ACTIVE NETWORK INC
Form 10-Q
May 09, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED March 31, 2012

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

FOR THE TRANSITION PERIOD FROM TO

Commission file number: 001-35187

The Active Network, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**33-0884962**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**

10182 Telesis Court, Suite 100

San Diego, California 92121

(Address of Principal Executive Offices) (Zip Code)

(858) 964-3800

(Registrant s Telephone Number, Including Area Code)

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

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 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 , smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

As of April 30, 2012, the registrant had 58,498,530 shares of Common Stock ($0.001 par value) outstanding.

The Active Network, Inc.

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THE ACTIVE NETWORK, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

	March 31, 2012 (Unaudited)	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 95,014	$ 108,699
Restricted cash	1,502	1,502
Accounts receivable, net	85,154	66,469
Inventories	3,080	1,662
Prepaid expenses and other current assets	7,288	6,179
Total current assets	192,038	184,511
Property and equipment, net	34,416	33,830
Software development costs, net	46,816	45,093
Goodwill	243,797	243,320
Intangible assets, net	83,489	90,340
Deposits and other assets	1,971	2,133
Total assets	$ 602,527	$ 599,227
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 8,293	$ 8,516
Registration fees payable	110,174	72,405
Accrued expenses	42,775	41,106
Deferred revenue	66,270	54,919
Current portion of debt	10,000	5,000
Capital lease obligations, current portion	2,385	3,317
Other current liabilities	4,113	42,613
Total current liabilities	244,010	227,876
Capital lease obligations, net of current portion	1,023	1,652
Other long-term liabilities	5,862	6,147
Deferred tax liability	17,608	16,913
Total liabilities	268,503	252,588
Commitments and contingencies (Note 12)		
Stockholders equity:		
Preferred stock, $0.001 par value authorized, 100,000 shares; no shares issued and outstanding		
Common stock, $0.001 par value authorized, 1,000,000; issued, 59,943 and 58,219; outstanding, 58,167 and 56,443	60	58
Treasury stock (at cost, 1,776 shares)	(11,959)	(11,959)
Additional paid-in capital	632,710	625,875
Accumulated other comprehensive income	8,809	7,923

Accumulated deficit	(295,596)	(275,258)
Total stockholders equity	334,024	346,639
Total liabilities and stockholders equity	$ 602,527	$ 599,227

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

3

Table of Contents

THE ACTIVE NETWORK, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net Revenue:		
Technology revenue	$ 84,120	$ 63,108
Marketing services revenue	10,318	9,604
Total net revenue	94,438	72,712
Cost of net revenue:		
Cost of technology revenue	45,655	32,988
Cost of marketing services revenue	1,316	1,162
Total cost of net revenue	46,971	34,150
Gross profit	47,467	38,562
Operating expenses:		
Sales and marketing	25,024	16,940
Research and development	21,209	16,176
General and administrative	16,544	10,588
Amortization of intangibles	5,692	3,703
Total operating expenses	68,469	47,407
Loss from operations	(21,002)	(8,845)
Interest income	25	30
Interest expense	(151)	(1,284)
Other income (expense), net	1,401	(51)
Loss before provision for income taxes	(19,727)	(10,150)
Provision for income taxes	611	792
Net loss	(20,338)	(10,942)
Accretion of redeemable convertible preferred stock		(7,410)
Net loss attributable to common stockholders	$ (20,338)	$ (18,352)
Net loss per share attributable to common stockholders:		
Basic and diluted	$ (0.36)	$ (2.16)
Weighted-average shares used to compute net loss per share attributable to common stockholders:		
Basic and diluted	56,982	8,514

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

4

Table of Contents

THE ACTIVE NETWORK, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net loss	$ (20,338)	$ (10,942)
Other comprehensive income:		
Foreign currency translation	886	1,451
Total other comprehensive income	886	1,451
Comprehensive loss	$ (19,452)	$ (9,491)

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

5

Table of Contents

THE ACTIVE NETWORK, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Operating activities		
Net loss	$ (20,338)	$ (10,942)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	14,976	10,671
Allowance for doubtful accounts	73	338
Gain on contingent consideration	(1,086)	
Amortization of debt financing costs	54	
Stock-based compensation expense	3,029	744
Deferred tax liability	640	787
Accretion of discount on debt		113
Change in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable	(18,647)	(11,704)
Inventories	(1,418)	
Prepaid expenses and other assets	(1,049)	(1,301)
Accounts payable	(427)	867
Registration fees payable	37,769	40,524
Accrued expenses	3,145	7,046
Income taxes payable	249	
Deferred revenue	11,319	1,458
Deferred rent	186	658
Net cash provided by operating activities	28,475	39,259
Investing activities		
Purchases of property and equipment	(5,849)	(3,076)
Software development costs	(5,285)	(4,570)
Cash (paid) received for acquisitions, net of cash acquired	(38,037)	520
Net cash used in investing activities	(49,171)	(7,126)
Financing activities		
Proceeds from exercise of stock options and common stock warrants	3,722	914
Payments on capital lease obligations	(1,561)	(145)
Repayment of long-term obligations		(3,364)
Proceeds from debt	5,000	
Deferred cost of initial public offering		(250)
Repurchase of unvested common stock		(13)
Net cash provided by (used in) financing activities	7,161	(2,858)
Effect of exchange rates on cash	(150)	115
Net increase (decrease) in cash and cash equivalents	(13,685)	29,390
Cash and cash equivalents at beginning of period	108,699	31,441
Cash and cash equivalents at end of period	$ 95,014	$ 60,831

Supplemental disclosures of cash flow information				
Cash paid during the period for interest	$	97	$	1,021
Cash paid during the period for taxes	$	149	$	
Supplemental disclosures of noncash financing and investing activities				
Fixed asset purchases included in accounts payable	$	1,812	$	1,127
Acquisition of equipment and software under capital leases	$		$	397

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

Table of Contents

The Active Network, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Business

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

2. Basis of Presentation

Principles of Consolidation

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

Unaudited Interim Financial Information

The accompanying condensed consolidated balance sheet as of March 31, 2012, the condensed consolidated statements of operations for the three months ended March 31, 2012 and 2011 and condensed consolidated statements of cash flows for the three months ended March 31, 2012 and 2011 are unaudited. The unaudited condensed consolidated interim financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company s financial condition and results of operations and cash flows for the three months ended March 31, 2012 and 2011. The financial data and other information disclosed in these notes to the condensed consolidated financial statements related to the three months ended March 31, 2012 and 2011 are unaudited. The results of operations for the three months ended March 31, 2012 are not necessarily indicative of the results to be expected for fiscal year 2012 or for any other interim period or for any other future year. These unaudited condensed consolidated financial statements and notes hereto should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

Use of Estimates

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

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued an update to increase the prominence of items reported in other comprehensive income. This update eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders equity and requires an entity to present comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance is effective for interim and annual periods beginning after December 15, 2011, and is to be applied retrospectively. The adoption of this guidance affected the presentation of other comprehensive income but did not affect the Company s financial position or results of operations.

