MARIN SOFTWARE INC
Form 10-Q
August 09, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

OR

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

For the transition period from ______ to ______

Commission File Number: 001-35838

Marin Software Incorporated

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**20-4647180**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**
123 Mission Street, 27th Floor, San Francisco, CA	**94105**
(Address of Principal Executive Offices)	**(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 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 during the preceding 12 months (or for such shorter time period that the registrant was required to submit and post such files). Yes No

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 31, 2018, the registrant had 5,785,000 shares of common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited).

MARIN SOFTWARE INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands, except par value)

	At June 30, 2018	At December 31, 2017*
Assets		
Current assets		
Cash and cash equivalents	$15,927	$27,544
Restricted cash	1,293	1,293
Accounts receivable, net	9,768	12,237
Prepaid expenses and other current assets	5,787	3,989
Total current assets	32,775	45,063
Property and equipment, net	13,832	15,559
Goodwill	16,720	16,768
Intangible assets, net	3,134	4,475
Other non-current assets	2,401	1,504
Total assets	$68,862	$83,369
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$1,918	$2,826
Accrued expenses and other current liabilities	9,001	10,474
Capital lease obligations	1,445	1,416
Total current liabilities	12,364	14,716
Capital lease obligations, non-current	1,002	1,687
Other long-term liabilities	3,885	4,183
Total liabilities	17,251	20,586
Commitments and contingencies (Note 13)		
Stockholders' equity		
Common stock, $0.001 par value - 142,857 shares authorized, 5,784 and 5,729 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	6	6

Additional paid-in capital	293,278	291,163
Accumulated deficit	(240,857)	(227,704)
Accumulated other comprehensive loss	(816)	(682)
Total stockholders' equity	51,611	62,783
Total liabilities and stockholders' equity	$68,862	$83,369

*Derived from the Company's audited consolidated financial statements as of December 31, 2017.

See accompanying notes to the condensed consolidated financial statements.

MARIN SOFTWARE INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Revenues, net	$14,251	$18,742	$29,653	$39,075
Cost of revenues	6,963	8,207	14,535	16,531
Gross profit	7,288	10,535	15,118	22,544
Operating expenses				
Sales and marketing	6,154	6,710	13,535	13,386
Research and development	5,817	6,646	11,972	13,784
General and administrative	3,766	3,945	7,143	8,122
Impairment of goodwill	—	2,797	—	2,797
Total operating expenses	15,737	20,098	32,650	38,089
Loss from operations	(8,449)	(9,563)	(17,532)	(15,545)
Other income (expenses), net	377	(563)	672	(301)
Loss before provision for income taxes	(8,072)	(10,126)	(16,860)	(15,846)
Provision for income taxes	(204)	(419)	(528)	(825)
Net loss	(8,276)	(10,545)	(17,388)	(16,671)
Foreign currency translation adjustments	(578)	1,119	(134)	1,338
Comprehensive loss	$(8,854)	$(9,426)	$(17,522)	$(15,333)
Net loss per share available to common stockholders, basic and diluted (Note 11)	$(1.44)	$(1.87)	$(3.02)	$(2.99)
Weighted-average shares used to compute net loss per share available to common stockholders, basic and diluted	5,767	5,640	5,751	5,572
Stock-based compensation expense is allocated as follows (Note 9):				
Cost of revenues	$172	$152	$376	$463
Sales and marketing	271	200	511	412
Research and development	314	318	653	1,314
General and administrative	273	248	518	571
Amortization of intangible assets is allocated as follows (Note 4):				
Cost of revenues	$233	$245	$470	$492
Sales and marketing	184	222	397	445
Research and development	234	244	471	491
General and administrative	—	10	3	23
Restructuring related expenses are allocated as follows (Note 5):				
Cost of revenues	$—	$—	$139	$—
Sales and marketing	48	—	545	—
Research and development	—	—	115	—

General and administrative	36	—	147	—

See accompanying notes to the condensed consolidated financial statements.

MARIN SOFTWARE INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

	Six Months Ended June 30, 2018	2017
Operating activities		
Net loss	$(17,388)	$(16,671)
Adjustments to reconcile net loss to net cash used in operating activities		
Impairment of goodwill	—	2,797
Depreciation	1,557	2,599
Amortization of internally developed software	1,943	1,655
Amortization of intangible assets	1,341	1,451
Amortization of deferred costs to obtain and fulfill contracts	1,145	—
Unrealized foreign currency (gains) losses	(25)	512
Non-cash interest expense related to debt agreements	—	13
Stock-based compensation related to equity awards and restricted stock	2,058	2,760
Provision for bad debts	35	785
Changes in operating assets and liabilities		
Accounts receivable	2,438	4,846
Prepaid expenses and other assets	(1,199)	(1,168)
Accounts payable	(877)	(459)
Accrued expenses and other liabilities	(425)	(374)
Net cash used in operating activities	(9,397)	(1,254)
Investing activities		
Purchases of property and equipment	(200)	(259)
Capitalization of internally developed software	(1,295)	(956)
Net cash used in investing activities	(1,495)	(1,215)
Financing activities		
Repayments of capital lease obligations	(656)	(523)
Employee taxes paid for withheld shares upon equity award settlement	(110)	(171)
Proceeds from employee stock purchase plan, net	165	111
Net cash used in financing activities	(601)	(583)
Effect of foreign exchange rate changes on cash and cash equivalents and restricted cash	(124)	1,161
Net decrease in cash and cash equivalents and restricted cash	(11,617)	(1,891)
Cash and cash equivalents and restricted cash		
Beginning of period	28,837	35,713
End of period	$17,220	$33,822
Supplemental disclosure of non-cash investing and financing activities		
Purchases of property and equipment recorded in accounts payable and accrued expenses	$308	$20

Issuance of common stock under employee stock purchase plan	172	130
Acquisition of equipment through capital leases	—	181

See accompanying notes to the condensed consolidated financial statements.

