CVENT INC
Form 10-Q
August 06, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

or

¨ **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: 001-36043

Cvent, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**54-1954458**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification Number)**

1765 Greensboro Station Place, 7th Floor

Tysons Corner, VA	**22102**
(Address of principal executive offices)	**(Zip Code)**

(703) 226-3500

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: As of August 5, 2015, there were 41,627,367 shares of the registrant s common stock outstanding.

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CVENT, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2015

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CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including the sections entitled Management s Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosure About Market Risk under Items 2 and 3, respectively, of Part I of this report, and the sections entitled Legal Proceedings, Risk Factors, and Unregistered Sales of Equity Securities and Use of Proceeds under Items 1, 1A and 2, respectively, of Part II of this report, contains forward-looking statements. These statements may relate to, but are not limited to, expectations of future operating results or financial performance, macroeconomic trends that we expect may influence our business, plans for capital expenditures, expectations regarding the adoption of our cloud-based solutions and introduction of new products, regulatory compliance and changes in the regulatory landscape affecting our business, impact of litigation, plans for growth and future operations, effects of acquisitions, effects of material weaknesses in the design and operating effectiveness of our internal control over financial reporting and ineffective disclosure controls and procedures, as well as assumptions relating to the foregoing. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. These risks and other factors include, but are not limited to, those listed or incorporated by reference under the section entitled Risk Factors in Item 1A of Part II of this Quarterly Report on Form 10-Q. In some cases, you can identify forward-looking statements by terminology such as may, will, should, could, expect, plan, anticipate, believe, estimate, predict, intend, potent negative of these terms or other comparable terminology. These statements are only predictions. Actual events and/or results may differ materially.

We believe that it is important to communicate our future expectations. However, there may be events in the future that we are not able to accurately predict or control and that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. Except as required by applicable law, including the securities laws of the United States and the rules and regulations of the Securities and Exchange Commission, we do not plan to publicly update or revise any forward-looking statements, whether as a result of any new information, future events or otherwise. You should not place undue reliance on our forward-looking statements. You should be aware that the occurrence of any of the events described in the Risk Factors section and elsewhere in this Quarterly Report on Form 10-Q or in the Annual Report filed on Form 10-K, filed on March 16, 2015 (as updated in our Quarterly Report on Form 10-Q filed on May 11, 2015), could harm our business, prospects, operating results and financial condition. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

Cvent, Inc.

Consolidated Balance Sheets

(in thousands, except share data)

	June 30, 2015 (Unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 136,774	$ 144,544
Restricted cash	397	397
Short-term investments	26,797	23,039
Accounts receivable, net of reserve of $1,031 and $339, respectively	25,254	44,986
Prepaid expense and other current assets	16,884	13,107
Deferred tax assets	7,190	3,776
Total current assets	213,296	229,849
Property and equipment, net	22,123	22,535
Capitalized software development costs, net	23,589	17,967
Intangible assets, net	16,230	9,442
Goodwill	33,465	20,802
Other assets, non-current, net	230	313
Total assets	$ 308,933	$ 300,908
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 3,705	$ 5,057
Accrued expenses and other current liabilities	24,027	18,534
Deferred revenue	81,948	82,030
Total current liabilities	109,680	105,621
Deferred tax liabilities, non-current	8,285	7,086
Deferred rent, non-current	11,380	9,576
Other liabilities, non-current	5,079	4,791
Total liabilities	134,424	127,074
Commitments and contingencies (Note 10)		
Stockholders equity		

Preferred stock, $0.001 par value, 100,000,000 shares authorized at June 30, 2015 and December 31, 2014; zero issued and outstanding at June 30, 2015 and December 31, 2014		
Common stock, $0.001 par value; 1,000,000,000 shares authorized at June 30, 2015 and December 31, 2014; 42,128,389 and 41,685,048 shares issued and 41,608,175 and 41,164,834 outstanding at June 30, 2015 and December 31, 2014, respectively	42	42
Treasury stock	(3,966)	(3,966)
Additional paid-in capital	207,820	199,169
Accumulated other comprehensive loss	(169)	(220)
Accumulated deficit	(29,218)	(21,191)
Total stockholders equity	174,509	173,834
Total liabilities and stockholders equity	$ 308,933	$ 300,908

See accompanying notes to the consolidated financial statements

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Cvent, Inc.

Consolidated Statements of Operations and Comprehensive Income (Loss)

(in thousands, except share and per share data)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	**2014**	**2015**	**2014**
Revenue	$ 47,323	$ 34,133	$ 88,429	$ 65,534
Cost of revenue[1]	14,332	8,953	28,934	18,071
Gross profit	32,991	25,180	59,495	47,463
Operating expenses:				
Sales and marketing[1]	23,063	15,977	40,803	29,644
Research and development[1]	4,879	3,284	9,914	6,473
General and administrative[1]	9,569	4,953	17,350	9,650
Intangible asset amortization, excluding cost of revenue	519	86	812	176
Total operating expenses	38,030	24,300	68,879	45,943
Income (loss) from operations	(5,039)	880	(9,384)	1,520
Interest income	577	362	1,121	641
Other income (loss)			(426)	
Income (loss) from operations before income taxes	(4,462)	1,242	(8,689)	2,161
Provision for (benefit from) income taxes	1,213	250	(662)	(472)
Net income (loss)	$ (5,675)	$ 992	$ (8,027)	$ 2,633
Net income (loss) per common share:				
Basic	$ (0.14)	$ 0.02	$ (0.19)	$ 0.06
Diluted	$ (0.14)	$ 0.02	$ (0.19)	$ 0.06
Weighted average common shares outstanding basic	41,571,379	41,003,038	41,404,698	40,812,220
Weighted average common shares outstanding diluted	41,571,379	43,177,662	41,404,698	43,185,872
Other comprehensive income (loss):				
Foreign currency translation gain	96		51	

Comprehensive income (loss)	$	(5,579)	$	992	$	(7,976)	$	2,633
[1]Stock-based compensation expense included in the above:								
Cost of revenue	$	498	$	146	$	973	$	339
Sales and marketing		1,105		399		2,135		702
Research and development		729		251		1,474		455
General and administrative		417		248		973		478
Total	$	2,749	$	1,044	$	5,555	$	1,974

See accompanying notes to the consolidated financial statements

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Cvent, Inc.

Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Operating activities:		
Net income (loss)	$ (8,027)	$ 2,633
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	8,813	4,339
Loss on asset disposal	436	
Foreign currency transaction gain (loss)	34	(114)
Stock-based compensation expense	5,555	1,974
Deferred taxes	(2,133)	342
Change in operating assets and liabilities:		
Accounts receivable, net	20,922	13,070
Prepaid expenses and other assets	(3,453)	(130)
Accounts payable, accrued expenses and other liabilities	3,414	272
Deferred revenue	(1,024)	1,492
Net cash provided by operating activities	24,537	23,878
Investing activities:		
Purchase of property and equipment	(2,223)	(9,956)
Capitalized software development costs	(9,817)	(6,318)
Net purchases of short-term investments	(3,758)	(3,365)
Acquisition and acquisition-related consideration payments	(19,331)	(415)
Restricted cash		(9)
Net cash used in investing activities	(35,129)	(20,063)
Financing activities:		
Proceeds from exercise of stock options	778	507
Excess tax benefits from stock-based compensation	1,978	
Proceeds from follow-on public offering, net of expenses		24,846
Net cash provided by financing activities	2,756	25,353
Effect of exchange rate changes on cash and cash equivalents	66	114
Change in cash and cash equivalents	(7,770)	29,282
Cash and cash equivalents, beginning of period	144,544	146,407
Cash and cash equivalents, end of period	$ 136,774	$ 175,689

Supplemental cash flow information:				
Income taxes paid	$	599	$	929
Supplemental disclosure of noncash investing activities:				
Outstanding payments for purchase of property and equipment in accounts payable at period end	$	704	$	2,189

See accompanying notes to the consolidated financial statements

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CVENT, INC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data)

(unaudited)

1. Description of Business

Cvent, Inc. (the Company) provides a cloud-based enterprise event management platform with solutions for both sides of the events and meetings value chain: (i) event and meeting planners and (ii) hotels and venues. The Company s integrated, cloud-based solution addresses the entire event lifecycle by allowing event and meeting planners to organize, market and manage meetings, conferences, tradeshows and other events. The Company s Hospitality Cloud provides hotels and venues with a full solution suite to generate, manage and measure demand for their group meetings. The combination of these solutions creates an integrated platform that allows the Company to generate revenue from both sides of the events and meetings value chain.

2. Summary of Significant Accounting Policies

(a) Basis of Presentation

The financial information presented in the accompanying unaudited consolidated financial statements as of June 30, 2015, and for the three and six months ended June 30, 2015 and 2014 has been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and in accordance with rules and regulations of the U.S. Securities and Exchange Commission (SEC) regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments, consisting primarily of normal recurring accruals, necessary for a fair presentation of the financial position as of June 30, 2015, the results of operations for the three and six months ended June 30, 2015 and 2014, and cash flows for the six months ended June 30, 2015 and 2014. These unaudited consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and notes thereto.

(b) Reclassification

Certain items in the prior period financial statements have been reclassified for comparative purposes to conform to the current period presentation.

(c) Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates and assumptions made by management include estimated useful lives of property and equipment and capitalized software development costs, goodwill and intangibles, determination of estimated selling prices, allowances for doubtful accounts, valuation of deferred tax assets, valuation assumptions in purchase accounting, certain assumptions related to stock-based compensation and legal and other contingencies. Actual results could differ from those estimates and assumptions.

(d) Cash and Cash Equivalents

Highly liquid financial instruments purchased with original maturities of 90 days or less at the date of purchase are reported as cash equivalents. Cash equivalents are recorded at cost, which approximates fair value.

Included in cash and cash equivalents are funds representing amounts reserved for the face value of registration fees or tickets sold on behalf of customers. While these funds are not restricted as to their use, a liability for amounts due to customers under these arrangements has been recorded in accounts payable in the accompanying consolidated balance sheets. The Company had amounts due to customers of $5.3 million and $3.4 million included within cash and cash equivalents as of June 30, 2015 and December 31, 2014, respectively.

(e) Short-term Investments

The Company s short-term investments consist of highly liquid financial instruments with original maturities greater than 90 days but less than one year. These short-term investments are comprised of certificates-of-deposit.

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(f) Revenue Recognition

The Company derives revenue from two primary sources: platform subscription-based solutions and hospitality cloud solutions. These services are generally provided under annual or multi-year contracts that are generally only cancellable for cause. Revenue is generally recognized on a straight-line basis over the life of the contract. The Company recognizes revenue when all of the following conditions are met:

(i) persuasive evidence exists of an arrangement with the customer reflecting the terms and conditions under which the solutions or services will be provided;

(ii) delivery to customers has occurred or services have been rendered;

(iii) the fee is fixed or determinable; and

(iv) collection of the fees is reasonably assured.

The Company considers a signed agreement or other similar documentation to be persuasive evidence of an arrangement. Collectability is assessed based on a number of factors, including transaction history and the creditworthiness of a customer. If it is determined that collection is not reasonably assured, revenue is not recognized until collection becomes reasonably assured, which is generally upon receipt of cash.

The Company applies the provisions of Financial Accounting Standards Board (FASB) ASU 2009-13, Revenue Recognition (Topic 605): *Multiple-Deliverable Revenue Arrangements* (formerly EITF Issue No. 08-1, Revenue Arrangements with Multiple Deliverables) with respect to its multiple-element arrangements entered into or significantly modified on or after January 1, 2011.

Platform Subscription Revenue

Event Management

The Company generates the majority of its revenue through Software-as-a-Service (SaaS) subscriptions to the event management platform, pricing for which is subject to the features and functionality selected. No features or functionality within the subscription-based services have stand-alone value apart from one another and, therefore, the entire subscription fee is recognized on a straight-line basis over the term of the subscription arrangement.