In September 2011, the FASB issued revised guidance to simplify how entities test goodwill for impairment. Under the revised guidance, entities have the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If, after assessing qualitative factors, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. The updates are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 with early adoption permitted. The Company will adopt this revised guidance during the annual goodwill impairment test in the year ended December 31, 2012, and does not expect that the adoption will have a material effect on the Company s consolidated financial statements.

3. Business Combinations

Acquisition of StarCite, Inc.

On December 30, 2011, the Company completed the acquisition of all of the outstanding shares of StarCite, Inc. (StarCite), a provider of a technology platform that delivers content and services for meetings and event planning to corporations, hotels, venues and meetings suppliers for consideration of $57.6 million in cash, shares of the Company s common stock, and contingently issuable shares of the Company s common stock. The acquisition enables the Company to provide an integrated solution for the events space and broaden its customer base.

Table of Contents

Total consideration comprised $38.1 million in cash, 1,350,000 shares of common stock with a fair value of approximately $18.4 million and 150,000 shares of contingently issuable common stock with an acquisition date fair value of approximately $1.1 million to be issued in the event that the Company s shares of common stock do not close trading at or above $15.00 per share on the New York Stock Exchange for at least three consecutive days at any time during the sixty day period following the effective date of a registration statement filed to register the shares issued, pursuant to the agreement and plan of merger. The estimated fair value of the contingent consideration was determined using the Monte Carlo Simulation approach, which involves key assumptions including the estimated contingency period, volatility of the common stock and the probability of achieving the targeted price and was included in current liabilities in the consolidated balance sheets. As of March 31, 2012, the estimated fair value of the contingent consideration was less than $0.1 million. The change in the estimated fair value of the contingent consideration was recorded in other income in the Company s condensed consolidated statements of operations. This estimated fair value of the contingent consideration may differ from the amount that is ultimately payable with any changes in the liability recorded as acquisition-related costs in the Company s consolidated statements of operations until the common stock has been registered.

The acquisition agreement included an initial escrow of approximately $0.3 million in cash to cover potential expenses of the securityholders agent and 300,000 common shares valued at approximately $4.1 million, based on the closing price of the Company s common stock on the last trading day of fiscal 2011 to satisfy any claims under the indemnification provisions of the agreement for a period of 12 months following the acquisition date. The purchase price is also subject to adjustment based on certain minimum closing working capital thresholds defined under the purchase agreement, which are expected to be settled in the first half of fiscal 2012.

As of the date of this Quarterly Report on Form 10-Q, the Company is still finalizing the estimated fair value of assets acquired and liabilities assumed. The primary areas of those preliminary estimates that are not yet finalized related to certain tangible liabilities acquired and identifiable intangible assets, which is expected to be completed during 2012. The estimated fair value of assets acquired and liabilities assumed for the StarCite acquisition, as of the date of the acquisition, is as follows (in thousands) (unaudited):

Cash	$ 572
Restricted cash	692
Accounts receivable	14,566
Prepaid and other assets	1,301
Fixed assets	1,912
Goodwill	21,780
Intangible assets	36,500
Accounts payable	(1,398)
Accrued expenses	(5,459)
Deferred revenue	(11,286)
Capital lease obligations	(480)
Other liabilities	(370)
Unfavorable leases	(695)
Total purchase price	$ 57,635

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

	Gross Amount at Acquisition Date	Amortization Period
Trademarks	$ 5,100	9 years
Customer relationships	17,300	9 years
Customer contracts	6,800	3 years
Complete technology	6,500	9 years
Non-compete agreements	800	1 year
	$ 36,500	

Goodwill of $21.8 million, none of which is deductible for tax purposes, represents the excess of the purchase price over the estimated fair value assigned to tangible and identifiable intangible assets acquired and liabilities assumed from StarCite. The carrying amount of goodwill is allocated to the technology operating segment of the Company.

Table of Contents

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

Pro Forma Financial Information (unaudited)

The following table presents the unaudited pro forma results for the three months ended March 31, 2012 and 2011. The unaudited pro forma financial information combines the results of operations of the Company and StarCite as though the companies had been combined as of the beginning of fiscal 2011. The pro forma financial information for all periods presented also includes the business combination accounting effects resulting from these acquisitions including amortization charges from acquired intangible assets as though StarCite was combined as of the beginning of fiscal year 2011. The pro forma financial information as presented below is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition of StarCite had taken place at the beginning of fiscal year 2011.

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
	(Unaudited) (In thousands, except per share data)	
Net revenue	$ 94,438	$ 83,575
Net loss attributable to common shareholders	$ (20,338)	$ (22,767)
Basic and diluted net loss per share attributable to common shareholders	$ (0.36)	$ (2.31)

Acquisition of RTP, LLC

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

The acquisition agreement included an initial escrow of approximately $2.1 million of the total purchase price consideration to satisfy any claims under the indemnification provisions of the agreement for a period of 18 months from the acquisition date. The purchase price is also subject to adjustment based on certain minimum closing working capital thresholds defined under the purchase agreement, which are expected to be settled in the first half of fiscal 2012.

