Bazaarvoice Inc
Form 10-Q
September 08, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 31, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 001-35433

BAZAARVOICE, INC.
(Exact name of registrant as specified in its charter)

State of Delaware	20-2908277
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
10901 South Stonelake Blvd. Austin, Texas	78759-5749
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (512) 551-6000

Not Applicable
(Former name, former address, and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

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

The number of shares of the registrant’s common stock outstanding as of September 2, 2016 was 82,835,422.

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Bazaarvoice, Inc.
Condensed Consolidated Balance Sheets
(in thousands, except shares and per share data)
(unaudited)

	July 31, 2016	April 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	$43,508	$43,963
Short-term investments	48,298	50,682
Accounts receivable, net of allowance for doubtful accounts of $1,908 and $2,362 as of July 31, 2016 and April 30, 2016, respectively	38,027	39,597
Prepaid expenses and other current assets	8,990	8,415
Total current assets	138,823	142,657
Property, equipment and capitalized internal-use software development costs, net	31,420	31,649
Goodwill	139,155	139,155
Acquired intangible assets, net	9,135	9,607
Other non-current assets	4,174	5,214
Total assets	$322,707	$328,282
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$3,549	$6,110
Accrued expenses and other current liabilities	19,218	23,167
Deferred revenue	65,992	62,735
Total current liabilities	88,759	92,012
Long-term liabilities:		
Revolving line of credit	42,000	42,000
Deferred revenue less current portion	2,198	2,481
Other liabilities, long-term	7,056	7,255
Total liabilities	140,013	143,748
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Common stock – $0.0001 par value; 150,000,000 shares authorized, 83,020,797 shares issued and 82,820,797 shares outstanding as of July 31, 2016; 150,000,000 shares authorized, 82,269,748 shares issued and 82,069,748 shares outstanding at April 30, 2016	8	8
Treasury stock, at cost – 200,000 shares as of July 31, 2016 and April 30, 2016	—	—
Additional paid-in capital	441,143	437,239
Accumulated other comprehensive loss	(1,517)	(878)
Accumulated deficit	(256,940)	(251,835)
Total stockholders' equity	182,694	184,534
Total liabilities and stockholders' equity	$322,707	$328,282

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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Bazaarvoice, Inc.
Condensed Consolidated Statements of Operations
(in thousands, except net loss per share data)
(unaudited)

	Three Months Ended July 31,	
	2016	2015
Revenue	$50,093	$48,876
Cost of revenue	18,756	19,548
Gross profit	31,337	29,328
Operating expenses:		
Sales and marketing	15,304	19,166
Research and development	11,073	10,533
General and administrative	8,259	8,238
Restructuring charges	327	—
Acquisition-related and other	176	702
Amortization of acquired intangible assets	309	309
Total operating expenses	35,448	38,948
Operating loss	(4,111)	(9,620)
Other income (expense), net:		
Interest income	142	77
Interest expense	(489)	(571)
Other expense	(512)	(218)
Total other expense, net	(859)	(712)
Loss before income taxes	(4,970)	(10,332)
Income tax expense (benefit)	135	(88)
Net loss	$(5,105)	$(10,244)
Net loss per share:		
Basic and diluted loss per share	$(0.06)	$(0.13)
Basic and diluted weighted average number of shares outstanding	82,214	80,174

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.
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Bazaarvoice, Inc.
Condensed Consolidated Statements of Comprehensive Loss
(in thousands)
(unaudited)

	Three Months Ended July 31,	
	2016	2015
Net loss	$(5,105)	$(10,244)
Other comprehensive gain (loss), net of tax:		
Foreign currency translation adjustment	(638)	30
Unrealized gain (loss) on investments	(1)	30
Total other comprehensive gain (loss), net of tax	(639)	60
Comprehensive loss	$(5,744)	$(10,184)

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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Bazaarvoice, Inc.
Condensed Consolidated Statement of Changes in Stockholders' Equity
(in thousands)
(unaudited)

	Common Stock		Treasury Stock					
	Number of Shares	Amount	Number of Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity (Deficit)
Balance at April 30, 2016	82,270	$ 8	(200)	$ —	$437,239	$ (878)	$ (251,835)	$ 184,534
Stock-based expense	—	—	—	—	4,066	—	—	4,066
Exercise of stock options and vested restricted stock units	751	—	—	—	(162)	—	—	(162)
Change in foreign currency translation adjustment	—	—	—	—	—	(638)	—	(638)
Change in unrealized gain on investments	—	—	—	—	—	(1)	—	(1)
Net loss	—	—	—	—	—	—	(5,105)	(5,105)
Balance at July 31, 2016	83,021	$ 8	(200)	$ —	$441,143	$ (1,517)	$ (256,940)	$ 182,694

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.
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Bazaarvoice, Inc.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Three Months Ended July 31,	
	2016	2015
Operating activities:		
Net loss	$(5,105)	$(10,244)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	3,578	3,644
Stock-based expense	3,944	3,935
Bad debt expense (recovery)	(179)	85
Amortization of deferred financing costs	59	59
Other non-cash expense (benefit)	(39)	51
Changes in operating assets and liabilities:		
Accounts receivable	1,749	(1,076)
Prepaid expenses and other current assets	(507)	(48)
Other non-current assets	869	(314)
Accounts payable	(2,616)	(808)
Accrued expenses and other current liabilities	(4,442)	(4,162)
Deferred revenue	2,974	2,498
Other liabilities, long-term	(156)	4
Net cash provided by (used in) operating activities	129	(6,376)
Investing activities:		
Proceeds from sale of discontinued operations	—	4,501
Purchases of property, equipment and capitalized internal-use software development costs	(2,760)	(2,929)
Purchases of short-term investments	(12,691)	(15,155)
Proceeds from maturities of short-term investments	15,010	18,172
Net cash provided by (used in) investing activities	(441)	4,589
Financing activities:		
Proceeds from employee stock compensation plans	395	1,101
Net cash provided by financing activities	395	1,101
Effect of exchange rate fluctuations on cash and cash equivalents	(538)	95
Net change in cash and cash equivalents	(455)	(591)
Cash and cash equivalents at beginning of period	43,963	54,041
Cash and cash equivalents at end of period	$43,508	$53,450
Supplemental disclosure of other cash flow information:		
Cash paid for income taxes, net of refunds	$183	$335
Cash paid for interest	$419	$542
Supplemental disclosure of non-cash investing and financing activities:		
Purchase of fixed assets recorded in accounts payable	$83	$413
Capitalized stock-based compensation	$122	$114

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.
These Condensed Consolidated Statement of Cash Flows include combined cash flows from continuing operations along with discontinued operations.

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Bazaarvoice, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

1. Organization and Nature of Operations
Bazaarvoice, Inc. (“Bazaarvoice” or the “Company”) was founded on the premise that the collective voice of the consumer is the most powerful marketing tool in the world. The Company's solutions and services allow the Company's retailer and brand clients to understand that consumer voice and the role it plays in influencing purchasing decisions, both online and offline. The Company’s solutions collect, curate and display consumer-generated content including ratings and reviews, questions and answers, customer stories, and social posts, photos, and videos. This content is syndicated and distributed across the Company's clients' marketing channels, including category/product pages, search terms, brand sites, mobile applications, in-store displays, and paid and earned advertising. This consumer-generated content enables the Company's clients to generate more revenue, market share, and brand affinity. The Company's solutions empower the Company's clients to leverage insights derived from consumer-generated content to improve marketing effectiveness, increase success of new product launches, improve existing products and services, effectively scale customer support, decrease product returns, reach consumers when actively shopping via highly targeted audience advertising, and enable retailers to launch and manage on-site advertising solutions and site monetization strategies.

2. Summary of Significant Accounting Policies
Fiscal Year
The Company’s fiscal year end is April 30. References to fiscal year 2017, for example, refer to the fiscal year ending April 30, 2017.
Basis of Presentation
The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) and applicable rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, these unaudited condensed consolidated financial statements and notes included herein should be read in conjunction with the audited consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the fiscal year ended April 30, 2016, filed on June 20, 2016. There have been no significant changes to the Company’s accounting policies since April 30, 2016.
The condensed consolidated balance sheet data as of April 30, 2016 was derived from the audited consolidated financial statements included in the Company’s Annual Report on form 10-K for the fiscal year ended April 30, 2016.
Certain immaterial prior period amounts presented in the consolidated statement of cash flows have been reclassified to conform to current period financial statement presentation. These reclassifications have no effect on previously reported net income.
Use of Estimates
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. On an ongoing basis, the Company evaluates its estimates, including those related to revenue recognition, allowance for doubtful accounts, income taxes, stock-based expense, accrued liabilities, useful lives of property, equipment and capitalized software development costs, among others. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from the estimates made by management with respect to these items.
Principles of Consolidation
The accompanying condensed consolidated financial statements include the accounts of the Company and the accounts of the Company’s wholly-owned subsidiaries. All intercompany balances and transactions have been

eliminated upon consolidation.

Unaudited Interim Financial Information

The accompanying unaudited condensed consolidated financial statements and notes have been prepared in accordance with GAAP, as contained in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification for interim financial information and Article 10 of Regulation S-X issued by the SEC. Accordingly, they do not include all the information and footnotes required by GAAP for annual fiscal reporting periods. In the opinion of management, the interim financial information includes all adjustments of a normal recurring nature necessary for a fair statement of the results of operations, financial position, changes in stockholders' equity and cash flows. The results of operations for the three months ended July 31, 2016 are not necessarily indicative of results that may be expected for the fiscal year ending April 30, 2017 or any other period.

Foreign Currency Translation

The U.S. dollar is the reporting currency for all periods presented. The functional currency of the Company's foreign subsidiaries is generally the local currency. All assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the exchange rate on the balance sheet date. Revenue and expenses are translated at the average rate during the period. Equity transactions are translated using historical exchange rates. Adjustments resulting from translating foreign currency financial statements into U.S. dollars are included in other expenses, net. Foreign currency transaction gains and losses are included in net loss for the period. The Company recognized net foreign currency losses of $0.5 million and $0.1 million for the three month periods ended July 31, 2016 and 2015, respectively.

Derivative Financial Instruments

As a result of the Company's international operations, it is exposed to various market risks, such as fluctuations in currency exchange rates, which may affect its consolidated results of operations, cash flows and financial position. The Company's primary foreign currency exposures are in Euros and British Pound Sterling. The Company faces exposure to adverse movements in currency exchange rates as the financial results of certain of its operations are translated from local currency into U.S. dollars upon consolidation. Additionally, foreign exchange rate fluctuations on transactions denominated in currencies other than the functional currency result in gains and losses that are reflected in income.

The Company may enter into derivative instruments to hedge certain net exposures of non-U.S. dollar-denominated assets and liabilities, even though it does not elect to apply hedge accounting or hedge accounting does not apply. Gains and losses resulting from a change in fair value of these derivatives are reflected in income in the period in which the change occurs and are recognized on the condensed consolidated statement of operations in other income (expense). Cash flows from these contracts are classified within net cash provided by (used in) operating activities on the condensed consolidated statements of cash flows.

The Company does not use financial instruments for trading or speculative purposes. The Company recognizes all derivative instruments on the balance sheet at fair value, and its derivative instruments are generally short-term in duration.

Derivative contracts were not material to our operations or net income for the three month periods ended July 31, 2016 and 2015. The Company is exposed to the risk that counterparties to derivative contracts may fail to meet their contractual obligations.

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, including cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximate their respective fair values due to their short-term nature.

The Company applies the authoritative guidance on fair value measurements for financial assets and liabilities. The guidance defines fair value and increases disclosures surrounding fair value calculations. The guidance establishes a three-tiered fair value hierarchy that prioritizes inputs to valuation techniques used in fair value calculations. The three levels of inputs are defined as follows:

Level 1: Unadjusted quoted prices for identical assets or liabilities in active markets accessible by the Company.

Level 2: Inputs that are observable in the marketplace other than those inputs classified as Level 1.

Level 3: Inputs that are unobservable in the marketplace which require the Company to develop its own assumptions.

The valuation techniques used to determine the fair value of our financial instruments having Level 2 inputs are valued using unadjusted, non-binding market consensus prices that are corroborated by observable market data, quoted market prices for similar instruments, or pricing models. Our procedures include controls to ensure that appropriate fair values are recorded by a review of the valuation methods and assumptions. The Company did not hold any cash equivalents, restricted cash or short-term investments categorized as Level 3 as of July 31, 2016 or April 30, 2016.

Concentrations of Credit Risk and Significant Customers

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents and account receivables. The Company’s cash and cash equivalents are placed with high-credit-quality financial institutions and issuers, and at times may exceed federally insured limits. The Company has not experienced any loss relating to cash and cash equivalents in these accounts to date. The Company maintains an allowance for doubtful accounts receivable balances, performs periodic credit evaluations of its clients and generally does not require collateral of its clients.

No single client accounted for 10% or more of accounts receivable as of July 31, 2016 or April 30, 2016. No single client accounted for 10% or more of total revenue for the three months ended July 31, 2016 or 2015.

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Revenue Recognition
In general, the Company recognizes revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been delivered to the client, (iii) the fee is fixed or determinable and (iv) collectability is reasonably assured. Amounts that have been invoiced are recorded in accounts receivable and in deferred revenue or revenue, depending on whether the revenue recognition criteria have been met.
The Company generates revenue primarily from sales of the following services:
Software as a Service (“SaaS”) Revenue:
SaaS revenue includes subscription fees from clients accessing the Company’s cloud-based social commerce solutions and application services pursuant to service agreements that vary in length from one to three years . Subscription and support revenue is recognized ratably over the term of the related agreement commencing upon the later of the agreement start date or when all revenue recognition criteria have been met. The client does not have the right to take possession of the software supporting the application service at any time, nor do the arrangements contain general rights of return.
Professional Service Revenue:
Professional services consist of fees associated with providing expert services that educate and assist clients on the best use of the Company’s solutions as well as assist in the implementation of the solutions. Professional services are not required for clients to utilize the Company’s solutions. The majority of the Company's professional services contracts are offered on a time and material basis. Professional services revenue is recognized as the services are rendered.
Advertising Revenue:
Advertising revenue consists primarily of fees charged to advertisers when their advertisements are displayed on websites owned by various third-parties (“Publishers”). The Company receives a fee from the advertisers and pays the Publishers based on their contractual revenue-share agreements or average cost per thousand impressions delivered. Advertising revenue is recognized on a net basis as the Company has determined that it is acting as an agent in these transactions.
Multiple Element Arrangements
Typically, the Company's SaaS revenue from new clients consists of agreements with multiple elements, comprised of subscription fees for the Company’s products and professional services. The Company evaluates each element in a multiple-element arrangement to determine whether it represents a separate unit of accounting. An element constitutes a separate unit of accounting when the delivered item has standalone value and delivery of the undelivered element is probable and within the Company’s control. Various subscription-based products have standalone value because they are routinely sold separately by the Company. In determining whether professional services can be accounted for separately from subscription services, the Company considered the availability of the professional services from other vendors, the nature of the Company’s professional services and whether the Company sells its applications to new clients without professional services.
If the deliverables have standalone value upon delivery, the Company accounts for each deliverable separately and revenue is recognized for the respective deliverables over the respective service period. If one or more of the deliverables does not have standalone value upon delivery, the deliverables that do not have standalone value are generally combined with the final deliverable within the arrangement and treated as a single unit of accounting. Revenue for arrangements treated as a single unit of accounting is generally recognized over the period commencing upon delivery of the final deliverable and over the remaining term of the subscription contract.
The Company allocates revenue to each element in an arrangement based on a selling price hierarchy. The selling price for a deliverable is based on its vendor-specific objective evidence (“VSOE”), if available, third-party evidence (“TPE”), if VSOE is not available, or best estimated selling price (“BESP”), if neither VSOE nor TPE is available. Because the Company has been unable to establish VSOE or TPE for the elements of our arrangements, the Company allocates the arrangement fee to the separate units of accounting based on the Company’s best estimate of selling price. The Company determines BESP price for its deliverables based on the Company’s overall pricing objectives, discounting practices, the size and volume of the Company’s transactions, the client demographic, the Company’s price lists, the Company’s go-to-market strategy, historical standalone sales and contract prices. The determination of BESP

is made through consultation with and approval by management, taking into consideration the go-to-market strategy. As the Company's go-to-market strategies evolve, the Company may modify its pricing practices in the future, which could result in changes in relative selling prices, including both VSOE and BESP.

Subscription revenue is recognized ratably over the term of the related agreement, commencing upon the later of the agreement start date or when all revenue recognition criteria have been met.

