MINDBODY, Inc.
Form S-1/A
June 16, 2015
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As filed with the Securities and Exchange Commission on June 16, 2015.

Registration No. 333-204068

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 3

TO

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

MINDBODY, INC.

(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	7372 (Primary Standard Industrial Classification Code Number)	20-1898451 (I.R.S. Employer Identification Number)

4051 Broad Street, Suite 220

San Luis Obispo, California 93401

(877) 755-4279

(Address, including zip code, and telephone number, including area code, of Registrant s principal executive offices)

Richard L. Stollmeyer

President and Chief Executive Officer

MINDBODY, Inc.

4051 Broad Street, Suite 220

San Luis Obispo, California 93401

(877) 755-4279

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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(310) 883-6400

Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box: ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

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

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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	**Amount to be Registered (2)**	**Proposed Maximum Offering Price Per Share (1)**	**Proposed Maximum Aggregate Offering Price (1)(2)**	**Amount of Registration Fee (3)**
Class A common stock, $0.000004 par value per share	8,222,500	$15.00	$123,337,500	$14,332

(1) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(a) under the Securities Act of 1933, as amended.
(2) Includes the additional shares that the underwriters have the right to purchase to cover over-allotments, if any.
(3) The Registrant previously paid the registration fee in connection with prior filings of the registration statement.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

PROSPECTUS (Subject to Completion)

Issued June 16, 2015

7,150,000 Shares

CLASS A COMMON STOCK

MINDBODY, Inc. is offering 7,150,000 shares of its Class A common stock. This is our initial public offering, and no public market currently exists for our shares. We anticipate that the initial public offering price per share will be between $13.00 and $15.00.

Following this offering, we will have two classes of authorized common stock, Class A common stock and Class B common stock. The rights of the holders of our Class A common stock and Class B common stock will be identical, except with respect to voting and conversion rights. Each share of our Class A common stock will be entitled to one vote. Each share of our Class B common stock will be entitled to 10 votes and will be convertible at any time into one share of our Class A common stock.

All shares of our capital stock outstanding immediately prior to this offering, including all shares held by our executive officers, employees and directors, and their respective affiliates, will be reclassified into shares of our Class B common stock immediately prior to this offering. The holders of our outstanding Class B common stock will hold approximately 97.8% of the voting power of our outstanding capital stock immediately following this offering.

Our Class A common stock has been approved for listing on The NASDAQ Global Market under the symbol MB.

We are an emerging growth company as defined under the U.S. federal securities laws and, as such, are subject to reduced public company reporting requirements. Investing in our Class A common stock involves risks. See Risk Factors beginning on page 17.

PRICE $ A SHARE

	Price to Public	***Underwriting Discounts and Commissions[(1)]***	***Proceeds to MINDBODY***
Per Share	*$*	*$*	*$*
Total	*$*	*$*	*$*

(1) See Underwriting beginning on page 153 for additional information regarding underwriting compensation.
We have granted the underwriters the right to purchase up to an additional 1,072,500 shares of Class A common stock to cover over-allotments.

Certain entities associated with J.P. Morgan Investment Management Inc., one of our existing holders of greater than 5% of our common stock, have indicated an interest in purchasing up to $10.0 million of our Class A common stock in this offering, at the initial public offering price. Because these indications of interest are not binding agreements or commitments to purchase, such entities may elect to purchase fewer shares than they indicate an interest in purchasing or not to purchase any shares in this offering. In addition, the underwriters may elect to sell fewer shares or not to sell any shares in this offering to such entities. The underwriters will receive the same discount from any shares sold to such entities as they will from any other shares sold to the public in this offering.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of Class A common stock to purchasers on , 2015.

MORGAN STANLEY *CREDIT SUISSE* *UBS INVESTMENT BANK*

PACIFIC CREST SECURITIES *JMP SECURITIES*

, 2015

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Through and including , 2015 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer s obligation to deliver a prospectus when acting as an underwriter and with respect to an unsold allotment or subscription.

We have not authorized anyone to provide any information or to make any representations other than those contained in this prospectus or in any free writing prospectuses we have prepared. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date. Our business, financial condition, results of operations and prospects may have changed since that date.

For investors outside of the United States: Neither we nor the underwriters have done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus outside of the United States.

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PROSPECTUS SUMMARY

This summary highlights selected information that is presented in greater detail elsewhere in this prospectus. This summary does not contain all of the information you should consider before investing in our Class A common stock. You should read this entire prospectus carefully, including the sections titled Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included elsewhere in this prospectus, before making an investment decision. Unless the context otherwise requires, the terms MINDBODY, the company, we, us and our in this prospectus refer to MINDBODY, Inc. and its consolidated subsidiaries.

MINDBODY, INC.

Our Vision

Our vision is to leverage technology to improve the wellness of the world.

Overview

We are the leading online wellness services marketplace with over 42,000 local business subscribers on our platform in 124 countries and territories employing over 250,000 practitioners who provide a variety of wellness services to over 24 million active consumers. Our integrated cloud-based business management software and payments platform for the wellness services industry helps our subscribers simplify the way they run their businesses, attract and engage more consumers, boost their revenues and focus more on what they love to do improving people s lives. Moreover, we help consumers more easily evaluate, engage and transact with these subscribers, enabling them to live healthier and happier lives. We are also a leading payments platform dedicated to the wellness services industry. In the 12 months ended March 31, 2015, $6.3 billion in transactions occurred between consumers and subscribers within our marketplace, of which $4.3 billion flowed through our payments platform.

Our platform is specifically designed for the wellness services industry. Wellness encompasses multiple dimensions of a person s well-being physical, emotional, social, occupational and spiritual, among others. As a result, we include health and fitness, integrative health, salon and spa, fine arts and children s activities as categories within the wellness services industry. According to a report that we commissioned from Frost and Sullivan, our addressable market is approximately 4.2 million wellness businesses worldwide. Based on their analysis, Frost and Sullivan estimates a $9.5 billion market for business management software solutions targeted at wellness businesses in 2015 and expects this market to grow to $15.3 billion in 2018, which implies a 17.1% compound annual growth rate, or CAGR. With over 42,000 local business subscribers, we estimate our current market penetration to be less than 1%.

We believe millions of wellness businesses around the world are looking for a simple, efficient and reliable way to manage their operations. Through our integrated cloud-based business management software and payments platform, we enable businesses to easily manage class and appointment schedules, staff members, client information, online bookings, inventory, payroll and retail sales all in a cost-effective manner. At the same time, we connect consumers with local businesses through our MINDBODY Connect platform, which powers a mobile interface that allows consumers to discover, evaluate, book and pay for wellness services, whether they are near their homes or traveling.

As employers become increasingly focused on wellness programs to improve the health, fitness and productivity of their employees, our MINDBODY Connect Workplace offering combines the power of our software platform with the ease of our Connect platform to enable employees to choose from a wide variety of

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on-site and local wellness services. We believe Connect Workplace helps employees live healthier, happier and more productive lives, while allowing employers to benefit from greater staff productivity, lower attrition and reduced healthcare costs.

We have enabled a rich partner ecosystem of over 600 developers and partners who extend the value of our platform in powerful ways. These developers and partners have built applications that supplement our capabilities in areas such as automation, marketing, mobile and social interaction. Several of these partners have created significant consumer-facing businesses that rely on our unique inventory of classes, scheduling and payments capabilities. All of this is enabled by our application programming interface, or API, through which we grant access to approved developers and partners. We believe that the opportunities and technology provided by our partners enhance the power of our marketplace and contribute to the attractiveness and critical position of MINDBODY within the wellness ecosystem.

As more local wellness businesses adopt our business management and payments platform, more subscriber listings appear on Connect. A larger critical mass of local wellness services on Connect attracts more consumers, which in turn attracts more local wellness businesses that want to engage with these consumers, thereby creating powerful network effects that benefit the entire ecosystem. Similarly, as more corporate wellness subscribers adopt Connect Workplace, their employees begin using our platform, which leads to increased demand from local wellness businesses to be listed on Connect. As more local wellness businesses appear on Connect, more employees use our platform to redeem their corporate incentives, which in turn leads to more corporate wellness subscribers being attracted to our platform. Finally, as we add more subscribers, consumers and employees to our wellness ecosystem, we attract more technology developers and partners who can use our API to develop additional apps that extend the capabilities of our open platform.

(1) We define active consumers as all unique consumers of our subscribers services who have used our platform to transact with our subscribers during the immediately preceding two years. While we do not directly monetize consumers of our subscribers services, we believe that growth in the number of active consumers on our platform also contributes to our subscriber growth.

Our financial performance reflects our significant subscriber growth and increasing revenue per subscriber. Our total revenue increased from $32.0 million in 2012, to $48.7 million in 2013 to $70.0 million in 2014, representing year-over-year increases of 52% and 44% in 2013 and 2014, respectively. For the three months ended March 31, 2014 and 2015, our revenue was $15.7 million and $22.3 million, respectively, representing a

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42% growth rate. Our net loss was $5.5 million, $16.2 million and $24.6 million for 2012, 2013 and 2014, respectively. For the three months ended March 31, 2014 and 2015, our net loss was $4.8 million and $7.9 million, respectively. Our Adjusted EBITDA was negative $2.5 million, negative $11.5 million and negative $18.8 million for 2012, 2013 and 2014, respectively. For the three months ended March 31, 2014 and 2015, our Adjusted EBITDA was negative $3.8 million and negative $5.3 million, respectively. For a reconciliation of Adjusted EBITDA to net loss, please see the section titled Summary Consolidated Financial and Other Data Non-GAAP Financial Measure.

Industry Background

Increasing Focus on Personal Health and Beauty is Fueling Global Demand for Wellness Services

An increased focus on personal health and beauty represents a major global trend among consumers and is driving growth in wellness services worldwide. As the desire for longer, healthier lives, attractive appearance and overall physical and emotional well-being grows, more and more people are adopting a lifestyle that incorporates a healthier diet, regular physical exercise, integrative health, salon, spa and other wellness services.

While over 2.1 billion people or nearly 30% of the world s population are overweight, consumers are becoming increasingly aware of the risks associated with obesity and the benefits of regular physical exercise and are therefore seeking to achieve a healthy weight and fitness level. In addition, while decades ago individual spending on exercise classes and spa and salon services was minimal, we believe consumers across generations today are increasingly willing to allocate a more significant portion of their disposable income to wellness services.

Moreover, people increasingly consume salon, spa and integrative health services to enhance emotional, social and physical wellness. We believe that while in developed markets, the aging population is demanding more salon, spa and integrative health services, in emerging markets, demand is driven by urbanization and the resulting increase in social interactions.

Growing Demand for Personalized Wellness Experiences has been Driving Industry Fragmentation

We believe consumers are increasingly seeking more personalized and effective wellness experiences and are opting for smaller businesses that are more conveniently located and cater to individual needs and preferences. As a result, the number of small wellness businesses has proliferated over the past decade, while all-inclusive facilities such as large health clubs now comprise only a small percentage of the wellness services industry s aggregate revenue. Meanwhile, the market share of smaller businesses has been growing rapidly, which can be seen in the increasing number of businesses that specialize in practices such as yoga, Pilates, barre, Zumba and CrossFit.

Escalating Healthcare Costs are Driving Employers Worldwide to Develop Corporate Wellness Programs that Incentivize the Use of Wellness Services

Healthcare costs for employers have been increasing significantly: According to healthcare research foundation The Commonwealth Fund, from 2003 to 2013, the annual cost of family coverage for U.S. employers rose 73% to an average of $16,029. A 2010 study published in the Journal of Occupational and Environmental Medicine estimated that the cost of obesity among full-time employees reaches $73.1 billion each year. To reduce rising healthcare expenses and excessive absenteeism as well as to improve their employees productivity, more and more organizations are implementing corporate wellness and other incentive programs to encourage healthy behavior. A 2012 study by RAND Health found that participation in a wellness program is associated with lower health care costs.

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Despite the wide availability of corporate wellness programs, the actual participation of employees in such programs remains limited. According to the Business Journal, Gallup reported that although more than 85% of large employers offer wellness programs, only 24% of employees at these companies actually participate in the programs. We believe this is due to the fact that employers lack effective tools to incentivize participation in wellness programs and often fail to satisfy a broad range of employee preferences.

Consumers Need a Single, Mobile Enabled Interface for their Wellness Services Needs

Due to the fragmented nature of the wellness services industry, consumers often find it complicated and time consuming to find and book wellness services. Consumers increasingly expect to be able to identify, research and schedule the desired wellness services using their mobile devices in a manner that allows them to view class schedules, practitioner details and consumer reviews, make bookings conveniently outside business hours through web or mobile interfaces and pay for these services seamlessly online.

Wellness Businesses Need an Integrated Software and Payments Platform that is Designed to Meet their Industry-Specific Needs

Wellness businesses have to manage online bookings, staff scheduling and payroll, and resource allocation. They also need to promote their wellness services, attract new consumers and nurture consumer relationships. In addition, business owners need to keep track of key business performance indicators and take action to increase revenue and improve profitability. Many wellness businesses use basic tools like paper forms or Excel spreadsheets to perform some of these functions, which can be time consuming and distracting. We have observed that the inability of business owners to focus on their core business often leads to lost revenue and lower consumer retention. To succeed in the marketplace, wellness businesses need an easy-to-use and integrated cloud-based software and payments solution that is specifically designed for their needs, is cost effective and can be accessed anytime from anywhere and on any device.

The MINDBODY Solution

Our integrated cloud-based business management software and payments platform is specifically designed to address the unique requirements of the wellness services industry. We help our subscribers simplify their operations, focus on their consumers and grow their revenue by enabling them to attract and retain consumers.

Integrated Software and Payments Platform Designed Specifically for the Needs of Local Wellness Businesses

We have developed a cloud-based software and payments platform with powerful functionality that addresses key aspects of operating a wellness business, including:

Client Scheduling and Online Booking. We believe we offer subscribers the most complete online client scheduling capability available on the market today. We are the only platform provider that enables all four different types of scheduling that wellness businesses typically encounter: appointments, open classes, enrollments and workshops and resource scheduling.

Staff Management. With our staff and resource scheduling software features, staff management is easy and organized. Subscribers keep the whole schedule in one place, allowing them to manage staff availability, hours, substitutions, commissions and other compensation, all of which is easily linked to payroll records.

Client Relationship Management. With our client relationship management features, subscribers have all their consumer information in one place and can take advantage of powerful consumer relationship and marketing tools.