As of the date of this Quarterly Report on Form 10-Q, the Company is still finalizing the estimated fair value of assets acquired and liabilities assumed. The primary areas of those preliminary estimates that are not yet finalized related to certain tangible assets acquired and identifiable intangible assets, which is expected to be completed during 2012. The estimated fair value of assets acquired and liabilities assumed for the RTP acquisition, as of the date of the acquisition, is as follows (in thousands) (unaudited):

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

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

	Gross Amount at Acquisition Date	Amortization Period
Trademarks	$ 1,350	5 years
Customer relationships	9,700	13 years
Customer contracts	510	2 years
Complete technology	2,900	9 years
Non-compete agreements	1,500	3 years
	$ 15,960	

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

Acquisition of ServiceU

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

As of the date of this Quarterly Report on Form 10-Q, the Company is still finalizing the estimated fair value of assets acquired and liabilities assumed. The primary areas of those preliminary estimates that are not yet finalized related to certain tangible assets acquired and identifiable intangible assets, which is expected to be completed during 2012. The estimated fair value of assets acquired and liabilities assumed for the ServiceU acquisition, as of the date of the acquisition, is as follows (in thousands) (unaudited):

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

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

	Gross Amount at Acquisition Date	Amortization Period

Trademarks	$	250	2 years
Customer relationships		8,300	14 years
Complete technology		1,229	6 years
Non-compete agreements		598	3 years
	$	10,377	

Table of Contents

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

Fellowship Technologies, Inc.

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

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

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

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

	Gross Amount at Acquisition Date	Amortization Period
Trademarks	$ 197	3 years
Customer contract/relationships	2,730	4 years
Complete technology	641	4 years
	$ 3,568	

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

Other Business Combinations

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

Cash	$ 14
Accounts receivable	145
Prepaid and other assets	12
Goodwill	1,362
Intangible assets	3,427
Accounts payable	(20)
Accrued expenses	(27)
Deferred revenue	(296)
Total purchase price	$ 4,617

Table of Contents

The acquisitions were accounted for as purchase business combinations. The excess of the purchase price over the aggregate fair value was recorded as goodwill, which is deductible for tax purposes. The following table summarizes the identifiable intangible assets acquired as of the date of the acquisition (dollars in thousands):

	Gross Amount at Acquisition Date	Amortization Period
Customer contract/relationships	$ 3,392	3 years
Complete technology	35	3 years
	$ 3,427	

4. Fair Value Measurements

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

The Company s assets and liabilities that are measured at fair value as of March 31, 2012 are as follows (in thousands):

	March 31, 2012			
	Level 1	Level 2	Level 3	Total
Accrued liabilities:				
Contingent consideration associated with business combination (Note 3)	$	$	$ 38	$ 38

The Company s assets and liabilities that are measured at fair value as of December 31, 2011 are as follows (in thousands):

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Accrued liabilities:				
Contingent consideration associated with business combination (Note 3)	$	$	$ 1,124	$ 1,124

Level 3 liabilities include contingent consideration payables to selling shareholders, the values of which were determined based on the probability of achieving specific targets. Any change in the fair value of the contingent milestone consideration subsequent to the acquisition date will be recognized in earnings. This fair value measurement is based on significant inputs not observed in the market and thus represents a Level 3 measurement. Level 3 instruments are valued based on unobserved inputs that are supported by little or no market activity and reflect the Company s own assumptions in measuring fair value.

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

		Contingent Consideration
Balance at December 31, 2011		1,124
Changes in fair value of contingent consideration		(1,086)
Balance at March 31, 2012	$	38

Table of Contents

5. Accounts Receivable and Allowance for Doubtful Accounts

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

	March 31, 2012	December 31, 2011
Accounts receivable	$ 49,123	$ 54,101
Registration receivable	37,614	14,006
Less: Allowance for doubtful accounts	(1,583)	(1,638)
Accounts receivable, net	$ 85,154	$ 66,469

The Company performs ongoing credit evaluations of its customers financial condition and generally requires no collateral from its customers. Allowances for doubtful accounts are established based on various factors including credit profiles of the Company s customers, contractual terms and conditions, historical payments, returns and discounts experience and current economic trends. The Company reviews its allowances by assessing individual accounts receivable over a specific aging and amount, and all other balances on a pooled basis based on historical collection experience. Accounts receivable are written off on a case-by-case basis, net of any amounts that may be collected. The Company had write-offs of the allowance for doubtful accounts of $0.4 million and $0.3 million during three months ended March 31, 2012 and 2011, respectively.

6. Property and Equipment

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

	March 31, 2012	December 31, 2011
Computer and software	$ 67,815	$ 63,947
Furniture and fixtures	9,363	10,586
Leasehold improvements	5,163	3,438
Total	82,341	77,971
Less: Accumulated depreciation	(47,925)	(44,141)
Property and equipment, net	$ 34,416	$ 33,830

Depreciation expense was $3.8 million and $3.4 million for the three months ended March 31, 2012 and 2011, respectively.

Included in fixed assets are $9.5 million of equipment under capital lease at March 31, 2012 and December 31, 2011, respectively. Accumulated amortization of assets under capital lease totaled $6.1 million and $5.5 million at March 31, 2012 and December 31, 2011, respectively.

7. Software Development Costs

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

	March 31, 2012	December 31, 2011
Software development costs	$ 71,464	$ 65,696
Less: Accumulated amortization	(24,648)	(20,603)

Software development costs, net	$ 46,816	$ 45,093

Amortization expense was $4.0 million and $2.2 million for the three months ended March 31, 2012 and 2011, respectively.

Table of Contents

8. Goodwill

The change in the carrying amount of goodwill for the three months ended March 31, 2012 is as follows (in thousands):

	Technology Services	Marketing Services	Total
Balance at December 31, 2011	$ 230,602	$ 12,718	$ 243,320
Adjustments related to prior year acquisitions	(87)		(87)
Effect of exchange rate changes	564		564
Balance at March 31, 2012	$ 231,079	$ 12,718	$ 243,797

Adjustments to goodwill during the three months ended March 31, 2012 represent contingent consideration and net asset settlement adjustments recorded during the year that related to acquisitions made in the preceding year.

9. Intangible Assets

Intangible assets are amortized using a combination of straight-line and accelerated methods based on the expected cash flows from the assets.