SaaS subscriptions may include functionality that enables customers to manage the registration of participants attending the customer s event or events. In some cases, the negotiated fee for the subscription is based on a maximum number of event registrations permitted over the subscription term. At any time during the subscription term, customers may elect to purchase blocks of additional registrations, which are referred to as subscription up-sells. The fees associated with the up-sells are added to the original subscription fee, and the revenue is recognized over the remaining subscription period. No portion of the subscription fee is refundable regardless of the actual number of registrations that occur.

Mobile Apps

Subscription-based solutions also include the sale of mobile event apps. The revenue for mobile event apps solutions is generally recognized on a straight-line basis over the life of the contract. A customer may use a singular mobile event app for any number of events. At any time during the subscription term, customers may elect to purchase additional mobile event apps, which are referred to as mobile up-sells. The fees associated with the up-sells are added to the original subscription fee, and the revenue is recognized over the remaining subscription period. No portion of the subscription fee is refundable.

Audience Management Platform

Revenue related to the Audience Management Platform is generated primarily through convenience and order processing fees charged to the end user purchasing tickets at the time a ticket for an event is sold and is recorded at the time of the event, net of the face value of the ticket. Revenue for these ticket fees collected in advance of the event is recorded as deferred revenue until the event occurs. If an event is cancelled, the customer receives a full refund of the ticket price and fees paid.

Other subscription-based solutions include the sale of survey solutions, which are contracted though annual or multiyear arrangements.

Subscription agreements do not provide customers with the right to take possession of the underlying software at any time.

Hospitality Cloud Revenue

In 2014, the Hospitality Cloud was branded to provide a full spectrum of cloud-based solutions across the hotel group sales lifecycle. Prior to this branding, the Company primarily concentrated on servicing the hospitality sector with marketing solutions through the Cvent Supplier Network (CSN), which continues to provide substantially all of the revenue for this product line as it did in the prior periods. Marketing solutions revenue is generated through the delivery of various forms of advertising sold through annual or multi-year contracts to marketers, principally hotels and venues. Such solutions include prominent display of a customer s venue within CSN, the Cvent Destination Guide, the Elite Meetings magazine or additional sourcing websites such as EliteMeetings.com and SpeedRFP.com, each of which are designed for a different planner audience. Pricing for the advertisements is based on the term of the advertisement, targeted geography, number of advertisements and prominence of the ad placement.

The Company enters into arrangements with multiple deliverables that generally include various marketing solutions that may be sold individually or bundled together and delivered over various periods of time. In such situations, the Company applies the provisions of FASB, Accounting Standards Codification (ASC), No. 605-25, *Revenue Recognition Multiple Element Arrangements* to account for the various elements within the marketing solution agreements delivered over the platform. Under such guidance, in order to treat deliverables in a multiple-deliverable arrangement as separate units of accounting, the deliverables must have standalone value upon delivery. If the deliverables have standalone value upon delivery, the Company accounts for each deliverable separately and revenue is recognized ratably over the contractual period that the related advertising deliverable is provided. Annual marketing solutions on the CSN are often sold separately, and, as such, all have standalone value.

Certain one-time marketing solutions, which can run for a month, several months, or a year, are primarily sold in a package. In determining whether the marketing solutions sold in packages have standalone value, the Company considers the availability of the services from other vendors, the nature of the solutions, and the contractual dependence of the solutions to the rest of the package. Based on these considerations, the Company has determined the estimated selling price for each marketing solution sold in a package.

Revenue arrangements with multiple deliverables are divided into separate units of accounting 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, or VSOE, if available, (ii) third-party evidence of selling price, or TPE, and (iii) best estimate of selling price. VSOE is limited to the price charged when the same element is sold separately by the Company. Due to the unique nature of some 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 the best estimates within a range of selling prices considering multiple factors including, but not limited to, size of transaction, customer demand and price lists.

(g) Deferred Revenue

Deferred revenue consists of contractual billings or payments received in advance of revenue recognition from platform subscription services or Hospitality Cloud solutions that are subsequently recognized when the revenue recognition criteria are met. The Company generally invoices customers in advance in annual or quarterly installments.

(h) Business Combinations

The Company is required to allocate the purchase price of acquired companies to the identifiable tangible and intangible assets acquired and liabilities assumed at the acquisition date based upon their estimated fair values.

Goodwill as of the acquisition date represents the excess of the purchase consideration of an acquired business over the fair value of the underlying net tangible and intangible assets acquired and liabilities assumed. This allocation and valuation require management to make significant estimates and assumptions, specifically with respect to the value of long-lived and intangible assets.

Critical estimates in valuing intangible assets include but are not limited to estimates about: future expected cash flows from customer contracts, customer lists, distribution agreements, proprietary technology and non-competition agreements; the acquired company s brand awareness and market position, assumptions about the period of time the brand will continue to be used in the Company s product portfolio; as well as expected costs to develop the in-process research and development into commercially viable products and estimated cash flows from the projects when completed, and discount rates. The Company s estimates of fair value are based upon assumptions the Company believes to be reasonable, but which are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate, and unanticipated events and circumstances may occur.

In addition, uncertain tax positions and tax-related valuation allowances assumed in connection with a business combination are initially estimated as of the acquisition date. The Company continues to evaluate these items quarterly and records any adjustments to the preliminary estimates to goodwill provided that the Company is within the measurement period. Subsequent to the measurement period, changes to these uncertain tax positions and tax related valuation allowances will affect the Company s provision for income taxes in the consolidated statements of operations in the current period.

Other estimates associated with the accounting for these acquisitions may change as additional information becomes available regarding the assets acquired and liabilities assumed. Costs incurred related to acquisitions are expensed as incurred.

(i) Goodwill

Goodwill represents the excess of: (i) the aggregate of the fair value of consideration transferred in a business combination, over (ii) the fair value of assets acquired, net of liabilities assumed. Goodwill is not amortized, but is subject to annual impairment tests. The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value, including goodwill. If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the entity must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit s goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is estimated using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two is not performed.

