MARIN SOFTWARE INC
Form 10-Q
November 05, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 001-35838

Marin Software Incorporated

(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	20-4647180 (I.R.S. Employer Identification No.)
123 Mission Street, 27th Floor, San Francisco, CA (Address of Principal Executive Offices)	94105 (Zip Code)

(415) 399-2580

(Registrant’s Telephone Number, Including Area Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of October 31, 2015, the registrant had 37,082,459 shares of common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

MARIN SOFTWARE INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except par value)

	At September 30, 2015 (unaudited)	At December 31, 2014*
Assets		
Current assets		
Cash and cash equivalents	$ 33,332	$ 68,253
Accounts receivable, net	22,690	18,726
Prepaid expenses and other current assets	6,530	4,751
Total current assets	62,552	91,730
Property and equipment, net	22,867	16,274
Goodwill	19,432	11,527
Intangible assets, net	11,231	7,399
Other noncurrent assets	893	1,287
Total assets	$ 116,975	$ 128,217
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 2,938	$ 3,737
Accrued expenses and other current liabilities	13,022	12,053
Deferred revenues	1,361	2,052
Current portion of long-term debt	1,826	2,587
Total current liabilities	19,147	20,429
Long-term debt, less current portion	1,346	621
Other long-term liabilities	4,185	1,050
Total liabilities	24,678	22,100
Commitments and contingencies (Note 13)		
Stockholders’ equity		
Common stock, $0.001 par value - 500,000 shares authorized, 37,286 and 35,846 shares issued, 37,022 and 35,181 outstanding at September 30, 2015, and December 31, 2014, respectively	37	35
Additional paid-in capital	271,236	253,221
Accumulated deficit	(177,603)	(146,392)
Accumulated other comprehensive loss	(1,373)	(747)
Total stockholders’ equity	92,297	106,117
Total liabilities and stockholders’ equity	$ 116,975	$ 128,217

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

MARIN SOFTWARE INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)

(in thousands, except per share data)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Revenues, net	$26,327	$25,684	$79,515	$72,353
Cost of revenues	10,375	9,145	30,683	26,291
Gross profit	15,952	16,539	48,832	46,062
Operating expenses				
Sales and marketing	10,835	12,186	36,056	36,152
Research and development	8,162	7,824	25,840	20,535
General and administrative	5,882	5,682	17,257	15,466
Total operating expenses	24,879	25,692	79,153	72,153
Loss from operations	(8,927)	(9,153)	(30,321)	(26,091)
Interest expense, net	(63)	(33)	(82)	(162)
Other (expenses) income, net	(214)	201	(134)	(80)
Loss before (provision for) benefit from income taxes	(9,204)	(8,985)	(30,537)	(26,333)
(Provision for) benefit from income taxes	(300)	(259)	(674)	1,992
Net loss	(9,504)	(9,244)	(31,211)	(24,341)
Foreign currency translation adjustments	(13)	(589)	(626)	(373)
Comprehensive loss	$(9,517)	$(9,833)	$(31,837)	$(24,714)
Net loss per share available to common stockholders, basic and diluted	$(0.26)	$(0.27)	$(0.86)	$(0.72)
Weighted-average shares used to compute net loss per share available to common stockholders, basic and diluted	36,953	34,849	36,367	34,018
Stock-based compensation is allocated as follows (Note 9):				
Cost of revenues	$249	$173	$800	$576
Sales and marketing	435	530	2,104	1,381
Research and development	1,864	1,362	5,831	2,449
General and administrative	1,058	851	3,305	1,947
Amortization of intangible assets is allocated as follows (Note 5):				
Cost of revenues	$271	$171	$762	$227
Sales and marketing	247	112	674	150
Research and development	271	170	763	227
General and administrative	37	32	109	42
Restructuring related expenses are allocated as follows (Note 3):				
Cost of revenues	$105	$—	$105	$—
Sales and marketing	659	—	659	—
Research and development	53	—	53	—
General and administrative	264	—	264	—

See accompanying notes to the condensed consolidated financial statements.