The carrying values of amortized intangible assets are as follows (in thousands):

	March 31, 2012			December 31, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intellectual property	$ 29,084	$ (14,296)	$ 14,788	$ 36,609	$ (20,351)	$ 16,258
Non-compete agreements	2,917	(527)	2,390	3,850	(1,085)	2,765
Customer relationships	48,901	(9,914)	38,987	67,891	(26,799)	41,092
Trade names	13,419	(2,778)	10,641	16,568	(5,566)	11,002
Customer contracts	48,188	(31,505)	16,683	52,219	(32,996)	19,223
	$ 142,509	$ (59,020)	$ 83,489	$ 177,137	$ (86,797)	$ 90,340

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

	Three Months Ended March 31,	
	2012	2011
Cost of technology revenue	$ 1,348	$ 1,257
Cost of marketing services revenue	117	136
Operating expenses	5,692	3,703
Total	$ 7,157	$ 5,096

10. Accrued Expenses

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

	March 31, 2012	December 31, 2011
Accrued compensation	$ 20,949	$ 17,875
Sales and other foreign taxes	5,311	5,006
Accrued penalties	3,294	3,154
Accrued rebates	1,881	1,846
Other	11,340	13,225
Accrued expenses	$ 42,775	$ 41,106

As of March 31, 2012, accrued compensation was comprised of accrued salaries of $11.0 million, accrued personal time off of $3.3 million, accrued self-insurance of $1.1 million, amounts payable for 401K contributions of $0.3 million, deferred bonuses of $4.2 million, and accumulated employee deductions for stock purchase under the Company s Employee Stock Purchase Plan of $1.0 million. As of December 31, 2011, accrued compensation was comprised of accrued salaries of $10.7 million, accrued personal time off of $1.0 million, accrued self-insurance of $0.8 million, amounts payable for 401K contributions of $0.1 million, deferred bonuses of $4.9 million, and accumulated employee deductions for stock purchase under the Company s Employee Stock Purchase Plan of $0.4 million.

Table of Contents

11. Long-Term Debt

2011 Credit Agreement

In December 2011, the Company entered into a five-year, senior secured revolving credit facility, with certain institutional lenders, for an initial aggregate principal amount of $50 million (the Credit Facility). The Credit Facility has a maturity date of December 16, 2016, but the outstanding amounts may be prepaid at any time without penalty or premium (except for certain customary break funding payments in connection with LIBOR loans) and is available to fund acquisitions and ongoing operations.

The Credit Facility also includes an accordion feature which allows the Company, subject to certain terms and conditions, to increase the lending commitments by up to $25 million.

Any advance under the Credit Facility will accrue interest at rates per annum that are equal to, based on certain conditions, either (a) 1.5% above the applicable LIBOR rate, or (b) 0.5% above (i) the greatest of (x) the prime rate, (y) the federal funds effective rate plus 0.5% or (z) a daily rate equal to one-month LIBOR plus 1.00%. The unused portion of the Credit Facility will also be subject to an unused fee that will be calculated at a per annum rate of 0.25%. The interest rate under the Credit Facility was 2.08% and 3.75% as of March 31, 2012 and December 31, 2011, respectively.

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

The Company had $10.0 million and $5.0 million outstanding, under the Credit Facility at March 31, 2012 and December 31, 2011, respectively. There was $32.2 million and $39.8 million available under the Credit Facility as of March 31, 2012 and December 31, 2011, respectively.

12. Commitments and Contingencies

Operating Leases

The Company leases its office and datacenter facilities under noncancelable leases that expire at various times through 2021. The Company is also responsible for certain real estate taxes, utilities and maintenance costs on its office facilities. Rent expense was approximately $3.4 million and $2.7 million for three months ended March 31, 2012 and 2011, respectively.

Guarantees

The Company enters into arrangements with third-party customers to guarantee performance by the Company. The Company may provide a corporate guarantee, irrevocable letter of credit, surety bond or any other form of guarantee acceptable to the third-party customer. As of March 31, 2012 and December 31, 2011, the Company had guarantees of $16.4 and $14.2 million, respectively.

Sales and Use Tax

The Company accrues for sales and use taxes in certain states. The Company performed an analysis of its potential liability in states where it had not previously remitted these taxes. Based on the results of the analysis, the Company established a reserve for estimated claims from states where sales and use tax had not been remitted of $4.6 million and $4.3 million at March 31, 2012 and December 31, 2011, respectively.

Income Tax Assessment

The Company s Canadian subsidiary received a tax assessment from the Canadian Revenue Agency related to the 2005, 2006 and 2007 tax years with a net cash impact of approximately $0.9 million due to the transfer pricing methodology used related to royalties paid by the Company s Canadian subsidiary to the Company. In addition to the amounts assessed, it is possible that the Company could also be assessed for interest and penalties on the tax assessment. The Company believes that it has a good defense against this matter and does not believe it is more likely than not a loss will be incurred.

Indemnification

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

Table of Contents

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

Loss Contingencies

The Company is subject to the possibility of various loss contingencies arising in the ordinary course of business. Management considers the likelihood of loss or impairment of an asset or the incurrence of a liability, as well as its ability to reasonably estimate the amount of loss, in determining loss contingencies. An estimated loss contingency is accrued when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The Company regularly evaluates current information available to its management to determine whether such accruals should be adjusted and whether new accruals are required.

In the normal course of business, the Company may incur penalties from customers related to power outages or other technical disruptions. As a result of this potential exposure, the Company accrued liabilities of $3.3 million and $3.2 million as of March 31, 2012 and December 31, 2011, respectively. Penalties are reflected as a reduction in revenue or as an increase to cost of revenue in the Company s condensed consolidated statements of operations.

In December 2010, the Company became aware of a security breach in one of the legacy computer systems it acquired in an acquisition. This breach could potentially result in an unauthorized acquisition and use of credit card data and could result in assessments or damages from claims asserted by organizers or participants. The Company has performed an internal investigation to assess the potential exposure of the breach and determined it to be insignificant; accordingly, no amounts have been accrued as of March 31, 2012 or December 31, 2011. To date the Company has paid approximately $0.1 million in assessments associated with this breach.

13. Legal Proceedings

From time to time, the Company is involved in disputes, litigation and other legal actions. The Company records a charge equal to at least the minimum estimated liability for a loss contingency only when both of the following conditions are met: (i) information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements, and (ii) the range of loss can be reasonably estimated. The actual liability in any such matters may be materially different from the Company s estimates, which could result in the need to adjust the liability and record additional expenses. The Company has not recorded an accrual for any potential losses as of March 31, 2012 or December 31, 2011.