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Deferred Revenue
Deferred revenue consists of billings or payments received in advance of revenue recognition and is recognized as the revenue recognition criteria are met. The Company invoices clients in a variety of installments and, consequently, the deferred revenue balance does not represent the total contract value of its non-cancelable subscription agreements. Deferred revenue that will be recognized during the succeeding 12-month period is recorded as current deferred revenue and the remaining portion is recorded as non-current deferred revenue.
Recent Accounting Pronouncements
Improvements to Employee Share-Based Payment Accounting
In March 2016, the FASB issued Accounting Standards Update 2016-09, "Improvements to Employee Share-Based Payment Accounting," (“ASU 2016-09”) which requires excess tax benefits and tax deficiencies to be recorded in the income statement. In addition, cash flows related to excess tax benefits will no longer be separately classified as a financing activity apart from other income tax cash flows. The standard also allows entities to repurchase more of an employee’s shares for tax withholding purposes without triggering liability accounting, clarifies that all cash payments made on an employee’s behalf for withheld shares should be presented as a financing activity on the cash flow statement, and provides an accounting policy election to account for forfeitures as they occur. The standard is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, and early adoption is permitted. The Company is currently evaluating the impact the adoption of ASU 2016-09 will have on its consolidated financial statements.
Leases (Topic 842)
In February 2016, the FASB issued Accounting Standards Update 2016-02, “Leases (Topic 842),” (“ASU 2016-02”) which requires that lessees recognize assets and liabilities for leases with lease terms greater than twelve months in the statement of financial position. ASU 2016-02 also requires improved disclosures to help users of financial statements better understand the amount, timing and uncertainty of cash flows arising from leases. The standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The standard must be adopted using a modified retrospective approach and early adoption is permitted. The Company is currently evaluating the impact the adoption of ASU 2016-02 will have on its consolidated financial statements.
Intangibles – Goodwill and Other – Internal Use Software
In April 2015, the FASB issued Accounting Standards Update 2015-05, “Intangible-Goodwill and Other-Internal Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement,” (“ASU 2015-05”) which provides guidance to customers with cloud computing arrangements that include a software license. If a cloud computing arrangement includes a software license, the customer is required to account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. ASU 2015-05 does not change the accounting for a customer’s accounting for service contracts. As a result of the ASU 2015-05, all software licenses within the scope of Subtopic 350-40 will be accounted for consistent with other licenses of intangible assets. The Company adopted this updated guidance effective fiscal year 2017. Adoption of this guidance did not have a material impact on our consolidated results of operations, financial position or liquidity.
Revenue
In May 2014, the FASB issued Accounting Standards Update 2014-09, “Revenue from Contracts with Customers,” (“ASU 2014-09”) which provides updated, comprehensive revenue recognition guidance for contracts with customers, including a new principles-based five step framework that eliminates much of the industry-specific guidance in current accounting literature. Under ASU 2014-09, revenue recognition is based on a core principle that companies recognize revenue in an amount consistent with the consideration it expects to be entitled to in exchange for the transfer of goods or services. The standards update also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of recognized revenue. In August 2015, The FASB issued Accounting Standards Update 2015-14, "Revenue from Contracts with Customers," ("ASU 2015-14") which defers the effective date of ASU 2014-09 by one year. The updated guidance will be effective for annual periods beginning after December 15, 2017 and may be applied on either a full or modified retrospective basis. Early adoption is permitted for annual periods

beginning after December 15, 2016, the original effective date of ASU 2014-09. The updated guidance will be effective for the fiscal year ending April 30, 2019 and the Company is currently evaluating the impact of this standards update on the Company's consolidated financial statements.
The Company has reviewed other new accounting pronouncements that were issued as of July 31, 2016 and does not believe that these pronouncements are applicable to the Company, or that they will have a material impact on its financial position or results of operations.

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3. Fair Value of Financial Assets and Liabilities

The following table summarizes the Company's cash and cash equivalents as of July 31, 2016 and April 30, 2016 (in thousands):

	July 31, 2016	April 30, 2016
Demand deposit accounts	$37,110	$38,692
Money market funds	4,149	922
Commercial paper	2,249	4,349
Total cash and cash equivalents	$43,508	$43,963

The following table summarizes the Company's short-term investments as of July 31, 2016 (in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
Certificates of deposit	$4,640	$ —	$ —	$ 4,640
Commercial paper	2,248	—	—	2,248
U.S. Treasury securities	8,727	—	(15)	8,712
U.S. government agency debt securities	25,508	11	(1)	25,518
Corporate debt securities	7,186	1	(7)	7,180
Total short-term investments	$48,309	$ 12	$ (23)	$ 48,298

The following table summarizes the Company's short-term investments as of April 30, 2016 (in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
Certificates of deposit	$7,090	$ —	$ (1)	$ 7,089
Commercial paper	4,043	—	—	4,043
U.S. Treasury securities	8,764	—	—	8,764
U.S. government agency debt securities	24,841	4	(9)	24,836
Corporate debt securities	5,954	1	(5)	5,950
Total short-term investments	$50,692	$ 5	$ (15)	$ 50,682

Realized and unrealized gains and losses on short-term investments were not material for the three months ended July 31, 2016 and 2015. An impairment charge is recorded in the consolidated statements of operations for declines in fair value below the cost of an individual investment that are deemed to be other-than-temporary. The Company assesses whether a decline in value is temporary based on the length of time that the fair market value has been below cost, the severity of the decline, as well as the intent and ability to hold, or plans to sell, the investment. There have been no impairment charges recognized related to short-term investments for the three months ended July 31, 2016 and 2015.

Actual maturities may differ from contractual maturities because some borrowers have the right to call or prepay obligations with or without call or prepayment penalties. We may sell these securities at any time for use in current operations or for other purposes, such as consideration for acquisitions, even if they have not yet reached maturity. As a result, we classify our investments, including securities with maturities beyond twelve months as current assets in the accompanying condensed consolidated balance sheets. As of July 31, 2016 there was no difference between actual and contractual maturities of our investments.

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The following table summarizes the fair value of the Company’s financial assets and liabilities that were measured on a recurring basis as of July 31, 2016 and April 30, 2016 (in thousands):

	Fair Value Measurements at July 31, 2016				Fair Value Measurements at April 30, 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Cash equivalents:								
Money market funds	$4,149	$—	$ —	$4,149	$922	$—	$ —	$922
Commercial paper	—	2,249	—	2,249	—	4,349	—	4,349
Total cash equivalents	4,149	2,249	—	6,398	922	4,349	—	5,271
Short-term investments:								
Certificates of deposit	—	4,640	—	4,640	—	7,089	—	7,089
Commercial paper	—	2,248	—	2,248	—	4,043	—	4,043
U.S. Treasury securities	8,712	—	—	8,712	8,764	—	—	8,764
U.S. government agency securities	25,518	—	—	25,518	24,836	—	—	24,836
Corporate securities	—	7,180	—	7,180	—	5,950	—	5,950
Total short-term investments	34,230	14,068	—	48,298	33,600	17,082	—	50,682
Total assets	$38,379	$16,317	$ —	$54,696	$34,522	$21,431	$ —	$55,953

The Company measures certain assets, including property and equipment, goodwill and intangible assets, at fair value on a non-recurring basis. These assets are recognized at fair value when they are deemed to be impaired. The Company evaluates transfers between levels at the end of the fiscal year and assumes that any identified transfers are deemed to have occurred at the end of the reporting year. There were no transfers between levels in any of the periods presented.

4. Acquired Intangible Assets, net

Acquired intangible assets, net, as of July 31, 2016 and April 30, 2016 are as follows (in thousands):

	July 31, 2016			April 30, 2016		
	Gross Fair Value	Accumulated Amortization	Net Book Value	Gross Fair Value	Accumulated Amortization	Net Book Value
Customer relationships	$11,835	$ (4,467)	$7,368	$11,835	$ (4,158)	$7,677
Developed technology	3,265	(1,498)	1,767	3,265	(1,335)	1,930
Total	$15,100	$ (5,965)	$9,135	$15,100	$ (5,493)	$9,607

The amortization of customer relationships is recorded as amortization expense and the amortization for developed technology is amortized to cost of revenue.

The following table presents our estimate of future amortization expense for definite-lived intangible assets (in thousands):

Fiscal period:	Amount
Remaining nine months of Fiscal year 2017	$ 1,418
Fiscal year 2018	1,890
Fiscal year 2019	1,856
Fiscal year 2020	1,130
Fiscal year 2021	1,130
Thereafter	1,711
Total	$ 9,135

5. Income Taxes

The Company computes its interim provision for income taxes by applying the estimated annual effective tax rate to income from operations and adjusts the provision for discrete tax items occurring in the period. The Company's effective tax rate for the three months ended July 31, 2016 was an expense of 2.7 percent compared to a benefit of 0.9 percent for the three months ended July 31, 2015. The tax expense for the three months ended July 31, 2016 was primarily attributable to estimated foreign and state

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income tax expense. The tax benefit for the three months ended July 31, 2015 was primarily attributable to foreign and state income tax expense, with an offset from the income tax benefit from research and development credits provided by the State of Texas.

6. Restructuring Charges

In February 2016, the Company made the decision to suspend sales of its BV Local product, reduce its cost structure to improve operating efficiencies and align resources with its growth strategies. Costs associated with these restructuring activities include workforce reductions charges, and facilities charges related to the loss recorded on the sub-lease of excess office space at the Company's headquarters.

The Company recorded pre-tax charges of approximately $0.3 million during the three months ended July 31, 2016, consisting primarily of severance and related costs. As of April 30, 2016, the accrued liability associated with the Company's restructuring activities consisted of the following (in thousands):

	Workforce Reduction	Excess Facilities	Total
	(in thousands)		
Balance at April 30, 2016	$497	$ 546	$1,043
Restructuring charges	327	—	327
Payments	(341)	(129)	(470)
Balance at July 31, 2016	483	417	900

Expenses recorded related to these restructuring activities are included in the "Restructuring charges" line item in our consolidated statement of operations. The Company expects to record additional pre-tax charges of $0.6 million related to this restructuring, including additional severance and related costs and additional anticipated losses on sub-lease related to the downsizing of the Company's San Francisco office. In August of fiscal 2017, the Company entered into an agreement with a tenant to sublet the Company's office in San Francisco. The Company anticipates the restructuring plan will be substantially complete by the end of the second quarter of fiscal 2017.

7. Debt

Credit Facility

On July 18, 2007, the Company entered into a loan and security agreement with Comerica Bank which was most recently amended and restated on November 21, 2014. The Amended and Restated Credit Facility (the “Credit Facility”) provides for a secured, revolving line of credit of up to $70.0 million, with a sublimit of $3.0 million for the incurrence of swingline loans and a sublimit of $15.0 million for the issuance of letters of credit. Borrowings under the Credit Facility are collateralized by substantially all assets of the Company and of its U.S. subsidiaries. The revolving line of credit bears interest at the adjusted LIBOR rate plus 3.5%. Availability under the Credit Facility was $18.7 million as of July 31, 2016. The Company had letters of credit outstanding of $9.3 million as of July 31, 2016. The Credit Facility expires on November 21, 2017 with all advances immediately due and payable. The Company was in compliance with all covenants contained in the Credit Facility as of July 31, 2016.

The Company incurred $0.7 million of fees in connection with the Amended and Restated Credit Facility which were capitalized and are being amortized to interest expense using the straight-line method, which approximates the effective interest method, over the life of the Credit Facility. The Company incurred amortization expense on deferred financing costs of $0.1 million and $0.1 million, respectively, for the three months ended July 31, 2016 and 2015.

On September 6, 2016 the Company paid $5.0 million on the balance outstanding under its Credit Facility, reducing the Company's outstanding debt to $37.0 million.

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8. Net Loss Per Share

The following table sets forth the computations of net loss per share applicable to common stockholders for the three months ended July 31, 2016 and 2015, respectively (in thousands, except net loss per share data):

	Three Months Ended July 31,	
	2016	2015
Net loss	$(5,105)	$(10,244)
Basic and diluted loss per share	$(0.06)	$(0.13)
Basic and diluted weighted average number of shares outstanding	82,214	80,174
Potentially dilutive securities [1]:		
Outstanding stock options	132	324
Restricted shares	47	58

(1) The impact of potentially dilutive securities on earnings per share is anti-dilutive in a period of net loss.

9. Commitments and Contingencies

In the ordinary course of business, the Company may be subject to various legal proceedings and claims including alleged infringement of third-party patents and other intellectual property rights. The Company reviews the status of each matter and records a provision for a liability when it is considered both probable that a liability has been incurred and that the amount of the loss can be reasonably estimated. Legal fees incurred in connection with loss contingencies are recognized as incurred when the legal services are provided, and therefore are not recognized as a part of a loss contingency accrual. These provisions are reviewed quarterly and adjusted as additional information becomes available. We are not presently a party to any legal proceedings that in the opinion of our management would have a material adverse effect on our business, financial condition, operating results or cash flows. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

The Company is subject to audit in various jurisdictions, and such jurisdictions may assess additional income and sales tax liabilities against us. Although we believe our tax estimates are reasonable, the final outcome of tax audits and any related litigation could be materially different from our historical income and sales tax provisions and accruals. Developments in an audit or litigation could have a material effect on our operating results or cash flows in the period or periods for which that development occurs, as well as for prior and subsequent periods. As of July 31, 2016,certain of the Company's state tax returns are currently under audit by state tax authorities. As of July 31, 2016, the Company has accrued tax liabilities of $0.6 million, representing the best estimate of sales tax obligations it believes is probable to be incurred as a result of these assessments and audits.

10. Subsequent Events

On August 2, 2016 the Company completed a tender offer in which the Company exchanged certain outstanding options to purchase shares of the Company's common stock under a one-time stock option exchange program (the "Exchange Program") for its employees, excluding its executive officers and members of the Company's board of directors. The Exchange Program permitted eligible employees to exchange outstanding stock options (vested or unvested) granted under the Company's 2012 Equity Incentive Plan and 2005 Stock Plan, with exercise prices equal to or greater than $6.11 per share, which was the 52-week high trading price of its common stock as of the start date of the exchange program (the "Eligible Options"), for a lesser number of stock options having an exercise price per share equal to the market closing price on the date of grant, which was August 2, 2016. A total of 113 eligible participants participated in the Exchange Program. Pursuant to the terms and conditions of the Exchange Program, the Company accepted for exchange Eligible Options to purchase 599,517 shares of the Company's common stock, representing approximately 68.3% of the total shares of common stock underlying the Eligible Options. All surrendered options were canceled, and immediately thereafter, the Company granted a total of 241,399 replacement options in exchange therefor, pursuant to the terms of the Exchange Program and the Company's 2012 Equity Incentive Plan.

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and the notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q and our other filings with the Securities and Exchange Commission (“SEC”), including our Annual Report on Form 10-K for the fiscal year ended April 30, 2016, filed on June 20, 2016. In addition to historical information, this Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements may be identified by the use of forward-looking words such as “anticipate,” “believe,” “may,” “will,” “continue,” “seek,” “estimate,” “intend,” “hope,” “predict,” “could,” “should,” “would,” “expect” or the negative or plural of these words or similar expressions, although not all forward-looking statements contain these words. Statements that contain these words should be read carefully because they discuss our future expectations, contain projections of our future results of operations or of our financial position, or state other forward-looking information. Factors that can cause actual results to differ materially from those reflected in the forward-looking statements include, among others, those discussed in the “Risk Factors” section of our Annual Report on Form 10-K for the year ended April 30, 2016 and this Quarterly Report on Form 10-Q. We urge you not to place undue reliance on these forward looking statements, which reflect management’s analysis, judgment, belief or expectation only as of the date hereof. We expressly disclaim any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by applicable securities laws and regulations. Historical results are not necessarily indicative of the results expected for any future period.

Factors or risks that could cause our actual results to differ materially from the results we anticipate include, but are not limited to:

- our ability to develop and launch new products and the market's acceptance of such new products
- our ability to retain clients and satisfy their obligations and needs and upsell to existing clients
- our ability to maintain pricing for our products and services
- our ability to attract new clients and initiate services without delays;
- our ability to increase adoption of our platforms by our clients’ internal and external users
- our ability to protect our users’ information and adequately address security and privacy concerns
- our ability to maintain an adequate rate of growth and control expenses
- our ability to effectively execute and adapt our business model in a dynamic market
- our ability to reduce our cost structure and improve operating efficiencies;
- our future expenses
- our ability to expand our network
- our ability to integrate clients, employees and operations of acquired companies into our business
- our ability to earn revenue on ads served based on data accumulated from our network
- our ability to timely and effectively scale and adapt our existing technology and network infrastructure
- our plan to continue investing in long-term growth and research and development, enhancing our platforms and pursuing strategic acquisitions of complementary businesses and technologies to drive future growth
- our ability to increase engagement of our solutions by new and existing clients, partners and professional organizations and launch those solutions without delay
- our anticipated trends of our operating metrics and financial and operating results
- the effects of increased competition and commoditization of products we offer, including pricing pressure, reduced profitability or loss of market share
- our ability to successfully enter new markets and manage our international expansion and sell our products internationally

- our ability to maintain, protect and enhance our brand and intellectual property
- changes in accounting standards;
- the impact of the Department of Justice stipulation regarding PowerReviews on our business;
- the attraction and retention of qualified employees and key personnel
- our expectations regarding the outcome of litigation proceedings and
- other risk factors included under “Risk Factors” in this Quarterly Report on Form 10-Q.