Integrated Software and Payments. We offer our subscribers payment processing solutions at competitive rates. Our integrated payments platform allows for convenient and secure storage of consumer credit card information, which allows for seamless online bookings, recurring membership payments through our business management software and online store purchases through Connect.

Retail Point of Sale. Our point-of-sale capabilities help subscribers sell products and services, contracts and memberships, packages, workshops and store-branded gift cards.

Analytics and Reporting. We track key information that subscribers need to know to achieve their business goals, including revenue growth, contribution margin of classes, consumer retention rates, referral sources, return on investment for consumer retention campaigns and practitioner performance based on consumer loyalty and reviews by class or type of service.

Simple and Intuitive User Experience. We designed our business management software with a focus on developing a visually appealing interface that is simple, easy to use and requires little training, while offering subscribers powerful business management features.

Mobility. Our platform enables our subscribers to manage their operations anytime and anywhere via a number of mobile devices and operating systems, including Mac, iOS, Android and Windows.

Dynamic Cloud-Based Architecture. Our software platform is powered by a dynamic cloud-based architecture that requires low upfront investment and no maintenance and can easily scale with subscribers as their businesses grow.

Security and Compliance. We consistently earn a Level I Payment Card Industry Data Security Standard, or PCI DSS, and Health Insurance Portability and Accountability Act, or HIPAA, compliance rating.

Social Integration. Our platform integrates with popular social networks like Facebook and Twitter, allowing our subscribers to publish schedules on their Facebook page and enabling consumers to directly schedule appointments and classes via Facebook.

MINDBODY Connect

A key component of our platform is Connect, our consumer-facing mobile app. With Connect, consumers have a unified account to manage all aspects of their wellness activities with a single log in. They can discover local wellness services using a geo-located map function, view class and appointment descriptions, schedules and real-time availability, read practitioner biographies and user reviews written by consumers who have actually received the service, and then book and pay for their desired services in a few taps from their mobile device.

MINDBODY Connect Workplace

Our Connect Workplace offering is designed to allow corporate wellness subscribers to encourage healthy habits for their employees and measure the results. Subscribers to Connect Workplace use our platform to manage on-site wellness services, incentivize employees to take advantage of the local wellness businesses in our network and analyze aggregate employee attendance data.

Rich Partner Ecosystem

We have enabled a rich partner ecosystem of over 600 developers and partners who extend the value of our platform in powerful ways.

Open Platform for Third-Party App Development. We have built an open and extensible platform with an API that offers approved developers access to our unique inventory of classes, scheduling and payments capabilities.

Integration with Other Cloud-Based Partners. Our platform can be integrated with other cloud-based software that our subscribers may be using for critical business management tasks to extend the capabilities of our platform within a variety of focus areas such as automation, marketing, mobile and social.

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Key Benefits to Marketplace Constituents

Benefits to Subscribers and Practitioners.

- Simplify business operations.
- Focus more attention on clients and the quality of service they receive.
- Grow loyal client base and recurring revenue.

Benefits to Consumers.

- Convenient single interface that addresses their wellness services needs.
- Time savings and excellent user experience increase engagement and achievement of wellness goals.
- Central database for wellness activities facilitates fitness graph tracking.

Benefits to Employers.

- Improve employee satisfaction and engagement by providing more personalized wellness options and built-in incentives.
- Increase employee productivity and reduce long-term group healthcare costs with greater wellness activity participation.
- Monitor and improve effectiveness by analyzing engagement and employee feedback.

Our Market Opportunity

According to IBISWorld, in 2014, the total revenue of gyms, health and fitness clubs in the United States was expected to reach $26.5 billion, and the U.S. salon market, consisting of haircutting services, hair coloring services, nail care services, skin care services and other services, was expected to reach $50.2 billion. The global markets for these services are significantly larger. In addition, the U.S. corporate wellness services market was expected to reach $7.4 billion in 2014, according to IBISWorld. According to a report that we commissioned from Frost and Sullivan, our addressable market is approximately 4.2 million wellness businesses worldwide. Based on their analysis, Frost and Sullivan estimates that the market for business management software solutions targeted at wellness businesses will grow to $9.5 billion in 2015 and expects this market to grow to $15.3 billion in 2018, which implies a 17.1% CAGR. In addition, we believe there are a significant number of individual practitioners worldwide who are not included in the 4.2 million addressable market estimate and can benefit from our business management software and payments platform. With over 42,000 local business subscribers, we estimate our current market penetration to be less than 1%. While we expect competition in the industry to increase and evolve over time, given our current market leadership, we believe that we are well positioned to compete for and capture a significant portion of global software and payments spending in the wellness services industry.

Our Competitive Strengths

The Leading Online Wellness Services Marketplace. We are the leading online wellness services marketplace with over 42,000 local business subscribers on our platform in 124 countries and territories employing over 250,000 practitioners who provide a variety of wellness services to over 24 million active consumers. Due to our unmatched global wellness network, Connect has become the go-to destination for consumers to manage their wellness services activities.

Industry-Specific Expertise. Our team of experts understands the detailed workflows and needs of each type of business within the wellness services industry, and has designed our integrated cloud-based business management software and payments platform specifically to address the unique requirements of these businesses.

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Powerful Network Effects. As more local wellness businesses use our platform, more subscriber listings appear on Connect. A larger critical mass of local wellness services on Connect attracts more consumers, which in turn attracts more local wellness businesses that want to engage with these consumers, thereby creating powerful network effects that benefit the entire ecosystem. Similarly, as more corporate wellness subscribers adopt Connect Workplace, more employees use our platform to redeem their corporate incentives, which in turn attracts both wellness businesses and corporate wellness subscribers. Finally, as we add more subscribers, consumers and employees to our wellness ecosystem, we attract more technology developers and partners who can use our API to develop additional apps that extend the capabilities of our open platform.

Integrated Cloud-Based Business Management Software and Payments Platform. The seamless integration between our business management software and payments platform provides a convenient one-stop solution for our subscribers. Subscribers save time and resources by avoiding the use of a separate payments platform and the associated burdensome manual reconciliations of transactions that result from a lack of automation. We believe that this integrated software and payments capability leads to higher subscriber engagement with our platform and a larger recurring revenue stream for us.

Ability to Scale with Subscribers Businesses. Our feature-rich software scales from individual practitioners to large, international organizations that have hundreds of locations. It is possible for an independent mobile practitioner starting her small business to begin with our entry level software, upgrade to our more robust offerings as she opens her first brick-and-mortar location, then add locations and ultimately create a substantial chain on our platform. This type of inspirational story has happened many times.

Critical Position in the Wellness Ecosystem. We have enabled a rich partner ecosystem of over 600 developers and partners who extend the value of our platform in powerful ways. Many of our technology partners and API platform partners have built successful businesses, or have significantly expanded their existing businesses, to cater to our subscribers and consumers via our platform. We believe the time, effort and dollars spent by these businesses to integrate with our platform point to the critical position that MINDBODY has established in the ecosystem.

Proprietary Data and Analytics. Our software and payments platform collects and presents critical information that enables subscribers to fine tune their business operations and enables us to observe macro level wellness services industry trends that inform our business decisions. With our software, subscribers can analyze their consumer data, including demographics, type and frequency of activities and spending habits. In addition, we help subscribers assess the performance of their staff. We also collect and display consumer reviews to both subscribers and consumers. This enables consumers to make more informed buying decisions and helps our subscribers improve their businesses. Due to our market leadership position, we have access to more proprietary data than our competitors, which helps us improve our platform and allows us to provide unique insights and analytical capabilities.

Exceptional Company Culture that Drives Performance. The MINDBODY team shares an exceptional company culture that incorporates our core values of being purpose driven, humble and helpful, caring and happy, committed to wellness, environmentally conscious, continuously evolving and committed to leadership. According to a report from Mashable based on data from Glassdoor in December 2014, MINDBODY has been named one of the Top 10 Best Tech Companies To Work For in 2015. We believe our culture gives us a competitive advantage in recruiting and retaining talent, driving innovation, enhancing productivity and improving customer experience.

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Our Growth Strategy

Given the increasing demand for wellness services among consumers today and a largely untapped market, we believe our opportunity is significant and growing. Key elements of our growth strategy include:

- Continuing to expand our subscriber base, both domestically and internationally;
- Deepening relationships with existing subscribers;
- Growing consumer adoption of Connect;
- Continuing to innovate and broaden our platform;
- Further developing our partnerships and wellness ecosystem;
- Increasing our presence in corporate wellness;
- Making strategic investments and select acquisitions; and
- Expanding our international reach via partnerships and investments in our salesforce.

Risks Associated with Our Business

Our business is subject to numerous risks and uncertainties, including those highlighted in the section titled Risk Factors immediately following this prospectus summary. These risks include, but are not limited to, the following:

- We have a history of losses, and our revenue growth rate may not sustain the levels experienced in recent years. As our costs increase, we may not be able to generate sufficient revenue to achieve and sustain profitability.
- We derive, and expect to continue to derive, a majority of our revenue and cash flows from our integrated cloud-based business management software and payments platform for the wellness services industry. If we fail to adapt this platform to changing market dynamics and subscriber preferences or to achieve increased market acceptance of our platform, our business, results of operations, financial condition and growth prospects would be adversely affected.

Our business depends substantially on our subscribers renewing their subscriptions to our platform. Any decline in the rate at which subscribers renew their subscriptions would harm our future operating results.

If we are not able to enhance our platform to achieve market acceptance and keep pace with technological developments, our business would be harmed.

Our payments platform is a core element of our business, and any failure to grow and develop our payment processing activities, or to anticipate changes in consumer behavior, could materially and adversely affect our business and financial results.

Our payment processing platform is subject to United States and international rules and regulations, many of which are still developing. If we fail to comply with such rules and regulations or if new laws, rules or practices applicable to payment systems restrict our ability to collect fees from our payment processing platform, our financial results could be materially and adversely effected.

If we incur an actual or perceived breach to our payment processing platform, we may incur significant liabilities and our brand and reputations may be damaged.

We are subject to risks related to our reliance on third-party processing partners to perform our payment processing services.

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We may undertake to directly perform certain payment processing services and expand the scope of payment processing services we provide, which may require a significant investment of time and resources, and expand our exposure to potential liabilities.

The dual class structure of our common stock has the effect of concentrating voting control with those stockholders who held our capital stock prior to the completion of this offering, including our executive officers, employees and directors and their affiliates, which will limit your ability to influence the outcome of important transactions, including a change in control. The holders of our outstanding Class B common stock will hold approximately 97.8% of the voting power of our outstanding capital stock following this offering.

Corporate Information

We were organized as a California limited liability company in February 2001 and converted into a California corporation in October 2004. We were reincorporated in Delaware in March 2015. Our principal executive offices are located at 4051 Broad Street, Suite 220, San Luis Obispo, California 93401, and our telephone number is (877) 755-4279. Our website address is www.mindbodyonline.com. Information contained on, or that can be accessed through, our website does not constitute part of this prospectus and inclusions of our website address in this prospectus are inactive textual references only.

Unless expressly indicated or the context requires otherwise, the terms MINDBODY, company, we, us, and our prospectus refer to MINDBODY, Inc., a Delaware corporation, and, where appropriate, its wholly owned subsidiaries. The Enso design logo, MINDBODY, MINDBODY Connect, Love Your Business, MINDBODY Connect Workplac and our other registered and common law trade names, trademarks and service marks are the property of MINDBODY, Inc. Other trademarks and trade names referred to in this prospectus are the property of their respective owners.

Emerging Growth Company

The Jumpstart Our Business Startups Act, or the JOBS Act, was enacted in April 2012 with the intention of encouraging capital formation in the United States and reducing the regulatory burden on newly public companies that qualify as emerging growth companies. We are an emerging growth company within the meaning of the JOBS Act. As an emerging growth company, we may take advantage of certain exemptions from various public reporting requirements, including the requirement that our internal control over financial reporting be audited by our independent registered public accounting firm pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, certain requirements related to the disclosure of executive compensation in this prospectus and in our periodic reports and proxy statements and the requirement that we hold a nonbinding advisory vote on executive compensation and any golden parachute payments. We may take advantage of these exemptions until we are no longer an emerging growth company.

We will remain an emerging growth company until the earliest to occur of (i) the last day of the fiscal year in which we have more than $1.0 billion in annual revenue; (ii) the date we qualify as a large accelerated filer, with at least $700 million of equity securities held by non-affiliates; (iii) the date on which we have issued, in any three-year period, more than $1.0 billion in non-convertible debt securities; and (iv) the last day of the fiscal year ending after the fifth anniversary of the completion of this offering.

See the section titled Risk Factors Risks Related to Ownership of Our Class A Common Stock and this Offering We are an emerging growth company and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors for certain risks related to our status as an emerging growth company.

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THE OFFERING

Class A common stock offered by us	7,150,000 shares
Class A common stock to be outstanding after this offering	7,150,000 shares
Class B common stock to be outstanding after this offering	31,967,544 shares
Over-allotment option offered by us	1,072,500 shares
Total Class A common stock and Class B common stock to be outstanding after this offering	39,117,544 shares (40,190,044 shares if the underwriters exercise their over-allotment option in full)
Use of proceeds	We estimate that the net proceeds from the sale of shares of our Class A common stock in this offering will be approximately $89.3 million (or approximately $103.3 million if the underwriters exercise their over-allotment option in full), based upon the assumed initial public offering price of $14.00 per share, which is the midpoint of the estimated offering price range set forth on the cover page of this prospectus, and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. The principal purposes of this offering are to increase our capitalization and financial flexibility, create a public market for our Class A common stock and enable access to the public equity markets for us and our stockholders. We intend to use the net proceeds from this offering for general corporate purposes, including working capital, operating expenses and capital expenditures. Additionally, we may use a portion of the net proceeds to acquire businesses, products, services or technologies. However, we do not have agreements or commitments for any material acquisitions at this time. See the section titled Use of Proceeds for additional information.
Voting rights	Following this offering, we will have two classes of authorized common stock, Class A common stock and Class B common stock. The holders of our Class A common stock are entitled to one vote per share, and the holders of our Class B common stock are entitled to 10 votes per share, on all matters that are subject to a

stockholder vote.