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MARIN SOFTWARE INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

	Nine Months Ended September 30, 2015	2014
Operating activities		
Net loss	$(31,211)	$(24,341)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	5,166	4,145
Amortization of internally developed software	1,850	1,390
Amortization of intangible assets	2,308	646
Loss on disposal of property and equipment	19	16
Unrealized foreign currency gains	(203)	—
Noncash interest expense related to warrants issued in connection with debt	36	113
Stock-based compensation related to equity awards and restricted stock	12,040	6,353
Provision for bad debts	776	549
Deferred income tax benefits	(307)	(2,775)
Excess tax benefits from stock-based award activities	(9)	(103)
Changes in operating assets and liabilities, net of effect of acquisitions		
Accounts receivable	(3,386)	(5,369)
Prepaid expenses and other current assets	(1,750)	(1,360)
Other assets	407	68
Accounts payable	(1,073)	139
Deferred revenues	(689)	584
Accrued expenses and other current liabilities	2,426	(183)
Net cash used in operating activities	(13,600)	(20,128)
Investing activities		
Purchases of property and equipment	(8,217)	(2,728)
Capitalization of internally developed software	(4,107)	(2,381)
Acquisitions of businesses, net of cash acquired	(7,509)	(4,151)
Net cash used in investing activities	(19,833)	(9,260)
Financing activities		
Repayment of notes payable	(2,967)	(2,391)
Debt issuance costs	(53)	—
Repurchase of unvested shares	(2)	(7)
Proceeds from exercise of common stock options	1,107	1,977
Proceeds from employee stock purchase plan, net of refunds	995	1,056
Stock issuance costs	(51)	—
Excess tax benefits from stock-based award activities	9	103
Net cash (used in) provided by financing activities	(962)	738
Effect of foreign exchange rate changes on cash and cash equivalents	(526)	—

Net decrease in cash and cash equivalents	(34,921)	(28,650)
Cash and cash equivalents		
Beginning of period	68,253	104,407
End of period	$33,332	$75,757
Supplemental disclosure of noncash investing and financing activities		
Purchases of property and equipment recorded in accounts payable and accrued expenses	$712	$100
Acquisition of equipment through capital lease	1,905	—
Issuance of common stock under employee stock purchase plan	548	715
Issuance of common stock in connection with business combination	4,337	11,195
Shares withheld to cover payroll taxes related to the vesting of restricted stock units	521	—

See accompanying notes to the condensed consolidated financial statements.

Marin Software Incorporated

Notes to Condensed Consolidated Financial Statements

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

1. Summary of Business and Significant Accounting Policies

Marin Software Incorporated (the "Company") was incorporated in Delaware in March 2006. The Company provides a leading cross-channel performance advertising cloud platform for search, display and social advertising channels, offered as an integrated software-as-a-service, or SaaS, solution. The Company's platform enables digital marketers to improve financial performance, realize efficiencies and time savings, and make better business decisions. The Company's corporate headquarters are located in San Francisco, California, and the Company has additional offices in the following locations: New York, Chicago, Austin, Portland, London, Dublin, Hamburg, Paris, Tokyo, Sydney and Shanghai.

Basis of Presentation and Consolidation

The accompanying unaudited condensed consolidated financial statements and condensed footnotes have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of only normal recurring items, considered necessary for fair statement have been included. The results of operations for the three and nine months ended September 30, 2015, are not necessarily indicative of the results to be expected for the year ended December 31, 2015, or for other interim periods or for future years.

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated on consolidation. The condensed consolidated balance sheet as of December 31, 2014, is derived from audited financial statements as of that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014 filed with the Securities and Exchange Commission ("SEC") on February 20, 2015.

Recent Accounting Pronouncements

In September 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. The new standard eliminates the requirement for an acquirer to retrospectively adjust provisional amounts recorded in a business combination to reflect new information about the facts and circumstances that existed as of the acquisition date and that, if known, would have affected measurement or recognition of amounts initially recognized. As an alternative, the standard requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. It requires that the acquirer record, in the financial statements of the period in which adjustments to provisional amounts are determined, the effect on earnings of changes in depreciation, amortization or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date.

The new standard is effective prospectively for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact of this ASU on the consolidated financial statements.

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

In June 2014, the FASB issued ASU 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. The guidance requires that a performance target that affects vesting and could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance as it relates to such awards. This guidance is effective for the Company in its first quarter of fiscal year ending December 31, 2017. The Company is currently evaluating the impact of the adoption of this ASU on the consolidated financial statements.

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

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original or remaining maturity from the Company's date of purchase of 90 days or less to be cash equivalents. Deposits held with financial institutions are likely to exceed the amount of insurance on these deposits. Cash equivalents consist of money market funds, which are readily convertible into cash and are stated at cost, which approximates fair market value. Cash equivalents were $25,553 and $58,027 as of September 30, 2015, and December 31, 2014, respectively.