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Marin Software Incorporated

Notes to Condensed Consolidated Financial Statements

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

1. Summary of Business and Significant Accounting Policies

Marin Software Incorporated (the "Company") was incorporated in Delaware in March 2006. The Company provides a leading cross-channel, cross-device, enterprise marketing software platform for search, social, display and eCommerce advertising channels, offered as a software-as-a-service, or SaaS, solution for advertisers and agencies. 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: Austin, Chicago, Dublin, London, New York, Paris, Portland, Shanghai and Tokyo.

Liquidity

The Company has incurred significant losses in each fiscal year since its incorporation in 2006 and management expects such losses to continue over the next several years. The Company incurred a net loss of $17,388 for the six months ended June 30, 2018, and a net loss of $31,491 for the year ended December 31, 2017. As of June 30, 2018, the Company had an accumulated deficit of $240,857. The Company had cash, cash equivalents and restricted cash of $17,220 as of June 30, 2018. Management expects to incur additional losses and experience negative cash flows in the future. To continue to fund operations, including research and development, the Company will need to seek opportunities to increase revenues, lower costs and/or raise additional capital. In January 2018, the Company initiated a restructuring (see Note 5), which is expected to result in significant cost savings in 2018. The Company believes that its cash, cash equivalents and restricted cash will provide sufficient funds for the Company to continue as a going concern for at least 12 months from the date of issuance of these condensed consolidated financial statements.

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 United States generally accepted accounting principles ("GAAP") for complete financial statements. In the opinion of management, all adjustments, consisting of only normal

recurring items, considered necessary for fair statement have been included. The results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the results to be expected for the year ending December 31, 2018, 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 intercompany accounts and transactions have been eliminated on consolidation. The condensed consolidated balance sheet as of December 31, 2017 is derived from audited financial statements as of that date but does not include all of the information and footnotes required by GAAP 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, as amended, for the fiscal year ended December 31, 2017, filed with the Securities and Exchange Commission ("SEC") on March 5, 2018.

Reclassifications

When necessary, reclassifications have been made to prior period financial information to conform to the current period presentation.

Reverse Stock Split and Reduction in Authorized Shares

On October 5, 2017, the Company effected a reverse stock split of its outstanding common stock. As a result of the reverse stock split, each seven outstanding shares of the Company's common stock was combined into one outstanding share of common stock, without any change in par value. In addition, the number of authorized shares of common stock was reduced from 500,000 shares to 142,857 shares. All share and per share amounts of the Company's common stock, as well as stock options and restricted stock units ("RSUs") included in the accompanying condensed consolidated financial statements have been presented to give effect to the reverse stock split for all periods presented.

Financial Instruments

The Company's financial instruments, including 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, and in consideration of the Company's credit risk profile, the carrying value of outstanding capital lease obligations (Note 5) approximates fair value as well.

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Cash equivalents consist of money market funds, which are readily convertible into cash and have original maturity dates of less than three months from the date of their respective purchases. These money market funds presented as cash equivalents on the consolidated balance sheets are classified as level 1 within the fair value hierarchy, and totaled $6,438 and $8,831 as of June 30, 2018 and December 31, 2017, respectively.

Allowances 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. As of June 30, 2018 and December 31, 2017, the Company recorded an allowance for doubtful accounts in the amount of $3,475 and $4,028, respectively.

From time to time, the Company provides credits to customers and an allowance is made based on historical credit activity. As of June 30, 2018, and December 31, 2017, the Company recorded an allowance for potential customer credits in the amount of $693 and $799, respectively.

Long-Lived Asset Impairment Assessments

The Company evaluates goodwill for impairment in the fourth quarter of its fiscal year annually, or more frequently if events or changes in circumstances indicate that goodwill may be impaired. For the purposes of impairment testing, the Company has determined that it has one reporting unit. The Company performs its goodwill impairment test using the simplified method, whereby the fair value of this reporting unit is compared to its carrying value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that reporting unit, goodwill is not considered impaired. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, the goodwill is considered impaired by an amount equal to that difference. No goodwill impairment was recorded for the three and six months ended June 30, 2018, despite the decline in the market capitalization of the Company's common stock during this time. Refer to Note 4 for details of the Company's interim goodwill impairment assessment.

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 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 recorded in any of the periods presented.

Recent Accounting Pronouncements Adopted in 2018

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* (Topic 606), or Accounting Standards Codification 606 ("ASC 606"), which amended the existing accounting standards for revenue recognition. ASC 606 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. The Company adopted ASC 606 on January 1, 2018 using the modified retrospective approach, which resulted in an adjustment to accumulated deficit for the cumulative effect of applying this standard to contracts in process as of the adoption date. The only material impact on the Company's condensed consolidated financial statements relates to the deferral of costs to both obtain and fulfill contracts, and the recognition of breakage revenues from its customer advances liability account. See Note 2 for further information on the adoption of ASC 606.

In May 2017, the FASB issued ASU 2017-09, *Compensation – Stock Compensation* (Topic 718), which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as a modification. Entities will apply the modification accounting guidance if the value, vesting conditions or classification of the award changes. The Company adopted ASU 2017-09 on January 1, 2018, and it had no impact on the Company's condensed consolidated financial statements for the three and six months ending June 30, 2018.

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In March 2018, the FASB issued ASU 2018-05, *Income Taxes: Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 ("SAB 118")* (Topic 740), which includes amendments to expand income tax accounting and disclosure guidance pursuant to SAB 118 issued by the SEC in December 2017. SAB 118 provides guidance on accounting for the income tax effects of the Tax Cuts and Jobs Act ("TCJA"). See Note 10 for further information and disclosures related to SAB 118.