All shares of our capital stock outstanding immediately prior to this offering, including all shares held by our executive officers, employees and directors, and their respective affiliates, will be reclassified into shares of our Class B common stock immediately prior to this

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	offering. Holders of our Class A common stock and Class B common stock will generally vote together as a single class, unless otherwise required by law or our amended and restated certificate of incorporation. The holders of our outstanding Class B common stock will hold approximately 97.8% of the voting power of our outstanding capital stock following this offering and will have the ability to control the outcome of matters submitted to our stockholders for approval, including the election of our directors and the approval of any change in control transaction. See the sections titled Principal Stockholders and Description of Capital Stock for additional information.
Directed share program	At our request, the underwriters have reserved up to 5% of the Class A common stock being offered by this prospectus for sale at the initial public offering price to certain of our subscribers, vendors and business partners as well as to certain friends and family of our management team. None of our directors or executive officers will participate in the directed share program. The sales will be made by UBS Financial Services Inc., a selected dealer affiliated with UBS Securities LLC, an underwriter of this offering, through a directed share program. If any of these persons purchases $500,000 or greater of our Class A common stock in the directed share program, such shares will be subject to the applicable lock-up restrictions described in the section titled Shares Eligible for Future Sale. We do not know if these persons will choose to purchase all or any portion of these reserved shares, but any purchases they do make will reduce the number of shares available to the general public. Any reserved shares not so purchased will be offered by the underwriters to the general public on the same terms as the other shares of Class A common stock.
NASDAQ trading symbol	MB

Certain entities associated with J.P. Morgan Investment Management Inc., one of our existing holders of greater than 5% of our common stock, have indicated an interest in purchasing up to $10.0 million of our Class A common stock in this offering, at the initial public offering price. Because these indications of interest are not binding agreements or commitments to purchase, such entities may elect to purchase fewer shares than they indicate an interest in purchasing or not to purchase any shares in this offering. In addition, the underwriters may elect to sell fewer shares or not to sell any shares in this offering to such entities. The underwriters will receive the same discount from any shares sold to such entities as they will from any other shares sold to the public in this offering. Any shares purchased by such entities will be subject to the applicable lock-up restrictions described in the section entitled Shares Eligible for Future Sale.

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The number of shares of our Class A common stock and Class B common stock that will be outstanding after this offering is based on no shares of our Class A common stock and 31,967,544 shares of our Class B common stock (including our redeemable convertible preferred stock on an as-converted basis) outstanding as of March 31, 2015, and excludes:

- 3,163,039 shares of our Class B common stock issuable upon the exercise of options to purchase shares of our Class B common stock outstanding as of March 31, 2015, with a weighted-average exercise price of $7.96 per share;
- 89,177 shares of our Class B common stock, on an as-converted basis, issuable upon the exercise of a warrant to purchase shares of our redeemable convertible preferred stock outstanding as of March 31, 2015, with an aggregate exercise price of approximately $151,603;
- 1,278,000 shares of our Class B common stock issuable upon the exercise of options to purchase shares of our Class B common stock granted after March 31, 2015, with an exercise price of $14.496 per share; and
- 5,481,954 shares of our common stock reserved for future issuance under our equity compensation plans, consisting of:
  - 4,698,818 shares of our Class A common stock reserved for future issuance under our 2015 Equity Incentive Plan, or our 2015 Plan; and
  - 783,136 shares of our Class A common stock reserved for future issuance under our 2015 Employee Stock Purchase Plan, or our ESPP.

Our 2015 Plan and ESPP each provide for annual automatic increases in the number of shares reserved thereunder, and our 2015 Plan also provides for increases to the number of shares that may be granted thereunder based on shares under our 2009 Plan that expire, are forfeited or otherwise repurchased by us, as more fully described in the section titled Executive Compensation Employee Benefit and Stock Plans.

Except as otherwise indicated, all information in this prospectus assumes:

- the filing and effectiveness of our amended and restated certificate of incorporation in Delaware and the effectiveness of our amended and restated bylaws, each of which will occur immediately prior to the completion of this offering;
- a 2.5-for-1 forward stock split of our common stock and our redeemable convertible preferred stock effected on June 4, 2015;

the reclassification of all outstanding shares of our common stock into an equivalent number of shares of our Class B common stock and the authorization of our Class A common stock, each of which will occur immediately prior to the completion of this offering;

the automatic conversion and reclassification of all outstanding shares of our redeemable convertible preferred stock into an aggregate of 20,673,680 shares of our Class B common stock, which will occur immediately prior to the completion of this offering;

the automatic conversion and reclassification of an outstanding warrant to purchase 87,500 shares of our redeemable convertible preferred stock into a warrant to purchase 89,177 shares of our Class B common stock, which will occur immediately prior to the completion of this offering; and

no exercise by the underwriters of their over-allotment option.

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SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

The summary consolidated statements of operations data for the years ended December 31, 2012, 2013, and 2014 are derived from audited consolidated financial statements included elsewhere in this prospectus. The summary consolidated statements of operations data for the three months ended March 31, 2014 and 2015 and the consolidated balance sheet data as of March 31, 2015 are derived from unaudited interim consolidated financial statements included elsewhere in this prospectus. The unaudited interim consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and reflect, in the opinion of management, all adjustments of a normal, recurring nature that are necessary for the fair presentation of the unaudited interim consolidated financial statements. Our historical results are not necessarily indicative of the results that may be expected in the future and are not necessarily indicative of results to be expected for the full year or any other period. The following summary consolidated financial and other data should be read with the section titled Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes included elsewhere in this prospectus.

	Year Ended December 31,			Three Months Ended March 31,	
	2012	2013	2014	2014	2015
	(in thousands, except share and per share data)				
Consolidated Statements of Operations Data:					
Revenue	$ 31,999	$ 48,687	$ 70,010	$ 15,653	$ 22,263
Cost of revenue(1)	13,411	21,890	30,004	6,478	8,693
Gross profit	18,588	26,797	40,006	9,175	13,570
Operating expenses:					
Sales and marketing(1)	11,735	20,957	30,922	7,247	9,717
Research and development(1)	3,741	10,517	16,167	3,594	4,725
General and administrative(1)	8,111	10,730	18,422	3,530	6,780
Change in fair value of contingent consideration		428	(1,434)	(423)	
Total operating expenses	23,587	42,632	64,077	13,948	21,222
Loss from operations	(4,999)	(15,835)	(24,071)	(4,773)	(7,652)
Change in fair value of preferred stock warrant	(515)	(302)	(283)	(22)	(150)
Interest income	6				3
Interest expense	(15)	(21)	(68)	(20)	(17)
Other income (expense), net	17	(26)	(68)	5	(39)
Loss before provision for income taxes	(5,506)	(16,184)	(24,490)	(4,810)	(7,855)
Provision for income taxes	13	63	116	34	6

Net loss		(5,519)		(16,247)		(24,606)		(4,844)		(7,861)
Accretion of redeemable convertible preferred stock(2)		(13,025)		(27,892)		(21,311)		(5,831)		(5,459)
Deemed dividend preferred stock modification										1,748
Net loss attributable to common stockholders(2)	$	(18,544)	$	(44,139)	$	(45,917)	$	(10,675)	$	(11,572)
Net loss per share attributable to common stockholders, basic and diluted(2)	$	(1.84)	$	(4.10)	$	(4.17)	$	(0.97)	$	(1.03)
Weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted(2)		10,102,216		10,757,938		11,013,658		10,968,167		11,201,755
Pro forma net loss per share attributable to common stockholders, basic and diluted(2)					$	(0.78)			$	(0.24)
Weighted-average shares used to compute pro forma net loss per share attributable to common stockholders, basic and diluted(2)						31,282,660				31,875,435

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(1) Includes stock-based compensation expense as follows:

	Year Ended December 31,			Three Months Ended March 31,	
	2012	2013	2014	2014	2015
			(in thousands)		
Cost of revenue	$	$ 51	$ 220	$ 24	$ 100
Sales and marketing		56	196	34	541
Research and development		68	298	53	96
General and administrative	1,484	252	1,023	225	403
Total stock-based compensation expense	$ 1,484	$ 427	$ 1,737	$ 336	$ 1,140

(2) See Note 13 to our consolidated financial statements included elsewhere in this prospectus for an explanation of the method used to calculate our actual and pro forma basic and diluted net loss per share attributable to common stockholders, and the weighted-average number of shares used in the computation of the per share amounts.

The pro forma as adjusted information set forth in the table below is illustrative only and will be adjusted based on the actual initial public offering price and other terms of this offering determined at pricing.

	As of March 31, 2015		
	Actual	Pro Forma(1)	Pro Forma As Adjusted(2)(3)
		(in thousands)	
Consolidated Balance Sheet Data:			
Cash and cash equivalents	$ 22,099	$ 22,099	$ 111,403
Working capital	14,142	14,142	103,446
Property and equipment, net	32,487	32,487	32,847
Total assets	71,077	71,077	160,381
Total deferred revenue	2,865	2,865	2,865
Financing obligation on leases	17,002	17,002	17,002
Preferred stock warrant	1,338		
Redeemable convertible preferred stock	170,159		
Total stockholders equity (deficit)	(133,828)	37,669	126,973

(1) The pro forma column gives effect to (i) the automatic conversion and reclassification of all outstanding shares of our redeemable convertible preferred stock into an aggregate of 20,673,680 shares of our Class B common stock, which conversion and reclassification will occur immediately prior to the completion of this offering, (ii) the resulting reclassification of the preferred stock warrant liability to stockholders equity, and (iii) the filing and effectiveness of our amended and restated certificate of incorporation in Delaware, as if such conversion,

reclassification and effectiveness had occurred on March 31, 2015.

(2) The pro forma as adjusted column gives effect to the pro forma adjustments set forth in footnote 1 above and the sale and issuance by us of 7,150,000 shares of our Class A common stock in this offering, based upon the assumed initial public offering price of $14.00 per share, which is the midpoint of the estimated offering price range set forth on the cover page of this prospectus, and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

(3) Each $1.00 increase or decrease in the assumed initial public offering price of our Class A common stock of $14.00 per share, which is the midpoint of the estimated offering price range set forth on the cover page of this prospectus, would increase or decrease, as applicable, the amount of each of our pro forma as adjusted cash and cash equivalents, working capital, total assets and total stockholders equity (deficit) by approximately $6.7 million, assuming that the number of shares offered by us, as set forth on the cover

page of this prospectus, remains the same and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. An increase or decrease of 1.0 million shares in the number of shares offered by us would increase or decrease, as applicable, the amount of each of our pro forma as adjusted cash and cash equivalents, working capital, total assets and total stockholders equity (deficit) by approximately $13.0 million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

Key Metrics

We regularly review the following key metrics to measure our performance, identify trends affecting our business, formulate financial projections, make strategic business decisions and assess working capital needs.

	As of and for Year Ended December 31,			As of and for Three Months Ended March 31,
	2012	2013	2014	2015
Subscribers (end of period)(1)	22,062	31,043	40,517	42,700
Average monthly revenue per subscriber(2)	$ 131	$ 146	$ 155	$ 174
Payments volume (in millions)(3)	$ 2,113	$ 3,099	$ 4,121	$ 1,168
Dollar-based net expansion rate (end of period)(4)	n/a	103%	109%	109%

(1) Subscribers are defined as unique physical business locations or, in the case of our Solo software level, individual practitioners who have subscribed to our cloud-based business management software platform as of the end of the period.

(2) Average monthly revenue per subscriber is calculated by dividing the subscription, services and payments revenue generated in a given month by the number of subscribers at the end of the previous month. For periods greater than one month, the average monthly revenue per subscriber is the sum of the average monthly revenue per subscriber for each month in the period, divided by the number of months in the period.

(3) Payments volume is the total dollar volume of transactions between our subscribers and their consumers utilizing our payments platform.

(4) Our dollar-based net expansion rate is based upon our monthly subscription, services and payments revenue for a set of subscriber accounts. We calculate our dollar-based net expansion rate by dividing our retained revenue net of contraction and churn by our base revenue. We define our base revenue as the aggregate monthly subscription, services and payments revenue of our subscriber base as of the date one year prior to the date of calculation. We define our retained revenue net of contraction and churn as the aggregate monthly subscription, services and payments revenue of the same subscriber base included in our measure of base revenue at the end of the annual period being measured.

Non-GAAP Financial Measure

Adjusted EBITDA

To provide investors with additional information regarding our financial results prepared in accordance with U.S. generally accepted accounting principles, or GAAP, we have presented Adjusted EBITDA, which is a non-GAAP financial measure defined by us as our net loss before stock-based compensation expense, depreciation and amortization, change in fair value of contingent consideration, change in fair value of preferred stock warrant, impairment charges, provision for income taxes, and other income (expense), net, which consisted of interest income and expense, and other miscellaneous other income (expense). We have provided below a reconciliation of Adjusted EBITDA to net loss, the most directly comparable GAAP financial measure. We have presented Adjusted EBITDA in this prospectus 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, we believe that the exclusion of the amounts eliminated in calculating Adjusted EBITDA can provide a useful measure for period-to-period comparisons of our core business. 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 as follows:

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

- Adjusted EBITDA does not reflect: (1) changes in, or cash requirements for, our working capital needs; (2) the potentially dilutive impact of stock-based compensation; or (3) tax payments that may represent a reduction in cash available to us; and

- Other companies, including companies in our industry, may calculate Adjusted EBITDA or similarly titled measures differently, which reduces its usefulness as a comparative measure.

Because of these and other limitations, you should consider Adjusted EBITDA along with other GAAP-based financial performance measures, including various cash flow metrics, net loss, and our GAAP financial results. The following table presents a reconciliation of Adjusted EBITDA to net loss for each of the periods indicated:

	Year Ended December 31,			Three Months Ended March 31,	
	2012	2013	2014	2014	2015
			(in thousands)		
Net loss	$ (5,519)	$ (16,247)	$ (24,606)	$ (4,844)	$ (7,861)
Stock-based compensation expense	1,484	427	1,737	336	1,140
Depreciation and amortization	1,004	3,479	4,574	1,034	1,218
Change in fair value of contingent consideration		428	(1,434)	(423)	
Change in fair value of preferred stock warrant	515	302	283	22	150
Impairment charges			426		
Provision for income taxes	13	63	116	34	6
Other (income) expense, net	(8)	47	136	15	53
Adjusted EBITDA (unaudited)	$ (2,511)	$ (11,501)	$ (18,768)	$ (3,826)	$ (5,294)

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RISK FACTORS

Investing in our Class A common stock involves a high degree of risk. You should carefully consider the following risks, together with all of the other information contained in this prospectus, including our financial statements and related notes, before making a decision to invest in our Class A common stock. Any of the following risks could have a material adverse effect on our business, operating results, and financial condition and could cause the trading price of our Class A common stock to decline, which would cause you to lose all or part of your investment.