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The outcome of the events described in these forward-looking statements is subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from our forward-looking statements, including those factors discussed in Part II, Item 1A: “Risk Factors” of this Quarterly Report on Form 10-Q and other risks and uncertainties detailed in this and our other reports and filings with the SEC. The forward-looking statements in this Quarterly Report on Form 10-Q represent our views as of the date of this Quarterly Report on Form 10-Q. We anticipate that subsequent events and developments may cause our views to change. However, while we may elect to update these forward-looking statements at some point in the future, we have no current intention of doing so except to the extent required by applicable law. You should, therefore, not rely on these forward-looking statements as representing our views as of any date subsequent to the date of this Quarterly Report on Form 10-Q.

Overview

Bazaarvoice was founded on the premise that the collective voice of the consumer is the most powerful marketing tool in the world. Our solutions and services allow our retailer and brand clients to understand that consumer voice and the role it plays in influencing purchasing decisions, both online and offline. Our solutions collect, curate, and display consumer-generated content including ratings and reviews, questions and answers, customer stories, and social posts, photos, and videos. This content is syndicated and distributed across our clients' marketing channels, including category/product pages, search terms, brand sites, mobile applications, in-store displays, and paid and earned advertising. This consumer-generated content enables our clients to generate more revenue, market share, and brand affinity. Our solutions are designed to empower our clients to leverage insights derived from consumer-generated content to improve marketing effectiveness, increase success of new product launches, improve existing products and services, effectively scale customer support, decrease product returns, reach consumers when actively shopping via highly targeted audience advertising, and enable retailers to launch and manage on-site advertising solutions and site monetization strategies.

For the three months ended July 31, 2016, through the continued enhancement and expansion of our social commerce platform, we achieved continued growth in the number of active clients as compared to the three months ended July 31, 2015. Our revenue was $50.1 million and for the three months ended July 31, 2016, which represents a 2.5% increase from the three months ended July 31, 2015, respectively.

As of July 31, 2016, we had 766 full-time employees compared to 834 full-time employees as of the same date last year.

Business Model

Our business model focuses on adding new clients and maximizing the lifetime value of such client relationships. We make significant investments in acquiring new clients and believe that we will be able to achieve a favorable return on these investments by growing our relationships over time and ensuring that we have a high level of client retention.

In connection with the acquisition of new clients, we incur and recognize significant upfront costs. These costs include sales and marketing costs associated with generating client agreements, such as sales commission expenses that are recognized fully in the period in which we execute a client contract. In addition, we incur implementation costs which are generally recognized in periods prior to recognizing revenue. However, we recognize revenue ratably over the entire term of those contracts, which commences when the client is able to begin using our solution. Although we expect each client to be profitable for us over the duration of our relationship, the costs we incur with respect to any client relationship may exceed revenue in earlier periods because we recognize those costs in advance of the recognition of revenue. As a result, an increase in the mix of new clients as a percentage of total clients will initially have a negative impact on our operating results. On the other hand, we expect that a decrease in the mix of new clients as a percentage of total clients will initially have a positive impact on our operating results. Additionally, some clients pay in advance of the recognition of revenue and, as a result, our cash flow from these clients may exceed the amount of revenue recognized for those clients in earlier periods of our relationship. As we depend on third-party Internet-hosting providers to operate our business, increased computing and storage consumption by some of our customers can increase our hosting costs and impact our gross margins.

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Key Business Metrics

In addition to macroeconomic trends affecting the demand for our solutions, management regularly reviews a number of key financial and operating metrics to evaluate our business, determine the allocation of our resources, make decisions regarding corporate strategies and evaluate forward-looking projections and trends affecting our business.

The following table summarizes our key business metrics for continuing operations:

	Three Months Ended July 31,			
	2016		2015	
	(in thousands, except number of clients and client retention rate)			
Revenue:				
SaaS	$ 47,799		$ 46,830	
Advertising (previously referred to as media)	2,294		2,046	
Total revenue	$ 50,093		$ 48,876	
Cash flow provided by (used in) operations	$ 129		$ (6,376	)
Number of active SaaS clients (period end)	1,397		1,337	
SaaS revenue per active client (1)	$ 34.2		$ 35.1	
Active SaaS client retention rate (2)	95.2	%	95.0	%
Total revenue per employee (3)	$ 65.8		$ 58.9	
SaaS impressions served (in millions)	85,286		71,019	

(1) Calculated based on the average number of active SaaS clients for the three month period.
(2) Calculated based on active SaaS client retention over a three month period.
(3) Calculated based on the average number of full-time employees for the three month period.

Revenue

SaaS revenue consists primarily of fees from the sale of subscriptions to our hosted social commerce solutions, and we generally recognize revenue ratably over the related subscription period, which is typically from one to three years. We regularly review our revenue and revenue growth rate to measure our success. We believe that trends in revenue are important to understanding the overall health of our marketplace, and we use these trends in order to formulate financial projections and make strategic business decisions.

Advertising revenue consists primarily of fees charged to advertisers when their advertisements are displayed on publishers' websites and is net of amounts paid to such publishers.

Cash Flow Provided By (Used in) Operations

Cash flow provided by (used in) operations is the cash that we use through the normal course of business and is measured prior to the impact of investing or financing activities. Due to the fact that we incur a significant amount of upfront costs associated with the acquisition of new clients with revenue recognized over an extended period, we consider cash flow provided by (used in) operations to be a key measure of our operating performance.

Number of Active SaaS Clients

We define an active client as an organization with which we have a contract to provide one or more of our hosted social commerce solutions pursuant to which we are recognizing revenue as of the last day of the quarter, and we count organizations that are closely related as one active client, even if they have signed separate contractual agreements.

SaaS Revenue per Active Client

SaaS revenue per active client is calculated as SaaS revenue recognized during the period divided by the average number of active clients for the period.

Active SaaS Client Retention Rate

Active client retention rate is calculated based on the number of active clients at period end that were also active clients at the start of the period divided by the number of active clients at the start of the period. We believe that our ability to retain our active clients and expand their use of our solutions over time is a leading indicator of the stability of our revenue base and the long-term value of our client relationships.

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Total Revenue per Employee

Revenue per employee is calculated as revenue recognized during the period divided by the average number of full-time employees for the period. We believe revenue per employee is a leading indicator of our productivity and operating leverage. The growth of our business is dependent on our ability to hire the talented people we require to effectively capitalize on our market opportunity and scale with growth while maintaining a high level of client service.

SaaS Impressions

We define an impression as a single online word of mouth instance delivered to an end user's web browser. We believe that in combination with our active client base, impressions delivered is an indicator of the reach of our network.

Key Components of Our Condensed Consolidated Statements of Operations

Revenue

We generate revenue principally from fixed commitment subscription contracts under which we provide clients with various services, including access to our hosted software platforms. For agreements with multiple elements, we evaluate each element in the arrangement to determine whether it represents a separate unit of accounting and recognize the allocated revenue for each unit of accounting over the respective service period. We sell these services under contractual agreements for service terms that are generally one to three years in length. Clients typically commit to fixed rate fees for the service term. Any revenue that does not meet the revenue recognition criteria is recorded as deferred revenue on our balance sheet. We invoice clients on varying billing cycles, including annually, quarterly and monthly; therefore, our deferred revenue balance does not represent the total contract value of our non-cancelable subscription agreements. Fees payable under these agreements are due in full within 30 to 90 days of invoicing and are non-refundable regardless of the actual use of the services and contain no general rights of return. No single client accounted for more than 10% of our revenue for the three months ended July 31, 2016 and 2015.

To date our revenue growth has been primarily driven by the sale of our core SaaS solutions. We currently expect our SaaS revenue growth rates for the remainder of fiscal 2017 will be lower than our historical growth rates as a result of increased competitive pressure that has led to intensified price-based competition. Advertising revenue is expected to increase during the remainder of fiscal 2017 as a result of the anticipated growth of our shopper advertising solutions.

Cost of Revenue

Cost of revenue consists primarily of personnel costs and related expenses associated with employees and contractors who provide our subscription services, our implementation team, our content moderation teams and other support services provided as part of the fixed commitment subscription contracts. Cost of revenue also includes professional fees, including third-party implementation support, travel-related expenses and an allocation of general overhead costs. We allocate general overhead expenses to all departments based on the number of employees in each department, which we consider to be a fair and representative means of allocation and, as such, general overhead expenses, including depreciation and facilities costs, are reflected in our cost of revenue. Personnel costs include salaries, benefits, bonuses and stock-based expense. We generally invest in increasing our capacity, particularly in the areas of implementation and support, ahead of the growth in revenue, which can result in lower margins in a given investment period.

Cost of revenue also includes hosting costs, the amortization of capitalized internal-use software development costs incurred in connection with our hosted software platforms and third-party service costs to support and retain our clients.

We intend to continue to invest resources in our client services teams and in the capacity of our hosting service infrastructure due to increases in the volume of impressions and, as we continue to invest in technology innovation through our research and development organization, we will likely see an increase in the amortization expense associated with capitalized internal-use software development. The level and timing of investment in these areas could affect our cost of revenue, both in terms of absolute dollars and as a percentage of revenue in the future.

Operating Expenses

We classify our operating expenses into five categories: sales and marketing; research and development; general and administrative; acquisition-related and other; and amortization of acquired intangible assets. In each category, our operating expenses consist primarily of personnel costs, program expenses, professional fees, travel-related expenses and an allocation of our general overhead expenses, as applicable.

Sales and marketing. Sales and marketing expenses consist primarily of personnel costs for our sales, marketing and business development employees and executives, including salaries, benefits, stock-based expense, bonuses and commissions earned by our sales personnel. Sales and marketing also includes non-personnel costs such as professional fees, an allocation of our general overhead expenses and the costs of our marketing and brand awareness programs. Our marketing programs include our Client Summits, regional user groups, corporate communications, public relations and other brand building and product marketing

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expenses. We expense sales commissions when a client contract is executed. We plan to continue investing in sales and marketing by focusing our marketing efforts on direct sales support and pipeline generation, which we believe will enable us to add new clients and increase penetration within our existing client base. During fiscal 2017 we expect to gain further operating leverage as we continue to improve sales and marketing productivity. Sales and marketing expense is expected to continue to be our largest operating cost for the foreseeable future.

Research and development. Research and development expenses consist primarily of personnel costs for our product development employees and executives, including salaries, benefits, stock-based expense and bonuses. Also included are non-personnel costs such as professional fees payable to third-party development resources and an allocation of our general overhead expenses. A substantial portion of our research and development efforts are focused on enhancing our software architecture and adding new features and functionality to our platforms to address social and business trends as they evolve. We are also incurring an increasing amount of expenses in connection with our efforts to leverage data that we and our clients collect and manage through the use of our solutions. We expect research and development expenses in fiscal 2017 to remain relatively consistent with fiscal 2016.

General and administrative. General and administrative expenses consist primarily of personnel costs, including salaries, benefits, stock-based expense and bonuses for our administrative, legal, human resources, finance, accounting and information technology employees and executives. Also included are non-personnel costs, such as travel-related expenses, professional fees, bad debt expense and other corporate expenses, along with an allocation of our general overhead expenses. We will continue to incur incremental costs to meet the increased compliance requirements associated with being a public company. Those costs include increases in our accounting and legal personnel, additional consulting, legal, audit and tax fees, insurance costs, board of directors' compensation and the costs of achieving and maintaining compliance with Section 404 of the Sarbanes-Oxley Act. General and administrative expenses are expected to decline slightly as a percentage of revenue in fiscal 2017.

Acquisition-related and other. Acquisition-related and other expenses consist of ongoing costs to comply with our obligations resulting from the divestiture of the PowerReviews business. Included in "acquisition-related and other expenses" are legal and advisory fees for the U.S. Department of Justice suit related to our acquisition of PowerReviews.

Amortization of acquired intangible assets. The amortization of acquired intangible assets represents amortization of acquired customer relationship intangible assets from FeedMagnet and Longboard Media.

Restructuring charges. In February 2016, we made the decision to suspend sales of our BV Local product, reduce our cost structure to improve operating efficiencies and align resources with our growth strategies. Costs associated with these restructuring activities include workforce reductions charges, and facilities charges related to the loss recorded on the sub-lease of excess office space at our headquarters.

Other Income (Expense), Net

Other income (expense) consists primarily of interest income, interest expense related to our revolving line of credit, foreign exchange gains and losses and the resulting gain or loss from foreign exchange contracts. Interest income represents interest received on our cash and short-term investments. Foreign exchange gains and losses arise from revaluations of foreign currency denominated monetary assets and liabilities and are partially offset by the change in market value of our foreign exchange contracts.

Income Tax Expense

As a result of our current net operating loss position in the United States, income tax expense consists primarily of corporate income taxes resulting from profits generated in foreign jurisdictions by wholly-owned subsidiaries, along with state income taxes payable in the United States. We expect our income tax expense to increase in the future if we become profitable both in the United States and in foreign jurisdictions.

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Results of Operations

The following tables set forth our results of operations for the specified periods. The period-to-period comparisons of results of operations are not necessarily indicative of results for future periods.

	Three Months Ended July 31, 2016	2015
	(in thousands)	
Revenue	$50,093	$48,876
Cost of revenue (1)	18,756	19,548
Gross profit	31,337	29,328
Operating expenses:		
Sales and marketing (1)	15,304	19,166
Research and development (1)	11,073	10,533
General and administrative (1)	8,259	8,238
Restructuring charges	327	—
Acquisition-related and other	176	702
Amortization of acquired intangible assets	309	309
Total operating expenses	35,448	38,948
Operating loss	(4,111)	(9,620)
Total other expense, net	(859)	(712)
Loss before income taxes	(4,970)	(10,332)
Income tax expense (benefit)	135	(88)
Net loss	$(5,105)	$(10,244)
Other Financial Data:		
Adjusted EBITDA(2)	$3,914	$(1,339)

(1) Includes stock-based expense as follows:

Cost of revenue	$344	$472
Sales and marketing	580	1,084
Research and development	1,053	643
General and administrative	1,967	1,736

(2) During the first quarter of fiscal 2017, we updated our definition of Adjusted EBITDA to enhance comparability between ourselves and our peers. Adjusted EBITDA is defined as generally accepted accounting principles ("GAAP") net loss from continuing operations adjusted for stock-based expense (net of capitalized stock-based compensation related to development of internal-use software), contingent consideration related to acquisitions, depreciation and amortization (including amortization of capitalized internal-use software development costs), restructuring charges, integration and other costs related to acquisitions, other non-business costs and benefits, income tax expense and other (income) expense, net. Our prior definition of Adjusted EBITDA excluded amortization of capitalized internal-use software development costs from adjusted depreciation and amortization and included capitalized stock-based compensation in stock-based expense. All prior periods have been revised to conform to the current period definition of Adjusted EBITDA. The following table presents a reconciliation of Adjusted EBITDA as previously defined to Adjusted EBITDA under the updated definition:

	Three Months Ended July 31, 2016	2015
	(in thousands)	
Adjusted EBITDA, previous definition	$1,874	$(3,269)
Add: Amortization of capitalized internal-use software development costs	2,162	2,044

Less: Capitalized portion of stock-based compensation	(122)	(114)
Adjusted EBITDA, current definition	$3,914	$(1,339)

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Adjusted EBITDA is a financial measure that is not calculated in accordance with GAAP and should not be considered as an alternative to net loss or income, operating loss or income or any other measure of financial performance calculated and presented in accordance with GAAP. Our Adjusted EBITDA may not be comparable to similarly titled measures of other organizations because other organizations may not calculate Adjusted EBITDA in the same manner. We prepare Adjusted EBITDA to eliminate the impact of items that we do not consider indicative of our core operating performance. You are encouraged to evaluate these adjustments and the reasons we consider them appropriate.

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

- Adjusted EBITDA is widely used by investors and securities analysts to measure a company's operating performance without regard to items, such as stock-based expense, depreciation and amortization, acquisition costs, income tax expense and other income, net, that can vary substantially from company to company depending upon their financing, capital structures and the method by which assets were acquired;
- Our management uses Adjusted EBITDA in conjunction with GAAP financial measures for planning purposes, including the preparation of our annual operating budget, as a measure of operating performance and the effectiveness of our business strategies and in communications with our board of directors concerning our financial performance;
- Adjusted EBITDA provides consistency and comparability with our past financial performance, facilitates period-to-period comparisons of operations and also facilitates comparisons with other peer companies, many of which use similar non-GAAP financial measures to supplement their GAAP operating results; and
- Our investor and analyst presentations include Adjusted EBITDA as a supplemental measure to evaluate our overall operating performance.