In September 2011, the FASB issued ASU 2011-08, *Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment*. This ASU permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit s fair value is less than its carrying amount before applying the two-step goodwill impairment test. If an entity concludes it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it need not perform the two-step impairment test. The Company adopted the provisions of ASU 2011-08 as of January 1, 2012.

The Company performs its annual impairment review of goodwill on November 30 and when a triggering event occurs between annual impairment tests. There were no triggering events or indications of impairment as of June 30, 2015.

(j) Capitalized Software Development Costs

Costs to develop internal use software to support the Company s platform are capitalized and recorded as capitalized software in accordance with the provisions of FASB ASC Subtopic 350-40, *Intangibles-Goodwill and Other Subtopic 40 Internal-Use Software* on the balance sheet. These costs are amortized on a project-by-project basis using the straight-line method over the estimated economic life of the application, which is generally three 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.

(k) Deferred Tax Assets and Liabilities

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. To the extent that it is not considered to be more likely than not that a deferred tax asset will be realized, a valuation allowance is established. The Company applies the provisions of FASB interpretation No. 48, *Accounting for Uncertainty in*

Income Taxes (FIN 48) (included in ASC Subtopic 740-10, *Income Taxes Overall*), which provides guidance related to the accounting for uncertain tax positions. In accordance with FIN 48, the Company only recognizes the tax benefit from an uncertain tax position if it is more likely than not that the tax position will be sustained upon examination.

(l) Stock-Based Compensation

The Company accounts for its employee stock-based compensation awards in accordance with FASB ASC Topic 718, *Compensation Stock Compensation*. ASC Topic 718 requires that all employee stock-based compensation is recognized as a cost in the financial statements and that for equity-classified awards, such cost is measured at the grant date fair value of the award. The Company estimates grant date fair value for stock options using the Black-Scholes option-pricing model. The Company estimates grant date fair value for restricted stock units based on the closing price of the underlying shares on grant date.

Determining the fair value of stock options under the Black-Scholes model requires judgment, including estimated volatility, risk free rate, expected term and estimated dividend yield. The assumptions used in calculating the fair value of stock-based compensation awards represent the Company s best estimates, based on management judgment. The estimate of the value per share of the Company s common stock used in the option-pricing model prior to the Company s IPO in August 2013 was based on the contemporaneous valuations performed with the assistance of an unrelated third-party valuation specialist and management s analysis of market transactions in proximity to the valuation dates. The estimated dividend yield is zero since the Company has not issued dividends to date and does not anticipate issuing dividends. The risk-free interest rate is based on the implied yield currently available on U.S. Treasury zero coupon issues with an equivalent remaining term. Due to its limited trading history, the Company estimates volatility for option grants by evaluating the average historical volatility of a peer group of similar public companies. The expected term of the Company s stock options represent the period that its stock-based awards are expected to be outstanding. For purposes of determining the expected term, the Company applies the simplified approach, in which the expected term of an award is presumed to be the mid-point between the vesting date and the expiration date of the award. Awards generally vest over a service period of four years, with a maximum contractual term of ten years.

Pursuant to FASB ASC Subtopic 718-10-35, *Stock Compensation*, the initial determination of compensation cost is based on the fair value of the number of stock options granted, amortized over the vesting period. The value of the awards granted is discounted by the forfeiture rate equal to the value expected to vest. The forfeiture rate was derived by taking into consideration historical employee turnover rates as well as expectations for the future. Expense related to stock options is recognized using the straight-line attribution method. Compensation cost for restricted stock units is measured at the fair value of the underlying shares on the respective grant date and recognized on a straight-line basis over the vesting period.

(m) Foreign Currency

The Company s foreign subsidiary in India designates the U.S. dollar as the functional currency. For the subsidiary, 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 gains and losses associated with remeasurement are included in general and administrative expense in the consolidated statements of operations.

Foreign currency gains (losses) associated with transactions and remeasurement were $(1.0) million and less than $0.1 million for the three months ended June 30, 2015 and 2014, respectively; and $(0.8) million and $0.5 million for the six months ended June 30, 2015 and 2014, respectively.

The Company s foreign subsidiary in the UK designates the British Pound as its functional currency. For the subsidiary, assets and liabilities denominated in foreign currency are translated into U.S. dollars at current exchange rates. Foreign currency gains and losses associated with translation are included in accumulated other comprehensive gain (loss) in the consolidated balance sheets.

(n) Non-Monetary Transactions

The Company occasionally participates in non-monetary transactions with its customers in exchange for marketing and other services. In accordance with FASB ASC Topic 845 *Nonmonetary transactions*, non-monetary transactions with commercial substance are recorded at the estimated fair value of the services received from or provided to the counterparty, whichever is more clearly evident. In certain periods there are timing differences between the revenue and the related expense, due to the timing of delivery and receipt of services. Non-monetary transaction revenue totaled $2.6 million and $3.3 million for the three and six months ended June 30, 2015, and $0.6 million and $0.9 million for the three and six months ended June 30, 2014, respectively. Non-monetary transaction expense totaled $3.1 million and $3.9 million for the three and six months ended June 30, 2015, and $0.6 million and $0.9 million for the three and six months ended June 30, 2014, respectively.

3. New Accounting Pronouncements

In May 2014, the FASB and the International Accounting Standards Board issued joint guidance to improve and converge the financial reporting requirements for revenue from contracts with customers. ASU 2014-09, *Revenue from Contracts with Customers,* prescribes a five-step model for revenue recognition that will replace most existing revenue recognition guidance under U.S. GAAP. The new standard supersedes nearly all existing revenue recognition guidance under U.S. GAAP, and requires companies to recognize revenue when it transfers goods or services to a customer in an amount that reflects the consideration to which a company expects to be entitled for those goods or services. This update also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 allows for either full retrospective or modified retrospective adoption and will become effective for the Company in the first quarter of 2017. Early adoption is prohibited. In July 2015, the FASB voted to approve a one-year deferral of the effective date of this standard. Management is currently evaluating which adoption method it will use and assessing the effect the adoption of this standard will have on the consolidated financial statements.

