 20, 2011, File No. 333-172254).                       |
| 10.21H#        | Indemnification Agreement, dated May 17, 2011, by and between the Registrant and Thomas Clancy (incorporated by reference from Exhibit 10.21H to the Registrant's Form S-1, filed with the SEC on May 20, 2011, File No. 333-172254).                       |
| 10.21I#        | Indemnification Agreement, dated May 17, 2011, by and between the Registrant and Bruns H. Grayson (incorporated by reference from Exhibit 10.21I to the Registrant's Form S-1, filed with the SEC on May 20, 2011, File No. 333-172254).                    |
| 10.21J#        | Indemnification Agreement, dated May 17, 2011, by and between the Registrant and Stephen L. Green (incorporated by reference from Exhibit 10.21J to the Registrant's Form S-1, filed with the SEC on May 20, 2011, File No. 333-172254).                    |
| 10.21K#        | Indemnification Agreement, dated May 17, 2011, by and between the Registrant and Joseph Levin (incorporated by reference from Exhibit 10.21K to the Registrant's Form S-1, filed with the SEC on May 20, 2011, File No. 333-172254).                        |
| 10.21L#        | Indemnification Agreement, dated May 17, 2011, by and between the Registrant and Scott Schultz (incorporated by reference from Exhibit 10.21L to the Registrant's Form S-1, filed with the SEC on May 20, 2011, File No. 333-172254).                       |
| 10.21M#        | Indemnification Agreement, dated January 19, 2012, by and between the Registrant and Darko Dejanovic (incorporated by reference from Exhibit 10.21M to the Registrant's Form S-1, filed with the SEC on January 20, 2012, File No. 333-179115).             |
| 10.21N#        | Indemnification Agreement, dated January 9, 2012, by and between the Registrant and Kevin Biggs (incorporated by reference from Exhibit 10.21N to the Registrant's Form S-1, filed with the SEC on January 20, 2012, File No. 333-179115).                  |
| 10.21O         | Indemnification Agreement, dated February 5, 2013, by and between the Registrant and Edward Nepl (incorporated by reference from Exhibit 10.21O to the Registrant's Current Report on Form 8-K filed with the SEC on February 7, 2013, File No. 001-35187). |
| 10.22A#        | Retention Agreement, dated August 17, 2005, by and between the Registrant and David Alberga (incorporated by reference from Exhibit 10.20A to the Registrant's Form S-1, filed with the SEC on April 11, 2011, File No. 333-172254).                        |
| 10.22B#        | Amendment to Retention Agreement, dated December 22, 2008, by and between the Registrant and David Alberga (incorporated by reference from Exhibit 10.20B to the Registrant's Form S-1, filed with the SEC on April 11, 2011, File No. 333-172254).         |
| 10.23A#        | Retention Agreement, dated August 17, 2005, by and between the Registrant and Jon Belmonte (incorporated by reference from Exhibit 10.21A to the Registrant's Form S-1, filed with the SEC on April 11, 2011, File No. 333-172254).                         |
| 10.23B#        | Amendment to Retention Agreement, dated December 22, 2008, by and between the Registrant and Jon Belmonte (incorporated by reference from Exhibit 10.21B to the Registrant's Form S-1, filed with the SEC on April 11, 2011, File No. 333-172254).          |
| 10.24A#        | Retention Agreement, dated August 17, 2005, by and between the Registrant and Matthew Landa (incorporated by reference from Exhibit 10.22A to the Registrant's Form S-1, filed with the SEC on April 11, 2011, File No. 333-172254).                        |
| 10.24B#        | Amendment to Retention Agreement, dated December 22, 2008, by and between the Registrant and Matthew Landa (incorporated by reference from Exhibit 10.22B to the Registrant's Form S-1, filed with the SEC on April 11, 2011, File No. 333-172254).         |