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

- Depreciation and amortization are non-cash charges, and the assets being depreciated or amortized will often have to be replaced in the future; Adjusted EBITDA does not reflect any cash requirements for these replacements;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs or contractual commitments;
- Adjusted EBITDA does not reflect cash requirements for income taxes and the cash impact of other income; and
- Other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

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

	Three Months Ended July 31,	
	2016	2015
	(in thousands)	
GAAP net loss	$(5,105)	$(10,244)
Stock-based expense	3,944	3,935
Depreciation and amortization	3,578	3,644
Restructuring charges	327	—
Acquisition-related and other expense	176	702
Income tax expense (benefit)	135	(88)
Total other expense, net	859	712
Adjusted EBITDA	$3,914	$(1,339)

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The following table sets forth our results of operations for the specified periods as a percentage of revenue. The period-to-period comparisons of results are not necessarily indicative of results for future periods.

Consolidated Statements of Operations Data:

	Three Months Ended July 31,	
	2016	2015
Revenue	100.0 %	100.0 %
Cost of revenue (1)	37.4	40.0
Gross profit	62.6	60.0
Operating expenses:		
Sales and marketing (1)	30.6	39.2
Research and development (1)	22.1	21.6
General and administrative (1)	16.5	16.9
Restructuring charges	0.7	—
Acquisition-related and other	0.3	1.4
Amortization of acquired intangible assets	0.6	0.6
Total operating expenses	70.8	79.7
Operating loss	(8.2)	(19.7)
Total other expense, net	(1.7)	(1.5)
Loss before income taxes	(9.9)	(21.2)
Income tax expense (benefit)	0.3	(0.2)
Net loss	(10.2)%	(21.0)%
Other Financial Data:		
Adjusted EBITDA	7.8 %	(2.7)%
(1) Includes stock-based expense as follows:		
Cost of revenue	0.7 %	1.0 %
Sales and marketing	1.2 %	2.2 %
Research and development	2.1 %	1.3 %
General and administrative	3.9 %	3.6 %

Comparison of the Three Months Ended July 31, 2016 and 2015

Revenue

	Three Months Ended July 31,		
	2016	2015	% Change
	(dollars in thousands)		
Revenue	$50,093	$48,876	2.5 %

Our revenue increased $1.2 million, or 2.5%, for the three months ended July 31, 2016 compared to the three months ended July 31, 2015. The increase in revenue consisted of a $1.0 million increase in SaaS revenue and a $0.2 million increase in Advertising revenue.

The $1.0 million increase in SaaS revenue, consisted primarily of a $4.0 million increase in revenue generated from new launches of active clients utilizing our platform and solutions since the prior year period, partially offset by a $3.0 million decrease in revenue from the existing active client base compared to the three months ended July 31, 2015. The decrease in revenue from the existing active client base was primarily a result of lower revenue per existing active client and client turnover due to increased competitive pressure that has led to intensified price-based competition. For the three months ended July 31, 2016, the Company had an active client retention rate of 95.2% compared to an active client retention rate of 95.0% for the three months ended July 31, 2015. Our client retention rates can be impacted due to a variety of reasons including, but not limited to, non-renewals and the cyclical and discretionary nature of marketing and advertising spending. SaaS revenue per active client (in thousands) was $34.2 for the three months ended July 31, 2016, compared to SaaS revenue per active client (in thousands) of $35.1 for the three months ended

July 31, 2015.

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Cost of Revenue and Gross Profit Percentage

	Three Months Ended July 31,		
	2016	2015	% Change
	(dollars in thousands)		
Cost of revenue	$18,756	$19,548	(4.1)%
Gross profit	31,337	29,328	6.9
Gross profit percentage	62.6 %	60.0 %	

Cost of revenue decreased $0.8 million, or 4.1%, for the three months ended July 31, 2016 compared to the three months ended July 31, 2015. The decrease in cost of revenue was primarily due to a decrease in personnel-related costs resulting from headcount reductions related to the Company's restructuring activities which began in the fourth quarter of fiscal 2016 (see "Restructuring Costs" below and Note 6 to our consolidated financial statements for further discussion).

Operating Expenses

	Three Months Ended July 31,				
	2016		2015		
	Amount	% of Revenue	Amount	% of Revenue	% Change
	(dollars in thousands)				
Sales and marketing	$15,304	30.6 %	$19,166	39.2 %	(20.2)%
Research and development	11,073	22.1	10,533	21.6	5.1
General and administrative	8,259	16.5	8,238	16.9	0.3
Restructuring charges	327	0.7	—	—	—
Acquisition-related and other	176	0.3	702	1.4	(74.9)
Amortization of acquired intangible assets	309	0.6	309	0.6	—
Total operating expenses	$35,448	70.8 %	$38,948	79.7 %	(9.0)%

Sales and marketing. Sales and marketing expenses decreased by $3.9 million, or 20.2%, for the three months ended July 31, 2016 compared to the same period in 2015. The decrease in sales and marketing expenses included a decrease of $2.0 million in personnel-related expenses, primarily due to a decrease in headcount related to the cessation of sales and marketing operations out of our APAC offices, our restructuring activities initiated in February of fiscal 2016 and general sales efficiencies. In addition, travel related expenses decreased $0.6 million, customer event expenses decreased $0.9 million and other corporate expenses decreased $0.4 million.

Research and development. Research and development expenses increased by $0.5 million, or 5.1%, for the three months ended July 31, 2016 compared to the same period in 2015 primarily as a result of higher stock compensation expense and a reduction in amounts capitalized related to the development of our internal-use software development.

General and administrative. General and administrative expenses remained relatively constant at $8.3 million for the three months ended July 31, 2016 and $8.2 million for the three months ended July 31, 2015.

Restructuring charges. In February 2016 we made the decision to suspend sales of our BV Local product, reduce our cost structure to improve operating efficiencies and align resources with our growth strategies. As a result of these restructuring activities, during the fourth fiscal quarter the Company reduced global headcount by approximately 6%. See Note 6, Restructuring Charges, to the Consolidated Financial Statements for further discussion regarding our restructuring activities. We anticipate the restructuring plan will be substantially complete by the end of the second quarter of fiscal 2017. Restructuring charges, consisting primarily of severance and related costs, were $0.3 million for the three months ended July 31, 2016.

Acquisition-related and other. Acquisition-related and other consists primarily of legal and other advisory expenditures incurred to comply with our ongoing obligations from the divestiture of PowerReviews.

Amortization of acquired intangibles. Amortization for acquired intangible assets remained constant at $0.3 million for the three months ended July 31, 2016 and 2015. Amortization of acquired intangible assets represents amortization of acquired customer relationship intangible assets from FeedMagnet and Longboard Media.

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Other Expense, Net

	Three Months Ended July 31,				
	2016		2015		
	Amount	% of Revenue	Amount	% of Revenue	% Change
	(dollars in thousands)				
Interest income	$142	0.3 %	$77	0.2 %	84.4 %
Interest expense	(489)	(1.0)	(571)	(1.2)	(14.4)
Other expense	(512)	(1.0)	(218)	(0.5)	134.9
Total other expense, net	$(859)	(1.7)%	$(712)	(1.5)%	20.6 %

Total other expense, net, remained relatively constant for the three months ended July 31, 2016 compared to the same period in 2015.

Income Tax Expense

	Three Months Ended July 31,				
	2016		2015		
	Amount	% of Revenue	Amount	% of Revenue	% Change
	(dollars in thousands)				
Income tax expense (benefit)	$135	0.3 %	$(88)	(0.2)%	(253.4)%

Income tax expense increased by $0.2 million for the three months ended July 31, 2016 compared to the same period in 2015. The increase in tax expense was primarily attributable to estimated foreign and state income tax for the current year.

Liquidity and Capital Resources

Our principal source of liquidity at July 31, 2016 consisted of $91.8 million of cash and cash equivalents and short term investments. Cash and cash equivalents consist of cash, money market funds, commercial paper, corporate bonds and certificates of deposit. Our short-term investments consist of certificates of deposit, municipal bonds, commercial paper, U.S. Treasury notes and bonds that are a guaranteed obligation of the U.S. Government, corporate notes and corporate bonds. As of July 31, 2016, the amount of cash and cash equivalents held by foreign subsidiaries was $6.8 million. If these funds are needed for our domestic operations, we would be required to accrue and pay U.S. taxes to repatriate these funds. However, our intent is to permanently reinvest these funds outside the U.S. and our current plans do not demonstrate a need to repatriate them to fund our domestic operations. We do not provide for federal income taxes on the undistributed earnings of our foreign subsidiaries.

On July 18, 2007, the Company entered into a loan and security agreement with Comerica Bank which was most recently amended and restated on November 21, 2014. The Amended and Restated Credit Facility (the “Credit Facility”) provides for a secured, revolving line of credit of up to $70.0 million, with a sublimit of $3.0 million for the incurrence of swingline loans and a sublimit of $15.0 million for the issuance of letters of credit. Availability under the Credit Facility was $18.7 million as of July 31, 2016. The Company had letters of credit outstanding of $9.3 million as of July 31, 2016. The Credit Facility expires on November 21, 2017 with all advances immediately due and payable. On September 6, 2016 the Company paid $5.0 million on the balance outstanding under its Credit Facility, reducing the Company's outstanding debt to $37.0 million.

Our principal needs for liquidity include working capital requirements to fund our operations, capital expenditures, repaying our outstanding revolving line of credit and acquisitions. We believe that our available resources are sufficient to fund our liquidity requirements for at least the next 12 months.

Our future capital requirements will depend on many factors, including our rate of client and revenue growth, the expansion of our sales and marketing activities, the timing and extent of spending to support product development efforts, the timing of introductions of new features and enhancements to our social commerce solutions and future acquisitions of, or investments in, complementary businesses and technologies. The timing, frequency, and pattern of our billing mix can also impact our operating cash flows. To the extent that existing cash, cash equivalents and short-term investments along with future cash flow from operations are insufficient to fund our future activities, we may need to raise additional funds through public or private equity or debt financing. Additional funds may not be available on terms favorable to us or at all.

We typically invoice our new and existing SaaS business clients for our subscription services in a varying mix of frequencies such as; monthly, quarterly, semiannual and annual billings. Bookings and therefore billings for our SaaS business are typically higher in the second half of our fiscal year while billings for our advertising business typically increase significantly during the

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holiday season. These factors typically result in an increase in our accounts receivable balance. Similarly, increases in new client launches lead to increased billings, which in turn also increases our accounts receivable balance. The operating cash flow benefit of increased billing activity generally occurs in the subsequent quarters when we collect from our clients.

Days sales outstanding (“DSO”) is calculated by dividing period end accounts receivable by average daily sales for the fiscal quarter. DSO was 70 days for the three months ended July 31, 2016 compared to 95 days for the three months ended July 31, 2015. Accounts receivable decreased due to improved collections, customer satisfaction and operating efficiencies.

Our DSO fluctuates from period to period and year over year, primarily due to the seasonal nature of our new bookings and related renewals, the seasonal nature of our advertising business and the frequency of our customer billings which vary throughout the fiscal year. These trends result in changes in accounts receivable balances that are different than our revenue growth trends. Although period end accounts receivable fluctuates because of these factors, the average daily sales for the period do not because we recognize revenue ratably over the terms of our customer contracts. Accordingly, our average daily sales are not influenced by factors such as seasonality, billing frequency and billing timing.

The following table summarizes our cash flows for the periods indicated (including cash flows from discontinued operations):

	Three Months Ended July 31,	
	2016	2015
	(in thousands)	
Net cash provided by (used in) operating activities	$129	$(6,376)
Net cash provided by (used in) investing activities	(441)	4,589
Net cash provided by financing activities	395	1,101

Net Cash Provided by (Used in) Operating Activities

Net cash provided by (used in) operating activities is primarily influenced by the amount of cash we invest in personnel and infrastructure to support the anticipated growth of our business, the increase in the number of clients using our platforms and the amount and timing of client payments.

For the three months ended July 31, 2016, operating activities provided $0.1 million of cash after changes in our operating assets and liabilities, offsetting a net loss of $5.1 million. The net loss included non-cash depreciation and amortization of $3.6 million, non-cash stock-based expense of $3.9 million and bad debt recovery of $0.2 million. Cash decreased $2.1 million as a result of a $4.2 million reduction in operating liabilities partially offset by a $2.1 million reduction in operating assets. The $4.2 million reduction in operating liabilities was primarily related to a $4.5 million decrease in accrued expenses and other current liabilities as a result of a decrease in accrued sales commissions and a reduction in our Advertising revenue share accrual due to timing of payments and a $2.6 million decrease in accounts payable, partially offset by an increase in deferred revenue. The $2.0 million reduction in operating assets was primarily driven by a decrease in accounts receivable.

For the three months ended July 31, 2015, operating activities used $6.3 million of cash after changes in our operating assets and liabilities, offsetting a net loss of $10.2 million. The net loss included non-cash depreciation and amortization of $3.6 million, non-cash stock-based expense of $3.8 million and non-cash bad debt, amortization of deferred financing costs and other non-cash expenses of $0.2 million. Accounts receivable, prepaid expenses and other current assets and other non-current assets resulted in a decrease in cash of $1.4 million. A decrease in cash of $5.0 million in accounts payable and accrued expenses and other current liabilities was offset by a $2.5 million increase in cash related to deferred revenue; resulting in a net decrease of $6.3 million due to changes in operating assets and liabilities.

Net Cash Provided by (Used in) Investing Activities

Our primary investing activities have consisted of acquisitions, purchases of short-term investments and property and equipment, including technology hardware and software to support our growth as well as costs capitalized in connection with the development of our internal-use hosted software platform. Purchases of property and equipment

may vary from period to period due to the timing of the expansion of our operations and the development cycles of our internal-use hosted software platform. We expect to continue to invest in short-term investments, property and equipment and developing our software platform for the foreseeable future.
For the three months ended July 31, 2016, investing activities used $0.4 million, which was primarily the result of $12.7 million in purchases of short term investments and $2.7 million in purchases of property, equipment and capitalized internal-use software development costs, partially offset by proceeds from maturities of short-term investments of $15.0 million.
For the three months ended July 31, 2015, investing activities provided $4.5 million, which was primarily the result of proceeds of $4.5 million from the release of escrow funds associated with the sale of the PowerReviews business and proceeds

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from maturities of short-term investments of $18.2 million, partially offset by $15.2 million of purchases of short term investments and $3.0 million in purchases of property, equipment and capitalized internal-use software development costs.

Net Cash Provided by Financing Activities

Our financing activities have consisted primarily of borrowings under our line of credit, net proceeds from the issuance of common stock and proceeds from the exercises of options to purchase common stock.

For the three months ended July 31, 2016, financing activities provided $0.4 million due to proceeds from contributions of $0.2 million to our Employee Stock Purchase Plan and proceeds of $0.2 million from the exercise of options to purchase our common stock.

For the three months ended July 31, 2015, financing activities provided $1.1 million due to proceeds of $0.4 million from the exercise of options to purchase our common stock and contributions of $0.7 million to our Employee Stock Purchase Plan.

Contractual Obligations and Commitments

There have been no material changes to the contractual obligations table included in our Annual Report on Form 10-K for the year ended April 30, 2016, filed with the SEC on June 20, 2016.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Critical Accounting Policies and the Use of Estimates

Preparation of our condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. We believe the most complex and sensitive judgments, because of their significance to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Management's Discussion and Analysis and Note 2 to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended April 30, 2016, filed on June 20, 2016 describe the significant accounting estimates and policies used in the preparation of our condensed consolidated financial statements. Actual results in these areas could differ from management's estimates. During the three months ended July 31, 2016, there were no significant changes in our critical accounting policies or estimates from those reported in our Annual Report on Form 10-K for the fiscal year ended April 30, 2016, filed on June 20, 2016.

Recent Accounting Pronouncements

Improvements to Employee Share-Based Payment Accounting

In March 2016, the FASB issued Accounting Standards Update 2016-09, "Improvements to Employee Share-Based Payment Accounting," ("ASU 2016-09") which requires excess tax benefits and tax deficiencies to be recorded in the income statement. In addition, cash flows related to excess tax benefits will no longer be separately classified as a financing activity apart from other income tax cash flows. The standard also allows entities to repurchase more of an employee's shares for tax withholding purposes without triggering liability accounting, clarifies that all cash payments made on an employee's behalf for withheld shares should be presented as a financing activity on the cash flow statement, and provides an accounting policy election to account for forfeitures as they occur. The standard is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, and early adoption is permitted. We are currently evaluating the impact the adoption of ASU 2016-09 will have on our consolidated financial statements.