14. Stockholders Equity

Common Stock

Holders of common stock are entitled to dividends if and when declared by the Board of Directors and after obtaining the majority consent of preferred stockholders.

Each share of common stock has the right to one vote per share. Each restricted stock purchase right has the right to one vote per share and the right to receive dividends or other distributions paid or made with respect to common shares, subject to restrictions for continued employment service.

15. Stock Plans and Stock-Based Compensation

Employee Stock Purchase Plan

In April 2011, the Company s stockholders approved the 2011 Employee Stock Purchase Plan (the 2011 ESPP Plan), which became effective upon the Company s initial public offering (IPO) in May 2011. The 2011 ESPP Plan allows participating employees to contribute up to 20% of their earnings, up to a maximum of $25,000 per annum, to purchase shares of the Company s common stock at a price per share equal to the lower of (a) 85% of the fair market value of a share of the Company s common stock on the first date of the offering period, or (b) 85% of the fair market value of a share of the Company s common stock on the date of purchase. The Company s compensation committee may specify offerings with durations of not more than 27 months, and may specify shorter purchase periods within each offering. Each offering will have one or more purchase dates on which shares of the Company s common stock will be purchased for employees participating in the offering. As of March 31, 2012 and December 31, 2011, there were 1,635,857 and 1,071,424 shares of common stock available for issuance under the 2011 ESPP Plan, respectively. As defined by the authoritative guidance for stock-based compensation, the 2011 ESPP Plan is a compensatory plan, and therefore, stock-based compensation expense related to the ESPP Plan is recorded in the Company s condensed consolidated statements of operations.

Table of Contents

Employee Stock Purchase Plan Activity

The Company s first offering period of the 2011 ESPP Plan began in August 2011. The fair value of each purchase option under the 2011 ESPP Plan is estimated at the beginning of each six-month purchase period using the Black-Scholes model with the following weighted-average assumptions:

	Three Months Ended March 31, 2012
Volatility	57.9%
Expected dividend yield	
Risk-free rate	0.1%
Expected term (in years)	0.5

The weighted-average estimated fair value of employee stock purchase plan shares to be issued in conjunction with the offering period occurring during the three months ended March 31, 2012 was $4.83 per share.

As of March 31, 2012, total unrecognized compensation cost related to nonvested stock-based compensation arrangements granted under the 2011 ESPP Plan was $0.1 million, which is expected to be recognized over a weighted-average period of less than six months.

Stock Incentive Plans

In January 2002, the Company adopted the 2002 Stock Option Plan (the 2002 Plan) and retired the 1999 Stock Option Plan (the 1999 Plan) and assumed certain options under the 1999 Plan. Grants under the 2002 Plan may be incentive stock options or nonqualified stock options. The 2002 Plan is administered by the Company s compensation committee, which has the authority to designate participants and determine the number and type of awards to be granted, the time at which awards are exercisable, the method of payment and any other terms or conditions of the awards. The vesting of these awards vary subject to the participant s period of future service, or otherwise at the discretion of the compensation committee. The majority of awards issued under the 2002 Plan vests over two to four years, and has a term of ten years. Upon the Company s IPO in May 2011, the Company s ability to grant awards under the 2002 Plan was terminated. As of March 31, 2012 and December 31, 2011, options to purchase 9,399,271 shares and 11,201,208 shares of common stock were outstanding under the 2002 Plan, respectively. The 2002 Plan will continue to govern the terms and conditions of the outstanding equity awards granted under the 2002 Plan.

In April 2011, the Company s stockholders approved the 2011 Equity Incentive Plan (the 2011 Plan), which became effective upon the Company s IPO. The 2011 Plan provides for the grant of incentive stock options, nonqualified stock options, restricted stock purchase rights, restricted stock bonuses, restricted stock units (RSUs), performance shares, performance restricted stock units (PRSUs), cash-based awards and other stock-based awards. The 2011 Plan is administered by the Company s compensation committee, which has the authority to designate participants and determine the number and type of awards to be granted, the time at which awards are exercisable, the method of payment and any other terms and conditions of the awards. Stock options expire on terms as determined by the compensation committee, but not more than ten years after the date of grant. The majority of awards issued under the 2011 Plan vests over one to four years. Incentive stock options may be granted only to employees (including officers and directors who are employees). Nonqualified stock options, restricted stock purchase rights, restricted stock bonuses, restricted stock units, performance units, cash-based awards and other stock-based awards may be granted to employees and consultants. The maximum number of shares of common stock issuable pursuant to the 2011 Plan is 6,945,244, plus the shares of common stock subject to options or awards outstanding pursuant to the 2002 Plan that expire, terminate, cancel, or are forfeited or are repurchased after the adoption of the 2011 Plan. As of March 31, 2012 and December 31, 2011, there were 4,881,123 shares and 3,298,733 shares available for grant under the 2011 Plan, respectively. As of March 31, 2012 and December 31, 2011, options to purchase 874,460 shares and 403,600 shares of common stock were outstanding under the 2002 Plan, respectively.

Early Exercise of Stock Options

The Company issued 50,408 shares of common stock during the three months ended March 31, 2011 for stock options exercised prior to vesting. The unvested shares are subject to the Company s repurchase right at the lesser of the original exercise price or market price. The proceeds from the early exercise of stock options are recorded in other long-term liabilities and reclassified to common stock as the shares vest and the Company s repurchase rights lapse. No shares of common stock were issued for stock options exercised prior to vesting during the three months ended March 31, 2012.

There were 356,613 and 415,017 shares held by employees which were subject to repurchase for early exercise of stock options at an aggregate purchase price of $0.7 million and $0.8 million at March 31, 2012 and December 31, 2011, respectively.

Table of Contents

Stock Option Activity

Stock option activity for the three months ended March 31, 2012 is as follows (in thousands, except share, per share and term data):

Stock Options	Number of Shares Underlying Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2011	11,604,808	$ 3.71	6.74	$ 115,144
Granted	498,360	16.25		
Exercised	(1,724,194)	2.16		
Cancelled or expired	(105,243)	7.11		
Outstanding at March 31, 2012	10,273,731	$ 4.54	6.81	$ 126,301
Options exercisable at March 31, 2012	9,409,252	$ 3.55	6.54	$ 124,925
Options vested and expected to vest at March 31, 2012	9,843,280	$ 4.38	6.70	$ 122,609

The aggregate intrinsic value represents the difference between the quoted closing market price of the Company s common stock and the exercise price of outstanding, in-the-money options. The Company s fair value of its common stock was $16.83 and $13.78 as of March 31, 2012 and 2011, respectively. The total intrinsic value of options exercised was approximately $23.0 million and $2.7 million for the three months ended March 31, 2012 and 2011, respectively.