Risks Related to Our Business

We have a history of losses, and our revenue growth rate may not sustain the levels experienced in recent years. As our costs increase, we may not be able to generate sufficient revenue to achieve and sustain profitability.

We have incurred a net loss in each year since our inception, including a net loss of $16.2 million and $24.6 million in the years ended December 31, 2013 and 2014, respectively, and $4.8 million and $7.9 million in the three months ended March 31, 2014 and 2015, respectively. For the year ended December 31, 2014 and the three months ended March 31, 2015, our Adjusted EBITDA was negative $18.8 million and negative $5.3 million, respectively. For the years ended December 31, 2013 and 2014, our revenue was $48.7 million and $70.0 million, respectively, representing a 44% growth rate. For the three months ended March 31, 2014 and 2015, our revenue was $15.7 million and $22.3 million, respectively, representing a 42% growth rate. In future years, our revenue growth rate may not sustain the levels reflected by our past performance. We may not be able to generate sufficient revenue to achieve and sustain profitability as we also expect our costs to increase in future periods. We expect to continue to expend substantial financial and other resources on:

- developing our platform, including investments in our research and development team, the development or acquisition of new products, features and functionality, and improvements to the scalability, availability and security of our platform;
- expenses related to international expansion in an effort to increase our subscriber base;
- improving our technology infrastructure and hiring additional employees for our sales, operations and customer support teams;
- strategic acquisitions;
- sales and marketing expenses, including a significant expansion of our direct sales organization; and
- general and administrative expenses, including legal, accounting and other expenses related to being a public company.

These investments may not result in increased revenue or growth of our business. If we fail to continue to grow our revenue, our operating results and business will be harmed.

We derive, and expect to continue to derive, a majority of our revenue and cash flows from our integrated cloud-based business management software and payments platform for the wellness services industry. If we fail to adapt this platform to changing market dynamics and subscriber preferences or to achieve increased market acceptance of our platform, our business, results of operations, financial condition and growth prospects would be adversely affected.

We derive, and expect to continue to derive, a majority of our revenue and cash flows from our integrated cloud-based business management software and payments platform for the wellness services industry. As such, market acceptance of this platform is critical to our success. Demand for our platform is affected by a number of factors, many of which are beyond our control, such as the timing of development and release of new products, features and functionality by our competitors, technological change and growth or contraction in our addressable market. If we are unable to meet the demands of our subscribers for products and services that meet their business needs and are easy to use and deploy, our ability to achieve widespread market acceptance of our platform will be undermined, and our business, results of operations, financial condition and growth prospects will be adversely affected.

Our business depends substantially on our subscribers renewing their subscriptions to our platform. Any decline in the rate at which subscribers renew their subscriptions would harm our future operating results.

The vast majority of our subscription revenue is derived from subscriptions to our platform that have monthly terms. For us to maintain or improve our operating results, it is important that our subscribers renew their subscriptions each month. In the past few years, we have expanded our platform beyond our core cloud-based business management software with the introduction of Connect and Connect Workplace, and in January 2015, we introduced a new tiered pricing model for our subscriptions. While significant planning has gone into the expansion of our platform and the revisions to our pricing model, these changes may adversely impact our ability to accurately predict the rate at which subscribers will renew their subscriptions, which may decline or fluctuate as a result of a number of factors, including our subscribers satisfaction with our platform, our customer support, our prices, the prices of competing software systems, system uptime, network performance, data breaches, mergers and acquisitions affecting our subscriber base, the effects of global economic conditions and reductions in our subscribers spending levels. If our subscribers do not renew their subscriptions or shift to less expensive software subscriptions, our revenue may decline and we may not realize improved operating results from our subscriber base.

If we are not able to enhance our platform to achieve market acceptance and keep pace with technological developments, our business would be harmed.

Our ability to attract new subscribers and increase revenue from existing subscribers depends in large part on our ability to enhance and improve our existing platform and to introduce new products and services, including products and services designed for a mobile user environment. To grow our business, we must develop products and services that reflect the changing nature of business management software and expand beyond our core scheduling and point-of-sale functionality to other areas of managing relationships with our subscribers, as well as their relationships with consumers. For example, in 2013, we expanded our platform to include Connect, and in 2015, we introduced Connect Workplace and began providing automated marketing functionality with our higher-priced subscriptions. The success of these and any other enhancements to our platform depends on several factors, including timely completion, adequate quality testing and sufficient demand. Any new product or service that we develop may not be introduced in a timely or cost-effective manner, may contain defects or may not achieve the market acceptance necessary to generate sufficient revenue. If we are unable to successfully develop new products or services, enhance our existing platform to meet subscriber requirements or otherwise gain market acceptance, our business and operating results will be harmed.

In addition, because our platform is available over the Internet, we need to continuously modify and enhance our platform to keep pace with changes in Internet-related hardware, software, communications and database technologies and standards. If we are unable to respond in a timely and cost-effective manner to these rapid technological developments and changes in standards, our platform may become less marketable, less competitive, or obsolete, and our operating results will be harmed. If new technologies emerge that are able to deliver competitive products and applications at lower prices, more efficiently, more conveniently or more securely, such technologies could adversely impact our ability to compete. Our platform must also integrate with a variety of network, hardware, mobile, and software platforms and technologies, and we need to continuously modify and enhance our products and services to adapt to changes and innovation in these technologies. Any failure of our platform to operate effectively with future infrastructure platforms and technologies could reduce the demand for our platform. If we are unable to respond to these changes in a cost-effective manner, our platform may become less marketable, less competitive or obsolete, and our operating results may be adversely affected.

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Our payments platform is a core element of our business, and any failure to grow and develop our payment processing activities, or to anticipate changes in consumer behavior, could materially and adversely affect our business and financial results.

Our payments platform is a core element of our business. For the years ended December 31, 2013 and 2014, our payments platform generated 35% and 37% of our total revenue, respectively. For the three months ended March 31, 2014 and 2015, our payments platform generated 38% and 36% of our total revenue, respectively. Our future success depends in large part on the continued growth and development of our payment processing activities. If such activities are limited, restricted, curtailed or degraded in any way, or if we fail to continue to grow and develop such activities, our business may be materially and adversely affected.

The continued growth and development of our payment processing activities will depend on our ability to anticipate and adapt to changes in consumer behavior. For example, consumer behavior may change regarding the use of credit card transactions, including the relative increased use of cash, crypto-currencies, other emerging or alternative payment methods and credit card systems that we or our processing partners do not adequately support or that do not provide adequate commissions to Independent Sales Organizations such as us. Any failure to timely integrate emerging payment methods (e.g. ApplePay or Bitcoin) into our software, anticipate consumer behavior changes, or contract with processing partners that support such emerging payment technologies could cause us to lose traction among our subscribers, resulting in a corresponding loss of revenue, in the event such methods become popular among their consumers.

Our payment processing platform is subject to United States and international rules and regulations, many of which are still developing. If we fail to comply with such rules and regulations or if new laws, rules or practices applicable to payment systems restrict our ability to collect fees from our payment processing platform, our financial results could be materially and adversely effected.

Payments processing is subject to extensive regulation in the United States and other countries where we operate, and presents a wide range of risks. We may encounter increased regulatory scrutiny and new regulatory compliance requirements brought about by evolving laws, rules and regulations. Our payment processing activities are subject to price controls within the United States and other countries, and may be subject to an increase of price controls, including controls limiting the amount we are allowed to charge subscribers for processing credit card and debit card transactions. Certain countries limit the ability of foreign payment companies like us to conduct processing activities, and restrict the transfer of funds out of such countries. Changes in the laws, rules or practices applicable to payment systems such as VISA, MasterCard or American Express, including changes resulting in increased costs that we or our subscribers must pay, may force changes to our payments platform that could adversely affect our business.

If we incur an actual or perceived breach to our payment processing platform, we may incur significant liabilities and our brand and reputation may be damaged.

We may suffer an attack on our payments platform that results in a breach of consumer cardholder data. We maintain payment information for tens of millions of consumers on our payments platform, and we are a potential target for hackers and other parties attempting to steal credit card data via cyber-attacks or other means. As we increase our consumer base and our brand becomes more widely known and recognized, we may become more of a target for these malicious third parties. If we experience any actual or perceived data breach as a result of third-party actions, employee negligence or error, or malfeasance, whether or not resulting in the unauthorized acquisition of or access to cardholder data, we could incur significant liability, our business may suffer and our brand and reputation may be damaged. We could be required to pay extensive fines and costs related to any such data breach, including costs incurred to replace credit cards and cardholder information and provide security monitoring services, and we could lose future sales and subscribers, any of which could harm our business and operating results. Such fines and costs could become due in one or two business days following such breach and exceed the amount of cash available to us, thereby impacting our ability to operate our business. In addition, a data breach or failure to comply with rules or regulations of payment systems could also result in the termination of our status as a registered Independent Sales Organization / Merchant Service Provider, thereby dramatically impairing our ability to continue doing business in the payments industry.

We are subject to risks related to our reliance on third-party processing partners to perform our payment processing services.

We depend on our third-party processing partners to perform payment processing services, which generate almost all of our payments revenue. Our processing partners may go out of business or otherwise be unable or unwilling to continue providing such services, which could significantly and materially reduce our payments revenue and disrupt our business. A number of our processing contracts require us to assume liability for any losses our processing partners may suffer as a result of losses caused by our subscribers, including losses caused by chargebacks and subscriber fraud. Thus, in the event of a significant loss by our processing partners, we may be required to pay-out a large amount of cash in one or two business days following such event and, if we do not have sufficient cash on hand, may be deemed in breach of such contracts. A contractual dispute with our processing partners could adversely impact our revenue. Certain contracts may expire or be terminated, and we may not be able to replicate the associated revenue through a new processing partner relationship for a considerable period of time. In addition, the failure of any third-party processing partner to provide accurate and timely reporting could adversely impact our ability to report accurate and timely revenue in accordance with GAAP.

We expect to initiate new third-party payment relationships or migrate to other third-party payment partners in the future. The initiation of these relationships and the transition from one relationship to another would require significant time and resources. New third-party payment processing relationships may not be as effective, efficient or well received by subscribers and their consumers, nor is there any assurance that we will be able to reach an agreement with such processing partners. Our contracts with such processing partners may be less lucrative. For instance, we may be required to pay more for payment processing or receive a less favorable revenue arrangement from our payment processing partners. We may also experience the termination of revenue streams due to such migrations.

We may undertake to directly perform certain payment processing services and expand the scope of payment processing services we provide, which may require a significant investment of time and resources, and expand our exposure to potential liabilities.

In the future, we may undertake to directly perform certain payment processing services that we currently depend upon our processing partners to perform, expand the scope of payment processing services we provide, offer additional payment processing services or otherwise undertake additional responsibilities and liabilities related to such payment processing services. For example, in the future, we may undertake to act as a registered payment facilitator or payment service provider of the payment systems, providing merchants with a suite of services, including payment processing and funding and accepting payments as the merchant of record on behalf of other merchants. Any of these endeavors would require a significant investment of time and effective management of resources before presenting any potential upside for us, and may dramatically expand the scope of our potential contractual liability or exposure in the event of a lawsuit. Further, we may fail to effectively execute in performing such an expansion of services.

If our network or computer systems are breached or unauthorized access to subscriber or consumer data is otherwise obtained, our platform may be perceived as insecure, we may lose existing subscribers or fail to attract new subscribers, and we may incur significant liabilities.

Use of our platform involves the storage, transmission and processing of our subscribers   proprietary data, including personal or identifying information regarding their consumers or employees. Unauthorized access to or security breaches of our platform could result in the loss of data, loss of intellectual property or trade secrets, loss

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of business, reputational damage, regulatory investigations and orders, litigation, indemnity obligations, damages for contract breach, penalties for violation of applicable laws, regulations, or contractual obligations, and significant costs, fees and other monetary payments for remediation. For example, if our platform is breached in a way that constitutes a violation of HIPAA, we could face costs for remediation, criminal penalties, and/or monetary penalties up to $1.5 million per year for violations of an identical provision of the law.

If any unauthorized access to our systems or data or any other security breach occurs, or is believed to have occurred, our reputation and brand could be damaged, we could be required to expend significant capital and other resources to alleviate problems caused by such actual or perceived breaches and remediate our systems, we could be exposed to a risk of loss, litigation or regulatory action and possible liability, and our ability to operate our business may be impaired. If subscribers believe that our platform does not provide adequate security for the storage of personal or other sensitive information or its transmission over the Internet, our business will be harmed. Subscribers concerns about security or privacy may deter them from using our platform for activities that involve personal or other sensitive information. Additionally, actual, potential or anticipated attacks may cause us to incur increasing costs, including costs to deploy additional personnel and protection technologies, train employees and engage third-party experts and consultants. Our errors and omissions insurance policies covering certain security and privacy damages and claim expenses may not be sufficient to compensate for all potential liability. Although we maintain cyber liability insurance, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all.

Because the techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not identified until they are launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. We may also experience security breaches that may remain undetected for extended periods of time.

Because data security is a critical competitive factor in our industry, we make statements in our privacy policies and terms of service, through our certifications to privacy standards, and in our marketing materials, describing the security of our platform, including descriptions of certain security measures we employ. Should any of these statements be untrue, become untrue, or be perceived to be untrue, even if through circumstances beyond our reasonable control, we may face claims, including claims of unfair or deceptive trade practices, brought by the U.S. Federal Trade Commission, state, local or foreign regulators and private litigants.

Because our platform can be used to collect and store personal information, domestic and international privacy and data security concerns could result in additional costs and liabilities to us or inhibit sales of our platform.

Personal privacy and data security are significant issues in the United States, Europe and many other jurisdictions where we offer our platform. The regulatory framework for privacy and security issues worldwide is rapidly evolving and is likely to remain uncertain for the foreseeable future. The U.S. federal and various state and foreign governments have adopted or proposed limitations on, or requirements regarding, the collection, distribution, use, security and storage of personally identifiable information and other data relating to individuals, and the Federal Trade Commission and numerous state attorneys general are applying federal and state consumer protection laws to enforce regulations related to the online collection, use and dissemination of personally identifiable information and other data. Some of these requirements include obligations on companies to notify individuals of security breaches involving particular personal information, which could result from breaches experienced by us or our service providers. Even though we may have contractual protections with our service providers, notifications related to a security breach could impact our reputation, harm customer confidence, hurt our sales and expansion into new markets or cause us to lose existing customers.