Leases (Topic 842)

In February 2016, the FASB issued Accounting Standards Update 2016-02, "Leases (Topic 842)," ("ASU 2016-02") which requires that lessees recognize assets and liabilities for leases with lease terms greater than twelve months in the statement of financial position. ASU 2016-02 also requires improved disclosures to help users of financial statements better understand the amount, timing and uncertainty of cash flows arising from leases. The standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The standard must be adopted using a modified retrospective approach and early adoption is permitted. We are currently evaluating the impact the adoption of ASU 2016-02 will have on our consolidated financial statements.

Intangibles – Goodwill and Other – Internal Use Software

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In April 2015, the FASB issued accounting Standards Update 2015-05, "Intangible-Goodwill and Other-Internal Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement," ("ASU 2015-05") which provides guidance to customers with cloud computing arrangements that include a software license. If a cloud computing arrangement includes a software license, the customer is required to account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. ASU 2015-05 does not change the accounting for a customer's accounting for service contracts. As a result of the ASU 2015-05, all software licenses within the scope of Subtopic 350-40 will be accounted for consistent with other licenses of intangible assets. The Company adopted this updated guidance effective fiscal year 2017. Adoption of this guidance did not have a material impact on our consolidated results of operations, financial position or liquidity.

Revenue

In May 2014, the FASB issued Accounting Standards Update 2014-09, "Revenue from Contracts with Customers," ("ASU 2014-09") which provides updated, comprehensive revenue recognition guidance for contracts with customers, including a new principles-based five step framework that eliminates much of the industry-specific guidance in current accounting literature. Under ASU 2014-09, revenue recognition is based on a core principle that companies recognize revenue in an amount consistent with the consideration it expects to be entitled to in exchange for the transfer of goods or services. The standards update also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of recognized revenue. In August 2015, The FASB issued Accounting Standards Update 2015-14, "Revenue from Contracts with Customers," ("ASU 2015-14") which defers the effective date of ASU 2014-09 by one year. The updated guidance will be effective for annual periods beginning after December 15, 2017 and may be applied on either a full or modified retrospective basis. Early adoption is permitted for annual periods beginning after December 15, 2016, the original effective date of ASU 2014-09. The updated guidance will be effective for the fiscal year ending April 30, 2019 and we are currently evaluating the impact of this standards update on our consolidated financial statements.

We have reviewed other new accounting pronouncements that were issued as of July 31, 2016 and do not believe these pronouncements are applicable to the Company, or that they will have a material impact on its financial position or results of operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We have operations both within the United States and internationally and we are exposed to market risks in the ordinary course of our business, including the effect of interest rate changes and foreign currency fluctuations. Information relating to quantitative and qualitative disclosures about these market risks is set forth below.

Interest Rate Sensitivity

We hold cash, cash equivalents and short-term investments for working capital purposes. We do not have material exposure to market risk with respect to these investments. We do not use derivative financial instruments for speculative or trading purposes; however, we may adopt specific hedging strategies in the future. Any declines in interest rates will reduce future interest income.

Foreign Currency Risk

Our results of operations and cash flows are subject to fluctuations because of changes in foreign currency exchange rates, particularly changes in exchange rates between the U.S. dollar and the Euro and British Pound, the currencies of countries where we currently have our most significant international operations. On a historical basis, invoicing has largely been denominated in U.S. dollars; however; we expect an increasing proportion of our future business to be conducted in currencies other than U.S. dollars. Our expenses are generally denominated in the currencies of the countries in which our operations are located, with our most significant operations at present located in the United States, the United Kingdom, Germany, France, Australia and Sweden.

We assess the market risk of changes in foreign currency exchange rates utilizing a sensitivity analysis that measures the potential impact on earnings of a hypothetical 10% change in the value of the U.S. dollar on foreign currency denominated monetary assets and liabilities. The effect of an immediate 10% adverse change in exchange rates on foreign currency denominated monetary assets and liabilities, principally accounts receivable and intercompany balances, as of July 31, 2016, would be immaterial.

We have entered into forward exchange contracts to partially hedge our exposure to these foreign currencies. We do not enter into any derivative financial instruments for trading or speculative purposes. We may enter into additional forward exchange contracts to further contain our exposure to foreign currencies fluctuations. To date, we have hedged against some of the fluctuations in currency exchange rates, however fluctuations in exchange rates could materially impact our operating results in the future.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could have a material impact on our business, financial condition and results of operations.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining adequate disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of July 31, 2016. The term “disclosure controls and procedures” (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on management’s evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of July 31, 2016.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the three months ended July 31, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings
None.

Item 1A. Risk Factors

A description of the risks and uncertainties associated with our business is set forth below. You should carefully consider such risks and uncertainties, together with the other information contained in this report, and in our other public filings. If any of such risks and uncertainties actually occurs, our business, financial condition or operating results could differ materially from the plans, projections and other forward-looking statements included in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report and in our other public filings. The risks and uncertainties described below are not the only ones facing us. Other events that we do not currently anticipate or that we currently deem immaterial also may affect our results of operations, cash flows and financial condition.
Our quarterly financial results are subject to fluctuations; as a result, we could fail to meet or exceed expectations of analysts or investors, which could cause our stock price to decline.
Our revenue, expenses, operating results and cash flows have fluctuated from quarter to quarter in the past and are likely to continue to do so in the future. These fluctuations are due to, or may in the future result from, many factors, some of which are outside of our control, including:

- our ability to sell additional solutions, including our advertising solutions, to existing clients and to add new clients, in multiple regions around the world, particularly in the United States and Europe, which has fluctuated and is likely to continue to fluctuate, due to the effectiveness of our sales execution, general economic conditions, increased competition, the timing of larger sales opportunities, changes in the regulatory environment and other factors affecting our sales in each of these regions;
- changes in our active client retention rates;
- the timing and success of new solutions, product and service offerings and pricing policies by us or our competitors or any other changes in the competitive dynamics of our industry;
- the amount, timing and effectiveness of our product development investments and related expenses and delays in generating revenue from these new solutions;
- our ability to adjust our cost structure, particularly our personnel costs, in response to reductions in revenue;
- our failure to achieve the growth rate that was anticipated by us in setting our operating and capital expense budgets;
- the timing differences between when we incur sales commissions, implementation costs and other client acquisition costs associated with new solutions sales and when we generate revenue from these sales, particularly related to larger sales to new or existing clients;
- our ability, and the ability of our clients, to timely and effectively implement our solutions;
- increases in our hosting costs, which could result in advance payments to our hosting vendors, due to variations in demand for storage capacity and computing consumption without a corresponding increase in pricing to our existing clients;
- the timing, frequency and pattern of our billing mix;
- the cyclical and discretionary nature of marketing and advertising spending, especially spending on social commerce solutions, targeted social commerce campaigns and online advertising campaigns;
- seasonal variations and unpredictability in our clients' advertising budgets;
- the amount and timing of operating expenses and capital expenditures related to the expansion of our operations and infrastructure and client acquisition;
- the timing of expenses related to the development or acquisition of technologies or businesses and potential future charges for impairment of goodwill or intangible assets from acquired companies;
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unforeseen litigation costs and related settlement costs, particularly those related to intellectual property infringement and our obligation to fulfill related client indemnification obligations and regulatory investigations or restructuring activities, including settlement costs and regulatory penalties assessed related to government enforcement actions;

- our ability to accurately estimate state and local sales tax obligations and to collect such actual amounts from our clients;
- our ability to accurately estimate payroll and related taxes for wages and equity transactions;
- our ability to accurately estimate bonus and other incentive payments to key employees based on performance and market conditions;
- changes in tax rules or impact of new accounting pronouncements;
- changes in currency exchange rates and associated costs of hedging to manage foreign currency fluctuations;

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- the timing of stock awards to employees and related adverse financial impact of having to expense those stock awards over their vesting schedule; and
- the adoption of new laws or regulations, or interpretations of existing laws or regulations, that restrict, or increase the costs of, providing social commerce solutions that inhibit online advertising or otherwise change the use of the Internet as a medium for communications and commerce.

We offer our social commerce solutions primarily through subscription agreements and generally recognize revenue ratably over the related subscription period, while revenue from our advertising services is generally recognized in the month services are provided. As a result of both types of arrangements, revenue attributable to a contract signed in a particular quarter will not be fully and immediately recognized in the quarter in which the contract is signed. Because we incur most costs associated with generating client contracts at the time of sale, we may not recognize revenue in the same period in which we incur the related costs of sale. Timing differences of this nature could cause our margins and our operating income or losses to fluctuate significantly from quarter to quarter, and such fluctuations may be more pronounced in quarters in which we experience a change in the mix of new clients as a percentage of total clients.

Typically, a significant percentage of our bookings occur in the last few weeks of a quarter. Accordingly, a market disruption or other event outside of our control that occurred toward the end of a quarter could have a disproportionate impact on us and could cause us to substantially miss our forecasted results for that quarter.

Fluctuations in our quarterly operating results may lead analysts to change their long-term model for valuing our common stock, cause us to face short-term liquidity issues, impact our ability to retain or attract key personnel or cause other unanticipated issues, all of which could cause our stock price to decline. As a result of the potential variations in our quarterly revenue and operating results, we believe that quarter-to-quarter comparisons of our revenue and operating results may not be meaningful, and the results of any one quarter should not be relied upon as an indication of future performance.

Our actual results may differ significantly from any guidance that we may issue in the future and the consensus expectations of research analysts.

From time to time, we may release earnings guidance or other forward-looking statements in our earnings releases, earnings conference calls or otherwise regarding our future performance that represent our management's estimates as of the date of release. If given, this guidance will be based on forecasts prepared by our management. The principal reason that we may release guidance is to provide a basis for our management to discuss our business outlook with analysts and investors. Guidance is necessarily speculative in nature. The speculative nature of any guidance is further exacerbated by the rapidly evolving nature and uncertain size of the market for social commerce solutions, as well as the unpredictability of future general economic and financial conditions. As a result, some or all of the assumptions of any future guidance that we furnish may not materialize or may vary significantly from actual future results. Any failure to meet guidance or analysts' expectations could have a material adverse effect on the trading price or volume of our stock.

We have a history of losses and we may not achieve or sustain profitability in the future.

We have incurred significant losses in each fiscal period since our inception in 2005. We experienced net losses of $25.3 million and $33.2 million from continuing operations during fiscal years 2016 and 2015, respectively. As of July 31, 2016, we had an accumulated deficit of $257 million which also included losses from discontinued operations. The losses and accumulated deficit were due to the substantial investments we made to grow our business and acquire clients. Expenses associated with the integration of the clients, employees and operations of acquired companies into our business could further delay our profitability. We anticipate that our operating expenses will increase substantially in the foreseeable future as we continue to invest to grow our business and acquire clients, develop our platforms and develop new products and solutions. These efforts may prove more expensive and more difficult than we currently anticipate, and we may not succeed in increasing our revenue sufficiently to offset these higher expenses. Many of our efforts to generate revenue from our business are new and unproven, and any failure to increase our revenue or generate revenue from new products and solutions could prevent us from attaining or increasing profitability. Furthermore, to the extent we are successful in increasing our client base, we could also incur increased losses because costs associated with entering into client agreements are generally incurred up front, while revenue is generally recognized ratably over the term of the agreement. Additionally, we currently sell our products on a fixed price basis. However, many of the third-party costs associated with providing our products are subject to variable pricing. We cannot be certain that we will be able to attain or increase profitability on a client-by-client basis or on a quarterly or annual basis. If we are unable to effectively manage these risks and difficulties as we encounter them, our business, financial condition and results of operations may suffer.

The average sales price of our solutions may decrease, which may adversely affect our ability to achieve and maintain profitability.

The average sales price of our solutions may decline for a variety of reasons, including competitive pricing pressures, the commoditization of a product as more similar products become available in the market and the introduction of new solutions or pricing models. In addition, because the market for our social commerce solutions changes rapidly and because our business model

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is evolving, we may not be able to achieve and sustain a level of demand and market acceptance sufficient for us to continue to maintain the current average sales price for our solutions. Furthermore, the composition of our clients may change in a manner that makes it more difficult to maintain such prices. Any failure to maintain our prices could have an adverse effect on our business, results of operations and financial condition.

Our business depends substantially on renewing agreements with existing clients and selling additional solutions to them. If our clients, especially our larger clients, do not renew their agreements, renew on less favorable terms or fail to purchase additional solutions, our revenue may decline and our operating results would likely be harmed.

In order for us to improve our operating results, it is important that our clients renew their agreements with us when the initial term expires and also purchase additional solutions from us. We offer most of our social commerce solutions primarily through subscription agreements and generally recognize revenue ratably over the related subscription period. Our clients have no renewal obligation after their initial term expires, and we cannot assure you that we will be able to renew agreements with our clients at the same or higher contract value or at all. Moreover, under specific circumstances, our clients may have the right to cancel their agreements with us before they expire, for example, in the event of an uncured breach by us, or our clients may seek to renegotiate the terms of their contract prior to its expiration. Additionally, pursuant to the terms contained in the Joint Stipulation with the DOJ, we have agreed that during the period beginning on the date we completed the sale of PowerReviews (July 2, 2014) and ending on the later of one year and the termination date of a client's contract, we will allow existing Bazaarvoice clients as of July 2, 2014 to terminate their contract with us should they choose to use the ratings and reviews solution offered by PowerReviews. Similarly, our contracts with our advertising clients and covering certain of our social commerce solutions generally do not include long-term obligations requiring them to purchase our services and are often cancelable upon short or no notice and without penalty. Any decline in our client renewals or expansions would likely harm our future operating results, especially if we are unable to recognize sufficient revenue to offset related client acquisition costs prior to such termination or cancellation of our client agreements. If our clients, especially our larger clients, cancel their agreements, negotiate price concessions in their current agreements, do not renew their agreements, renew on less favorable terms to us or fail to purchase additional solutions, our revenue may decline, our ability to grow our revenue in the future could be adversely impacted and our operating results would likely be harmed. Our active client retention rates may decline in the future due to a variety of factors, including:

- the availability, price, performance and functionality of our solutions and competing products and services
- our ability to demonstrate to clients the value of our solutions, particularly if we are unable to introduce planned solutions innovation
- poor performance or discontinuation of our clients' brands
- changes in our clients' marketing or advertising strategies which can be cyclical, reflecting overall economic conditions as well as budgeting and discretionary buying patterns
- our ability to provide quality customer service
- changes in key personnel at our clients
- reductions in our clients' spending levels
- consolidation in our client base
- the development by our clients of internal solutions for their social commerce needs and
- the effects of economic downturns and global economic conditions.

We incur most of our client acquisition costs at the time of sale. Depending upon the scope of the client's needs, these costs can be significant. In certain cases, clients may have the right to terminate or cancel agreements with us if we fail to maintain service level requirements or we are otherwise in breach under the client agreements. If a client does not renew or cancels its agreement with us or we are otherwise required to provide price concessions to retain the client, we may not recognize sufficient revenue from that client prior to the termination or cancellation to offset the acquisition costs associated with that client. If the cost to acquire clients is greater than the revenue we generate over time from those clients, our business and operating results may be harmed. In addition, our costs associated with maintaining and increasing revenue from existing clients may be lower than costs associated with generating revenue from new clients. Therefore, the loss of recurring revenue or a reduction in the rate of revenue increase from our existing clients, even if offset by an increase in revenue from new clients, could have a material adverse effect on our operating results.

We have a limited operating history in certain areas of our business, particularly advertising, which makes it difficult to evaluate our current business and future prospects and may increase the risk of your investment.

Our limited operating history in certain areas of our business, particularly advertising, may make it difficult to evaluate our current business and our future prospects. We have encountered and will continue to encounter risks and difficulties frequently experienced by growing companies in rapidly developing and changing industries, including challenges in forecasting accuracy, determining appropriate investments of our limited resources, market acceptance of our existing and future solutions, managing client implementations and developing new solutions. Our current operating model may require changes in order for us to achieve profitability and scale our operations efficiently. For example, we may need to continue to enhance our software architecture to allow us to efficiently and cost effectively develop and implement new solutions, make our solutions easy to implement, ensure

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our marketing engine is designed to drive highly qualified leads cost effectively and implement changes in our sales model to improve the predictability of our sales and reduce our sales cycle. If we fail to implement these changes on a timely basis or are unable to implement them due to factors beyond our control, our business may suffer. You should consider our business and prospects in light of the risks and difficulties we face as a company in a rapidly developing and changing industry.

If we cannot efficiently implement our solutions for clients, we may be delayed in generating revenue.