The weighted-average grant date fair value of options granted was $7.32 and $3.73 for the three months ended March 31, 2012 and 2011, respectively.

Total unrecognized compensation cost, adjusted for estimated forfeitures, related to nonvested stock options was approximately $18.3 million as of March 31, 2012 and is expected to be recognized over a weighted-average period of 3.0 years.

Valuation of Stock Option Awards

The following table presents the weighted-average assumptions used to estimate the fair value of stock options granted in the periods presented:

	Three Months Ended March 31, 2012	2011
Volatility	51.8-52.7%	48.8-49.2%
Expected dividend yield		
Risk-free rate	0.8-1.1%	1.8-2.2%
Expected term (in years)	5.0	4.8

Restricted Stock Activity

A summary of restricted stock activity during the three months ended March 31, 2012, is presented as follows:

Restricted Stock	Number of Shares	Weighted-Average Remaining

		Contractual Term
Nonvested at December 31, 2011	663,127	3.74
Granted (RSUs)	779,561	
Granted (PRSUs)	67,099	
Vested		
Forfeited		
Nonvested at March 31, 2012	1,509,787	2.04

Table of Contents

Restricted stock unit awards granted vest annually over a one to four-year period following the date of grant, subject to the participant s continued service through the applicable vesting dates. The number of shares subject to PRSUs granted represents the aggregate target awards for such PRSUs. The number of shares ultimately issued will be determined based on the Company s performance and individual performance related to revenue and operational targets. The shares, if any, will be issued following the end of the applicable performance period.

The Company measures the fair value of restricted awards at the closing stock price of the Company s common stock on the date of grant, and the fair value is recognized as expense over the requisite service period. The per unit weighted-average grant date fair value of RSUs granted was $17.04 for the three months ended March 31, 2012. The per unit weighted-average grant date fair value of PRSUs granted was $15.75 for the three months ended March 31, 2012. No RSUs or PRSUs were granted during the three months ended March 31, 2011.

At March 31, 2012, remaining unrecognized compensation cost related to restricted stock was $23.0 million and is expected to be recognized over a weighted-average period of 3.3 years.

Stock-Based Compensation Expense

The following table presents the effects of stock-based compensation related to stock-based awards to employees on the Company s condensed consolidated statements of operations during the periods presented (in thousands):

	Three Months Ended March 31,	
	2012	**2011**
Cost of revenue	$ 60	$ 16
Sales and marketing	696	187
Research and development	452	118
General and administrative	1,821	423
Total stock-based compensation	$ 3,029	$ 744

The components of stock-based compensation expense were as follows (in thousands):

	Three Months Ended March 31,	
	2012	**2011**
Stock options	$ 2,168	$ 685
Restricted stock	655	59
PRSUs	36	
ESPP	170	
Total stock-based compensation	$ 3,029	$ 744

16. Net Loss Attributable to Common Stockholders

Basic net loss per share attributable to common stockholders is presented in conformity with the two-class method required for participating securities. Prior to the IPO, holders of Redeemable Convertible Preferred shares were each entitled to receive 8% per annum cumulative dividends, payable prior and in preference to any dividends on any other shares of the Company s capital stock.

Under the two-class method, basic net loss per share attributable to common stockholders is computed by dividing the net loss attributable to common stockholders by the weighted average number of common shares outstanding during the period.

The following tables present the calculation of basic and diluted net loss per share attributable to common stockholders (in thousands, except per share data):

	Three Months Ended March 31, 2012	2011
Net loss per share:		
Net loss	$ (20,338)	$ (10,942)
Less: accretion of redeemable convertible preferred stock		(7,410)
Net loss attributable to common stockholders	$ (20,338)	$ (18,352)
Weighted-average common shares outstanding:		
Basic and diluted	56,982	8,514
Net loss per share attributable to common stockholders:		
Basic and diluted	$ (0.36)	$ (2.16)

Table of Contents

Potentially dilutive securities not included in the calculation of diluted net loss per share because their effect would have been anti-dilutive for the periods presented is as follows:

	Three Months Ended March 31, 2012	2011
Options to purchase common stock and common stock subject to repurchase	11,168,550	12,490,502
Restricted stock	697,012	51,758
Employee stock purchase plan shares	72,966	
Convertible Preferred		8,807,090
Redeemable Convertible Preferred		25,824,801
Common stock warrants	634	247,711
Common stock issuable upon conversion of debt		287,601
	11,939,162	47,709,463

17. Segment Information

The Company s Chief Executive Officer who is considered to be the chief operating decision maker (CODM) reviews financial information presented on a consolidated basis, accompanied by information about operating segments for purposes of making operating decisions and assessing financial performance. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the CODM in deciding how to allocate resources and in assessing performance.

The Company determined its operating segments to be technology, which derives substantially all of its revenue from the sale of direct selling services through a hosted software solution, and marketing services, which derives substantially all of its revenue from the delivery of advertising and content media.

The Company evaluates the performance of its operating segments based on net revenues and operating income before interest, taxes, depreciation, amortization and stock-based compensation expense.

The Company does not allocate most of its assets, depreciation and amortization expense, stock-based compensation expense, interest income, interest expense or income tax expense by segment. Accordingly, the Company does not report such information.