Further, many foreign countries and governmental bodies, including the European Union and Canada, have laws and regulations concerning the collection and use of personally identifiable information obtained from their residents or by businesses operating within their jurisdiction. These laws and regulations often are more restrictive than those in the United States. Laws and regulations in these jurisdictions apply broadly to the collection, use, storage, disclosure and security of data that identifies or may be used to identify or locate an individual, such as names, email addresses and, in some jurisdictions, Internet Protocol, or IP, addresses. We certify adherence to the U.S. Department of Commerce s Safe Harbor Privacy Principles and comply with the U.S.-EU and U.S.-Swiss Safe Harbor Frameworks. However, it is not clear whether or for how long applicable data protection authorities in the European Union will continue to recognize such certification as a valid method of compliance with restrictions set forth in EU data protection legislation restricting the transfer of data outside of the European Economic Area. Such uncertainty has increased as a result of a vote by the EU Parliament to suspend the Safe Harbor.

We also expect that there will continue to be new proposed laws, regulations and industry standards concerning privacy, data protection and information security in the United States, the European Union and other jurisdictions, and we cannot yet determine the impact such future laws, regulations and standards may have on our business. Future laws, regulations, standards and other obligations, and changes in the interpretation of existing laws, regulations, standards and other obligations could impair our or our subscribers ability to collect, use or disclose information relating to consumers, which could decrease demand for our platform, increase our costs and impair our ability to maintain and grow our subscriber base and increase our revenue. New laws, amendments to or re-interpretations of existing laws and regulations, industry standards, contractual obligations and other obligations may require us to incur additional costs and restrict our business operations. In view of new or modified federal, state or foreign laws and regulations, industry standards, contractual obligations and other legal obligations, or any changes in their interpretation, we may find it necessary or desirable to fundamentally change our business activities and practices or to expend significant resources to modify our software or platform and otherwise adapt to these changes. Any failure or perceived failure by us to comply with federal, state or foreign laws or regulations, industry standards or other legal obligations, or any actual or suspected security incident, whether or not resulting in unauthorized access to, or acquisition, release or transfer of personally identifiable information or other data, may result in governmental enforcement actions and prosecutions, private litigation, fines and penalties or adverse publicity and could cause our subscribers to lose trust in us, which could have an adverse effect on our reputation and business. We may be unable to make such changes and modifications in a commercially reasonable manner or at all, and our ability to develop new products and features could be limited. Any of these developments could harm our business, financial condition and results of operations. Furthermore, the costs of compliance with, and other burdens imposed by, the laws, regulations, and policies that are applicable to the businesses of our subscribers may limit the use and adoption of, and reduce the overall demand for, our platform. Privacy and data security concerns, whether valid or not valid, may inhibit market adoption of our platform, particularly in certain industries and foreign countries.

We are subject to a number of legal requirements, industry standards and contractual obligations regarding security, data protection, and privacy and any failure to comply with these requirements, obligations or standards could have an adverse effect on our reputation, business, financial condition and operating results.

As a service provider to our subscribers, we must comply with a number of data protection, security, privacy and other government- and industry-specific requirements, including those that require companies to notify individuals of data security incidents involving certain types of personal data. For example, our solutions must conform, in certain circumstances, to requirements set forth in HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act, and the regulations promulgated thereunder, which collectively govern the privacy and security of protected health information. Through the provision of online scheduling services to certain of our clients, we may collect, access, use, maintain and transmit protected health information in ways that may be subject to certain of these laws and regulations. Any inability to adequately address privacy and security concerns, even if unfounded, or comply with applicable laws, regulations, policies, industry standards, contractual obligations or other legal obligations could result in additional cost and liability to us, damage our reputation, inhibit sales and adversely affect our business.

HIPAA applies to covered entities (*e.g.*, health plans, health care clearinghouses and most health care providers) and to business associates of covered entities, which include individuals and entities that provide services for or on behalf of covered entities pursuant to which the service providers may access protected health information, as well as subcontractors of business associates who may access such information. We are a subcontractor to certain business associates of covered entities. Under the current HIPAA regulations promulgated by the United States Department of Health and Human Services, if we experience a breach of patient information, the liability rules for business associates and business associates subcontractors could result in substantial financial and reputational harm to our business.

The Standards for Privacy of Individually Identifiable Health Information, or Privacy Rule, and the Security Standards for the Protection of Electronic Protected Health Information, or Security Rule, which jointly govern the privacy and security of protected health information, could significantly affect our business. The Privacy Rule and the Security Rule require the development and implementation of policies, procedures and contracts to assure compliance. We have implemented certain compliance measures, but we may be required to make additional modifications or to document and implement additional policies and procedures to comply with evolving HIPAA rules and our subscribers business associate agreements with us. We may also be required to perform periodic audits and refinements as required by HIPAA and our subscribers business associate agreements with us.

Additionally, because we process a significant portion of our payments through debit or credit cards and enable our subscribers to engage in payments through our service, we are contractually required to maintain Payment Card Industry Data Security Standard, or PCI DSS, compliance as part of our information security program. We also may find it necessary or desirable to join industry or other self-regulatory bodies or other privacy or data protection-related organizations that require compliance with their rules pertaining to privacy and data protection. We also may be bound by additional, more stringent contractual obligations relating to our collection, use and disclosure of personal, financial and other data. If we cannot comply with or if we incur a violation of any of these regulations or requirements, we could incur significant liability through fines and penalties imposed by credit card associations or other organizations, breach of contracts with our payment processors, or our growth could be adversely impacted, either of which could have an adverse effect on our reputation, business, financial condition and operating results.

The market for business management software is intensely competitive, and if we do not compete effectively, our operating results could be harmed.

The market for business management software for the wellness services industry is fragmented and rapidly evolving, with relatively low barriers to entry. We face competition from in-house software systems, smaller companies offering alternative SaaS applications and traditional paper-based methods. Our competitors vary in size and in the breadth and scope of the products and services they offer. In addition, there are a number of companies that are not currently direct competitors but that could in the future shift their focus to the wellness services industry and offer competing products and services. Some of these companies, such as Intuit and Square, have or may in the future acquire greater financial and other resources than we do and could bundle competing products and services with their other offerings or offer such products and services at lower prices as part of a larger sale. There is also a risk that certain of our current business partners could terminate their relationships with us and use the insights they have gained from partnering with us to introduce their own competing products. Many of our current and potential competitors have greater name recognition, established marketing relationships, access to larger customer bases and pre-existing relationships with customers, consultants, system integrators and resellers. Additionally, some potential subscribers in the wellness services industry, particularly large organizations, have elected, and may in the future elect, to develop their own business management software. Certain of our competitors have partnered with, or have acquired, and may in the future partner with or acquire, other competitors to offer services, leveraging their collective competitive positions, which makes, or would make, it more difficult to compete with them.

Our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or customer requirements. With the introduction of new technologies, the evolution of our platform and new market entrants, we expect competition to intensify in the future. Pricing pressures and increased competition generally could result in reduced sales, reduced margins, increased churn, reduced subscriber retention, further losses or the failure of our platform to achieve or maintain more widespread market acceptance, any of which could harm our business. For all of these reasons, we may fail to compete successfully against our current and future competitors, and if such failure occurs, our business will be harmed.

Interruptions or performance problems associated with our technology and infrastructure may adversely affect our business and operating results.

Our continued growth depends in part on the ability of our existing and potential subscribers to access our platform at any time and within an acceptable amount of time. Our platform is proprietary, and we rely on the expertise of members of our engineering, operations and software development teams for its continued performance. We have experienced, and may in the future experience, disruptions, outages and other performance problems due to a variety of factors, including infrastructure changes, introductions of new functionality, human or software errors, capacity constraints due to an overwhelming number of users accessing our platform simultaneously, denial of service attacks, or other security related incidents. For example, in 2011, we were subject to a denial-of-service attack that rendered our core software inaccessible for several hours. In addition, from time to time we experience limited periods of server downtime due to server failure or other technical difficulties. In some instances, we may not be able to identify the cause or causes of these performance problems within an acceptable period of time. It may become increasingly difficult to maintain and improve our performance, especially during peak usage times and as our platform becomes more complex and our user traffic increases. If our platform is unavailable or if our users are unable to access our platform within a reasonable amount of time, or at all, our business would be adversely affected and our brand could be harmed. In the event of any of the factors described above, or certain other failures of our infrastructure, subscriber or consumer data may be permanently lost. Moreover, our online subscription agreement includes a limited warranty that enables subscribers to be eligible for credits if cumulative service levels over a certain period of time drop below 99.9%. If we experience significant periods of service downtime in the future, we may be subject to claims by our subscribers against these warranties. To the extent that we do not effectively address capacity constraints, upgrade our systems as needed, and continually develop our technology and network architecture to accommodate actual and anticipated changes in technology, our business and operating results may be adversely affected.

Real or perceived errors, failures, or bugs in our platform could adversely affect our operating results and growth prospects.

Because our platform is complex, undetected errors, failures, vulnerabilities or bugs may occur, especially when updates are deployed. Our platform is often used in connection with computing environments with different operating systems, system management software, equipment and networking configurations, which may cause errors in or failures of our platform or other aspects of the computing environments. In addition, deployment of our platform into complicated, large-scale computing environments may expose undetected errors, failures, vulnerabilities or bugs in our platform. Despite testing by us, errors, failures, vulnerabilities or bugs may not be found in our platform until after it is deployed to our subscribers or their consumers. We have discovered, and expect to discover in the future, software errors, failures, vulnerabilities and bugs in our platform, and we anticipate that certain of these errors, failures, vulnerabilities and bugs will only be discovered and remediated after deployment to subscribers. Real or perceived errors, failures or bugs in our platform could result in negative publicity, loss of or delay in market acceptance of our platform, loss of competitive position or claims by subscribers for losses sustained by them. In such an event, we may be required, or may choose for subscriber relations or other reasons, to expend additional resources in order to help correct the problem.

We have limited experience with our expanded platform and revised pricing model, which makes it difficult to evaluate our prospects and future operating results.

Although we commenced our business in 2001 and began offering our integrated cloud-based business management software on a subscription basis in 2005, many of the products offered as part of our platform have been recently introduced. For example, in 2013, we released Connect, and in 2015, we introduced Connect Workplace and began offering automated marketing functionality with our higher-priced subscriptions. In addition, in January 2015, after careful deliberation, we introduced a new tiered pricing structure for new subscribers. Given the recent introduction of Connect Workplace and our new tiered pricing structure for new subscribers, their contribution to our total revenue has not been meaningful to our financial results to date. As we have a limited operating history with our expanded platform and updated pricing structure, our ability to forecast our future operating results and effectively assess our future prospects is subject to a number of uncertainties, including our ability to plan for and model future growth. Our historical revenue growth should not be considered indicative of our future performance. Further, in future periods, our revenue could decline for a number of reasons, including any further changes in our pricing structure, any reduction in demand for our platform, including our payments platform, decrease in payments processing volume, increase in competition, contraction of our overall market, or our failure, for any reason, to capitalize on growth opportunities. We have encountered and will continue to encounter risks and uncertainties frequently experienced by growing companies in rapidly changing industries, such as the risks and uncertainties described herein. If our assumptions regarding these risks and uncertainties, which we use to plan our business, are incorrect or change, or if we do not address these risks successfully, our operating and financial results could differ materially from our expectations, and our business could suffer.

Failure to effectively expand our sales capabilities could harm our ability to increase our subscriber base and achieve broader market acceptance of our platform.

Increasing our subscriber base and achieving broader market acceptance of our platform will depend, to a significant extent, on our ability to effectively expand our sales and marketing operations and activities, including internationally. We are substantially dependent on our online marketing efforts and on our direct sales force to obtain new subscribers. From December 31, 2013 to March 31, 2015, our sales and marketing organizations increased from 318 to 376 employees. We plan to continue to expand our direct sales force, both domestically and internationally, and to increase the number of our sales professionals who have experience in selling to larger organizations. We believe that there is significant competition for experienced sales professionals with the sales skills and technical knowledge that we require, and this competition is particularly acute for us given that our headquarters is located in San Luis Obispo, a small city with fewer resources than the San Francisco Bay Area, where many companies competing for talent are based. Our ability to achieve significant revenue growth in the future will depend, in part, on our success in recruiting, training and retaining a sufficient number of experienced sales professionals. New hires require significant training and time before they achieve full productivity, particularly in new sales segments and territories. Our recent and planned hires may not become productive as quickly as we expect, and we may be unable to hire or retain sufficient numbers of qualified individuals in the future in the markets where we do business. Because we do not have a long history of expanding our sales force, we cannot predict whether, or to what extent, our sales will increase as we expand our sales force or how long it will take for sales personnel to become productive. In addition, in January 2015, we introduced a new tiered pricing model for new subscribers. While we believe these changes are reasonable, there is a risk that these changes may impact the ability of our sales professionals to sell subscriptions to our platform. If our sales expansion efforts do not generate a significant increase in revenue, or if our sales team is unable to increase sales based on our new pricing model, our business and future growth prospects could be harmed.

Even if the market for our platform grows as expected, our ability to achieve long-term revenue growth will primarily depend on our ability to sell subscriptions to a large number of new small and medium-sized businesses on a consistent basis and in a cost-effective manner, with each sale constituting only a small portion of our overall revenue.

The market for our platform is highly fragmented. As a result, even if this market grows as expected, our ability to achieve long-term revenue growth will largely depend on our sales team s ability to sell subscriptions to a large number of new small and medium-sized businesses on a consistent basis, with each sale constituting only a small portion of our overall revenue. To achieve this type of subscriber growth in a cost-effective manner, it is crucial that our platform is easy to use and implement without the need for excessive post-sale customer

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support. If we are unable to sell a large volume of subscriptions on a consistent basis, or if we are forced to incur excessive costs to provide post-sale customer support, our business, results of operations, financial condition and growth prospects will be adversely affected.

Any failure to offer high-quality customer support may adversely affect our relationships with our subscribers and our financial results.