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| <b>Number</b> | <b>Exhibit Description</b>  |
|---------------|---|
| 10.25A#       | Retention Agreement, dated August 17, 2005, by and between the Registrant and Kouros Vossoughi (incorporated by reference from Exhibit 10.23A to the Registrant's Form S-1, filed with the SEC on April 11, 2011, File No. 333-172254).   |
| 10.25B#       | Amendment to Retention Agreement, dated December 22, 2008, by and between the Registrant and Kouros Vossoughi (incorporated by reference from Exhibit 10.23B to the Registrant's Form S-1, filed with the SEC on April 11, 2011, File No. 333-172254).  |
| 10.26A#       | Retention Agreement, dated March 8, 2010, by and between the Registrant and Scott Mendel (incorporated by reference from Exhibit 10.24A to the Registrant's Form S-1, filed with the SEC on April 11, 2011, File No. 333-172254).   |
| 10.26B#       | Amendment to Retention Agreement, dated March 8, 2010, by and between the Registrant and Scott Mendel (incorporated by reference from Exhibit 10.24B to the Registrant's Form S-1, filed with the SEC on April 11, 2011, File No. 333-172254).  |
| 10.27#        | Employment Offer Letter, dated January 5, 2010, by and between Registrant and Scott Mendel (incorporated by reference from Exhibit 10.39 to the Registrant's Form S-1, filed with the SEC on February 14, 2011, File No. 333-172254).   |
| 10.28#        | Employment Offer Letter, dated March 1, 2007, by and between Registrant and Matthew Ehrlichman, as amended (incorporated by reference from Exhibit 10.40 to the Registrant's Form S-1, filed with the SEC on February 14, 2011, File No. 333-172254).   |
| 10.29#        | Employment Offer Letter, dated December 4, 2007, by and between Registrant and Sheryl D. Roland (incorporated by reference from Exhibit 10.41 to the Registrant's Form S-1, filed with the SEC on February 14, 2011, File No. 333-172254).  |
| 10.30#        | Change in Control Agreement, dated July 15, 2010, by and between the Registrant and Sheryl Roland (incorporated by reference from Exhibit 10.42 to the Registrant's Form S-1, filed with the SEC on February 14, 2011, File No. 333-172254).  |
| 10.31#        | Form of Performance Based Restricted Stock Unit Agreement under 2011 Equity Incentive Award Plan (incorporated by reference from Exhibit 10.31 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, filed with the SEC on November 14, 2011, File No. 001-35187).  |
| 10.32#        | Transition Services Agreement, dated November 14, 2011, Jon Belmonte and the Registrant (incorporated by reference from Exhibit 10.32 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, filed with the SEC on November 14, 2011, File No. 001-35187).   |
| 10.33         | Credit Agreement, dated as of December 16, 2011, by and among the Registrant, as Borrower, the subsidiaries of Borrower named therein, as Guarantors, the lenders named therein, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Sole Lead Arranger and Sole Book Manager (incorporated by reference from Exhibit 10.33 to the Registrant's Current Report on Form 8-K filed with the SEC on December 21, 2011, File No. 001-35187). |
| 10.34         | Security Agreement, dated as of December 16, 2011, by and among the Registrant, as Borrower, the subsidiaries of Borrower named therein, as Guarantors, and Bank of America, N.A., as Administrative Agent (incorporated by reference from Exhibit 10.34 to the Registrant's Current Report on Form 8-K filed with the SEC on December 21, 2011, File No. 001-35187).   |
| 10.35         | Pledge Agreement, dated as of December 16, 2011, by and among the Registrant, as Borrower and Bank of America, N.A., as Administrative Agent (incorporated by reference from Exhibit 10.35 to the Registrant's Current Report on Form 8-K filed with the SEC on December 21, 2011, File No. 001-35187).   |