Summarized information by segment was as follows (in thousands):

	Three Months Ended March 31, 2012	2011
Net revenue by segment:		
Technology	$ 84,120	$ 63,108
Marketing services	10,318	9,604
Total net revenue	$ 94,438	$ 72,712

	Three Months Ended March 31, 2012	2011
Segment operating income before depreciation, amortization, stock-based compensation expense and unallocated corporate costs:		
Technology	$ 6,052	$ 9,321
Marketing services	2,309	3,133

Total segment operating income before depreciation, amortization, stock-based compensation expense and unallocated corporate costs	8,361	12,454
Depreciation and amortization	(14,976)	(10,671)
Stock-based compensation expense	(3,029)	(744)
Unallocated corporate costs	(11,358)	(9,884)
Loss from operations	$ (21,002)	$ (8,845)

Table of Contents

The Company allocates its net revenue to geographic regions based on the customer s location. The following tables set forth net revenue and long-lived assets by geographic region (in thousands):

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net revenue:		
North America	$ 91,222	$ 70,611
Europe and other	3,216	2,101
Total net revenue	$ 94,438	$ 72,712

	March 31, 2012	December 31, 2011
Assets:		
North America	$ 599,064	$ 596,039
Europe and other	3,463	3,188
Total assets	$ 602,527	$ 599,227
Long-lived assets:		
North America	$ 409,123	$ 413,461
Europe and other	1,366	1,255
Total long-lived assets	$ 410,489	$ 414,716

18. Income Taxes

The effective tax rate of (3.1)% for the three months ended March 31, 2012 differs from the statutory rate primarily due to state taxes, foreign taxes, nondeductible stock option expenses, the increase in the deferred tax liability from the amortization of tax deductible goodwill, and the change in the valuation allowance.

The Company reduces the deferred tax asset resulting from future tax benefits by a valuation allowance if, based on the weight of the available evidence, it is more likely than not that some portion or all of these deferred taxes will not be realized. The timing of the reversal of deferred tax liabilities associated with tax deductible goodwill is not certain and thus not available to assure the realization of deferred tax assets. Similarly, state deferred tax liabilities in excess of state deferred tax assets are not available to ensure the realization of federal deferred tax assets. After consideration of these limitations associated with deferred tax liabilities, the Company has deferred tax assets in excess of deferred tax liabilities for the periods presented. As the Company has no history of generating book income, the ultimate future realization of these excess deferred tax assets is not more likely than not and thus subject to a valuation allowance. Accordingly, the Company has established a valuation allowance against its domestic deferred tax assets. A valuation allowance has not been recorded against the Company s foreign deferred tax assets as there are sufficient future taxable temporary differences in foreign jurisdictions to assure the realization of foreign deferred tax assets.

In June 2006, the FASB issued guidance regarding uncertainty in income taxes. The Company adopted this interpretation effective January 1, 2008. Pursuant to the guidance, income tax positions must meet a more likely than not recognition threshold in order to be recognized. Tax benefits are then measured using a cumulative benefit approach whereby the largest amount of tax benefit that is greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority is recorded. In accordance with this guidance, the Company recorded a liability of $0.3 million for uncertain tax positions. Such amount is unchanged at March 31, 2012 and December 31, 2011. The entire balance of unrecognized tax benefits at March 31, 2012 and December 31, 2011 would affect the Company s effective tax rate if recognized. The Company does not expect any material changes in the balance of unrecognized tax benefits during the next twelve months.

The Company s policy for recording interest and penalties on uncertain tax positions is to record such items as a component of income tax expense. Accrued interest and penalties of $0.2 million were recorded at March 31, 2012 and December 31, 2011, respectively.

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

Table of Contents

Certain of the Company s subsidiaries are currently under tax audit. It is possible that within the next twelve months, ongoing tax examinations in the U.S and in foreign jurisdictions may be resolved, that new tax exams may commence and that other issues may be effectively settled. However, the Company is unable to make a reasonably reliable estimate as to when or if cash settlements with taxing authorities may occur. Although audit outcomes and the timing of audit payments are subject to uncertainty, the Company does not anticipate that the resolution of these tax matters or any events related thereto will result in a material adverse change to its consolidated financial position, results of operations or cash flows (Note 12).

19. Related Party Transactions

ESPN Online Investments, Inc. (ESPN) is a significant common stockholder in the Company. The Company also sells its services to ESPN and its affiliates. The Company recorded revenues from ESPN and its affiliates of less than $0.1 million and $1.1 million for the three months ended March 31, 2012 and 2011, respectively.

ESPN is a wholly-owned subsidiary of The Walt Disney Company (Disney). The Company entered into an online registration services agreement with Disney to provide online advertising. The Company recorded revenues from Disney of $0.2 million and $0.5 million for the three months ended March 31, 2012 and 2011, respectively.

In August 2006, the Company entered into a Master Services Agreement and certain other related agreements with the United States Tennis Association (USTA) as amended in December 2010. A member of the Company s Board of Directors is the managing director for recreational tennis at the USTA. Pursuant to the terms of these agreements, the USTA purchases certain software services from the Company. Net revenue from the USTA and its affiliates was approximately $1.4 million for the three months ended March 31, 2012 and 2011, respectively.

20. Employee Benefit Plans

The Company has a defined contribution plan under Section 401(k) of the Internal Revenue Code (401(k) Plan) covering all full-time employees who meet certain eligibility requirements. Eligible employees may defer up to 4% of their pre-tax compensation, up to the annual maximum allowed by the Internal Revenue Service. Under the 401(k) Plan, the Company may, but is not obligated to, match a portion of the employee contributions up to a defined maximum. The Company made matching contributions of $0.3 million and $0.2 million for the three months ended March 31, 2012 and 2011, respectively.

21. Subsequent Events

StarCite Acquisition

The Company s registration statement filed to register the contingently issuable shares of common stock as purchase price consideration in connection with the StarCite acquisition became effective on April 11, 2012 (Note 3). Since the Company s stock price traded at or above $15.00 per share on the New York Stock Exchange for three consecutive days, pursuant to the agreement and plan of merger, the shares of common stock are not required to be issued to the previous shareholders of StarCite.

Table of Contents

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 condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and in our other public filings with the Securities and Exchange Commission (SEC).

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are often identified by the use of words such as, but not limited to, anticipate, believe, can, continue, could, estimate, expect, intend, may, will, plan, project, seek, should, target, will, would, and similar expressions or variations intended to identify forward-looking statements. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important 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 in Part II Item 1A. Risk Factors below, and those discussed in our other public filings with the SEC. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Overview

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

We power a broad range of activities, such as reserving a campsite or tee time, signing up for a marathon or sports league, purchasing a fishing or hunting license, or participating in a community event or corporate conference. From the introduction of our platform in 1999, we have experienced significant growth and in 2011, we had over 51,000 customer organizations that drove over 80 million annual consumer registrations. Based on the results of a 2010 online survey we commissioned through Survey.com, we believe the organizations we target produce or organize activities and events for the majority of U.S. households. Our proprietary technology platform, ActiveWorks, provides cloud computing applications that reduce the cost and complexity of managing, organizing and promoting these activities and events.