4. Follow-On Public Offering

On January 16, 2014, the Company completed a follow-on public offering of 6,072,000 shares of its common stock. The Company sold 747,500 shares of its common stock, and the selling shareholders sold 5,324,500 shares in the offering, including the underwriters over-allotment, at a price to the public of $35.50 per share. The offering closed on January 23, 2014, and the Company received net proceeds of $24.8 million after deducting the underwriters discount and offering expenses, which have been included in additional paid-in-capital in the accompanying balance sheets as of June 30, 2015 and December 31, 2014.

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5. Net Income (Loss) Per Share

The Company calculates basic net income per share of common stock by dividing net income for the period by the weighted-average number of shares of common stock outstanding during the period. The Company calculates diluted net income per share by dividing net income attributable to the Company for the period by the weighted-average number of shares of common stock outstanding during the period, plus any dilutive effect of share-based equity awards during the period, using the treasury stock method. Included in the diluted weighted average shares outstanding calculation is the effect of non-vested early option exercises of 188,875 shares that vested in February 2015, which were the last remaining non-vested shares of the 573,941 shares that were early-exercised on June 13, 2012. These shares, until they vested, were removed from the basic earnings per share calculation as the shares could have been repurchased by the Company prior to the vesting date if the employment of the early exercised option shareholders would have been terminated. The computation of basic and diluted net income per share is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income (loss)	$ (5,675)	$ 992	$ (8,027)	$ 2,633
Weighted average number of shares outstanding:				
Weighted average common shares outstanding	41,571,379	41,003,038	41,404,698	40,812,220
Weighted average shares outstanding for basic earnings per share	41,571,379	41,003,038	41,404,698	40,812,220
Effect of share-based equity award plan		2,174,624		2,373,652
Weighted average shares outstanding for diluted earnings per share	41,571,379	43,177,662	41,404,698	43,185,872
Net income (loss) per share:				
Basic	$ (0.14)	$ 0.02	$ (0.19)	$ 0.06
Diluted	$ (0.14)	$ 0.02	$ (0.19)	$ 0.06

The weighted average number of shares outstanding used in the computation of diluted loss per share for the three and six months ended June 30, 2015 do not include the effect of 1,770,754 and 1,890,761, respectively, stock options and restricted stock units, as the effect would have been anti-dilutive.

6. Acquisitions

SignUp4

On May 8, 2015, the Company acquired 100% of the equity interests of SignUp4, LLC (SignUp4) for total consideration of $22.2 million, including cash acquired of $1.9 million. SignUp4 is an event management and marketing solutions company that has a valuable client portfolio, including multiple Fortune 1000 clients. The Company completed this acquisition for strategic and competitive advantage. The acquisition was accounted for as a purchase business combination.

Total consideration is comprised of cash paid at closing of $19.2 million, net of cash acquired of $1.9 million and $1.1 million of cash withheld to cover potential net working capital adjustments.

The table below represents the preliminary allocation of the purchase price for the acquired net assets of SignUp4 based on their estimated fair values as of May 8, 2015. The allocation of the purchase price was based upon preliminary estimates of fair value of the corresponding assets and liabilities as follows (in thousands):

Tangible liabilities assumed, net	$ (1,466)
Trademarks	164
Developed technology	870
Customer relationships	7,040
Goodwill	12,604
Total consideration	$ 19,212

Customer relationships represent the fair value of the underlying relationships and agreements with SignUp4 customers. Developed technology represents the estimated fair value of SignUp4 s developed software. Trademarks represents the estimated fair value of SignUp4 s existing trademarks. The excess of purchase consideration over the fair value of the net tangible and identifiable intangible assets acquired of $12.6 million was recorded as goodwill. Changes to amounts recorded as assets or liabilities may result in a corresponding adjustment to goodwill. The goodwill balance is attributed to the assembled workforce and expanded market opportunities when integrating SignUp4 s business into the Company s technology. The goodwill balance is deductible for U.S. income tax purposes.

Acquisition-related costs, including transaction costs such as legal and accounting fees, were expensed as incurred. The Company incurred $0.2 million of transaction costs for the six months ended June 30, 2015, which have been included in general and administrative expenses in the consolidated statement of operations. Revenue in the period post-acquisition was not significant.

7. Income Taxes

The Company generally estimates its annual effective tax rate for the full fiscal year and applies that rate to its income from continuing operations before income taxes in determining its provision for income taxes for the respective periods. The Company generally records discrete items in each respective period as appropriate. However, if a company is unable to reliably estimate its annual effective tax rate, then the actual effective tax rate for the year-to-date period may be the best estimate for the annual effective tax rate. For the three and six months ended June 30, 2015, the Company determined that the annual rate method would not provide for a reliable estimate due to volatility in the forecasting process. As a result, the Company has recorded the provision for income taxes for the three and six months ended June 30, 2015 using the actual effective rate for the three and six months ended June 30, 2015 (the cut-off method). The effective tax rate for the three and six months ended June 30, 2015 was calculated based on an actual effective tax rate plus discrete items, as described above.

The Company s consolidated effective tax rate for the three and six months ended June 30, 2015 was (27.2)% and 7.6%, respectively. The Company s consolidated effective tax rate for the three and six months ended June 30, 2014 was 20.1% and (21.8)%, respectively.

The Company s estimated effective tax rate is subject to fluctuation based upon the level and mix of earnings and losses by tax jurisdiction, and the relative impact of permanent book to tax differences (e.g., non-deductible expenses). As a result of these factors, and due to potential changes in the Company s period to period results, fluctuations in the Company s effective tax rate and respective tax provisions or benefits may occur. The Company is subject to U.S. federal income tax, various state income taxes and various foreign income taxes. The effective income tax rate for the three and six months ended June 30, 2015 and 2014 reflects various foreign income taxes.

In assessing the realizability of deferred tax assets, management considers 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 periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in this assessment. Management believes the Company will achieve profitable operations in future years that will enable the Company to recover the benefit of its U.S. net deferred tax assets. However, the Company does not have sufficient objective evidence to support the future deductibility of certain deferred tax assets related to foreign tax credits, and accordingly, has established a valuation allowance against this deferred tax asset during the three months ended June 30, 2015 of $0.7 million as required by generally accepted accounting principles. Recording this valuation allowance does not impact the Company s ability to realize the benefit of this asset.