Recent Accounting Pronouncements Not Yet Effective

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), which will require lessees to recognize most leases on the balance sheet as lease assets and lease liabilities, as well as both quantitative and qualitative disclosures regarding key information about leasing arrangements. This new standard is effective for interim and annual reporting periods beginning after December 15, 2018, and early adoption is permitted. Although the Company is in the process of evaluating the impact of the adoption of ASU 2016-02 on its consolidated financial statements, it currently believes the most significant change will be related to the recognition of right-of-use assets and lease liabilities on the Company's balance sheet for real estate operating leases and computer equipment capital leases.

In February 2018, the FASB issued ASU 2018-02, *Income Statement – Reporting Comprehensive Income – Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* (Topic 220), which allows for a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (see Note 10). ASU 2018-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and early adoption is permitted. The Company is currently assessing the impact this ASU will have on its consolidated financial statements.

2. Revenues

Adoption of ASC 606

On January 1, 2018, the Company adopted ASC 606 using the modified retrospective method applied to those contracts that were not completed as of that date. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with prior revenue recognition accounting guidance.

The Company recorded a net reduction to opening accumulated deficit of $4,085, net of tax, as of January 1, 2018 due to the cumulative impact of adopting ASC 606, with the impact primarily related to the recognition of breakage revenues and the deferral of incremental costs to both obtain and fulfill contracts. The impact to revenues for the three and six months ended June 30, 2018 as a result of applying ASC 606 was not material. The adoption of ASC 606 did not have a material impact on the Company's provision for income taxes, and had no impact on the net cash used in operating, investing and financing activities on the Company's condensed consolidated statements of cash flows. Refer to "ASC 606 Adoption Impact on Reported Results," below, for the impact of the adoption of ASC 606 on the Company's condensed consolidated balance sheets and condensed consolidated statements of operations.

Revenue Recognition

The Company generates its revenues principally from subscriptions either directly with advertisers or with advertising agencies to its platform for the management of search, social, display and eCommerce advertising. Revenues are recognized when control of these services is transferred to the Company's customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those services.

The Company determines revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as, the Company satisfies a performance obligation.

The 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 and recognized on a monthly basis. Contracts with direct advertisers and certain contracts with independent advertising agencies also include a minimum monthly fee that is recognized over the duration of the contract, commencing on the date that the Company's platform is made available to the customer.

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Due to the nature of the platform and the services performed under the subscription agreements, the Company determined that the variable and fixed subscription fees should be allocated to the monthly period in which the Company has the contractual right to bill under the contract. As a result, the adoption of ASC 606 did not have a material impact on the Company's subscription revenues.

Disaggregation of Revenues

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
United States of America	$9,584	$12,433	$19,795	$26,045
United Kingdom	2,012	2,241	4,122	5,061
Other (1)	2,655	4,068	5,736	7,969
Total revenues, net	$14,251	$18,742	$29,653	$39,075

(1) No individual country within the "Other" category accounted for 10% or more of revenues, net for any period presented.

Contract Balances

Accounts receivable, net

The timing of revenue recognition may differ from the timing of invoicing to customers. Accounts receivable are recorded at the invoiced amount, net of any necessary allowance for doubtful accounts or credit reserves. A receivable is recognized in the period the Company provides the underlying services or when the right to consideration is unconditional. The balance of accounts receivable, net of the allowance for doubtful accounts and the credit reserve, as of June 30, 2018 and December 31, 2017 is presented in the accompanying condensed consolidated balance sheets.

Customer advances

The Company records advances from customers for cash payments that are received in advance of its performance of the underlying services. These cash payments are generally received on a weekly basis at amounts that are at the discretion of the customers, based on established advertising budgets. The unused portion of these advances from customers is included within accruals and other current liabilities on the accompanying condensed consolidated balance sheets.

Under the Company's terms of service, individual customer advances that are not used by or refunded to the customer for a period of 180 days become the property of the Company. The Company recognizes these advances from customers that have remained outstanding for 180 days or more as breakage revenues. The Company recorded historical breakage up to January 1, 2018 as an adjustment to opening accumulated deficit, and breakage revenue for the three and six months ended June 30, 2018 within revenues, net. Changes in the balance of advances from customers during the six months ended June 30, 2018 are as follows:

Balance at December 31, 2017, as previously reported	$2,003
Impact of adoption of ASC 606 on January 1, 2018	(1,445)
Balance at January 1, 2018, as adjusted	558
Customer advances received	3,935
Subscription revenue recognized (on a gross basis)	(3,887)
Breakage revenue recognized	(122)
Balance at June 30, 2018	$484

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Costs to Obtain and Fulfill Contracts

The Company capitalizes certain contract acquisition costs, consisting primarily of commissions paid and the related payroll taxes that are incremental to obtaining customer contracts, when customer contracts are signed (“deferred costs to obtain contracts”).

The Company also capitalizes certain contract fulfillment costs, consisting primarily of on-boarding and integration services for new and existing customers performed by the Company’s professional services team. The professional services payroll and the related payroll taxes that are incremental to fulfilling customer contracts are capitalized (“deferred costs to fulfill contracts”).

The deferred costs to obtain and fulfill contracts are amortized based on the expected period of benefit, which the Company determined to be three years. This period of benefit was determined by taking into consideration the duration of the Company’s customer contracts, historical contract renewal rates, the underlying technology and other factors. Amortization expense for deferred sales commissions and deferred professional services is included in sales and marketing expense and cost of sales, respectively, on the accompanying condensed consolidated statements of operations.