In general, implementation of our solutions may require lengthy and significant work, and we do not control our clients' implementation schedules. We generally incur sales and marketing expenses related to the commissions owed to our sales representatives and make upfront investments in technology and personnel to support the engagements before we begin recognizing revenue from client contracts. As a result, as we have experienced in the past, if our clients do not allocate internal resources necessary to meet their implementation responsibilities or if we face unanticipated implementation difficulties, the implementation may be delayed and/or cancelled. Further, in the past, our implementation capacity has at times constrained our ability to successfully and timely implement our solutions for our clients, particularly during periods of high demand. If the client implementation process is not executed successfully or if execution is delayed, whether due to our clients' or our capacity constraints, we could incur significant costs prior to generating revenue and our clients may delay their payment to us, and our relationships with some of our clients may be adversely affected. In addition, competitors with more efficient operating models with lower implementation costs could penetrate our client relationships.

Because we recognize revenue for our solutions ratably over the term of our client agreements, decreases in the revenue recognizable under contracts for new active clients will not be fully and immediately reflected in our operating results.

We offer our social commerce solutions primarily through subscription agreements and generally recognize revenue ratably over the related subscription period, which is typically one year. As a result, some portion of the revenue we report in each quarter is revenue from contracts entered into during prior quarters. Consequently, a decline in the revenue recognizable under contracts for new active clients signed in any quarter or a decline in the growth rate of revenue recognizable under contracts signed in any quarter will not be fully and immediately reflected in the revenue of that quarter and would negatively affect our revenue in future quarters. In addition, we may be unable to adjust our cost structure rapidly, or at all, to take account of this reduced revenue.

Our sales cycle can be long and unpredictable and require considerable time and expense, which may cause our operating results to fluctuate.

The sales cycle for our solutions, from initial contact with a potential client to contract execution and implementation, varies widely by client and solution. Some of our clients undertake a significant evaluation process, which typically involves not only our solutions, but also those of our competitors, that has in the past resulted in a lengthy sales cycle, typically three to 12 months. We have no assurance that the substantial time and money spent on our sales efforts will produce any sales. If sales expected from a specific client for a particular quarter are not realized in that quarter or at all, our results could fall short of public expectations and our business, operating results and financial condition could be adversely affected.

If we do not continue to identify and qualify new clients, our ability to grow our revenue may be adversely affected.

We continue to focus our sales efforts on generating business from new clients. Our future success, particularly our ability to grow revenue, will depend largely upon the success of this effort. Our sales force and marketing team need to continue to generate new sales leads, and our growth prospects will be harmed if our efforts to expand, train and retain our sales force do not produce a corresponding significant increase in new clients. When we "qualify" a lead, that lead becomes part of our sales "pipeline." If we do not continue to add potential new clients to our pipeline there could be a negative impact in our ability to grow our revenue in the future.

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We derive a substantial portion of our revenue from a limited number of our solutions. If we are unable to maintain demand for these solutions or diversify our revenue sources by successfully developing and introducing new or enhanced solutions, we could lose existing clients or fail to attract new clients and our business could be harmed.
Ratings & Reviews was our first social commerce solution and still remains the core element of our technology platform. Other social commerce solutions we have developed or acquired include Connections, Analytics, Curations and Spotlights. Our future financial performance and revenue growth depend upon the successful development, implementation and client acceptance of new products, including products that allow us to utilize the data that we and our clients collect and manage through the use of our products, and the improvement and enhancement of our existing products. We continually seek to develop enhancements to our existing products, as well as new offerings to supplement our existing products. As a result, we are subject to the risks inherent in the development and integration of new products, including defects or undetected errors in our products or in the operation of our products, difficulties in installing or integrating our products on platforms used by our clients or other unanticipated performance, stability and compatibility problems. Any of these problems could result in material delays in the introduction or acceptance of our solutions, increased costs, decreased client satisfaction, breach of contract claims, harm to our industry reputation and reduced or delayed revenues. If we are unable to deliver new products or upgrades or other enhancements to our existing products on a timely and cost-effective basis, it could have a material adverse effect on our business, financial condition and results of operations.
We are currently investing significant amounts in research and development in connection with our efforts to leverage data that we and our clients collect and manage through the use of our solutions. Improving our architecture and developing and delivering new or upgraded solutions may require us to make substantial investments, and we have no assurance that such new solutions will generate sufficient revenue to offset their costs. If we are unable to efficiently develop, license or acquire such new or upgraded solutions on a timely and cost-effective basis, or if such solutions are not effectively brought to market, are not appropriately timed with market opportunity or do not achieve market acceptance, we could lose existing clients or fail to attract new clients, and our business and operating results could be materially adversely affected.
In addition, we must continuously modify and enhance our solutions to keep pace with rapid changes in the social web and Internet-related hardware, software communication, browser, database and social commerce technologies. If we are unable to respond in a timely and cost-effective manner to rapid technological developments, our solutions could become less marketable and less competitive or become obsolete, and our operating results could be negatively affected.
If we are not able to successfully leverage data we and our clients collect and manage through our solutions and services, we may not be able to grow our revenue. Additionally, if we are not able to obtain the rights to utilize the data, or the costs to obtain such data are high, our results of operations could be adversely affected.
Our ability to optimize the placement and scheduling of advertisements for our advertising clients and to grow our revenue through analytics and other data solutions depends on our ability to successfully leverage data that we and our clients collect and manage through the use of our solutions and services. Our ability to successfully leverage such data, in turn, depends on our ability to collect and obtain rights to utilize such data in our solutions and services and to maintain and grow our network of clients. We currently employ cookies, which are small files of non-personalized information placed on an Internet user's computer, on a limited basis with respect to our social commerce solutions and more broadly with respect to our advertising services. The cookies are used to collect information related to the user, such as the user's Internet Protocol, or IP, address, demographic information and history of the user's interactions with our clients and any advertisements we deliver. If we are unable to effectively utilize or introduce cookies more broadly, our ability to collect such data could be impaired.
Additionally, our ability to both collect and utilize data may be affected by a number of factors outside of our control, including increased government regulation, both domestically and abroad, of the collection of information concerning consumer behavior on the Internet and the increased use of technologies that allow website visitors to modify their settings to block online advertising, to prevent or delete cookies and to sweep all cookies from their computers.
Further, we currently do not own the data collected through the use of our solutions and services. If our clients decide not to allow us to collect the data or if we are not able to obtain sufficient rights to the data, we may not be able to

utilize it in our solutions and services. Additionally, the costs to us related to obtaining sufficient rights to utilize this data could be high and such costs could affect our future operating results.

Finally, in order to obtain the critical mass of data necessary for our analytics and other data solutions to have value for our clients, we will need to maintain and grow our client base. Currently, a substantial amount of the data to which we have access is collected by a small number of our clients. Consequently, the loss of a single client could have a disproportionate impact on the data that is available to us. Any of these limitations on our ability to successfully leverage data could have a material adverse effect on our ability to increase our revenue through advertising services, analytics and other data solutions; could adversely affect our ability to grow our revenue and could harm our future operating results.

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If we are unable to increase our penetration in our principal existing markets and expand into additional vertical markets, we will be unable to grow our business and increase revenue.

We currently market our solutions to a variety of industries, including the retail, consumer products, travel and leisure, technology, telecommunications, financial services and automotive industries. We believe our future growth depends not only on increasing our penetration into the principal markets in which our solutions are currently used but also on identifying and expanding the number of industries, communities and markets that use or could use our solutions. Efforts to offer our solutions beyond our current markets may divert management resources from existing operations and require us to commit significant financial resources, either of which could significantly impair our operating results. In addition, some markets, such as financial services and healthcare, have unique and complex regulatory requirements that may make it more difficult or costly for us to develop, market, sell implement or continue to develop our solutions in those markets. Moreover, our solutions may not achieve market acceptance in new markets, and our efforts to expand beyond our existing markets may not generate additional revenue or be profitable. Our inability to further penetrate our existing markets or our inability to identify additional markets and achieve acceptance of our solutions in these additional markets could adversely affect our business, results of operations and financial condition.

The market in which we participate is fragmented, rapidly evolving and highly competitive, and we may be unable to compete successfully with our current or future competitors.

The market for social commerce solutions is highly competitive. The competitive dynamics of our market are unpredictable because it is rapidly evolving, fragmented and subject to potential disruption by new technological innovations.

We have several direct and indirect competitors across the regions we serve that provide third-party social commerce solutions, including but not limited to companies such as PowerReviews, Sprnklr, Turn To, Reevoo, eKomi, Yotpo, Rating System and Gigya. As a result of our divestiture of the PowerReviews business and the court-ordered terms associated with that divestiture, our competition with PowerReviews has increased. Additionally, we face potential competition from participants in adjacent markets that may enter our markets by leveraging related technologies and partnering with other companies.

We also compete with traditional marketing and advertising programs used by businesses that remain hesitant to embrace social commerce solutions such as Ratings & Reviews. Additionally, some businesses have developed, or may develop in the future, social commerce solutions internally.

We may also face competition from companies entering our market, including large Internet companies like Amazon, Google and Facebook, which could expand their platforms or acquire one or more of our competitors. While these companies do not currently focus on our market, they have significantly greater financial resources and, in the case of Amazon and Google, a longer operating history. They may be able to devote greater resources to the development and improvement of their services than we can and, as a result, they may be able to respond more quickly to technological changes and clients' changing needs. Because our market is changing rapidly, it is possible that new entrants, especially those with substantial resources, more efficient operating models, more rapid product development cycles or lower marketing costs, could introduce new solutions that disrupt the manner in which businesses use online word of mouth and engage with consumers online to address the needs of our clients and potential clients. Our business and operating results could be harmed if any such disruption occurs.

We believe we compete primarily on the basis of product breadth and functionality, scope, quality and breadth of client base, amount and quality of content, service, price, reputation and the efficiency of our operating model. Our competitors or potential competitors have adopted certain aspects of our business model, which has made it more difficult to differentiate our solutions. As market dynamics change, or as new and existing competitors introduce more competitive pricing models or new or disruptive technologies, or as clients develop internal solutions for their social commerce needs, we may be unable to renew our agreements with existing clients or attract new clients at the same price or based on the existing pricing model. As a result, we may be required to change our pricing model, offer price incentives or reduce our prices in response to competitive pressures, which could harm our revenue, profitability and operating results. Moreover, many software vendors could bundle competitive products or services or offer them at a low price as part of a larger product sale. In addition, some competitors may offer software that addresses one or a limited number of strategic social commerce functions at lower prices or with greater depth than our solutions. As a result, our competitors might be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or client requirements. For all of these reasons, we may not be able to compete successfully against our current and future competitors.

Unfavorable conditions in the market for social commerce solutions or downturns in the global economy or reductions in marketing spending could limit our ability to grow our business and negatively affect our operating results.

Our operating results may vary based on the impact on us or our clients of changes in the market for social commerce solutions or downturns in the global economy. In addition, the revenue growth and potential profitability of our business depends on marketing spending by companies in the markets we serve. To the extent that weak economic conditions cause our clients and potential clients to freeze or reduce their marketing budgets demand for our solutions may be negatively affected. Historically, economic downturns have resulted in overall reductions in marketing spending. If economic conditions deteriorate or do not

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materially improve, our clients and potential clients may elect to decrease their marketing budgets by deferring or reconsidering product purchases, which would limit our ability to grow our business and negatively affect our operating results.

Our advertising business model involves significant risks.

Growth and performance in our business is significantly dependent on the success of our advertising business, and in particular our shopper advertising solutions. Growth in our advertising revenue depends on our ability to maintain and expand our existing relationships and develop new relationships with other advertisers and publishers. Growth in our advertising revenue also depends on our ability to continue offering effective products and services for advertisers and publishers. As the advertising market generates and develops new concepts and technology, we may incur additional costs to implement more effective products and services. As programmatic advertising gains traction with more advertisers and publishers, we continue to invest in and focus on programmatic platforms. Continuing to develop and improve these products and services may require significant time and additional investment. If we cannot continue to develop and improve our advertising products, services and technologies in a timely fashion, our advertising revenue could be adversely affected.

The commercial attractiveness of our advertising solutions that we may offer to publishers and advertisers depends on a variety of complex and evolving factors, among them the effective functioning and improvement of learning algorithms, the ability to access and utilize relevant data about consumers and their consumption habits and, with respect to programmatic advertising exchange-related activities, automated access to the advertising inventory and application programming interfaces of publishers as well as robust relationships with brand advertisers and agencies. Our inability to successfully deliver our solutions as a result of these factors could adversely affect our relationship with clients, and could negatively impact our financial condition.

In addition, our advertising solutions may become less attractive, and our results of operations may suffer, as a result of changes in laws and regulations and changes in industry standards generally. In addition, the following factors may further diminish the appeal of our advertising solutions and thereby negatively affect our results of operations: with respect to the availability of consumer data, changes in consumer choices; with respect to the functioning of algorithms, the failure or inability to access, collect or analyze relevant data (for technological reasons or otherwise); and with respect to programmatic exchange activities, access to publisher inventory and relationships with advertisers and agencies, technological limitations or restrictions imposed by advertisers and publishers themselves.

Still further, advertising revenue is more unpredictable and variable than revenue generated from our social commerce solutions, and is more likely to be adversely affected during economic downturns, as spending by advertisers tends to be cyclical in line with general economic conditions.

Our cost saving initiatives may not achieve the results we anticipate.

We have recently undertaken and may continue to undertake various actions in order to reduce our cost structure, align resources with our growth strategies and improve operating efficiencies. We cannot be certain that we will be able to complete these initiatives as planned or without business interruption, or that the estimated operating efficiencies or cost savings from such activities will be fully realized or maintained over time. These cost saving activities may also have unintended consequences, such as attrition beyond our intended reduction in workforce or reduced employee morale.

Our growth depends in part on the success of our relationships with third parties for the delivery and development of, and implementation support for, our solutions and services.

We currently depend on, and intend to pursue additional relationships with, various third parties related to our advertising services and product development, including technology, service providers and social advertising platforms. Identifying, negotiating and documenting these relationships requires significant time and resources, as does integrating our solutions with third-party technologies. In some cases, we do not have formal written agreements with our development partners. Even when we have written agreements, they are typically non-exclusive and do not prohibit our development partners 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.

Specifically, we outsource some of our product development, quality assurance and technology operations to two third-party contractors located in the Ukraine and India. We also rely on a third-party relationship to assist with client implementation support. We believe that supplementing our product development and implementation support activities with our outsourced third-party contractors enhances the efficiency and cost-effectiveness of these activities. If we experience problems with our third-party contractors, including if such contractors' business operations are interrupted for any reason, or the costs charged by our contractors increases, we may not be able to develop new solutions or enhance existing solutions or meet our clients' implementation support needs in an alternate manner that is equally or more efficient and cost-effective.

Our Curations product collects and curates consumer-generated images, video and social content from social advertising platforms such as Facebook, Instagram, Pinterest and Twitter. If these social media companies change their technology or terms of use in ways that restrict or inhibit the way we can collect or use content, the success of this solution could be significantly impacted.

We use DoubleClick's ad-serving platform to deliver and monitor ads for our advertising management services. There can be no assurance that DoubleClick, which is owned by Google, will continue providing these services, that our agreement with DoubleClick will be extended or renewed upon expiration on terms and conditions favorable to us or that we could identify another alternative vendor to take its place. Our agreement with DoubleClick also allows DoubleClick to terminate the agreement on the occurrence of certain events, including material breach of the agreement by us, and to suspend provision of the services if DoubleClick determines that our use of its service violates certain terms of the agreement.

We anticipate that we will continue to depend on these and other third-party relationships in order to grow our business. If we are unsuccessful in maintaining existing and establishing new relationships with third parties, our ability to efficiently develop and implement new solutions could be impaired, our ability to effectively renew agreements with existing customers could be impaired, and our competitive position or our operating results could suffer. Even if we are successful, these relationships may not result in increased revenue.

We currently rely on a small number of third-party service providers to host and deliver a significant portion of our solutions, and any interruptions or delays in services from these third parties could impair the delivery of our solutions and harm our business.

We host our solutions and serve our clients primarily from third-party data center facilities located in Texas, Virginia and Oregon. We also utilize third-party services that deploy data centers worldwide. We do not control the operation of any of the third- party data center facilities we use. These facilities may be subject to break-ins, computer viruses, denial-of-service attacks, sabotage, acts of vandalism and other misconduct. They are also vulnerable to damage or interruption from power loss, telecommunications failures, fires, floods, earthquakes, hurricanes, tornadoes and similar events. As a result, we may in the future experience website disruptions, outages and other performance problems. Despite our efforts, the occurrence of any of these events and a decision by our third-party service providers to close their data center facilities without adequate notice or other unanticipated problems could result in loss of data as well as a significant interruption in the offering of our solutions and harm to our reputation and brand.