In deploying and using our platform, our subscribers depend on our 24/7 customer support team to resolve complex technical and operational issues, including ensuring that our platform is implemented in a manner that integrates with a variety of third-party platforms, including Apple Pay and QuickBooks. We may be unable to respond quickly enough to accommodate short-term increases in subscriber demand for customer support. We also may be unable to modify the nature, scope and delivery of our customer support to compete with changes in customer support services provided by our competitors. Increased subscriber demand for customer support, without corresponding revenue, could increase costs and adversely affect our operating results. Our sales are highly dependent on our business reputation and on positive recommendations from our existing subscribers. Any failure to maintain high-quality customer support, or a market perception that we do not maintain high-quality customer support, could adversely affect our reputation and brand, our ability to sell our platform to existing and prospective subscribers, our business, operating results and financial position.

Our quarterly results may fluctuate for various reasons, and if we fail to meet the expectations of analysts or investors, our stock price and the value of your investment could decline substantially.

Our quarterly financial results may fluctuate as a result of a variety of factors, many of which are outside of our control. If our quarterly financial results fall below the expectations of investors or any securities analysts who follow our stock, the price of our Class A common stock could decline substantially. Some of the important factors that may cause our revenue, operating results and cash flows to fluctuate from quarter to quarter include:

- our ability to attract new subscribers, retain and increase sales to existing subscribers and satisfy our subscribers requirements;
- the volume of transactions processed on our payments platform;
- the number of new employees added;
- the rate of expansion and productivity of our sales force;
- the entrance of new competitors in our market, whether by established companies or new companies;
- changes in our or our competitors pricing policies;

the amount and timing of operating costs and capital expenditures related to the expansion of our business, including our sales force;

new products, features or functionalities introduced by our competitors;

significant security breaches, technical difficulties or interruptions to our platform;

the timing of payments by subscribers and other payment processing partners and payment defaults by subscribers or other payment processing partners;

general economic conditions that may adversely affect either our subscribers ability or willingness to purchase additional subscriptions, delay a prospective subscriber s purchasing decision, reduce the value of new subscription contracts or affect subscriber retention;

changes in the relative and absolute levels of customer support we provide;

changes in foreign currency exchange rates;

extraordinary expenses such as litigation or other dispute-related settlement payments;

the impact of new accounting pronouncements; and

the timing of the grant or vesting of equity awards to employees.

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Many of these factors are outside of our control, and the occurrence of one or more of them might cause our revenue, operating results and cash flows to vary widely. As such, we believe that quarter-to-quarter comparisons of our revenue, operating results and cash flows may not be meaningful and should not be relied upon as an indication of future performance.

We have experienced rapid growth in recent periods. If we fail to manage our growth effectively, we may be unable to execute our business plan, maintain high levels of service or adequately address competitive challenges.

We have recently experienced a period of rapid growth in our operations and employee headcount. In particular, we grew from 806 employees as of December 31, 2013 to 1,100 employees as of March 31, 2015, and have also significantly increased the size of our subscriber base. You should not consider our recent growth in revenue as indicative of our future performance. However, we anticipate that we will significantly expand our operations and employee headcount in the near term, both domestically and internationally, particularly with respect to our sales force. This growth has placed, and future growth will place, a significant strain on our management, administrative, operational and financial infrastructure. Our success will depend in part on our ability to manage this growth effectively. To manage the expected growth of our operations and personnel, we will need to scale our technology infrastructure and continue to improve our operational, financial and management controls, and our reporting systems and procedures. Failure to effectively manage growth could result in difficulty or delays in onboarding new subscribers, declines in quality or subscriber satisfaction, increases in costs, difficulties in introducing new features or other operational difficulties. Any of these difficulties could adversely impact our business performance and operating results.

If we fail to effectively manage our growth in a manner that preserves the key aspects of our corporate culture, our business and operating results could be harmed.

We have experienced and may continue to experience rapid growth, which has placed, and may continue to place, significant demands on our management, operational and financial resources. For example, our headcount has grown from 806 employees as of December 31, 2013 to 1,100 employees as of March 31, 2015. In addition, since our inception in 2001, we have established subsidiaries in the United Kingdom and Australia. We plan to expand our international operations into other countries in the future, and such expansion may increase the risk that we over hire or over compensate our employees or fail to effectively integrate our rapidly expanding employee base into our organization. We have also experienced significant growth in the number of subscribers, consumers, transactions and data that our platform and our associated hosting infrastructure support. We will require significant capital expenditures and the allocation of valuable management resources to grow and change in these areas without undermining the core values of our corporate culture that have been critical to our growth so far. We believe that our corporate culture fosters innovation, creativity and teamwork. However, as our organization grows, we may find it increasingly difficult to maintain the beneficial aspects of such culture, and the failure to do so could adversely impact our ability to retain and attract the kind of employees necessary for our future success. If we are unable to manage our anticipated growth and change in a manner that preserves the key aspects of our culture, the quality of our products and services may suffer, which could adversely affect our brand and reputation and harm our ability to retain and attract subscribers.

We depend on our executive officers and other key employees, and the loss of one or more of these employees or an inability to attract and retain highly skilled employees could adversely affect our business.

Our success depends largely upon the continued services of our executive officers and other key employees, including our two founders, Richard L. Stollmeyer, our President and Chief Executive Officer, and Robert Murphy, our Chief Operating Officer. We rely on our leadership team in the areas of research and development, operations, security, marketing, sales, support, general and administrative functions, and on individual contributors in our research and development and operations. From time to time, there may be changes in our executive management team resulting from the hiring or departure of executives, which could disrupt our business. We do not have employment agreements with our executive officers or other key personnel that require them to continue to work for us for any specified period, and, therefore, they could terminate their employment with us at any time. The loss of one or more of our executive officers, especially our two founders or other key employees, could have an adverse effect on our business.

In addition, to execute our growth plan, we must attract and retain highly qualified personnel, particularly sales professionals and engineers experienced in designing and developing software and SaaS applications. Competition for these personnel in the locations where we maintain offices is intense, especially in the San Luis Obispo area, where our headquarters is located, due in part to the relatively close proximity to the San Francisco Bay Area. We have from time to time experienced, and we expect to continue to experience, difficulty in hiring and retaining employees with appropriate qualifications. In some cases, we have recruited employees from the San Francisco Bay Area and other regions with a greater supply of sales and engineering talent, and in such cases, we have sometimes found it necessary to offer compensation packages that were larger than would have been necessary if no relocation had been required. Many of the companies with which we compete for experienced personnel have greater resources than we have and are located in areas in which sales and engineering talent is more readily available. If we hire employees from competitors or other companies, their former employers may attempt to assert that these employees have breached their legal obligations, resulting in a diversion of our time and resources. In addition, job candidates and existing employees often consider the value of the equity awards they receive in connection with their employment. If the perceived value of our equity awards declines, our ability to recruit and retain highly skilled employees may be adversely impacted. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects could be adversely affected.

We do not have the history with our subscription or pricing models necessary to accurately predict optimal pricing necessary to attract new subscribers and retain existing subscribers.

We have limited experience with respect to determining the optimal prices for our platform. In January 2015, we introduced changes to our pricing model for new subscribers, and in the future we expect to make further changes to our pricing model from time to time. As the market for our platform matures, or as competitors introduce new products or services that compete with ours, we may be unable to attract new subscribers at the same price or based on the same pricing models that we have used historically. Moreover, we have limited experience selling subscriptions to larger organizations, which may demand substantial price concessions. As a result, in the future, we may be required to reduce our prices, which could adversely affect our revenue, gross margin, profitability, financial position and cash flow.

If we are not able to maintain and enhance our brand, our business, operating results, and financial condition may be adversely affected.

We believe that maintaining and enhancing our reputation as a differentiated and category-defining business management software company serving the wellness services industry is critical to our relationship with our existing subscribers and to our ability to attract new subscribers. The successful promotion of our brand attributes will depend on a number of factors, including our marketing efforts, our ability to continue to develop high-quality software, and our ability to successfully differentiate our platform from competitive products and services.

The promotion of our brand requires us to make substantial expenditures, and we anticipate that the expenditures will increase as our market becomes more competitive and as we seek to expand our platform. To the extent that these activities yield increased revenue, this revenue may not offset the increased expenses we incur. If we do not successfully maintain and enhance our brand, our business may not grow, we may have reduced pricing power relative to competitors, and we could lose subscribers or fail to attract potential subscribers, all of which would adversely affect our business, results of operations and financial condition.

Our financial results may fluctuate due to increasing variability in our sales cycles.

We plan our expenses based on certain assumptions about the length and variability of our sales cycle. These assumptions are based upon historical trends for sales cycles and conversion rates associated with our existing subscribers, many of whom to date have been small to medium-sized organizations. If we expand the focus of our sales efforts to larger organizations, our sales cycle could lengthen and become less predictable. Other factors that may influence the length and variability of our sales cycle include:

- our pricing terms, which were updated in January 2015 and will continue to vary over time;
- the need to educate prospective subscribers about the uses and benefits of our platform;
- the discretionary nature of purchasing and budget cycles and decisions;
- the competitive nature of evaluation and purchasing processes;
- evolving functionality demands;
- announcements or planned introductions of new products, features or functionality by us or our competitors; and
- lengthy purchasing approval processes, particularly among larger organizations.

If we are unable to close one or more expected significant transactions with subscribers in a particular period, or if one or more expected transactions are delayed until a subsequent period, our operating results for that period, and for any future periods in which revenue from such transactions would otherwise have been recognized, may be adversely affected.

Unfavorable conditions in our industry or the global economy or reductions in information technology spending could limit our ability to grow our business and adversely affect our operating results.

Our operating results may vary based on the impact of changes in our industry or the global economy on us or our subscribers. The revenue growth and potential profitability of our business depend on demand for business management software generally and for business management software serving the wellness services industry in particular. Historically, during economic downturns, there have been reductions in spending on information technology as well as pressure for extended billing terms and other financial concessions. The adverse impact of economic downturns may be particularly acute among small and medium-sized businesses, which comprise the vast majority of our subscriber base. If economic conditions deteriorate, our current and prospective subscribers may elect to decrease their information technology budgets, which would limit our ability to grow our business and adversely affect our operating results.

The market for our integrated cloud-based business management software and payments platform is new and unproven and may not grow.

Our addressable market consists primarily of millions of small and medium-sized businesses in the wellness services industry, including businesses that offer yoga, Pilates, barre, indoor cycling, personal training, strength conditioning, martial arts and dance exercise, as well as spas, salons, music instruction studios, dance studios, children s activity centers and integrative health centers. It is difficult to predict adoption and renewal rates, demand for our platform, the growth of this market, the entry of competitive products or services or the success of existing competitive products or services. Any expansion in this market depends on a number of factors, including the cost, performance and perceived value associated with our platform. You should consider our business and prospects in light of the risks and difficulties we encounter in this new and unproven market.

Expanding the focus of our sales efforts to include larger organizations could result in higher costs and longer and more unpredictable sales cycles.

In the future, we may expand the focus of our sales efforts to include larger organizations, which we believe would result in higher costs and longer and more unpredictable sales cycles. With larger organizations, the

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decision to subscribe to our platform may require the approval of more technical personnel and management levels within a potential subscriber s organization than we have historically encountered, and if so, these types of sales would require us to invest more time educating these potential subscribers. In addition, larger organizations may demand more features and integration and customer support services. We have limited experience in developing and managing sales strategies for larger organizations and in successfully onboarding larger organizations as new subscribers. As a result of these factors, these sales opportunities may not prove to be successful or may require us to devote greater research and development, sales, customer support and professional services resources to individual subscribers, resulting in increased costs and reduced profitability, and will likely lengthen our typical sales cycle, which could strain our resources. Moreover, these larger transactions may require us to delay recognizing the associated revenue we derive from these subscribers until any technical or implementation requirements have been met, and larger subscribers may demand discounts to the prices they pay for our platform. If we are unsuccessful expanding sales to larger organizations, our business and results of operations could be adversely affected.

Our future performance depends in part on support from our partner ecosystem.

We depend on our partner ecosystem to create apps that will integrate with our platform. This presents certain risks to our business, including:

- these apps may not meet the same quality standards that we apply to our own development efforts, and to the extent they contain bugs or defects, they may create disruptions in our subscribers use of our platform or adversely affect our brand;
- we do not currently provide substantive support for software apps developed by our partner ecosystem, and users may be left without adequate support and potentially cease using our platform if our partners do not provide adequate support for these apps;
- our partners may not possess the appropriate intellectual property rights to develop and share their apps;
- our relationship with our partners may change, which could adversely affect our revenue; and
- some of our partners may use the insight they gain from integrating with our software and from information publicly available to develop competing products or product features.

The number of actual consumers using our platform may be lower than the number we have estimated.

We estimate that 24 million active consumers used our platform in the two years ended December 31, 2014. While we do not directly monetize consumers of our subscribers services, we believe that growth in the number of active consumers on our platform also contributes to our subscriber growth. In calculating this number, we have attempted to avoid duplicative counting of consumers by identifying consumers who may have used our platform through different subscribers. However, in certain cases, a single consumer may have transacted with multiple subscribers under slightly different names, in which case there is a chance that we have counted the same consumer more than once. Given the challenges inherent in identifying whether a single consumer has engaged in transactions on our platform under different names, we do not have a reliable way of identifying the precise number of consumers using our platform. If the number of actual consumers is materially lower than our expectations, our business may not grow as fast as we expect, which could harm our operating and financial results and cause our stock price to decline.

Our international sales and operations subject us to additional risks that can adversely affect our business, operating results and financial condition.

In each of the years ended December 31, 2013 and 2014, we derived 14% and 16% of our revenue from subscribers located outside of the United States, respectively. In the three months ended March 31, 2014 and 2015, we derived 15% and 16% of our revenue from subscribers located outside of the United States, respectively. We are continuing to expand our international operations as part of our growth strategy. We currently have sales personnel

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and sales and customer support operations in the United States, the United Kingdom and Australia. Our sales organization outside the United States is substantially smaller than our sales organization in the United States. We believe our ability to convince new subscribers to subscribe to our platform or to convince existing subscribers to renew or expand their use of our platform is directly correlated to the level of engagement we obtain with the subscriber. To the extent we are unable to effectively engage with non-U.S. subscribers due to our limited sales force capacity, we may be unable to effectively grow in international markets.