Fair Value of Financial Instruments

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

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

Level 1	Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.
Level 2	Inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.
Level 3	Inputs are unobservable inputs based on the Company's assumptions.

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

The Company's cash equivalents as of September 30, 2015, and December 31, 2014, consisted of money market funds with original maturity dates of less than three months from the date of their respective purchase. Cash equivalents are classified as Level 1. The fair value of the Company's money market funds approximated amortized cost and, as such, there were no unrealized gains or losses on money market funds as of September 30, 2015, and December 31, 2014.

Allowance for Doubtful Accounts and Revenue Credits

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

From time to time, the Company provides credits to customers and an allowance is made based on historical credit activity. As of September 30, 2015, and December 31, 2014, the Company recorded an allowance for potential customer credits in the amount of $1,531 and $508, respectively.

Property and Equipment

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

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

Computer equipment	3 to 5 years
Office equipment, furniture and fixtures	3 to 5 years
Software	3 years
Leasehold improvements	Shorter of useful life or lease term

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

Internally Developed Software

Costs incurred in the development phase are capitalized and amortized over the product's estimated useful life, which is three years. The Company expenses all costs incurred that relate to planning and post implementation phases of development. Capitalized costs related to internally developed software under development are treated as construction in progress until the program, feature or functionality is ready for its intended use, at which time amortization commences. The Company capitalized internally developed software costs of $1,683 and $1,035 during the three months ended September 30, 2015 and 2014, respectively, and $4,107 and $2,381 during the nine months ended September 30, 2015 and 2014, respectively. Amortization of capitalized costs related to internally developed software for the three months ended September 30, 2015 and 2014, was $683 and $480, respectively, and for the nine months ended September 30, 2015 and 2014, was $1,850 and $1,390, respectively. As of September 30, 2015, and December 31, 2014, unamortized internally developed software costs totaled $7,734 and $5,476, respectively. Amortization of internally developed software is reflected in cost of revenues. Costs associated with minor enhancements and maintenance are expensed as incurred.

Goodwill, Intangible Assets and Impairment Assessments

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

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

Impairment of Long-Lived Assets

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

Operating Leases

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

Revenue Recognition

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

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

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

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

Cost of Revenues

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

Stock-Based Compensation

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

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

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

Restricted stock units ("RSUs") are measured based on the fair market values of the underlying common stock on the dates of grant. Shares of common stock are issued on the vesting dates. For awards with time-based vesting, the Company recognizes stock-based compensation expense over the requisite service period using the straight-line method, based on awards ultimately expected to vest. The Company estimates future forfeitures at the date of grant and revises the estimates, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

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

See Note 9 for further information.

2. Business Combinations

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

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

SocialMoov S.A.S.

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

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

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

In addition, the Company will issue 927 shares of common stock at future dates as defined in the Share Purchase Agreement, valued at $6,487 upon the closing date of the acquisition using the Company's closing date stock price immediately preceding the acquisition, to existing shareholders of SocialMoov that are also employees of SocialMoov in connection with the acquisition, which are conditioned upon such employees' continuous employment with the Company. These shares have been excluded from the purchase consideration and will be recognized as post-acquisition stock-based compensation expense. The Company also granted RSUs representing 219 shares of common stock, valued at $959, with time-based vesting to employees of SocialMoov that continued employment with SocialMoov subsequent to the acquisition. The Company recognizes compensation expense equal to the grant date fair value of the common stock or stock-based awards on a straight-line basis over the employee's requisite service period.

The following table summarizes the fair values of tangible assets acquired, liabilities assumed, intangible assets and residual goodwill from the acquisition of SocialMoov (in thousands except years):

	Estimated Fair Value	Estimated Useful Life
Tangible assets acquired	$ 2,889	N/A
Liabilities assumed (see Note 6)	(3,759)	N/A
Developed technology	3,800	5 years
Customer relationships	2,080	4 years
Tradename	260	3 years
Goodwill	7,925	Indefinite
Total purchase price	$ 13,195	

NowSpots, Inc.

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

3. Restructuring Activities

During the third quarter of fiscal 2015, the Company executed organizational restructurings (the "2015 Restructuring Plans") in order to improve cost efficiencies, increase the investment in its cloud-based platform and realign its sales and marketing operations. The total estimated restructuring related expenses associated with the 2015 Restructuring Plans, consisting primarily of severance costs, are $1,214, and will be recorded to cost of revenues or operating expenses, as applicable, within the Company's condensed consolidated statements of operations as they are incurred. The Company recorded $1,081 of restructuring related expenses in connection with the 2015 Restructuring Plans for the three and nine months ended September 30, 2015, and the Company expects to incur and pay the majority of the estimated remaining amount of $133 by the end of fiscal 2016.