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

We serve a wide range of customers including community and sports organizations, large corporations, small and medium-sized businesses, educational institutions, federal and state government agencies, non-profit organizations and other similar entities. We primarily generate revenue from technology fees paid by participants who register for our customers activities through our cloud computing applications. During the three months ended March 31, 2012, we generated revenue of $94.4 million, as compared to $72.7 million in the three months ended March 31, 2011, an increase of 30%.

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

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

Table of Contents

Our technology revenue was 89% of our total revenue for the three months ended March 31, 2012. Net registration revenue was 76% of our technology revenue for the three months ended March 31, 2012. During the three months ended March 31, 2012, we processed approximately 18.2 million consumer registrations. Licensed software, maintenance, hosting and implementation revenue was 24% of our technology revenue for the three months ended March 31, 2012. Our marketing services revenue was 11% of our total revenue for the three months ended March 31, 2012.

Key Business Metrics

Net Registration Revenue. We calculate our net registration revenue by summing the technology fees generated by our registrations in a given period.

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

	Three Months Ended March 31,		
	2012	2011	% Change
	(Unaudited)		
	(In thousands)		
Net registration revenue	$ 63,519	$ 51,433	23%
Registrations	18,223	14,859	23%
Net registration revenue per registration	$ 3.49	$ 3.46	1%

Registrations increased 3.4 million or 23% for the three months ended March 31, 2012 compared to the three months ended March 31, 2011. The increase was primarily due to higher registrations in our outdoors customer group driven by growth from both existing and new state customers, higher registrations in our business solutions customer group due in part to additional registrations from StarCite, a provider of a technology platform that delivers content and services for meetings and event planning, which we acquired in December 2011, and increased registrations in our community activities customer group from sales to new organizations. The average revenue per registration increased 1% for the three months ended March 31, 2012 compared to the three months ended March 31, 2011.

Basis of Presentation

General

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

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

Revenue

We report our revenue in two segments:

Technology

Marketing services

The technology revenue segment is primarily composed of net registration revenue, which is made up of the technology fee we charge a participant when they register for one of our organization s events. Our technology revenue is generally derived from transactions where we are the merchant of record. Our merchant model provides consumers the ability to book a wide range of events online through our platform. The type of events we offer on our platform can be categorized into the following four primary groups: sports, community activities, outdoors and business solutions. We generate technology revenue for our services based on the technology fee we charge a consumer when they register for one of the events. Consumers generally pay us the registration fee at the time of booking, and we pay the event organizer at a later date. The technology fee is recognized as revenue net of the organization registration fee which is collected directly from our consumer and then we make payment to the event organizer typically on a two week basis. Net registration revenue is recognized when services are provided, net of estimated refunds and other chargebacks. The timing difference between when the cash is collected from our consumers and when payments are made to the event organizers improves our operating cash flow and represents a source of liquidity for us. Technology revenue also includes software licensing, installation, training, maintenance and hosting subscriptions.

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

Table of Contents

Costs and Expenses

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

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

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

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

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

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

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

Adjusted EBITDA

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

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

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

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

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

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

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

Table of Contents

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

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

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

The following table presents a reconciliation of Adjusted EBITDA for each of the three month periods ended March 31, 2012 and March 31, 2011:

	Three Months Ended March 31,	
	2012	2011
	(In thousands)	
Reconciliation of Adjusted EBITDA to Net Loss:		
Net loss	$ (20,338)	$ (10,942)
Interest expense, net	126	1,254
Provision for income taxes	611	792
Depreciation and amortization	14,976	10,671
Stock-based compensation	3,029	744
Other expense (income), net	(1,401)	51
Adjusted EBITDA	$ (2,997)	$ 2,570

Critical Accounting Policies

In presenting our condensed consolidated financial statements in conformity with U.S. generally accepting accounting principles, or GAAP, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures.

Some of the estimates and assumptions we are required to make relate to matters that are inherently uncertain as they pertain to future events. We base these estimates and assumptions on historical experience or on various other factors that we believe to be reasonable and appropriate under the circumstances. On an ongoing basis, we reconsider and evaluate our estimates and assumptions. Our future estimates may change if the underlying assumptions change. Actual results may differ significantly from these estimates.

We believe that the critical accounting policies listed below involve our more significant judgments, assumptions and estimates and, therefore, could have the greatest potential impact on our condensed consolidated financial statements.

Revenue recognition

Allowance for doubtful accounts

Software development costs

Business combinations

Impairment of goodwill, indefinite-lived intangible assets and long-lived assets

Income taxes

Stock-based compensation

As of March 31, 2012, there have been no material changes to the items disclosed as critical accounting policies and estimates in Management Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2011.

Results of Operations

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

	Three Months Ended March 31,	
	2012	2011
	(In thousands)	
Net revenue:		
Technology revenue	$ 84,120	$ 63,108
Marketing services revenue	10,318	9,604
Total net revenue	94,438	72,712
Cost of net revenue:		
Cost of technology revenue	45,655	32,988
Cost of marketing services revenue	1,316	1,162
Total cost of net revenue	46,971	34,150
Gross profit	47,467	38,562
Operating expenses:		
Sales and marketing	25,024	16,940
Research and development	21,209	16,176
General and administrative	16,544	10,588
Amortization of intangibles	5,692	3,703
Total operating expenses	68,469	47,407
Loss from operations	(21,002)	(8,845)
Interest income	25	30
Interest expense	(151)	(1,284)
Other income (expense), net	1,401	(51)
Loss before provision for income taxes	(19,727)	(10,150)
Provision for income taxes	611	792
Net loss	(20,338)	(10,942)
Accretion of redeemable convertible preferred stock		(7,410)
Net loss attributable to common stockholders	$ (20,338)	$ (18,352)

	Three Months Ended March 31,	
	2012	2011
	(As of percentage of net revenue)	
Net revenue	100%	100%
Cost of net revenue	50	