Our international operations subject us to a variety of additional risks and challenges, including:

- increased management, travel, infrastructure and legal compliance costs associated with having multiple international operations;
- longer payment cycles and difficulties in enforcing contracts, collecting accounts receivable or satisfying revenue recognition criteria, especially in emerging markets;
- increased financial accounting and reporting burdens and complexities;
- requirements or preferences for domestic products;
- differing technical standards, existing or future regulatory and certification requirements and required features and functionality;
- economic conditions in each country or region and general economic uncertainty around the world;
- compliance with foreign privacy and security laws and regulations and the risks and costs of non-compliance;
- compliance with laws and regulations for foreign operations, including anti-bribery laws (such as the U.S. Foreign Corrupt Practices Act of 1977, as amended, or the FCPA, the U.S. Travel Act, and the U.K. Bribery Act 2010), import and export control laws, tariffs, trade barriers, economic sanctions and other regulatory or contractual limitations on our ability to sell our platform in certain foreign markets, and the risks and costs of non-compliance;
- heightened risks of unfair or corrupt business practices in certain geographies and of improper or fraudulent sales arrangements that may impact our financial results and result in restatements of our consolidated financial statements;

- fluctuations in currency exchange rates and related effect on our operating results;
- difficulties in repatriating or transferring funds from or converting currencies in certain countries;
- communication and integration problems related to entering new markets with different languages, cultures and political systems;
- differing labor standards, including restrictions related to, and the increased cost of, terminating employees in some countries;
- the need for localized software and licensing programs;
- the need for localized language support;
- reduced protection for intellectual property rights in some countries and practical difficulties of enforcing rights abroad; and
- compliance with the laws of numerous foreign taxing jurisdictions, including withholding obligations, and overlapping of different tax regimes.

Any of these risks could adversely affect our international operations, reduce our international revenue or increase our operating costs, adversely affecting our business, operating results, financial condition and growth prospects.

Compliance with laws and regulations applicable to our international operations substantially increases our cost of doing business in foreign jurisdictions. We may be unable to keep current with changes in government requirements as they change from time to time. Failure to comply with these regulations could have adverse effects on our business. In many foreign countries, it is common for others to engage in business practices that are prohibited by our internal policies and procedures or U.S. or other regulations applicable to us. Although we have implemented policies and procedures designed to ensure compliance with these laws and policies, there can be no assurance that all of our employees, contractors, partners and agents will comply with these laws and policies. Violations of laws or key control policies by our employees, contractors, partners, or agents could result in delays in revenue recognition, financial reporting misstatements, enforcement actions, disgorgement of profits, fines, civil and criminal penalties, damages, injunctions, other collateral consequences, or the prohibition of the importation or exportation of our platform and services and could adversely affect our business and results of operations.

If the market for SaaS business software applications develops more slowly than we expect or declines, our business would be adversely affected.

The market for SaaS business management software is less mature than the market for on-premise business software, and the adoption rate of SaaS business management software may be slower among subscribers in industries with heightened data security interests or business practices requiring highly customizable software solutions. Our success will depend to a substantial extent on the widespread adoption of SaaS business management software in general and for the wellness services industry in particular. Many organizations have invested substantial personnel and financial resources to integrate traditional on-premise business management software solutions into their businesses. As a result, such organizations may be reluctant or unwilling to migrate to SaaS-based solutions. It is difficult to predict subscriber adoption rates and demand for our platform, the future growth rate and size of the SaaS business software market or the entry of competitive solutions. The expansion of the SaaS business management software market depends on a number of factors, including the cost, performance, and perceived value associated with SaaS, as well as the ability of SaaS providers to address data security and privacy concerns. Additionally, government agencies have adopted, or may adopt, laws and regulations regarding the collection and use of personal information obtained from consumers and other individuals, or may seek to access information in our possession, either of which may reduce the overall demand for our platform. If we or other SaaS providers experience data security incidents, loss of subscriber data, disruptions in delivery, or other problems, the market for SaaS business management software, including our platform, may be adversely affected.

If SaaS business management software does not continue to achieve market acceptance, or there is a reduction in demand for SaaS business management software caused by a lack of subscriber acceptance, technological challenges, weakening economic conditions, data security or privacy concerns, governmental regulation, competing technologies and products, or decreases in information technology spending, our revenue could decrease and our business could be adversely affected.

We are subject to anti-corruption and anti-money laundering laws with respect to our operations and non-compliance with such laws can subject us to criminal and/or civil liability and harm our business.

We are subject to the FCPA, the U.S. domestic bribery statute contained in 18 U.S.C. § 201, the U.S. Travel Act, the USA PATRIOT Act, the U.K. Bribery Act 2010 and Proceeds of Crime Act 2002, and possibly other anti-bribery and anti-money laundering laws in countries in which we conduct activities. Anti-corruption laws are interpreted broadly and prohibit companies and their employees and third-party intermediaries from authorizing, offering, or providing, directly or indirectly, improper payments or benefits to recipients in the public or private sector. We use third-party representatives to sell our products and services abroad. In addition, as we increase our international sales and business, we may engage with additional business partners and third-party intermediaries to sell our products and services abroad and to obtain necessary permits, licenses, and other regulatory approvals. We or our third-party intermediaries may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities. We can be held liable for the corrupt or other illegal activities of these third-party intermediaries, our employees, representatives, contractors, partners, and agents, even if we do not explicitly authorize such activities.

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Noncompliance with anti-corruption and anti-money laundering laws could subject us to whistleblower complaints, investigations, sanctions, settlements, prosecution, other enforcement actions, disgorgement of profits, significant fines, damages, other civil and criminal penalties or injunctions, suspension and/or debarment from contracting with certain persons, the loss of export privileges, reputational harm, adverse media coverage, and other collateral consequences. If any subpoenas or investigations are launched, or governmental or other sanctions are imposed, or if we do not prevail in any possible civil or criminal litigation, our business, results of operations and financial condition could be materially harmed. In addition, responding to any action will likely result in a materially significant diversion of management s attention and resources and significant defense costs and other professional fees. Enforcement actions and sanctions could further harm our business, results of operations and financial condition.

Certain of our operating results and financial metrics may be difficult to predict as a result of seasonality.

We believe there are significant seasonal factors that may cause us to record higher revenue in some quarters compared with others. We believe this variability is largely due to our focus on the wellness services industry, as many of our subscribers experience an increase in demand for their services in the first quarter of each year due to their consumers becoming more motivated to pursue health and fitness goals in the new year. Our rapid growth rate over the last couple years may have made seasonal fluctuations more difficult to detect. If our rate of growth slows over time, seasonal or cyclical variations in our operations may become more pronounced, and our business, results of operations and financial position may be adversely affected.

Our business and growth depend in part on the success of our strategic relationships with third parties, including API platform partners, technology partners, payments partners and professional services partners.

We depend on, and anticipate that we will continue to depend on, various third-party relationships in order to sustain and grow our business. We are highly dependent upon partners for certain critical features and functionality of our platform, including data centers and third-party payment processors supporting our payments platform. Failure of these or any other technology provider to maintain, support or secure its technology platforms in general, and our integrations in particular, or errors or defects in its technology, could materially and adversely impact our relationship with our subscribers, damage our reputation and brand, and harm our business and operating results. Any loss of the right to use any of this hardware or software could result in delays or difficulties in our ability to provide our platform until equivalent technology is either developed by us or, if available, identified, obtained and integrated.

Identifying, negotiating and documenting relationships with strategic third parties such as API platform partners, payments partners and technology partners requires significant time and resources. In addition, integrating third-party technology is complex, costly and time-consuming. Our agreements with partners are typically limited in duration, non-exclusive and do not prohibit them from working with our competitors or from offering competing services. Our competitors may be effective in providing incentives to third parties to favor their products or services or to prevent or reduce subscriptions to our platform. In addition, our partners could develop competing products or services.

If we are unsuccessful in establishing or maintaining our relationships with these strategic third parties, our ability to compete in the marketplace or to grow our revenue could be impaired and our operating results could suffer. Even if we are successful, we cannot assure you that these relationships will result in improved operating results.

We depend and rely upon SaaS technologies from third parties and on technology systems and electronic communication networks that are supplied and managed by third parties to operate our business, and interruptions or performance problems with these technologies may adversely affect our business and operating results.

We rely heavily on hosted SaaS applications from third parties in order to operate critical functions of our business, including sales automation and pipeline management, billing and order management, enterprise resource planning, payroll and financial accounting services. If these services become unavailable due to extended outages, interruptions, or because they are no longer available on commercially reasonable terms, our expenses could increase, our ability to manage finances could be interrupted and our processes for managing sales of our platform and supporting our subscribers could be impaired until equivalent services, if available, are identified, obtained and implemented, all of which could adversely affect our business.

Our ability to provide services and solutions to our subscribers also depends on our ability to communicate with our subscribers through the public Internet and electronic networks that are owned and operated by third parties. In addition, in order to provide services on-demand and promptly, our computer equipment and network servers must be functional 24 hours per day, which requires access to telecommunications facilities managed by third parties and the availability of electricity, which we do not control. A severe disruption of one or more of these networks, including as a result of utility or third-party system interruptions, could impair our ability to process information, which could impede our ability to provide services to our subscribers, harm our reputation, result in a loss of subscribers and adversely affect our business and operating results.

We have in the past completed acquisitions, and we may in the future acquire or invest in other companies. Such acquisitions and investments divert our management s attention and may in some cases result in additional dilution to our stockholders. In addition, we may be unable to integrate the acquired businesses and technologies successfully or achieve the expected benefits of such acquisitions.

We have in the past acquired other companies, and we may in the future evaluate and consider potential strategic transactions, including acquisitions of, or investments in, businesses, technologies, services, products and other assets in the future. We also may enter into relationships with other businesses to expand our platform, which could involve preferred or exclusive licenses, additional channels of distribution, discount pricing or investments in other companies.

Any acquisition, investment or business relationship may result in unforeseen operating difficulties and expenditures. In particular, we may encounter difficulties assimilating or integrating the businesses, technologies, products, personnel or operations of the acquired companies, particularly if the key personnel of the acquired company choose not to work for us, their software is not easily adapted to work with our platform or we have difficulty retaining the customers of any acquired business due to changes in ownership, management or otherwise. The pursuit of potential acquisitions may also disrupt our business, divert our resources and require significant management attention that would otherwise be available for development of our existing business, whether or not they are consummated. Moreover, the anticipated benefits of any acquisition, investment or business relationship may not be realized or we may be exposed to unknown risks or liabilities.

Negotiating these transactions can be time-consuming, difficult and expensive, and our ability to complete these transactions may be subject to approvals that are beyond our control. Consequently, these transactions, even if announced, may not be completed. For one or more of these transactions, we may:

- issue additional equity securities that would dilute our existing stockholders;

- use cash that we may need in the future to operate our business;

incur large charges or substantial liabilities associated with the acquisition;

incur acquisition-related costs, which would be recognized as current period expenses;

encounter difficulties maintaining relationships with customers and partners of the acquired business;

encounter difficulties incorporating acquired technologies and rights into our platform and of maintaining quality and security standards consistent with our reputation and brand;

incur debt on terms unfavorable to us or that we are unable to repay;

encounter difficulties retaining key employees of the acquired company, integrating diverse software codes or business cultures or coordinating organizations that are geographically diverse and that have different business cultures; and

become subject to adverse tax consequences, substantial depreciation or deferred compensation charges.

We may be sued by third parties for alleged infringement of their proprietary rights.

There is considerable patent and other intellectual property development activity in our industry. Our future success depends in part on not infringing upon the intellectual property rights of others. From time to time, we may receive claims from third parties, including our competitors, that our platform and underlying technology infringe or violate a third party s intellectual property rights, and we may be found to be infringing upon such rights. We may be unaware of the intellectual property rights of others that may cover some or all of our technology. Any claims or litigation could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages or ongoing royalty payments, prevent us from offering our platform, or require that we comply with other unfavorable terms. We may also be obligated to indemnify our subscribers or business partners in connection with any such litigation and to obtain licenses, modify our platform or refund subscription fees, which could further exhaust our resources. In addition, we may incur substantial costs to resolve claims or litigation, whether or not successfully asserted against us, which could include payment of significant settlement, royalty or license fees, modification of our platform or refunds to subscribers of subscription fees. Even if we were to prevail in the event of claims or litigation against us, any claim or litigation regarding our intellectual property could be costly and time-consuming and divert the attention of our management and other employees from our business operations.

Our use of open source software could adversely affect our ability to sell our platform and subject us to possible litigation.

We use open source software in our platform and expect to continue to use open source software in the future. We may face claims from others claiming ownership of, or seeking to enforce the terms of, an open source license, including by demanding release of the open source software, derivative works or our proprietary source code that was developed using such software. These claims could also result in litigation, require us to purchase a costly license or require us to devote additional research and development resources to change our platform, any of which would have a negative effect on our business and operating results. In addition, if the license terms for the open source software we utilize change, we may be forced to reengineer our platform or incur additional costs. Although we have implemented policies to regulate the use and incorporation of open source software into our platform, we cannot be certain that we have not incorporated open source software in our platform in a manner that is inconsistent with such policies.

Any failure to protect our intellectual property rights could impair our ability to protect our proprietary technology and our brand.

Our success and ability to compete depend in part upon our intellectual property. We currently have 16 pending patent applications, but there is no guarantee that such applications will result in issued patents. We primarily rely on copyright, trade secret and trademark laws, trade secret protection and confidentiality or license agreements with our employees, subscribers, partners and others to protect our intellectual property rights. However, the steps we take to protect our intellectual property rights may be inadequate.

To protect our intellectual property rights, we may be required to spend significant resources to monitor and protect these rights. Litigation brought to protect and enforce our intellectual property rights could be costly, time-consuming and distracting to management, and could result in the impairment or loss of portions of our intellectual property. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights. Our failure to secure, protect and enforce our intellectual property rights could adversely affect our brand and adversely impact our business.

Our subscribers may become dissatisfied with our platform if they receive negative reviews from consumers using Connect. In addition, we may face potential liability and expense for legal claims based on the content of such reviews on Connect.

Our subscribers consist of businesses in the wellness services industry, including studios that offer yoga, Pilates, barre, indoor cycling, personal training, strength conditioning, martial arts and dance exercise, as well as spas, salons, music instruction studios, dance studios, children s activity centers and integrative health centers. In addition to the business management software we provide to our subscribers, we also offer Connect, which is a consumer-facing app that allows consumers to discover, book and pay for the wellness services offered by our subscribers. After receiving a service or taking a class booked through Connect, consumers can rate their experience by posting reviews. If consumers use Connect to post negative reviews regarding our subscribers or their practitioners, our subscribers may become dissatisfied with our platform and cancel their subscriptions or not use Connect to market their services to a broader group of consumers. In addition, there is a risk that consumers may post comments on the Connect platform that give rise to potential claims against us, including claims by our subscribers or other third parties for defamation, libel, negligence and copyright or trademark infringement. Any such claims could divert the time and attention of management away from our business and result in significant costs to investigate and defend, regardless of the merits of the claims. In some instances, we may elect or be compelled to remove reviews or other posted content and may be forced to pay substantial damages. If the reviews or other content posted by consumers on our Connect platform gives rise to the consequences described above, our business and financial performance could be adversely affected.