The Company classifies deferred costs to obtain and fulfill contracts as current or non-current based on the timing of when the related amortization expense is expected be recognized. The current portion of these deferred costs is included in prepaid expenses and other current assets, while the non-current portion is included in other non-current assets on the accompanying condensed consolidated balance sheets. Changes in the balances of deferred costs to obtain and fulfill contracts during the six months ended June 30, 2018 were as follows:

	Costs to Obtain Contracts	**Costs to Fulfill Contracts**
Balances at January 1, 2018, as adjusted for adoption of ASC 606	$ 1,760	$ 880
Deferred costs	592	196
Amortization	(816)	(329)
Balances at June 30, 2018	$ 1,536	$ 747

ASC 606 Adoption Impact on Reported Results

The following table reflects the accounts impacted by the adoption of ASC 606 on the Company's condensed consolidated balance sheets at June 30, 2018:

	June 30, 2018		
	As Reported	**Balances Without Adoption of ASC 606**	**Effect of Change Higher/(Lower)**
Assets			
Prepaid expenses and other current assets	$5,787	$4,406	$ 1,381
Other non-current assets	2,401	1,499	902
Liabilities			
Accrued expenses and other current liabilities	$9,001	$10,568	$ (1,567)
Shareholders' equity			
Accumulated deficit	$(240,857)	$(244,707)	$ 3,850

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The following tables reflects the impact of the adoption of ASC 606 on the Company's condensed consolidated statements of operations for the periods presented:

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	As Reported	Balances Without Adoption of ASC 606	Effect of Change Higher/(Lower)	As Reported	Balances Without Adoption of ASC 606	Effect of Change Higher/(Lower)
Revenues, net	$14,251	$14,203	$ 48	$29,653	$29,531	$ 122
Cost of revenues	6,963	6,888	75	14,535	14,402	133
Gross profit	7,288	7,315	(27)	15,118	15,129	(11)
Operating expenses						
Sales and marketing	6,154	6,105	49	13,535	13,311	224
Research and development	5,817	5,817	—	11,972	11,972	—
General and administrative	3,766	3,766	—	7,143	7,143	—
Total operating expenses	15,737	15,688	49	32,650	32,426	224
Loss from operations	(8,449)	(8,373)	(76)	(17,532)	(17,297)	(235)
Other income, net	377	377	—	672	672	—
Loss before provision for income taxes	(8,072)	(7,996)	(76)	(16,860)	(16,625)	(235)
Provision for income taxes	(204)	(204)	—	(528)	(528)	—
Net loss	$(8,276)	$(8,200)	$ (76)	$(17,388)	$(17,153)	$ (235)
Net loss per share available to common stockholders, basic and diluted	$(1.44)	$(1.42)	$ (0.02)	$(3.02)	$(2.98)	$ (0.04)

Practical Expedients and Exemptions

The Company does not disclose the value of unsatisfied performance obligations since its contracts generally have an original expected term of one year or less and the Company recognizes revenues at the amount to which it has the right to invoice for services performed.

3. Balance Sheet Components

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

	Estimated Useful Life (in years)	June 30, 2018	December 31, 2017
Computer equipment	3 to 4	$29,898	$ 29,938
Software, including internally developed software	3	24,684	23,389
Leasehold improvements	Shorter of useful life or lease term	4,923	4,617
Office equipment, furniture and fixtures	3 to 5	2,234	2,127
Total property and equipment		61,739	60,071
Less: Accumulated depreciation and amortization		(47,907)	(44,512)
Property and equipment, net		$13,832	$ 15,559

Depreciation and amortization of internally developed software for the six months ended June 30, 2018 and 2017 was $3,500 and $4,254, respectively.

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

	June 30, 2018	December 31, 2017
Accrued salary and payroll-related expenses	$3,570	$ 4,372
Accrued liabilities	2,196	2,161
Advanced billings	505	459
Deferred rent	503	475
Customer advances	484	2,003
Income taxes payable	474	142
Sales and use tax payable	254	341
Other	1,015	521
Total accrued expenses and other current liabilities	$9,001	$ 10,474

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4. Goodwill and Intangible Assets

Due to a continued stock price decline, the Company's market capitalization decreased to a value below the net book value of the Company's net assets for the three and six months ended June 30, 2018, triggering the Company to perform an interim goodwill impairment test at that time. For the purposes of this goodwill impairment test, the Company estimated the fair value of its sole reporting unit using the market approach. Under the market approach, the Company utilized the market capitalization of its fully diluted common stock for June 30, 2018, and applied an estimated control premium based on an analysis of control premiums paid in acquisitions of companies in the same or similar industries as the Company. Because the significant inputs used in this analysis are readily available from public markets or can be derived from observable market transactions, they have been classified as level 2 within the fair value hierarchy. Based on this analysis, there was no impairment of goodwill recorded as of June 30, 2018.

The goodwill activity for the three months ended June 30, 2018 consisted of the following:

Balance at December 31, 2017	$16,768
Foreign currency translation adjustments	(48)
Balance at June 30, 2018	$16,720

Intangible assets consisted of the following as of the dates presented:

	Estimated Useful Life (in years)	**June 30, 2018**	**December 31, 2017**
Developed technology	5 to 6	$9,910	$9,910
Customer relationships	4	3,370	3,370
Non-compete agreements and tradenames	2 to 3	1,390	1,390
Total intangible assets		14,670	14,670
Less: accumulated amortization		(11,536)	(10,195)
Intangible assets, net		$3,134	$4,475

Amortization of intangible assets was $651 and $721 for the three months ended June 30, 2018 and 2017, respectively, and $1,341 and $1,451 for the six months ended June 30, 2018 and 2017, respectively.