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| <b>Number</b> | <b>Exhibit Description</b>   |
|---------------|--|
| 10.36#        | Employment Offer Letter, dated May 4, 2011, by and between Registrant and Darko Dejanovic, as amended (incorporated by reference from Exhibit 10.36 to the Registrant's Form S-1, filed with the SEC on January 20, 2012, File No. 333-179115).  |
| 10.37#        | Retention Agreement, dated April 29, 2011, by and between the Registrant and Darko Dejanovic (incorporated by reference from Exhibit 10.37 to the Registrant's Form S-1, filed with the SEC on January 20, 2012, File No. 333-179115).   |
| 10.38         | Office Lease, dated March 30, 2010, between 1600 Market Street Property Trust and StarCite, Inc. (incorporated by reference from Exhibit 10.38 to the Registrant's Form S-1, filed with the SEC on January 20, 2012, File No. 333-179115).   |
| 10.39#        | Form of Performance Based Exercisability Option Agreement under 2011 Equity Incentive Award Plan (incorporated by reference from Exhibit 10.39 to the Registrant's Current Report on Form 8-K filed with the SEC on May 30, 2012, File No. 001-35187).   |
| 10.40         | First Amendment to Credit Agreement, dated as of July 2, 2012, by and among the Registrant, as Borrower, the subsidiaries of Borrower named therein, as Guarantors, the lenders named therein, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, and Merrill Lynch, Pierce, Fenner & Smith Incorporated and JP Morgan Securities LLC, as Joint Lead Arrangers and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Sole Book Manager (incorporated by reference from Exhibit 10.40 to the Registrant's Current Report on Form 8-K filed with the SEC on July 2, 2012, File No. 001-35187). |
| 10.41#        | Form of The Executive Nonqualified Excess Plan Adoption Agreement, by The Active Network, Inc. (incorporated by reference from Exhibit 10.41 to the Registrant's Current Report on Form 8-K filed with the SEC on August 3, 2012, File No. 001-35187).   |
| 10.42#        | Form of The Executive Nonqualified Excess Plan Document (incorporated by reference from Exhibit 10.42 to the Registrant's Current Report on Form 8-K filed with the SEC on August 3, 2012, File No. 001-35187).  |
| 10.43         | 2012 Non-Employee Director Compensation Policy (incorporated by reference from Exhibit 10.43 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, filed with the SEC on August 8, 2012, File No. 001-35187).   |
| 10.44#        | Form of Amended and Restated Change in Control Agreement by and between Sheryl Roland and Registrant (incorporated by reference from Exhibit 10.44 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, filed with the SEC on November 2, 2012, File No. 001-35187).  |
| 10.45#        | Form of Performance Based Restricted Stock Unit Notice under the 2011 Equity Incentive Plan (incorporated by reference from Exhibit 10.45 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, filed with the SEC on November 2, 2012, File No. 001-35187).   |
| 10.46#        | Form of Performance Based Exercisability Option Notice under the 2011 Equity Incentive Plan (incorporated by reference from Exhibit 10.46 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, filed with the SEC on November 2, 2012, File No. 001-35187).   |
| 10.47#        | Letter Agreement, dated November 26, 2012, by and between the Registrant and Sheryl Roland (incorporated by reference from Exhibit 10.47 to the Registrant's Current Report on Form 8-K filed with the SEC on November 26, 2012, File No. 001-35187).  |
| 10.48#        | Amendment No. 2 to the Retention Agreement, dated December 20, 2012, by and between Registrant and Darko Dejanovic (incorporated by reference from Exhibit 10.48 to the Registrant's Current Report on Form 8-K filed with the SEC on December 24, 2012, File No. 001-35187).  |

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| <b>Exhibit</b> |   |
|----------------|---|
| <b>Number</b>  | <b>Exhibit Description</b>  |
| 10.49##*       | Form of Market Stock Units Agreement and Related Notice of Grant of Market Stock Units under 2011 Equity Incentive Award Plan.            |
| 21.1*          | List of Subsidiaries.   |
| 23.1*          | Consent of Ernst & Young, LLP, Independent Registered Public Accounting Firm.   |
| 24.1*          | Power of Attorney (included on Signature Page).   |
| 31.1*          | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Matthew Landa.  |
| 31.2*          | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Scott Mendel.   |
| 32.1*          | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Matthew Landa. |
| 32.2*          | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Scott Mendel.  |
| 101.INS**      | XBRL Instance Document.   |
| 101.SCH**      | XBRL Taxonomy Extension Schema Document.  |
| 101.CAL**      | XBRL Taxonomy Extension Calculation Linkbase Document.  |
| 101.DEF**      | XBRL Taxonomy Extension Definition Linkbase Document.   |
| 101.LAB**      | XBRL Taxonomy Extension Label Linkbase Document.  |
| 101.PRE**      | XBRL Taxonomy Extension Presentation Linkbase Document.   |

\* Filed herewith.

# Indicates management contract or compensatory plan.  
Confidential Treatment Request.

\*\* Pursuant to applicable securities laws and regulations, we are deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and are not subject to liability under any anti-fraud provisions of the federal securities laws as long as we have made a good faith attempt to comply with the submission requirements and promptly amend the interactive data files after becoming aware that the interactive data files fail to comply with the submission requirements. Users of this data are advised that, pursuant to Rule 406T, these interactive data files are deemed not filed and otherwise are not subject to liability.