Additionally, our third-party data center facility agreements are of limited durations, and our third-party data center facilities have no obligation to renew their agreements with us on commercially reasonable terms, or at all. If we are unable to renew our agreements with these facilities on commercially reasonable terms, we may experience delays in the provisioning of our solutions until an agreement with another data center facility can be arranged. This shift to alternate data centers could take more than 24 hours depending on the nature of the event, which could cause significant interruptions in service and adversely affect our business and reputation.

We also depend on third-party Internet-hosting providers and continuous and uninterrupted access to the Internet through third-party bandwidth providers to operate our business. If we lose the services of one or more of our Internet-hosting or bandwidth providers for any reason or if their services are disrupted, for example due to viruses, other attacks on their systems or due to natural disaster, we could experience disruption in our ability to offer our solutions or we could be required to retain the services of replacement providers, which could increase our operating costs and harm our business and reputation.

Any errors, defects, disruptions or other performance problems with our solutions could harm our reputation and may damage our clients' businesses. Interruptions in our ability to offer our solutions would likely reduce our revenue, could cause our clients to cease using our solutions and could adversely affect our retention rates. In addition, some of our client agreements require us to issue credits for downtime in excess of certain targets, and in some instances give our clients the ability to terminate the agreements. Our business and results of operations would be harmed if our current and potential clients believe our solutions are unreliable.

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Unfavorable changes in evolving government regulation and taxation of the Internet and online communications and social commerce solutions could harm our business and results of operations.

The future success of our business depends upon the continued use of the Internet as a primary medium for communications and commerce. As the use of the Internet continues to evolve, increasing regulation by federal, state or foreign governments becomes more likely. Federal, state or foreign government bodies or agencies have in the past adopted, and may in the future adopt, laws or regulations affecting data privacy, the solicitation, collection, processing or use of personal or consumer information, truth-in-advertising, consumer protection, the use of the Internet as a commercial medium and the market for social commerce solutions. There is also uncertainty as to how some existing laws governing issues such as sales taxes, libel and personal privacy apply to the Internet. In addition, government agencies or private organizations may begin to impose taxes, fees or other charges for accessing the Internet. Any new regulations, legislation or new interpretations of existing regulations or legislation restricting Internet commerce or communications could result in a decline in the use of the Internet as a medium for commerce and communications, diminish the viability of Internet solutions generally, and reduce the demand for our solutions. Additionally, if we are required to comply with new regulations, legislation or interpretations thereof, this compliance could cause us to incur additional expenses, make it more difficult to conduct our business or require us to alter our business model. Any of these outcomes could have a material adverse effect on our business, financial condition or results of operations.

Increased regulation and industry standards relating to data and Internet privacy issues may require us to incur significant expenses or may prevent us from providing our products and solutions to clients, thereby harming our business.

As part of our business, we collect and store personal information. We expect our collection and storage of personal information to increase, primarily in connection with our efforts to expand our advertising services, analytics, and other data solutions. The regulatory framework for privacy issues worldwide is currently in flux and is likely to remain so for the foreseeable future. Practices regarding the collection, use, storage, transmission and security of personal information by companies operating over the Internet have recently come under increased public scrutiny and as a result there are an increasing number of regulations and industry standards that affect our business.

Regulators, including the Federal Trade Commission (“FTC”), continue to more broadly define personal information. As a result of such broadened definition, our ability to use such personal information is increasingly restricted and may limit or inhibit our ability to operate or expand our business. For example, the U.S. government, including the White House, Congress, and the FTC are reviewing the need for greater regulation for the use, collection and disclosure of information concerning consumer behavior on the Internet, including regulation aimed at restricting certain targeted advertising practices. Proposed legislation could, if enacted, impose additional requirements and/or prohibit the use, collection, storage and disclosure of information concerning consumer behavior on the Internet and restrict or otherwise prohibit the use of certain technologies that track individuals’ activities on web pages or across the Internet. Such laws and regulations could restrict our ability to collect and use web browsing data and personal information, which may result in financial penalties, litigation, regulatory investigations, negative publicity, reduced growth opportunities and other significant liabilities. We will also face additional privacy issues as we continue to expand in international markets, as many nations and economic regions have privacy protections that are more stringent or otherwise at odds with those in the United States. For example, the European Union has enacted reforms to its existing data protection legal framework, which will result in a greater compliance burden for companies with users in Europe. Further, German companies often require even more stringent privacy controls than other markets within the EU, which may limit our ability to expand in that market. Complying with new EU privacy requirements, whether imposed by regulation or contract, will require additional expenditures and may require other significant liabilities. Australian Privacy Principles (APP) likewise increase the complexities of operating in that country. The complex web of privacy and data security requirements across the various countries or economic regions that we operate within may be inconsistently applied and conflict with other applicable requirements, our business practices, or our contractual commitments to customers.

We have incurred, and will continue to incur, expenses to comply with privacy and security standards and protocols imposed by law, regulation, industry standards or contractual obligations. Increased domestic or international regulation of data utilization and distribution practices, including self-regulation, could require us to modify our operations and incur significant expense, which could have an adverse effect on our business, financial condition and results of operations. Our business, including our ability to operate and expand internationally, could be adversely affected if legislation or regulations are adopted, interpreted, or implemented in a manner that is inconsistent with our current or planned business practices and that require changes to these practices, our solutions or our privacy policy.

Our use of open source and third-party technology could impose limitations on our ability to commercialize our solutions.

We use open source software in our solutions. Although we monitor our use of open source software closely, the terms of many open source licenses have not been interpreted by courts in or outside of the United States, and there is a risk that such licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to market our solutions. We also incorporate certain third-party technologies into our solutions and may desire to incorporate additional third-party technologies in the future. Licenses to new third-party technology may not be available to us on commercially reasonable terms, or at all. We could be required to seek licenses from third parties in order to continue offering our solutions, to re-engineer our technology or to discontinue offering our solutions in the event re-engineering cannot be accomplished on a timely basis, any of which could adversely affect our business, operating results and financial condition.

If Internet search engines' methodologies are modified, our search engine optimization ("SEO") capability could be harmed.

Capabilities that we provide our clients, including our SEO solution, depend in part on various Internet search engines, such as Google and Bing, to direct a significant amount of traffic to our clients' websites. Our ability to influence the number of visitors directed to our clients' websites through search engines is not entirely within our control. For example, search engines frequently revise their algorithms in an attempt to optimize their search result listings. In 2011, Google announced an algorithm change that affected nearly 12% of their U.S. query results. There cannot be any assurance as to whether these or any future changes that may be made by Google or any other search engines might impact our SEO capability in the long term. Changes in the methodologies used by search engines to display results could cause our clients' websites to receive less favorable placements, which could reduce the number of users who click to visit our clients' websites from these search engines. Some of our clients' websites have experienced fluctuations in search result rankings and we anticipate similar fluctuations in the future. In addition, Internet search engines could decide that content on our clients' websites enabled by our solutions, including online word of mouth, is unacceptable or violates their corporate policies. Any reduction in the number of users directed to our clients' websites could negatively affect our ability to earn revenue through our SEO solution.

Our long-term success depends, in part, on our ability to maintain and expand our operations outside of the United States and, as a result, our business is susceptible to risks associated with international operations.

As our operations have expanded, we have established and currently maintain offices in the United States, the United Kingdom, France, Germany and Australia. We have limited experience in operating in foreign jurisdictions and are making significant investments to build our international operations. Managing a global organization is difficult, time-consuming and expensive, and any international expansion efforts that we may undertake may not be successful. In addition, conducting international operations subjects us to risks, including the following:

- the cost and resources required to localize our solutions;
- competition with companies that understand the local market better than we do or who have pre-existing relationships with potential clients in those markets;
- legal uncertainty regarding the application of unique local laws to social commerce solutions or a lack of clear precedent of applicable law, including, but not limited to, the current uncertainty related to the ability to transfer data from Europe to the United States as a result of the European Court of Justice's ruling invalidating the U.S. - EU Safe Harbor Framework and the uncertainty relating to the United Kingdom's referendum to exit from the European Union (referred to as the "Brexit");
- lack of familiarity with and the burden of complying with a wide variety of other foreign laws, legal standards and foreign regulatory requirements, which are subject to unexpected changes;
- difficulties in managing and staffing key leadership positions in international operations;
- fluctuations in currency exchange rates;
- potentially adverse tax consequences, including the complexities of foreign value added tax systems and restrictions on the repatriation of earnings;
- developing and maintaining the appropriate tax structure;
- increased financial accounting and reporting burdens and complexities and difficulties in implementing and maintaining adequate internal controls;
- political, social and economic instability (including as a result of the impact of the Brexit), terrorist attacks and security concerns in general;
- reduced or varied protection for intellectual property rights in some countries; and
- higher telecommunications and Internet service provider costs.

Operating in international markets also requires significant management attention and financial resources. The investment and additional resources required to establish operations and manage growth in other countries may not

produce desired levels of revenue or profitability.
We are exposed to fluctuations in currency exchange rates.
We face exposure to adverse movements in currency exchange rates, which may cause our revenue and operating results to differ materially from expectations. A decline in the U.S. dollar relative to foreign currencies would increase our non-U.S. revenue when translated into U.S. dollars. Conversely, if the U.S. dollar strengthens relative to foreign currencies, our revenue would be adversely affected. Our operating results could be negatively impacted depending on the amount of expense denominated in foreign currencies. As exchange rates vary, revenue, cost of revenue, operating expenses and other operating results, when translated, may differ materially from expectations. In addition, our revenue and operating results are subject to fluctuation if our mix of U.S. and foreign currency denominated transactions and expenses changes in the future. We currently enter into forward exchange contracts

and as we continue to implement hedging strategies to mitigate foreign currency risk, these strategies might not eliminate our exposure to foreign exchange rate fluctuations and would involve costs and risks of their own, such as ongoing management time and expertise, external costs to implement the strategies and potential accounting implications.

If our security measures are breached or unauthorized access to consumer data is otherwise obtained, our solutions may be perceived as not being secure, clients may curtail or stop using our solutions, and we may incur significant liabilities.

Our operations involve the storage and transmission of confidential information, and security breaches could expose us to a risk of loss of this information, litigation, indemnity obligations to our clients and other liability. If our security measures are breached as a result of third-party action, employee error, malfeasance or otherwise, and someone obtains unauthorized access to client and consumer data, including personally identifiable information regarding consumers, our reputation will be damaged, our business may suffer and we could incur significant liability. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Even in cases where commercially reasonable security measures are in place, employee errors or intentional acts may be able to circumvent protections meant to secure consumer data from external threats. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose potential sales and existing clients.

We may be subject to claims that we violated intellectual property rights of others, which are extremely costly to defend and could require us to pay significant damages and limit our ability to operate.

Companies in the Internet and technology industries, and other patent, copyright and trademark holders, own large numbers of patents, copyrights, trademarks and trade secrets and frequently enter into litigation based on claims of infringement or other violations of intellectual property rights. We have received in the past, and expect to receive in the future, notices that claim we or our clients using our solutions have misappropriated or misused other parties' intellectual property rights. There may be intellectual property rights held by others, including issued or pending patents, copyrights and trademarks, that cover significant aspects of our technologies, content, branding or business methods. Any intellectual property claim against us or against our clients requiring us to indemnify our clients, regardless of merit, could be time-consuming and expensive to settle or litigate and could divert our management's attention and other resources. These claims could subject us to significant liability for damages and could result in our having to stop using technology, content, branding or business methods found to be in violation of another party's rights. In addition, some of our commercial agreements require us to indemnify the other party for third-party intellectual property infringement claims, which could increase the cost to us of an adverse ruling in such an action. We might be required or may opt to seek a license for rights to intellectual property held by others, which may not be available on commercially reasonable terms, or at all. Even if a license is available, we could be required to pay significant royalties, which would increase our operating expenses. We may also be required to develop alternative non-infringing technology, content, branding or business methods, which could require significant effort and expense and make us less competitive. If we cannot license or develop technology, content, branding or business methods for any allegedly infringing aspect of our business, we may be unable to compete effectively. Any of these results could harm our operating results.

If we do not adequately protect our intellectual property, our ability to compete could be impaired.

If we are unable to protect our intellectual property, our competitors could use our intellectual property to market products and services similar to ours and our ability to compete effectively would be impaired. To protect our intellectual property we rely on a combination of copyright, trademark, patent and trade secret laws, contractual provisions and technical measures. These protections may not be adequate to prevent our competitors from copying or reverse-engineering our technology and services to create similar offerings. The scope of patent protection, if any, we may obtain from our patent applications is difficult to predict and, if issued, our patents may be found invalid, unenforceable or of insufficient scope to prevent competitors from offering similar services. Our competitors may independently develop technologies that are substantially equivalent or superior to our technology. To protect our trade secrets and other proprietary information, we require employees, consultants, advisors, subcontractors and collaborators to enter into confidentiality agreements, and we maintain policies and procedures to limit access to our trade secrets and proprietary information. These agreements and the other actions we take may not provide meaningful protection for our trade secrets, know-how or other proprietary information from unauthorized use, misappropriation or disclosure. Existing copyright and patent laws may not provide adequate or meaningful protection in the event competitors independently develop technology, products or services similar to our solutions. Even if such laws provide protection, we may have insufficient resources to take the legal actions necessary to protect our interests. Upon discovery of potential infringement of our intellectual property, we promptly take action we deem appropriate to protect our rights. Even if we do detect violations and decide to enforce our intellectual property rights, litigation may be necessary to enforce our rights, and any enforcement efforts we undertake could be time-consuming and expensive, could divert our management’s attention and may result in a court determining that our intellectual property rights are unenforceable. A failure to protect our intellectual property in a cost-effective and meaningful manner could have a material adverse effect on our ability to compete.

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As of July 31, 2016, we had 14 issued U.S. patents and 8 pending U.S. non-provisional patent applications. We cannot be certain that any additional patents will be issued with respect to our patent applications. Any current or future patents issued to us may be challenged, invalidated or circumvented, may not provide sufficiently broad protection or may not prove to be enforceable inactions against alleged infringers. Furthermore, effective patent, trademark, copyright and trade secret protection may not be available in every country in which our products are available over the Internet. In addition, the legal standards relating to the validity, enforceability and scope of protection of intellectual property rights are uncertain and still evolving.

We face potential liability and expenses for legal claims based on online word of mouth and other third-party content that is enabled and delivered by our solutions and services. If we are required to pay damages or expenses in connection with these legal claims, our operating results and business may be harmed.

Our solutions enable our clients to collect and display user-generated content, in the form of online word of mouth, on their websites and other third-party websites. We are also involved in the syndication and moderation of such content and the delivery of other forms of third-party content in connection with our advertising services. Consequently, in connection with the operation of our business, we face potential liability based on a variety of theories, including fraud, defamation, negligence, copyright or trademark infringement or other legal theories based on syndication or moderation of this information and under various laws, including the Lanham Act and the Copyright Act. In addition, it is also possible that consumers could make claims against us for losses incurred in reliance upon information enabled by our solutions, syndicated, moderated or delivered by us or displayed on our clients' websites or social networks. These claims, whether brought in the United States or abroad, could divert management time and attention away from our business and result in significant costs to investigate and defend, regardless of the merit of these claims. If we become subject to these or similar types of claims and are not successful in our defense, we may be forced to pay substantial damages. There is no guarantee that we will avoid future liability and potential expenses for legal claims based on the content of the materials that our solutions and services enable. Should the content enabled by our solutions and services give rise to claims against us, we could be subject to substantial liability, which could have a negative impact on our business, revenue and financial condition.

Undetected errors or defects in our solutions could result in the loss of revenue, delayed market acceptance of our products or services or claims against us.

Our solutions are complex and frequently upgraded and may contain undetected errors, defects, failures or viruses, especially when first introduced or when new versions or enhancements are released. Our solutions and services may also be vulnerable to fraudulent acts by third-parties, including the posting of inauthentic reviews and click-through fraud, which occurs when an individual clicks on an ad displayed on a website or an automated system is used to create such clicks with the intent of generating the revenue share payment to the publisher rather than to view the underlying content. Despite testing, our solutions, or third-party products that we incorporate into our solutions, each may contain undetected errors, defects, viruses or vulnerabilities that could, among other things:

- require us to make extensive changes to our solutions, which would increase our expenses;
- expose us to claims for damages;
- require us to incur additional technical support costs;
- cause negative client or consumer reactions that could reduce future sales;
- generate negative publicity regarding us and our solutions; or
- result in clients electing not to renew their subscriptions for our solutions.

Any of these occurrences could have a material adverse effect upon our business, financial condition and results of operations.

The unfavorable outcome of any pending or future litigation or administrative action and expenses incurred in connection with litigation could result in additional litigation, financial losses or harm to our business.