Future estimated amortization of intangible assets as of June 30, 2018, is presented below:

Remaining six months of 2018	$1,196
Year ending December 31, 2019	1,843
Year ending December 31, 2020	95
Total	$3,134

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5. Restructuring Activities

On January 24, 2018, the Company initiated an organizational restructuring plan (the “2018 Restructuring Plan”) designed to reduce operating expenses in response to declines in revenues and to better align the Company’s efforts to return to growth. The 2018 Restructuring Plan currently includes a headcount reduction of approximately 12% of the Company’s workforce, the closure of certain leased facilities and the consolidation of space in the Company’s San Francisco headquarters. For the three and six months ended June 30, 2018, the Company recorded $84 and $946, respectively, of restructuring related expenses in connection with the 2018 Restructuring Plan in the accompanying condensed consolidated statements of operations. As of June 30, 2018, approximately $72 in restructuring related expenses associated with the 2018 Restructuring Plan remained unpaid and were included in accrued expenses and other current liabilities on the Company's condensed consolidated balance sheets. Further costs associated with the 2018 Restructuring Plan are not expected to be material in future periods.

6. Capital Lease Obligations

Since 2015, the Company has entered into various capital lease arrangements with two equipment manufacturers to finance acquisitions of computer equipment. These leases have effective annual interest rates ranging from 5.2% to 7.9%, and are repayable in 36 to 48 consecutive equal monthly installments of principal and interest. At the end of each lease period, the Company has the option to purchase the underlying equipment at the estimated fair market value, or for a nominal amount in some cases. As of June 30, 2018 and December 31, 2017, the net book value of the computer equipment under these capital leases was $2,357 and $2,861, respectively, and the remaining principal balance payable was $2,447 and $3,103, respectively.

The maturities of all outstanding capital lease arrangements as of June 30, 2018, are as follows:

Year ending	
December 31, 2018	$761
December 31, 2019	1,137
December 31, 2020	538
December 31, 2021	11
Total capital lease obligations	2,447
Less:	
Current portion	(1,445)
Non-current portion of capital lease obligations	$1,002

7. Common Stock

As of June 30, 2018, and December 31, 2017, the Company's amended certificate of incorporation authorizes the issuance of 142,857 shares of $0.001 par value common stock. Reserved shares of common stock are as follows:

	June 30, 2018	**December 31, 2017**
Options or RSUs available for future grant under stock option plans	779	999
RSUs outstanding under stock option plans	938	568
Options outstanding under stock option plans	548	436
Shares available for future issuance under employee stock purchase plan	208	182
Total	2,473	2,185

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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"), which provided for the grant of incentive and non-statutory stock options. In February 2013 the Board adopted and the stockholders approved the 2013 Equity Incentive Plan ("2013 Plan"), which became effective on March 21, 2013. At that time, the Company ceased to grant equity awards under the 2006 Plan. Under the 2013 Plan, 643 shares of common stock were originally reserved for issuance. Additionally, all reserved and unissued shares under the 2006 Plan are eligible for issuance under the 2013 Plan. The 2013 Plan authorizes the award of incentive and non-statutory 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 10 calendar years through 2023, the number of shares of common stock reserved under the 2013 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 Board. Pursuant to terms of the 2013 Plan, the shares available for issuance increased by 286 shares of common stock on January 1, 2018.

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, 2017	436	$ 37.60	7.04	$ 65
Options granted	131	7.03	9.74	
Options forfeited and cancelled	(19)	57.38	—	
Balances at June 30, 2018	548	29.60	7.30	1
Options exercisable	360	39.43	6.27	1
Options vested	360	39.42	6.27	1
Options vested and expected to vest	525	30.45	7.21	1

RSUs

A summary of RSUs granted and unvested under the 2013 Plan is as follows:

	RSUs Outstanding	
	Number of Shares	Weighted Average Grant Date Fair Value Per Unit
Granted and unvested at December 31, 2017	568	$ 14.22
RSUs granted	539	7.08
RSUs vested	(24)	24.81
RSUs cancelled and withheld to cover taxes	(145)	14.46
Granted and unvested at June 30, 2018	938	$ 9.80

Employee Stock Purchase Plan

In February 2013, the Board and stockholders approved the 2013 Employee Stock Purchase Plan ("2013 ESPP"), under which 143 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 ESPP is 85% of the lesser of the fair market value of the common stock on (1) the first trading day of the applicable offering period and (2) 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 ESPP automatically increases by an amount equal to 1% of the total outstanding shares as of immediately preceding December 31, but not to exceed 100 shares. Pursuant to terms of the 2013 ESPP, the shares available for issuance increased by 57 shares on January 1, 2018. During the three and six months ended June 30, 2018, 31 shares were issued under the 2013 ESPP. During the three and six months ended June 30, 2017, 15 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 expense of $1,030 and $918 for the three months ended June 30, 2018 and 2017, respectively, and $2,058 and $2,760 for the six months ended June 30, 2018 and 2017, respectively.

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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 for its Black-Scholes option-pricing model for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Dividend yield	—	—	—	—
Expected volatility	55.7%	47.3%	55.9%	47.3%
Risk-free interest rate	2.56%	2.03%	2.54%	2.03%
Expected life of options (in years)	4.00	6.25	4.00	6.25

During the three and six months ended June 30, 2018, the Company began estimating the expected volatility of its common stock and expected life of its stock options based on its own historical experience. The expected volatility reflects the actual historical volatility of the price of the Company's common stock since it began trading publicly in March 2013. The expected life represents the period of time that stock options are expected to be outstanding, based on historical exercise and employee departure behavior. Prior to 2018, the Company estimated its expected volatility using the historical stock volatilities of similar publicly-traded companies, and estimated the expected life based on the simplified method as allowed by the SEC staff. 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.

There were no exercises of stock options during the three and six months ended June 30, 2018 and 2017.

Compensation expense, net of estimated forfeitures, is recognized ratably over the requisite service period. As of June 30, 2018, there was $788 of unrecognized compensation cost related to stock options, which is expected to be recognized over a weighted-average period of 1.9 years.