Additionally, during the three months ended June 30, 2015, the Company recorded a reduction of previously recognized income tax benefit related to stock disqualifying dispositions of $2.0 million.

The Company permanently reinvests cumulative undistributed earnings of its non-U.S. subsidiaries in non-U.S. operations. U.S. federal income taxes have not been provided for in relation to undistributed earnings to the extent that they are permanently reinvested in the Company s non-U.S. operations. As of June 30, 2015, the undistributed earnings of the Company s foreign affiliates was $7.2 million.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense when assessed.

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8. Stock-Based Compensation

Stock Options

Stock options are granted with an exercise price equal to the stock s fair value at the date of grant. The awards vest at various times from the date of grant, with most options vesting in tranches generally over four years. All options expire 10 years after the date of grant. At June 30, 2015, there were 6,393,801 shares available for the Company to grant under the 2013 Equity Incentive Plan.

The grant-date fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model. The weighted average assumptions for 2015 and 2014 grants are provided in the table below. Because the Company s shares were not publicly traded prior to August 9, 2013 and its shares were rarely traded privately, and due to the limited trading history since August 9, 2013, expected volatility is estimated based on the average historical volatility of similar entities with publicly traded shares. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve at the date of grant. Expense is recognized using the straight-line attribution method.

The following is a summary of the weighted average assumptions used in the valuation of stock-based awards under the Black-Scholes model:

	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015
Dividend yield	0.00%	0.00%
Volatility	44.09%	45.66%
Expected term (years)	6.48	6.33
Risk-free interest rate	1.89%	1.55%

Stock option activity during the periods indicated is as follows:

	Number of shares subject to options	Weighted average exercise price per share	Weighted average remaining contractual term (years)	Aggregate intrinsic value
Balance at December 31, 2014	4,166,214	$ 12.70	7.56	$ 63,186
Granted	960,860	26.78		
Exercised	(439,297)	2.54		
Forfeited	(282,655)	19.12		
Expired	(282)	5.96		
Balance at June 30, 2015	4,404,840	$ 16.38	7.74	$ 41,415
Exercisable at June 30, 2015	1,512,897	$ 2.89	5.59	$ 34,634

The weighted average grant date fair value of options granted during the six months ended June 30, 2015 was $12.37. The total intrinsic value of options exercised during the six months ended June 30, 2015 was $6.1 million.

The Company recorded stock-based compensation expense related to options of $1.6 million and $0.9 million during the three months ended June 30, 2015 and 2014, respectively, and $3.4 million and $1.7 million during the six months ended June 30, 2015 and 2014, respectively. At June 30, 2015, there was $19.3 million of total unrecognized compensation cost related to unvested stock options granted under the Plan, which is expected to be recognized over a weighted average period of 3.15 years.

On June 13, 2012, stock options for the purchase of 573,941 shares were exercised prior to vesting pursuant to an early exercise feature. The proceeds from the transaction were recorded as a liability within accrued and other current liabilities and other liabilities, non-current. During the six months ended June 30, 2015, the remaining 188,875 of these options vested and the $0.3 million liability related to the vesting options was reclassified to stockholders equity. There are no remaining unvested options with the Company s repurchase rights related to this transaction as of June 30, 2015.

Restricted Stock Units

During the six months ended June 30, 2015, the Company issued restricted stock units (RSUs) to employees.

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RSU activity during the periods indicated is as follows:

	Number of shares subject to restriction	Weighted average share value	Weighted average remaining contractual term (years)	Aggregate intrinsic value
Balance at December 31, 2014	422,263	$ 28.43	2.62	$ 11,756
Granted	408,036	26.82		
Vested	(4,044)	28.44		
Forfeited	(36,685)	27.22		
Balance at June 30, 2015	$ 789,570	$ 27.66	2.25	$ 20,355

The related compensation expense for restricted stock units recognized during the three months ended June 30, 2015 and 2014 was $1.2 million and $0.2 million, respectively, and $2.1 million and $0.2 million for the six months ended June 30, 2015 and 2014, respectively. At June 30, 2015, there was $14.5 million of total unrecognized compensation cost related to unvested RSUs granted under the Plan. That cost is expected to be recognized over a weighted average period of 3.64 years.

Common Stock Valuations

Prior to the Company s IPO in August 2013, the Company derived the value of its common stock using valuation models prepared by third parties. In addition, management and the Company s Board of Directors also considered relevant market activity including the then anticipated IPO, and other events occurring in recent proximity to valuation dates, including the recapitalization transaction and issuance of New Series A Convertible Preferred Stock in July 2011 to determine an estimate of fair value per share for stock options granted prior to August 2013 and for options granted during the years ended December 31, 2012 and 2011.

Subsequent to the Company s IPO, the value of the Company s common stock was determined based on the closing market price of the Company s common stock traded on the New York Stock Exchange on the grant date.

9. Stockholders Equity

Changes in Stockholders Equity

Changes in stockholders equity for the six months ended June 30, 2015 were as follows (in thousands, except for share amounts):

	Common Stock Shares	Common Stock Amount	Treasury Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated other comprehensive loss	Total Stockholders Equity

Balance as of December 31, 2014	41,685,048	$ 42	$ (3,966)	$ 199,169	$ (21,191)	$ (220)	$ 173,834
Net loss					(8,027)		(8,027)
Share-based compensation expense				5,555			5,555
Excess tax benefits from stock-based compensation				1,978			1,978
Exercise of stock options and vesting of restricted stock awards	254,466			778			778
Issuance of common stock upon vesting of early exercised options	188,875			340			340
Foreign currency translation gain						51	51
Balance as of June 30, 2015	42,128,389	$ 42	$ (3,966)	$ 207,820	$ (29,218)	$ (169)	$ 174,509

10. Commitments and Contingencies

a) Legal Proceedings, Regulatory Matters and Other Contingencies

From time to time, the Company may become involved in legal proceedings, regulatory matters or other contingencies in the ordinary course of its business. The Company is not presently involved in any legal proceeding, regulatory matter or other contingency that, if determined adversely to it, would individually or in the aggregate have a material adverse effect on its business, operating results, financial condition or cash flows.