We may not be able to secure additional financing on favorable terms, or at all, to meet our future capital needs.

We have funded our operations since inception primarily through equity financings, loan facilities, financing agreements for software and license maintenance and subscription payments by our subscribers for use of our platform. We do not know when or if our operations will generate sufficient cash to fund our ongoing operations. In the future, we intend to continue to make investments to support our business growth, and we may require additional capital to respond to business opportunities, challenges, acquisitions, a decline in the level of subscriptions for our platform or unforeseen circumstances. We may not be able to timely secure additional debt or equity financing on favorable terms, or at all. Any debt financing obtained by us could involve restrictive covenants relating to financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. If we raise additional funds through further issuances of equity, convertible debt securities or other securities convertible into equity, our existing stockholders could suffer significant dilution in their percentage ownership of our company, and any new equity securities we issue could have rights, preferences and privileges senior to those of holders of our Class A common stock. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to grow or support our business and to respond to business challenges could be significantly limited.

Our loan agreement contains operating and financial covenants that restrict our business and financing activities.

Borrowings under our loan agreement with Silicon Valley Bank are secured by substantially all of our assets, including our intellectual property. In addition, borrowings under our loan agreement are made based on a percentage of our monthly recurring revenue for the prior months, up to $20 million. If our revenue declines, our ability to draw under the loan agreement could be adversely affected.

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Our loan agreement also restricts our ability to, among other things:

- sell or otherwise dispose of our assets;
- make material changes in our business;
- enter into a transaction in which stockholders who were not stockholders immediately prior to such transaction own more than 40% of our voting stock after giving effect to such transaction (other than pursuant to an initial public offering and certain other exceptions);
- consolidate, merge with, or acquire other entities;
- incur additional indebtedness;
- create liens on our assets;
- pay dividends or make other distributions on our capital stock;
- make investments;
- enter into transactions with affiliates; and
- pay off or redeem subordinated indebtedness.

These restrictions are subject to certain exceptions. In addition, our loan agreement requires us to maintain a certain percentage of our projected revenue. The operating and financial restrictions and covenants in the loan agreement, as well as any future financing agreements that we may enter into, could restrict our ability to finance our operations and to engage in, expand or otherwise pursue business activities and strategies that we or our stockholders may consider beneficial. Our ability to comply with these covenants may be affected by events beyond our control, and future breaches of any of these covenants could result in a default under the loan agreement.

The loan agreement also contains customary events of default, subject to cure periods for certain defaults, including, among others, payment defaults, covenant defaults, the occurrence of a material adverse change in our business, defaults relating to certain legal processes affecting our assets or business, insolvency and bankruptcy defaults, cross-defaults to other material indebtedness, material judgment defaults, and material misrepresentations. Future defaults, if not waived, could cause all of the outstanding indebtedness under our loan agreement to become immediately due and payable and would permit Silicon Valley Bank to terminate all commitments to extend further credit and exercise remedies against the collateral in which we granted Silicon Valley Bank a security interest.

If we do not have or are unable to generate sufficient cash available to repay our debt obligations when they become due and payable, either upon maturity or in the event of a default, we may not be able to obtain additional debt or equity financing on favorable terms, if at all. This could materially and adversely affect our liquidity and financial condition and our ability to operate and continue our business as a going concern.

We have in the past identified material weaknesses in our internal controls over financial reporting that, if not properly remediated, could result in material misstatements in our financial statements in future periods and impair our ability to comply with the accounting and reporting requirements applicable to public companies.

Our independent registered public accounting firm has not conducted an audit of our internal controls over financial reporting. However, as described below, in connection with the audits of our consolidated financial statements, we identified material weaknesses in the design of our internal control over financial reporting, as defined in the standards established by the Public Company Accounting Oversight Board of the U.S. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. In connection with the audit of our consolidated financial statements as of and for the year ended December 31, 2012, we discovered two material weaknesses that resulted from (i) a

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lack of a sufficient number of qualified personnel within our accounting department that possessed an appropriate level of expertise to perform certain accounting functions and (ii) the failure to establish proper access controls to our accounting software and proper controls to review and approve manual journal entries. In connection with the audit of our consolidated financial statements as of and for the year ended December 31, 2013, we discovered a material weakness related to the inadequate design and implementation of controls and procedures with respect to capitalization of development costs for internal use software. Finally, in connection with the audit of our consolidated financial statements as of and for the years ended December 31, 2013 and 2014, we identified a material weakness related to the inadequate design and implementation of controls and procedures with respect to the identification of and evaluation of accounting for certain features, including the related fair value computation, and transactions related to our redeemable convertible preferred stock. Please see Management s Discussion and Analysis of Financial Condition and Results of Operations Internal Control Over Financial Reporting for information regarding our remediation efforts. Our management and independent registered public accounting firm did not and were not required to perform an evaluation of our internal control over financial reporting as of and for the years ended December 31, 2013 and 2014 in accordance with the provisions of the JOBS Act.

We believe that we have remediated the material weaknesses from our 2012 audit and the material weakness from our 2013 audit related to capitalization of development costs for internal use software. Although the material weakness from our 2013 and 2014 audit related to the accounting for certain features of and transactions related to our redeemable convertible preferred stock had not been remediated as of December 31, 2014, all shares of redeemable convertible preferred stock will be automatically converted into shares of Class B common stock immediately prior to the completion of this offering. As a result, following the offering, we will no longer be subject to the accounting rules that gave rise to the material weakness. Nevertheless, we cannot be certain that other material weaknesses and control deficiencies will not be discovered in the future. If our remediation efforts are not successful or other material weaknesses or control deficiencies occur in the future, we may be unable to report our financial results accurately or on a timely basis, which could cause our reported financial results to be materially misstated and result in the loss of investor confidence or delisting and cause the trading price of our common stock to decline. As a result of such failures, we could also become subject to investigations by the stock exchange on which our securities are listed, the SEC, or other regulatory authorities, and become subject to litigation from investors and stockholders, which could harm our reputation, financial condition or divert financial and management resources from our core business.

We face exposure to foreign currency exchange rate fluctuations.

We conduct transactions in currencies other than the U.S. dollar. While we have primarily transacted with subscribers and vendors in U.S. dollars, we have transacted in foreign currencies for subscriptions to our platform and expect to significantly expand the number of transactions with subscribers for our platform that are denominated in foreign currencies in the future. As a result of such foreign currency exchange rate fluctuations, it could be more difficult to detect underlying trends in our business and results of operations. In addition, to the extent that fluctuations in currency exchange rates cause our results of operations to differ from our expectations or the expectations of our investors, the trading price of our Class A common stock could be adversely affected.

We do not currently maintain a program to hedge transactional exposures in foreign currencies. However, in the future, we may use derivative instruments, such as foreign currency forward and option contracts, to hedge certain exposures to fluctuations in foreign currency exchange rates. The use of such hedging activities may not offset any or more than a portion of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place. Moreover, the use of hedging instruments may introduce additional risks if we are unable to structure effective hedges with such instruments.

We may be subject to additional tax liabilities in connection with our operations or due to future legislation, each of which could materially impact our financial position and results of operation.

We are subject to federal and state income, sales, use, value added and other taxes in the United States and other countries in which we conduct business, and such laws and rates vary by jurisdiction. We do not collect

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sales and use, value added and similar taxes in all jurisdictions in which we have sales, based on our belief that such taxes are not applicable. Certain jurisdictions in which we do not collect sales, use, value added or other taxes on our sales may assert that such taxes are applicable, which could result in tax assessments, penalties and interest, and we may be required to collect such taxes in the future.

Significant judgment is required in determining our worldwide provision for income taxes. We generally conduct our international operations through wholly owned subsidiaries and report our taxable income in various jurisdictions worldwide based upon our business operations in those jurisdictions. Our intercompany relationships are subject to complex transfer pricing regulations administered by taxing authorities in various jurisdictions. These determinations are highly complex and require detailed analysis of the available information and applicable statutes and regulatory materials. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain.

Although we believe our tax practices and provisions are reasonable, the final determination of tax audits and any related litigation could be materially different from our historical tax practices, provisions and accruals. If we receive an adverse ruling as a result of an audit, or we unilaterally determine that we have misinterpreted provisions of the tax regulations to which we are subject, there could be a material effect on our tax provision, net income or cash flows in the period or periods for which that determination is made, which could materially impact our financial results. Further, any changes in the taxation of our activities, including certain proposed changes in U.S. tax laws, may increase our worldwide effective tax rate and adversely affect our financial position and results of operations. In addition, liabilities associated with taxes are often subject to an extended or indefinite statute of limitations period. Therefore, we may be subject to additional tax liability (including penalties and interest) for a particular year for extended periods of time.

Our ability to use our net operating losses to offset future taxable income may be subject to certain limitations.

As of December 31, 2014, we had federal and state net operating loss carryforwards, or NOLs, of $58.8 million and $47.4 million, respectively, due to prior period losses, which, subject to the following discussion, are generally available to be carried forward to offset our future taxable income, if any, until such NOLs are used or expire. Our federal NOLs begin to expire in the year ending December 31, 2025, and our state NOLs begin to expire in the year ending December 31, 2015. In general, under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, a corporation that undergoes an ownership change is subject to limitations on its ability to utilize its NOLs to offset future taxable income. Similar rules may apply under state tax laws. Our existing NOLs may be subject to limitations arising from previous ownership changes, and if we undergo an ownership change in connection with or after this offering, our ability to utilize NOLs could be further limited by Section 382 of the Code. Future changes in our stock ownership, some of which are outside of our control, could result in an ownership change under Section 382 of the Code. Furthermore, our ability to utilize NOLs of companies that we have acquired or may acquire in the future may be subject to limitations. There is also a risk that due to regulatory changes, such as suspensions on the use of NOLs, or other unforeseen reasons, our existing NOLs could expire or otherwise be unavailable to offset future income tax liabilities. For these reasons, we may not be able to realize a tax benefit from the use of our NOLs, whether or not we attain profitability.

The estimates of market opportunity and forecasts of market growth included in this prospectus may prove to be inaccurate, and even if the market in which we compete achieves the forecasted growth, our business could fail to grow at similar rates, if at all.

Market opportunity estimates and growth forecasts are subject to significant uncertainty and are based on assumptions and estimates that may not prove to be accurate. The estimates and forecasts in this prospectus relating to the size and expected growth of the market for business management software serving the wellness services industry may prove to be inaccurate. Even if the market in which we compete meets the size estimates and growth forecasted in this prospectus, our business could fail to grow at similar rates, if at all. For more information regarding the estimates of market opportunity and the forecasts of market growth included in this prospectus, see the section titled Market, Industry and Other Data.

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Changes in laws and regulations related to the Internet or changes in the Internet infrastructure itself may diminish the demand for our platform, and could have a negative impact on our business.

The future success of our business depends upon the continued use of the Internet as a primary medium for commerce, communication and business applications. Federal, state or foreign government bodies or agencies have in the past adopted, and may in the future adopt, laws or regulations affecting the use of the Internet as a commercial medium. Changes in these laws or regulations could require us to modify our platform in order to comply with these changes. In addition, government agencies or private organizations have imposed and may impose additional taxes, fees or other charges for accessing the Internet or commerce conducted via the Internet. These laws or charges could limit the growth of Internet-related commerce or communications generally, or result in reductions in the demand for Internet-based platforms and services such as ours. In addition, the use of the Internet as a business tool could be adversely affected due to delays in the development or adoption of new standards and protocols to handle increased demands of Internet activity, security, reliability, cost, ease-of-use, accessibility and quality of service. The performance of the Internet and its acceptance as a business tool has been adversely affected by viruses, worms and similar malicious programs, and the Internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure. If the use of the Internet is adversely affected by these issues, demand for our platform could decline.

Catastrophic events may disrupt our business.

Our corporate headquarters are located in San Luis Obispo, California, and we operate or utilize data centers that are located in North America. Key features and functionality of our platform are enabled by third parties that are headquartered in California and operate or utilize data centers in the United States. Additionally, we rely on our network and third-party infrastructure and enterprise applications, internal technology systems, and our website for our development, marketing, operational support, hosted services and sales activities. The west coast of the United States contains active earthquake zones. In addition, the Diablo Canyon nuclear power plant is located a short distance from San Luis Obispo. In the event of a major earthquake, hurricane or other natural disaster, or a catastrophic event such as a nuclear disaster, fire, power loss, telecommunications failure, cyber-attack, war or terrorist attack, we may be unable to continue our operations and may endure system interruptions, reputational harm, delays in our app development, lengthy interruptions in our platform, breaches of data security or data integrity and loss of critical data, all of which could have an adverse effect on our future operating results.

We are subject to governmental economic sanctions and export and import controls that could impair our ability to compete in international markets or subject us to liability if we are not in compliance with applicable laws.

As a U.S. company, we are subject to U.S. export control and economic sanctions laws and regulations, and we are required to export our technology, software, products and services in compliance with those laws and regulations, including the U.S. Export Administration Regulations and economic embargo and trade sanction programs administered by the Treasury Department s Office of Foreign Assets Control. U.S. economic sanctions and export control laws and regulations prohibit the shipment of certain products and services to countries, governments and persons targeted by U.S. sanctions. While we are currently taking precautions to prevent doing any business, directly or indirectly, with countries, governments and persons targeted by U.S. sanctions and to ensure that our business management software is not exported or used by countries, governments and persons targeted by U.S. sanctions, such measures may be circumvented.

Furthermore, if we export our technology, hardware or software, the exports may require authorizations, including a license, a license exception or other appropriate government authorization. Complying with export control and sanctions regulations for a particular sale may be time-consuming and may result in the delay or loss of sales opportunities. Failure to comply with export control and sanctions regulations for a particular sale may expose us to government investigations and penalties, which could have an adverse effect on our business, operating results and financial condition.

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If we are found to be in violation of U.S. sanctions or export control laws, it could result in fines or penalties for us and for individuals, including civil penalties of up to $250,000 or twice the value of the transaction, whichever is greater, per violation, and in the event of conviction for a criminal violation f