RSUs

As of June 30, 2018, there was $6,547 of unrecognized compensation cost related to RSUs, which is expected to be recognized over a weighted-average period of 2.6 years. The Company uses the fair market value of the underlying common stock on the dates of grant to determine the fair value of 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 2013 ESPP using the Black-Scholes valuation model. The fair value of each purchase right under the 2013 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 six months ended June 30, 2018 was $204 and $528, respectively, on pre-tax losses of $8,072 and $16,860, respectively. As of June 30, 2018, the income tax rate varies from the federal income tax rate primarily due to valuation allowances in the United States and taxable income generated by the Company’s foreign wholly owned subsidiaries.

The Company reviews the likelihood that it will realize the benefit of its deferred tax assets and, therefore, the need for valuation allowances on a quarterly basis. There is no income tax benefit recognized with respect to losses incurred and no 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.

Tax positions taken by the Company are subject to audits by multiple tax jurisdictions. The Company accounts for uncertain tax positions and believes that it has provided adequate reserves for its unrecognized tax benefits for all tax years still open for assessment. The Company also believes that it does not have any tax position for which it is not

reasonably possible that the total amounts of uncertain tax positions will significantly increase or decrease within the next year. For the three and six months ended June 30, 2018 and 2017, the Company did not recognize any interest or penalties related to uncertain tax positions.

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The Tax Cuts and Jobs Act

On December 22, 2017, the United States enacted the TCJA, which instituted fundamental changes to the taxation of multinational corporations, including, but not limited to: (1) a reduction of the U.S. federal corporate income tax rate from 35% to 21% for tax years beginning after December 31, 2017; (2) the creation of new minimum taxes such as the base erosion anti-abuse tax ("BEAT") and Global Intangible Low Taxed Income ("GILTI") tax and (3) the transition of international taxation from a worldwide tax system to a modified territorial system, which will result in a one time U.S. tax liability on those earnings which have not previously been repatriated to the U.S. ("Transition Tax").

As a result of the reduced corporate income tax rate, the Company re-measured its deferred tax assets and liabilities and reduced them by $18,696 and $4,394, respectively, with a corresponding net adjustment to the valuation allowance of $14,302 for the year ended December 31, 2017.

The BEAT provisions in the TCJA essentially represent a 10% minimum tax (5% for tax years beginning after December 31, 2017, increasing to 10% for years beginning after December 31, 2018) calculated on a base equal to taxpayer's income determined without tax benefits arising from base erosion payments. BEAT does not apply to corporations with annual gross receipts for the three-taxable-year period, ending with the preceding taxable year, of less than $500,000. As a result, BEAT does not apply to the Company for the year ending December 31, 2018.

In addition, the TCJA imposes a U.S. tax on GILTI that is earned by certain foreign subsidiaries. Due to the complexity of the GILTI tax rules, the Company's accounting for GILTI is incomplete. The Company has not made any provisional adjustment related to potential GILTI tax on its condensed consolidated financial statements, and has not made a policy decision regarding whether to record deferred taxes related to GILTI.

The Transition Tax is imposed on previously untaxed historical earnings and profits of foreign subsidiaries. Based on the current evaluation of the Company's operations, no repatriation tax charge is anticipated due to negative earnings and profits in the Company's foreign subsidiaries.

The SEC staff issued SAB 118 to address the application of GAAP in situations when a registrant does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the TCJA. For the three months ended June 30, 2018, the accounting for the TCJA remained incomplete, but there were no material changes to the provisional tax impacts assessed for the year ended December 31, 2017. The accounting is expected to be completed when the Company's 2017 U.S. corporate income tax is filed in 2018.

As of June 30, 2018, the amounts recorded or anticipated for the TCJA remain provisional for the Transition Tax, the re-measurement of deferred taxes, the reassessment of permanently reinvested earnings uncertain tax positions and valuation allowances. These estimates may be impacted by further analysis and future clarification and guidance regarding available tax accounting methods and elections, earnings and profits computations and state tax conformity to federal tax changes, among other factors.

11. Net Loss Per Share Available to Common Stockholders

Basic net loss of common stock 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 excludes those shares subject to repurchase related to stock options or restricted stock that were exercised or issued, respectively, prior to vesting, as these shares are not deemed to be outstanding for accounting purposes until they vest. 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. Basic and diluted net loss per share was the same for all periods presented, as the impact of all potentially dilutive securities outstanding was anti-dilutive.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Numerator:				
Net loss available to common stockholders	$(8,276)	$(10,545)	$(17,388)	$(16,671)
Denominator:				
Weighted average number of shares, basic and diluted	5,767	5,640	5,751	5,572
Net loss per share available to common stockholders				
Basic and diluted net loss per common share available to common stockholders	$(1.44)	$(1.87)	$(3.02)	$(2.99)

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

	Three and Six Months Ended June 30,	
	2018	2017
Options to purchase common stock	548	466
Unvested RSUs	938	363
Common stock subject to repurchase	—	1
Total	1,486	830

12. Segment Reporting

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

See Note 2 for the Company’s revenues by geographic area, based on the billing location of the customer, for the periods presented. Long-lived assets, excluding goodwill and intangible assets, by geographic area were as follows for the periods presented:

	June 30, 2018	December 31, 2017
United States of America	$13,422	$ 15,069
International	410	490
Total long-lived assets, net	$13,832	$ 15,559

13. Commitments and Contingencies

Operating Leases

Rent expense for the three months ended June 30, 2018 and 2017 was $2,076 and $2,188, respectively, and for the six months ended June 30, 2018 and 2017 was $4,195 and $4,268, respectively.