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b) Acquisition Payouts

A summary of the changes in the recorded amount of accrued compensation and deferred consideration from acquisitions from December 31, 2014 to June 30, 2015 is as follows (dollars in thousands):

	Compensation	Deferred Consideration	Total
Liability as of December 31, 2014	$ 1,238	$ 2,075	$ 3,313
Payments	(1,255)	(72)	(1,327)
Additional accruals	1,014		1,014
Liability as of June 30, 2015	$ 997	$ 2,003	$ 3,000

The accrued compensation and consideration related to acquisition payouts is recorded within accrued and other current liabilities on the accompanying consolidated balance sheets.

11. Subsequent Events

The Company has evaluated subsequent events through August 6, 2015, the date the financial statements were available to be issued.

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ITEM 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes to those statements included elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2014. In addition to historical financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results and timing of selected events may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those discussed under Risk Factors in Part I, Item 1A of our Annual Report on Form 10-K (as updated in our Quarterly Report on Form 10-Q filed on May 11, 2015)*, as may be updated in our subsequent Quarterly Reports on Form 10-Q. The words may, believe, could, anticipate, would, might, plan, expect, will, intend, potential, objective, strategy, goal, should, vision, designed, and similar expressions or the negative of these terms are intended to identify forward-looking statements. Consolidated financial data referenced in this section as of and for the three and six months ended June 30, 2015 and 2014 are derived from our unaudited consolidated financial statements. The unaudited consolidated financial data as of and for the three and six months ended June 30, 2015 and 2014 includes all adjustments, consisting only of normal recurring accruals, that are necessary in the opinion of our management for a fair presentation of our financial position and results of operations for these periods.*

Overview

We are a leading cloud-based enterprise event management platform. We provide solutions for both sides of the meetings and events value chain: (i) event and meeting planners, and (ii) hotels and venues. Our integrated, cloud-based solution addresses the entire event lifecycle by allowing meeting and event planners to organize, market and manage their meetings, conferences, tradeshows and other events. The Company s Hospitality Cloud provides hotels and venues with a full solution suite to generate, manage and measure demand for their group meetings. The combination of these solutions creates an integrated platform that allows us to generate revenue from both sides of the meetings and events value chain.

Our meeting and event planner customers include enterprises such as corporations, associations, not-for-profits, government agencies and universities. These customers enter into annual or multi-year subscription contracts to utilize part or all of our cloud-based software solutions to plan, manage and execute enterprise meetings and events, including external events such as conferences, tradeshows and customer events, as well as internal events, such as sales meetings, training seminars and team-building events. Revenue from our event management solutions platform was $32.7 million and $61.0 million for the three and six months ended June 30, 2015, or 69% of our total revenue during the periods, and $24.2 million and $45.9 million for the three and six months ended June 30, 2014, or 71% and 70%, respectively of our total revenue during the periods. We generally recognize revenue from these contracts ratably over the term of the contract.

On the other side of the event value chain, hotels and venues primarily utilize our online marketing solutions within our Hospitality Cloud to generate more visibility with ready-to-transact event and meeting planners. Towards the end of 2014, we branded the Hospitality Cloud to provide a full spectrum of cloud-based solutions across the hotel group sales lifecycle. Prior to this, we primarily concentrated on servicing the hospitality sector with marketing solutions through the Cvent Supplier Network (CSN), which continues to provide substantially all of the revenue for this product line as it did in the prior periods. CSN connects tens of thousands of event and meeting planners seeking the best venue for their event with approximately 235,000 venues in our proprietary database. We believe that CSN contains the world s largest and most accurate searchable database of detailed meeting venue information with listings of hotels, conference centers, convention centers, resorts, restaurants, museums, country clubs, wineries, castles and other special event venues in more than 175 countries. Hotels and venues enter into annual or multi-year advertising contracts with us for marketing solutions that increase the prominence of their properties in CSN; we recognize the revenue from these marketing solutions over the term of the agreement based on the estimated selling prices of each solution. Revenue from our Hospitality Cloud was $14.6 million and $27.4 million for the three and six months ended June 30, 2015, or 31% of our total revenue during each period, and $9.9 million and $19.6 million for the three and six months ended June 30, 2014, or 29% and 30%, respectively, of our total revenue during each period.

Financial Operations Overview

Revenue

Platform Subscriptions. We generate the majority of our revenue through subscriptions for our event management solutions platform, pricing for which is based on the features and functionality selected. Our Enterprise solution is targeted towards the large enterprise market, and includes the full functionality of our platform. Our Event Management solution, which is targeted towards mid-market and smaller enterprises, has many of the same features as our Enterprise solution, but does not include some of the advanced features and functionality required by larger organizations. The number of attendee registrations available to customers subscribing to the registration functionality is contractually fixed, and registrations above the contracted amount result in additional fees paid by the customer.

Our customer contracts are typically not cancellable without cause and typically range in length from one to four years. We generally recognize revenue from platform subscriptions ratably over the term of the contract. Customers are typically invoiced in advance on an annual or quarterly basis. Amounts that have been invoiced are initially recorded as deferred revenue and are recognized as revenue ratably over the subscription period. We refer to contractual amounts that have not been invoiced as unbilled contract value. Unbilled contract value is not reflected in our consolidated financial statements.

Platform subscription revenue also includes revenue from our mobile event apps, ticketing and web survey products.

Hospitality Cloud. In 2014, we branded the Hospitality Cloud to provide a full spectrum of cloud-based solutions across the hotel group sales lifecycle. Prior to this, we primarily concentrated on servicing the hospitality sector with marketing solutions through CSN, which continues to provide substantially all of the revenue for this product line as it did in the prior periods. Marketing solutions revenue is generated through the delivery of various forms of advertising sold through annual or multi-year contracts to marketers, principally hotels and venues. Such solutions include prominent display of a customer s venue within CSN, the Cvent Destination Guide, the Elite Meetings magazine or additional sourcing websites such as EliteMeetings.com and SpeedRFP.com, each of which are designed for a different planner audience. Pricing for the advertisements is based on the term of the advertisement, targeted geography, number of advertisements and prominence of the ad placement.