As of September 30, 2015, approximately $636 in restructuring related expenses associated with the 2015 Restructuring Plans remained unpaid and included primarily in accrued expenses and other current liabilities on the Company's condensed consolidated balance sheets.

4. Balance Sheet Components

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

	September 30, 2015	December 31, 2014
Computer equipment	$ 26,218	$ 21,422
Software	15,140	11,022
Office equipment	975	795
Furniture, fixtures and leasehold improvements	6,178	2,092
	48,511	35,331
Less: Accumulated depreciation and amortization	(25,644)	(19,057)
	$ 22,867	$ 16,274

Depreciation and amortization of internally developed software for the nine months ended September 30, 2015 and 2014, was $7,016 and $5,535, respectively.

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

	September 30, 2015	December 31, 2014
Accrued salary and payroll related expenses	$ 5,773	$ 6,017
Accrued accounts payable	4,185	3,709
Customer advances	1,399	1,366
Income tax payable	660	377
Sales and use tax payable	368	263
Deferred tax liabilities	223	—
Deferred rent and other	414	321
	$ 13,022	$ 12,053

5. Goodwill and Intangible Assets

The goodwill balance as of September 30, 2015, totaling $19,432 was the result of the business combinations disclosed in Note 2 of these unaudited condensed consolidated financial statements. The activity for the nine months ended September 30, 2015 consisted of the following:

Balance at December 31, 2014	$	11,527
Add: Goodwill from SocialMoov acquisition		7,925
Less: Other adjustments to goodwill		(20)
Balance at September 30, 2015	$	19,432

Intangible assets, excluding goodwill, consisted of the following as of the dates presented:

	September 30, 2015	December 31, 2014	Estimated Useful Life
Developed technology	$ 9,910	$ 6,110	5-6 years

Customer relationships	3,370	1,290	4 years
Non-compete agreements and tradenames	1,390	1,130	2-3 years
	14,670	8,530	
Less: accumulated amortization	(3,439)	(1,131)	
	$ 11,231	$ 7,399	

Amortization expense of intangible assets was $826 and $485 for the three months ended September 30, 2015 and 2014, respectively, and $2,308 and $646 for the nine months ended September 30, 2015 and 2014, respectively.

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

Remaining three months of 2015	$826
Year ending December 31, 2016	3,080
Year ending December 31, 2017	2,850
Year ending December 31, 2018	2,537
Year ending December 31, 2019 and thereafter	1,938
	$11,231

6. Debt

In February 2013, the Company entered into a capital lease arrangement with an equipment manufacturer to finance the acquisition of computer equipment. The lease has an effective annual interest rate of 6.0% and is repayable in 36 consecutive equal monthly installments of principal and interest. In August 2015, the Company entered into a separate capital lease arrangement with the same equipment manufacturer to finance the acquisition of additional computer equipment. This lease has an effective annual interest rate of 5.8% and is repayable in 48 consecutive equal monthly installments of principal and interest. At the end of the lease periods of both leases, the Company has the option to purchase the underlying equipment at the estimated fair market value or for a nominal amount. As of September 30, 2015 and December 31, 2014, the net book value of the equipment under the capital leases was $2,448 and $1,439, respectively, and the remaining principal balance payable was $2,656 and $1,542, respectively.

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

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

In July 2015, the Company entered into an amendment to its existing loan and security agreement pursuant to which Silicon Valley Bank agreed to increase the revolving credit facility of up to the lesser of $20,000 or 80% of the Company's eligible accounts receivable. Also, the expiration date of the revolving credit facility was extended to July 31, 2017, and the annual interest rate was amended to (a) the prime rate or (b) the London interbank offered rate then in effect, plus a margin of 2.75%, payable on a monthly basis. The amendment contains affirmative and negative covenants, including covenants related to the delivery of financial and other information, the maintenance of certain financial covenants, as well as limitations on dispositions, changes in business or management, mergers or consolidations, dividends and other corporate actions. No amounts were outstanding pursuant to the revolving credit facility as of September 30, 2015 and December 31, 2014.