Future minimum lease payments for significant operating leases, net of sublease payments from a portion of the Company's San Francisco and Portland office spaces, as of June 30, 2018, were as follows:

Remaining six months of 2018	$3,729
Year ending December 31, 2019	8,079
Year ending December 31, 2020	3,649
Year ending December 31, 2021	3,434
Year ending December 31, 2022 and thereafter	2,663
Total	$21,554

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Legal Matters

From time to time, the Company may be involved in lawsuits, claims, investigations and proceedings, consisting of intellectual property, commercial, employment and other matters, which arise in the ordinary course of business. In accordance with GAAP, the Company records a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impact of negotiations, settlements, ruling, advice of legal counsel and other information and events pertaining to a particular case. Litigation is inherently unpredictable. If any unfavorable ruling was to occur in any specific period or if a loss becomes probable and estimable, there exists the possibility of a material adverse impact on the Company’s results of operations, financial position or cash flows.

Indemnification

The Company enters into standard indemnification agreements in the ordinary course of business. Pursuant to the agreements, each party may indemnify, defend and hold the other party harmless with respect to such claim, suit or proceeding brought against it by a third party alleging that the indemnifying party’s intellectual property infringes upon the intellectual property of the third party, or results from a breach of the indemnifying party’s representations and warranties or covenants, or that results from any acts of negligence or willful misconduct. The term of these indemnification agreements is generally perpetual any time after execution of the agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. Historically, the Company has not been obligated to make significant payments for these obligations and no liabilities have been recorded for these obligations on the unaudited consolidated condensed balance sheet as of June 30, 2018 and audited consolidated balance sheet as of December 31, 2017.

The Company also indemnifies its officers and directors for certain events or occurrences, subject to certain limits, while the officer or director is or was serving at the Company’s request in such capacity. The maximum amount of potential future indemnification is unlimited; however, the Company has a directors and officers insurance policy that limits its exposure and enables the Company to recover a portion of any future amounts paid. Historically, the Company has not been obligated to make any payments for these obligations and no liabilities have been recorded for these obligations as of June 30, 2018 and December 31, 2017.

Other Contingencies

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

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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, results of operations and cash flows should be read in conjunction with the (1) unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, and (2) the audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the fiscal year ended December 31, 2017, included in our Annual Report on Form 10-K, as amended, for the fiscal year ended December 31, 2017, filed with the SEC on March 5, 2018. This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the "Exchange Act." These statements are often identified by the use of words such as "believe," "may," "potentially," "will," "estimate," "continue," "anticipate," "intend," "could," "should," "would," "project," "plan," "predict," "expect," "seek" and similar expressions or variations. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified herein, and those discussed in the section titled "Risk Factors", set forth in Part II, Item 1A of this Form 10-Q. Except as required by law, we disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Overview

We provide a leading cross-channel, cross-device, enterprise marketing software platform for search, social, display and eCommerce advertising channels, offered as a software-as-a-service, or SaaS, solution for advertisers and agencies. Our platform is an analytics, workflow and optimization solution for marketing professionals, allowing them to effectively manage their digital advertising spend across search, social and display channels. We market and sell our solutions to advertisers directly and through leading advertising agencies, and our customers collectively manage billions of dollars in advertising spend on our platform globally across a wide range of industries. Our solution is designed to help our customers:

- measure the effectiveness of their advertising campaigns through our proprietary reporting and analytics capabilities;

- manage and execute campaigns through our intuitive user interface and underlying technology that streamlines and automates key functions, such as advertisement creation and bidding, across multiple publishers and channels; and

- optimize campaigns across multiple publishers and channels based on market and business data to achieve desired revenue outcomes using our predictive bid management technology.

Components of Results of Operations

Revenues

We generate revenues principally from subscription contracts under which we provide advertisers with access to our search, social, display and eCommerce advertising management platform, either directly or through the advertiser's relationship with an agency with whom we have a contract. Under these subscription contracts, we charge fees generally based upon the amount of advertising spend that our customers manage through our platform.

Under our subscription contracts with most direct advertisers and some of our independent agency customers, customers contractually commit to a minimum monthly platform fee, which is generally greater than one-half of our estimated monthly revenues from these customers, at the time the contract is signed. Under most of our contracts with advertising agencies, the advertiser is not a party to the terms of the contract. Accordingly, most advertisers operating through network agencies do not have a minimum commitment to use our services, and the advertisers may be added or removed from our platform at the discretion of the respective network agency. Historically, our revenues earned from advertising agency customers have ranged between approximately one-third and one-half of our overall revenues.

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

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

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The majority of our revenues are derived from advertisers based in the United States. Advertisers from outside the United States represented 33% and 34% of total revenues for the three months ended June 30, 2018 and 2017, respectively, and 33% of total revenues for both the six months ended June 30, 2018 and 2017.

Effective January 1, 2018, we adopted Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* (Topic 606), or Accounting Standards Codification 606 ("ASC 606"), using the modified retrospective approach. See Note 2 of the accompanying unaudited condensed consolidated financial statements for further details regarding this adoption.

Cost of Revenues

Cost of revenues primarily includes personnel costs, consisting of salaries, benefits, bonuses and stock-based compensation for employees associated with our cloud infrastructure and global services for implementation and ongoing customer service. Certain personnel costs associated with implementation activities are deferred and amortized over an expected period of benefit of three years in accordance with ASC 606 (see Note 2 of the accompanying unaudited condensed consolidated financial statements for further details). Other costs of revenues include fees paid to contractors who supplement our support and data center personnel, expenses related to third-party data centers, depreciation of data center equipment, amortization of internally developed software, amortization of intangible assets and allocated overhead.

We are reducing our headcount and operating expenses to bring them in line with our revenues, while continuing to maintain our data center capacity and add new platform features.