We generally recognize the revenue from these marketing solutions over the period the advertisements are delivered. Customer contracts are typically not cancellable without cause and typically range in length from one to two years. We generally invoice our customers in advance in annual installments. Amounts that have been invoiced are initially recorded as deferred revenue and are recognized as revenue over the contract period.

Contractual amounts that have not been invoiced, and for which service has not yet started, which we refer to as unbilled contract value, are not reflected in our consolidated financial statements.

Cost of Revenue

Cost of revenue primarily consists of employee-related expenses, including salaries, benefits, bonuses and stock-based compensation, related to providing support and hosting our applications, costs of data center capacity, software license fees and amortization expense associated with capitalized software. In addition, we allocate a portion of overhead, such as rent, information technology costs, and depreciation and amortization to cost of revenue based on head count.

We are invested in the success of our customers and as such, we will continue to invest in providing support and expanding our capacity to support our growth, which in the near-term will result in higher cost of revenue in absolute dollars and as a percentage of revenue.

Gross Profit and Gross Margin

Gross profit is total revenue less total cost of revenue. Gross margin is gross profit expressed as a percentage of total revenues. We expect that our gross margin may fluctuate from period to period as a result of an increase in depreciation and amortization run-rates in the short-term, and additional costs associated with our recent acquisitions. We also expect gross profit and gross margin to be affected by stock compensation expense due to grants of stock options as we continue to grow and incentivize our employees.

Operating Expenses

Sales and Marketing

Sales and marketing expenses primarily consist of personnel and related expenses for our sales and marketing staff, including salaries, benefits, bonuses, commissions and stock-based compensation. Commissions are expensed when the customer contract is signed. In addition to staff costs, our cost of marketing includes product marketing and other brand-building activities, such as trade shows, product seminars and online marketing.

We intend to continue to invest in sales and marketing and expect spending in these areas to increase in the near-term in absolute dollars as we continue to expand our business both domestically and internationally. We expect sales and marketing expenses to continue to be among the most significant components of our operating expenses.

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Research and Development

Research and development expenses consist primarily of personnel and related expenses for our research and development staff, including salaries, benefits, bonuses and stock-based compensation and the cost of certain third-party contractors. Research and development expenses, other than software development costs that qualify for capitalization, are expensed as incurred.

With the exception of software developed by companies we have acquired, we maintain a unified software code base for our entire platform, which we believe improves the efficiency of our research and development activities. We expect research and development expenses to increase in the near-term in absolute dollars as we expand our product offerings and as a percentage of revenue as we invest in the integration and technological support associated with acquired businesses and technologies.

General and Administrative

General and administrative expenses consist primarily of personnel and related expenses for administrative, finance, legal and human resource staffs, including salaries, benefits, bonuses and stock-based compensation, as well as professional fees, insurance premiums, other corporate expenses, and overhead.

We expect our general and administrative expenses to increase in absolute dollars over the short-term as we continue to expand our operations and hire additional personnel to support our growth. We expect to continue to incur expenses related to outside legal counsel, accounting and auditing activities, compliance with public company reporting and corporate governance requirements, insurance requirements and enhancing our internal control environment.

Intangible Asset Amortization, Excluding Cost of Revenue

Intangible asset amortization, excluding cost of revenue, consists entirely of amortization expenses related to acquired customer relationship and trademark intangible assets. This line item excludes intangible asset amortization related to cost of revenue, which is defined as acquired developed technology and capitalized software intangible asset amortization.

We expect our intangible asset amortization, excluding cost of revenue, expenses to increase in absolute dollars and as a percentage of revenue over the short and long-term as we expect to strategically acquire companies to aid in our short and long-term growth.

Critical Accounting Policies and Estimates

Our unaudited financial statements and the related notes included in this Quarterly Report on Form 10-Q are prepared in accordance with generally accepted accounting principles in the United States. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, cost of revenue, operating expenses, other income and expenses, provision for income taxes and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Changes in accounting estimates are reasonably likely to occur from period to period. Accordingly, actual results could differ significantly from our estimates. We evaluate our estimates and assumptions on an ongoing basis. To the extent that there are material differences between our estimates and our actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected. During the six months ended June 30, 2015, there were no material changes to our critical accounting policies and use of estimates, which are disclosed in our audited consolidated financial statements for the year ended

December 31, 2014 included in our Annual Report on Form 10-K dated March 16, 2015, and filed with the SEC.

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In May 2014, the FASB and the International Accounting Standards Board issued joint guidance to improve and converge the financial reporting requirements for revenue from contracts with customers. ASU 2014-9, *Revenue from Contracts with Customers,* prescribes a five-step model for revenue recognition that will replace most existing revenue recognition guidance under U.S. GAAP. The new standard supersedes nearly all existing revenue recognition guidance under U.S. GAAP, and requires companies to recognize revenue when it transfers goods or services to a customer in an amount that reflects the consideration to which a company expects to be entitled for those goods or services. This update also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 allows for either full retrospective or modified retrospective adoption and will become effective in the first quarter of 2017. Early adoption is prohibited. However, in July 2015, the FASB voted to approve a one-year deferral of the effective date of this standard. Management is currently evaluating the adoption methods and assessing the effect the adoption of this standard will have on the consolidated financial statements.

Results of Operations

The following table sets forth selected consolidated statement of operations data for each of the periods indicated.

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Revenue	$ 47,323	$ 34,133	$ 88,429	$ 65,534
Costs of revenue	14,332	8,953	28,934	18,071
Gross profit	32,991	25,180	59,495	47,463
Operating expenses:				
Sales and marketing	23,063	15,977	40,803	29,644
Research and development	4,879	3,284	9,914	6,473
General and administrative	9,569	4,953	17,350	9,650
Intangible asset amortization, excluding cost of revenue	519	86	812	176
Total operating expenses	38,030			