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

Year ending	
2015	$842
2016	1,099
2017	472
2018	500
2019	307
	3,220
Less:	
Current portion	(1,826)
Discount on long-term debt	(48)
Noncurrent portion of debt	$1,346

7. Common Stock

As of September 30, 2015, and December 31, 2014, the Company’s certificate of incorporation authorizes the issuance of 500,000 shares of $0.001 par value common stock. Reserved shares of common stock are as follows:

	September 30, 2015	December 31, 2014
Options or RSUs available for future grant under stock option plans	3,658	3,154
Options outstanding under stock option plans	6,400	6,376
RSUs outstanding under stock option plans	1,334	769
Shares available for future issuance under ESPP	930	1,005
Shares to be issued in connection with acquisition of SocialMoov	927	—
	13,249	11,304

8. Equity Award Plans

In April 2006, the Company’s Board of Directors (the “Board”) adopted and the stockholders approved the 2006 Stock Option Plan (“2006 Plan”). The 2006 Plan provides for the grant of incentive stock options under the federal tax laws and non-statutory stock options. Only employees may receive incentive stock options, but non-statutory stock options may be granted to employees, non-employee directors and consultants. The stock options are exercisable at a price equal to the market value of the underlying shares of common stock on the date of the grant as determined by the Company's Board. The term of options granted under the 2006 Plan may not exceed ten years. Certain options are eligible for exercise prior to vesting. Exercised but unvested shares of common stock are subject to repurchase by the Company at the initial exercise price. The proceeds from the shares of common stock subject to repurchase are classified as a liability and reclassified to equity as the shares vest. Under the 2006 Plan's early exercise feature, the Company had the right to repurchase 25 and 85 shares of common stock as of September 30, 2015, and December 31, 2014, respectively. The Company records cash received from the exercise of unvested stock options as a long-term liability, as well as the fair value of vested outstanding options to non-employee consultants. As of September 30, 2015, and December 31, 2014, $275 and $826, respectively, has been recorded as a long-term liability on the accompanying unaudited condensed consolidated balance sheets.

In February 2013, the Board and stockholders approved the 2013 Equity Incentive Plan ("2013 Plan"), under which 4,500 shares of common stock were originally reserved for issuance. Additionally, all reserved and unissued shares under the 2006 Plan at the time the 2013 Plan became effective are eligible for issuance under the 2013 Plan. The 2013 Plan became effective on March 21, 2013, at which time the Company ceased to grant equity awards under the 2006 Plan. The 2013 Equity Incentive Plan authorizes the award of stock options, restricted stock awards, stock appreciation rights, RSUs, performance awards and stock bonuses to the Company's employees, directors, consultants, independent contractors and advisors. On January 1 of each of the first ten calendar years through 2023, the number of shares of common stock reserved under the 2013 Equity Incentive Plan will automatically increase by an amount equal to 5% of the total outstanding shares as of immediately preceding December 31, or such lesser number of shares as determined by the Company's Board of Directors. Pursuant to terms of the 2013 Plan, the shares available for issuance increased by approximately 1,792 shares of common stock on January 1, 2015.

Stock Options

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

	Options Outstanding			
	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Balances at December 31, 2014	6,376	$ 7.99	7.82	$ 9,697
Options granted	2,141	5.99	7.82	
Options exercised	(579)	1.91	—	
Options forfeited and cancelled	(1,538)	8.87	—	
Balances at September 30, 2015	6,400	7.66	7.52	$ 869
Options exercisable	2,891	$ 7.65	5.56	$ 869
Options vested	2,708	$ 7.49	5.46	$ 869
Options vested and expected to vest	6,068	$ 7.67	7.43	$ 869

RSUs

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

	RSUs Outstanding	
	Number of Shares	Weighted Average Grant Date Fair Value Per Unit
Granted and unvested at December 31, 2014	769	$ 9.36
RSUs granted	1,137	5.75
RSUs vested	(121)	10.04
RSUs cancelled and withheld to cover taxes	(451)	7.92
Granted and unvested at September 30, 2015	1,334	

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Employee Stock Purchase Plan

In February 2013, the Board and stockholders approved the 2013 Employee Stock Purchase Plan ("2013 ESPP"), under which 1,000 shares of common stock were originally reserved for issuance. The 2013 ESPP became effective on March 22, 2013. The 2013 ESPP provides generally for six-month purchase periods and the purchase price for shares of common stock purchased under the 2013 Employee Stock Purchase Plan will be 85% of the lesser of the fair market value of the common stock on (i) the first trading day of the applicable offering period and (ii) the last trading day of each purchase period in the applicable offering period. On January 1 of each of the first 10 calendar years following the first offering date, the number of shares reserved under the 2013 Employee Stock Purchase Plan will automatically increase by an amount equal to 1% of the total outstanding shares as of immediately preceding December 31, but not to exceed 700 shares. Pursuant to terms of the 2013 ESPP, the shares available for issuance increased by approximately 358 shares on January 1, 2015. During the three and nine months ended September 30, 2015, 105 shares were issued under the 2013 ESPP. During the three and nine months ended September 30, 2014, 90 shares were issued under the 2013 ESPP.