Sales and Marketing Expenses

Sales and marketing expenses include personnel costs, sales commissions and other costs including travel and entertainment, marketing and promotional events, lead generation activities, public relations, marketing activities, professional fees and allocated overhead. All of these costs are expensed as incurred, except sales commissions, which are deferred and amortized over an expected period of benefit of three years in accordance with ASC 606 (see Note 2 of the accompanying unaudited condensed consolidated financial statements for further details). Our commissions plans provide that commission payments to our sales representatives are paid based on the key components of the applicable customer contract.

We expect that, in the future, sales and marketing expenses will decrease year over year in absolute dollars as we seek to realign our cost structure with future revenues.

Research and Development Expenses

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

Our research and development efforts are focused on enhancing our software architecture, adding new features and functionality to our platform and improving the efficiency with which we deliver these services to our customers. We expect that research and development expenses may decrease in absolute dollars as we seek to realign our cost structure with our future revenues.

General and Administrative Expenses

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

We expect our general and administrative expenses to decrease in absolute dollars in future periods as we seek to realign our cost structure with our future revenues.

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Results of Operations

The following table is a summary of our unaudited condensed consolidated statements of operations for the specified periods and results of operations as a percentage of our revenues for those periods. The period-to-period comparisons of results are not necessarily indicative of results for future periods. Percentage of revenues figures are rounded and therefore may not subtotal exactly.

	Three Months Ended June 30,				**Six Months Ended June 30,**			
	2018		**2017**		**2018**		**2017**	
	Amount	**% of Revenues**	**Amount**	**% of Revenues**	**Amount**	**% of Revenues**	**Amount**	**% of Revenues**
	(dollars in thousands)							
Revenues, net	$14,251	100 %	$18,742	100 %	$29,653	100 %	$39,075	100 %
Cost of revenues (1) (2) (3)	6,963	49	8,207	44	14,535	49	16,531	42
Gross profit	7,288	51	10,535	56	15,118	51	22,544	58
Operating expenses								
Sales and marketing (1) (2) (3)	6,154	43	6,710	36	13,535	46	13,386	34
Research and development (1) (2) (3)	5,817	41	6,646	35	11,972	40	13,784	35
General and administrative (1) (2) (3)	3,766	26	3,945	21	7,143	24	8,122	21
Impairment of goodwill	—	—	2,797	15	—	—	2,797	7
Total operating expenses	15,737	110	20,098	107	32,650	110	38,089	97
Loss from operations	(8,449)	(59)	(9,563)	(51)	(17,532)	(59)	(15,545)	(40)
Other income (expenses), net	377	3	(563)	(3)	672	2	(301)	(1)
Loss before provision for income taxes	(8,072)	(57)	(10,126)	(54)	(16,860)	(57)	(15,846)	(41)
Provision for income taxes	(204)	(1)	(419)	(2)	(528)	(2)	(825)	(2)
Net loss	$(8,276)	(58) %	$(10,545)	(56) %	$(17,388)	(59) %	$(16,671)	(43) %

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2018	**2017**	**2018**	**2017**
	(in thousands)			
Cost of revenues	$172	$152	$376	$463

Sales and marketing	271	200	511	412
Research and development	314	318	653	1,314
General and administrative	273	248	518	571

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2018	**2017**	**2018**	**2017**
	(in thousands)			
Cost of revenues	$233	$245	$470	$492
Sales and marketing	184	222	397	445
Research and development	234	244	471	491
General and administrative	—	10	3	23

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(3) Restructuring related expenses included in the unaudited condensed consolidated statements of operations data above was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Cost of revenues	$—	$ —	$139	$ —
Sales and marketing	48	—	545	—
Research and development	—	—	115	—
General and administrative	36	—	147	—

Adjusted EBITDA

Adjusted EBITDA is a financial measure not calculated in accordance with generally accepted accounting principles in the United States ("GAAP"). We define Adjusted EBITDA as net loss, adjusted for stock-based compensation expense, depreciation, the amortization of internally developed software, intangible assets and deferred costs to obtain and fulfill contracts, the capitalization of internally developed software, the deferral of costs to obtain and fulfill contracts, the impairment of goodwill and long-lived assets, interest expense, net, the provision for income taxes, other income or expenses, net and the non-recurring costs associated with acquisitions and restructurings. Adjusted EBITDA should not be considered as an alternative to net loss, operating loss or any other measure of financial performance calculated and presented in accordance with GAAP. We prepare Adjusted EBITDA to eliminate the impact of items that we do not consider indicative of our core operating performance. Investors are encouraged to evaluate these adjustments and the reasons we consider them appropriate.

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

Adjusted EBITDA is widely used by investors and securities analysts to measure a company's operating performance without regard to items, such as stock-based compensation expense, depreciation and amortization, capitalized software development costs, deferred costs associated with contracts, interest expense, net, benefit from or provision for income taxes, other income or expenses, net and costs associated with acquisitions and restructurings, that can vary substantially from company to company depending upon their financing, capital structures and the method by which assets were acquired;

Our management uses Adjusted EBITDA in conjunction with GAAP financial measures for bonus compensation and planning purposes, including the preparation of our annual operating budget, as a measure of operating performance

and the effectiveness of our business strategies and in communications with our Board concerning our financial performance; and

Adjusted EBITDA provides consistency and comparability with our past financial performance, facilitates period-to-period comparisons of operations and also facilitates comparisons with other peer companies, many of which use similar non-GAAP financial measures to supplement their GAAP results.

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

Depreciation and amortization are non-cash charges, and the assets being depreciated or amortized will often have to be replaced in the future; Adjusted EBITDA does not reflect any cash requirements for these replacements;

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

Adjusted EBITDA does not reflect cash requirements for income taxes and the cash impact of other income or expense; and

Other companies may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(in thousands)			
Net loss	$(8,276)	$(10,545)	$(17,388)	$(16,671)
Depreciation	759	1,263	1,557	2,599
Amortization of internally developed software	986	867	1,943	1,655
Amortization of intangible assets	651	721		