9. Stock-Based Compensation

For stock-based awards granted by the Company, stock-based compensation expense is measured at grant date based on the fair value of the award and is expensed over the requisite service period. The Company recorded stock-based compensation of $3,606 and $2,916 for the three months ended September 30, 2015 and 2014, respectively, and $12,040 and $6,353 for the nine months ended September 30, 2015 and 2014, respectively.

Stock Options

The Company uses the Black-Scholes option pricing model to estimate the fair value of options. This model requires the input of highly subjective assumptions including the expected volatility, risk-free interest rate and the expected life of options. The Company used the following assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Dividend yield	—	—	—	—
Expected volatility	44.3 %	51.3 %	49.2 %	51.3 %
Risk-free interest rate	1.76 %	1.88 %	1.74 %	1.92 %
Expected life of options (in years)	6.25	6.25	6.25	6.26
Forfeiture rate	7.0 %	7.0 %	7.0 %	7.0 %

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

Cash proceeds from the exercise of stock options were $1,107 and $1,977 during the nine months ended September 30, 2015 and 2014, respectively.

Compensation expense is recognized ratably over the requisite service period. As of September 30, 2015, there was $11,710 of unrecognized compensation cost related to options, which is expected to be recognized over a weighted-average period of 2.7 years.

Restricted Stock and RSUs

As of September 30, 2015, there was $13,273 of unrecognized compensation cost related to restricted stock and RSUs, which is expected to be recognized over a weighted-average period of 2.1 years. The Company uses the fair market value of the underlying common stock on the dates of grant to determine the fair value of restricted stock and RSUs. Stock-based compensation expense related to these awards is recognized on a straight-line basis over the service period of the award for the estimated number of shares that are ultimately expected to vest.

Employee Stock Purchase Plan

The Company estimates the fair value of purchase rights under the ESPP using the Black-Scholes valuation model. The fair value of each purchase right under the ESPP was estimated on the date of grant using the Black-Scholes option valuation model and the straight-line attribution approach with assumptions substantially similar to those used for the valuation of our stock option awards.

10. Income Taxes

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

Income tax expense for the three and nine months ended September 30, 2015, was $300 and $674 on pre-tax losses of $9,204 and $30,537, respectively. As of September 30, 2015, the income tax rate varies from the United States statutory income tax rate primarily due to valuation allowances in the United States and taxable income generated by the Company’s foreign wholly-owned subsidiaries. The income tax expense for the three months ended September 30, 2014 was $259 on a pre-tax loss of $8,985 and the income tax benefit for the nine months ended September 30, 2014 was $1,992 on a pre-tax loss of $26,333. The benefit recorded for the nine months ended September 30, 2014, was primarily attributable to a decrease in our valuation allowances of $2,603 due to deferred tax liabilities recorded as part of our acquisition of Perfect Audience (Note 2).

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

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

11. Net Loss Per Share Available to Common Stockholders

Basic net loss per share available to common stockholders is calculated by dividing the net loss available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. The weighted-average number of shares of common stock used to calculate the Company’s basic net loss per share available to common stockholders excludes those shares subject to repurchase related to unvested common shares, stock options that were exercised prior to vesting, restricted stock issued and RSUs settled for shares of common stock, as these shares are not deemed to be outstanding for accounting purposes until they vest. The diluted net loss per share of common stock is computed by dividing the net loss using the weighted-average number of shares of common stock, excluding common stock subject to repurchase, and, if dilutive, potential shares of common stock outstanding during the period. Potential shares of common stock consist of common stock subject to repurchase, stock options to purchase common stock, restricted common stock issued and RSUs settled for shares of common stock.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Numerator:				
Net loss	$(9,504)	$(9,244)	$(31,211)	$(24,341)
Denominator:				
Weighted average number of shares, basic and diluted	36,953	34,849	36,367	34,018
Net loss per share available to common stockholders				