We have been in the past, and in the future may be, subject to legal actions in the ordinary course of our operations, both domestically and internationally. See Note 9, Commitments and Contingencies, to the Note to Unaudited Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q for further description of these claim. There can be no assurances as to the favorable outcome of any litigation. An unfavorable outcome in any litigation matter against us could result in additional litigation. In addition it can be costly to defend litigation and these costs could negatively impact our financial results.

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Our divestiture of the PowerReviews business could have an adverse effect on our business.

After the completion of our acquisition of PowerReviews, the U.S. District Court for the Northern District of California, San Francisco Division (the "Court") ruled on January 8, 2014 that our acquisition of PowerReviews violated Section 7 of the Clayton Act, 15 U.S.C. Section 18. Under the terms of a Joint Stipulation with the Department of Justice and Order submitted to the Court on April 24, 2014, we were required to divest all of the assets of the PowerReviews business. On June 4, 2014, we divested PowerReviews, LLC to Wavetable Labs, LLC ("Wavetable"), which subsequently changed its name to PowerReviews, for $30.0 million in cash, $4.5 million of which was held in escrow as partial security for the Company's indemnification obligations, and subsequently released in fiscal 2016. As a result of this divestiture, we expect to experience in the short term a decrease in our SaaS revenue and a negative impact on our Adjusted EBITDA, our progress towards profitability and our progress towards positive operating cash flows. In addition, competition in the social commerce solutions market has become more intense as a result of this divestiture. We have ongoing obligations arising as a result of the terms of the Joint Stipulation with the DOJ, the Order and the divestiture agreement with PowerReviews. If we fail to comply with these obligations, our business could be adversely affected.

If we undertake business combinations and acquisitions, they may be difficult to integrate, disrupt our business, dilute stockholder value or divert management's attention.

We may in the future support our growth through additional acquisitions of, or investments in, additional complementary businesses, services or technologies. Future acquisitions involve risks, such as:

- misjudgment with respect to the value, return on investment or strategic fit of any acquired operations or assets;
- challenges associated with integrating acquired technologies, operations and cultures of acquired companies;
- exposure to unforeseen liabilities;
- diversion of management and other resources from day-to-day operations;
- possible loss of key employees, clients, suppliers and partners;
- higher than expected transaction costs;
- potential loss of commercial relationships and clients based on their concerns regarding the acquired business or technologies; and
- additional dilution to our existing stockholders if we use our common stock as consideration for such acquisitions.

As a result of these risks, we may not be able to achieve the expected benefits of any acquisition. If we are unsuccessful in completing or integrating acquisitions, we may be required to reevaluate our growth strategy and we may incur substantial expenses and devote significant management time and resources in seeking to complete and integrate the acquisitions.

Future business combinations could involve the acquisition of significant intangible assets. We may need to record write-downs from future impairments of identified intangible assets and goodwill. These accounting charges would reduce any future reported earnings or increase a reported loss. In addition, we could use substantial portions of our available cash to pay the purchase price for acquisitions. Subject to the provisions of our existing indebtedness, it is possible that we could incur additional debt or issue additional equity securities as consideration for these acquisitions, which could cause our stockholders to suffer significant dilution.

Our management team may not be able to execute our business plan. Changes to our management team may cause uncertainty regarding the future of our business and may adversely impact employee hiring and retention, our stock price, and our revenue, operating results, and financial condition.

Our management team has worked together at the Company for only a limited period of time and has a limited track record of executing our business plan as a team. In addition, we have recently filled a number of positions in our senior management. Accordingly, certain key personnel have only recently assumed the duties and responsibilities they are now performing, and it is difficult to predict whether our management team, individually and collectively, will be effective in operating our business. These changes may cause speculation and uncertainty regarding our future business strategy and direction and may cause or result in:

- disruption of our business or distraction of our employees and management;
- difficulty in recruiting, hiring, motivating and retaining talented and skilled personnel;
- stock price volatility; and

- difficulty in negotiating, maintaining or consummating business or strategic relationships or transactions.

If we are unable to mitigate these or other potential risks, our revenue, operating results and financial condition may be adversely impacted.

Our business depends on retaining and attracting qualified management and operating personnel.

Our success depends in large part on our ability to retain and attract high-quality management and operating personnel. We do not maintain key person life insurance policies on any of our employees. We may not be able to offset the impact on our business of the loss of the services of one or more of our executive officers or key employees. Our business also requires skilled technical and sales personnel, who are in high demand and are often subject to competing offers. As we expand into new vertical and geographic markets, we will require personnel with expertise in these new areas. Competition for qualified employees is intense in our industry. We continue to experience increased employee turnover and have incurred additional expenses as a result. An inability to retain, attract, relocate and motivate additional highly skilled employees required for the operation and planned expansion of our business could harm our operating results and impair our ability to grow. To retain and attract key personnel, we use various measures, including an equity incentive program and incentive bonuses for executive officers and other key employees. These measures may not be sufficient to retain and attract the personnel we require to operate our business effectively. A significant portion of the stock options held by our employees have exercise prices that are higher than the current market price for our common stock. As a result, such stock options may no longer provide additional incentive for our employees to remain employed by us and we may be required to issue additional equity grants to retain key employees. In addition, in making employment decisions, particularly in the technology industry, job candidates often consider the value of the stock options they are to receive in connection with their employment. Significant volatility in the price of our stock may, therefore, adversely affect our ability to retain and attract key employees.

Our growth could strain our personnel, technology and infrastructure resources, and if we are unable to effectively manage our growth, our operating results may suffer.

Since our inception, we have experienced growth, which has increased the complexity of our operations. As our operations have expanded, we have grown from 640 full-time employees at April 30, 2012 to 766 full-time employees at July 31, 2016. We have increased the size of our client base from 782 active clients at April 30, 2012 to 1,397 active clients at July 31, 2016. The rapid growth and increasing complexity have demanded, and will continue to demand, substantial resources and attention from our management, most of whom have limited experience in managing a business of our size and complexity. We expect to continue to hire more employees in the future as we grow our business. To manage the expected growth of our operations and personnel and to support financial reporting requirements as a public company, we will need to continue to improve our operational, financial, technology and management controls and our reporting systems and procedures. Further, to accommodate our expected growth we must continually improve and maintain our technology, systems and network infrastructure. Our current and planned personnel, systems, procedures and controls may not be adequate to support our future operations. Our inability to expand our personnel and operations in an efficient manner could result in difficulty in acquiring new clients or retaining existing clients, declines in quality or client satisfaction, increases in expenses relative to our revenue and challenges in developing and introducing new solutions, any of which could adversely affect our operating results.

If we are unable to maintain or expand our direct sales and marketing capabilities, we may not be able to generate anticipated revenue.

We rely primarily on our direct sales force to sell our solutions. Our solutions require a sophisticated sales force. We have worked to upgrade and expand our sales team in order to increase revenue from new and existing clients and to further penetrate our existing markets and expand into new markets. We are constantly evaluating our sales organization as part of our efforts to optimize our sales operations to grow our revenue. If we have not structured our sales organization properly or if we fail to make changes in a timely fashion, our ability to grow our revenue could be adversely affected.

Competition for qualified sales personnel is intense, and there can be no assurance that we will be able to retain our existing sales personnel or attract, integrate or retain sufficient highly qualified sales personnel, which could adversely affect our revenue growth. Many of the companies with which we compete for experienced personnel have greater resources than we have. If any of our sales representatives were to leave us and join one of our competitors, we may be unable to prevent such sales representatives from helping competitors to solicit business from our existing clients, which could adversely affect our revenue.

In addition, new sales hires require training and typically take several months to achieve productivity, if at all. For internal planning purposes, we assume that it will take significant time before a newly hired sales representative is fully trained and productive in selling our solutions. This amount of time may be longer for sales personnel focused on new geographies or new verticals. As a result, the cost of hiring and carrying new representatives cannot be offset by the revenue they produce for a significant period of time. Furthermore, because of the length of our sales training period, we often cannot determine if a sales representative will succeed until after he or she has been employed for several months or longer. If we experience high turnover in our sales force, or if we cannot reliably develop and grow a successful sales team, our revenue growth may be adversely affected.

Our sales force upgrade and expansion may not have the desired effect of expanding our business and generating anticipated revenue. If the growth of our sales and marketing team does not achieve the results we anticipated, then we may be forced to make changes to the organization. Should such changes be required, there can be no assurance that revenue and our ability to grow revenue would not be adversely affected.

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If we are unable to maintain our corporate culture as we grow, we could lose the passion, performance, innovation, openness, teamwork, respect and generosity that we believe contribute to our success and our business may be harmed.
We believe that a critical contributor to our success has been our corporate culture. As we grow and change, we may find it difficult to maintain the values that are fundamental to our corporate culture. Any failure to preserve our culture could negatively affect our ability to recruit and retain personnel and otherwise adversely affect our future success. We may face pressure to change our culture as we grow, particularly if we experience difficulties in attracting competent personnel who are willing to embrace our culture.
Our revenue may be adversely affected if we are required to charge sales or other taxes in additional jurisdictions for our solutions.
We collect or have imposed upon us sales or other taxes related to the solutions we sell in certain states and other jurisdictions. Additional states, countries or other jurisdictions may seek to impose sales or other tax collection obligations on us in the future, or states or jurisdictions in which we already pay tax may increase the amount of taxes we are required to pay. A successful assertion by any state, country or other jurisdiction in which we do business that we should be collecting sales or other taxes on the sale of our products and services could, among other things, create significant administrative burdens for us, result in substantial tax liabilities for past sales, discourage clients from purchasing solutions from us or otherwise substantially harm our business and results of operations.
We may not be able to utilize a significant portion of our net operating loss or research tax credit carry-forwards, which could adversely affect our operating results.
As of April 30, 2016, we had federal net operating loss carry-forwards of $209.4 million due to prior period losses, which expire beginning in 2026. We also have federal research tax credit carry-forwards of approximately $9.2 million that will begin to expire in 2026. As of April 30, 2016, we had state net operating loss carry-forwards of $118.6 million, which will begin expiring in 2016, and research and development credits of $3.5 million, of which a portion will begin expiring in 2033 and a portion will not expire. Realization of these net operating loss and research tax credit carry-forwards depends on many factors, including our future income. There is a risk that due to regulatory changes or unforeseen reasons our existing carry-forwards could expire or otherwise be unavailable to offset future income tax liabilities, which would adversely affect our operating results. In addition, under Section 382/383 of the Internal Revenue Code of 1986, as amended, or the Code, if a corporation undergoes an “ownership change,” the corporation’s ability to use its pre-change net operating loss carry-forwards and other pre-change tax attributes, such as research tax credits, to offset its post-change income may be limited. As a result, if we earn net taxable income, our ability to use our pre-change net operating loss carry-forwards or other pre-change tax attributes to offset U.S. federal and state taxable income may be subject to limitations.
We might require additional capital to support business growth, and this capital might not be available.
We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges, including the need to develop new solutions or enhance our existing solutions and platforms, enhance our operating infrastructure and acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock, including shares of common stock sold in our initial public offering which was completed in February 2012, or our follow-on public offering, which was completed in July 2012. Any debt financing secured by us in the future would likely be senior to our common stock and could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, we may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly limited.
Our loan agreement contains operating and financial covenants that may restrict our business and financing activities and expose us to risks that could adversely affect our liquidity and financial condition.

On November 21, 2014, we entered into a secured revolving credit facility of up to $70.0 million (the “Credit Facility”), with a sublimit of $3.0 million for the incurrence of swingline loans and a sublimit of $15.0 million for the issuance of letters of credit pursuant to an Amended and Restated Credit Facility, among us, the financial institutions from time to time party thereto and Comerica Bank, as administrative agent, sole lead arranger and sole bookrunner. Advances made under the Credit Facility may be used for general corporate purposes and working capital purposes. Amounts repaid under the Credit Facility may be reborrowed. The Credit Facility matures on November 21, 2017 and is payable in full upon maturity. If we cannot obtain the funds to repay this loan or otherwise refinance it on terms favorable to us, or at all, our liquidity and general financial condition could

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be adversely affected. Any borrowings, letters of credit and credit card services pursuant to our loan agreement are secured by substantially all of our assets, including our intellectual property. Our loan agreement limits, among other things, our ability to:

- incur additional indebtedness or guarantee the obligations of other persons;
- make payments on additional indebtedness or make changes to certain agreements related to additional indebtedness;
- enter into hedging arrangements;
- create, incur or assume liens and other encumbrances;
- make loans and investments, including acquisitions;
- make capital expenditures;
- sell, lease, license or otherwise dispose of assets;
- store inventory and equipment with other persons;
- pay dividends or make distributions on, or purchase or redeem, our capital stock;
- consolidate or merge with or into other entities;
- undergo a change in control;
- engage in new or different lines of business; or
- enter into transactions with affiliates.

Our loan agreement also contains numerous affirmative covenants, including covenants regarding compliance with applicable laws and regulations, reporting, payment of taxes and other obligations, maintenance of insurance coverage, maintenance of bank and investment accounts with the financial institution and its affiliates, registration of intellectual property rights, and certain third-party consents and waivers. The operating and other restrictions and covenants in our loan agreement, and in any future financing arrangements that we may enter into, may restrict our ability to finance our operations, engage in certain business activities, expand or fully pursue our business strategies, or otherwise limit our discretion to manage our business. Our ability to comply with these restrictions and covenants may be affected by events beyond our control, and we may not be able to meet those restrictions and covenants.

Our loan agreement contains events of default, which include, among others, non-payment defaults, covenant defaults, material adverse change defaults, bankruptcy and insolvency defaults, material judgment and settlement defaults, cross-defaults to certain other material agreements and defaults related to inaccuracy of representations and warranties made by us. An event of default under our loan agreement or any future financing arrangements could result in the termination of commitments to extend further credit, cause any outstanding indebtedness under our loan agreement or under any future financing arrangements to become immediately due and payable and permit our lender to exercise remedies with respect to all of the collateral securing the loans. Accordingly, an event of default could have an adverse effect on our access to capital, liquidity and general financial condition.

Our stock price has been volatile and may be subject to volatility in the future.

The market price of our common stock has been volatile historically and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. For example, fluctuations in the valuation of companies perceived by investors to be comparable to us or in valuation metrics, such as our price to earnings ratio, could impact our stock price. Additionally, the stock markets have experienced price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations and general economic, political and market conditions, such as recessions, changes in U.S. credit ratings, interest rate changes or international currency fluctuations, may negatively affect the market price of our common stock. In the past, many companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us, regardless of the merits or outcome, could result in substantial costs and divert our management's attention from other business concerns, which could materially harm our business.

If securities analysts do not continue to publish research or publish negative research about our business, our stock price and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that securities analysts publish about us or our business. If we fail to meet analyst expectations or one or more of the analysts who cover us downgrade our stock or publish negative research about our business, our stock price would likely decline. If one or more of these analysts cease coverage of our stock or fail to publish reports on us regularly, we could lose visibility in the market for our stock and demand for our stock could decrease, which could cause our stock price or trading volume to decline.

Our stock price could decline due to the large number of outstanding shares of our common stock eligible for future sale.

The price of our common stock could decline if there are substantial sales of our common stock in the public stock market. We had an aggregate of 82,835,422 outstanding shares of common stock as of September 2, 2016. Shares beneficially owned by our affiliates and certain employees are subject to volume and other restrictions under Rules 144 or 701 of the Securities Act, as

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well as our insider trading policy and any applicable 10b5-1 trading plan. Certain of our employees, including many of our executive officers, have entered into 10b5-1 trading plans providing for sales of shares of our common stock from time to time.

The holders of certain shares of our common stock have rights, subject to some conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or other stockholders.

We have also registered the issuance of all shares of common stock that we have issued and may issue under our option plans. These shares can be freely sold in the public market upon issuance, subject to the satisfaction of applicable vesting provisions, Rule 144 volume limitations and manner of sale, notice and public information requirements applicable to our affiliates.

Also, in the future, we may issue securities in connection with investments and acquisitions. The amount of our common stock issued in connection with an investment or acquisition could constitute a material portion of our then outstanding stock. Due to these factors, sales of a substantial number of shares of our common stock in the public market could occur at any time. These sales, or the perception in the market that the holders of a large number of shares intend to sell shares, could reduce the market price of our common stock.

We do not anticipate paying any dividends on our common stock.

We do not anticipate paying any cash dividends on, or making repurchases of, our common stock in the foreseeable future. If we do not pay cash dividends, you could receive a return on your investment in our common stock only if the market price of our common stock has increased when you sell your shares. In addition, the terms of our loan and security agreement currently restrict our ability to pay dividends or purchase our stock.

Changes in accounting standards, the interpretation of accounting standards by applicable regulatory bodies, or the accounting principles governing our financial reporting could result in unexpected, and potentially adverse, impacts on our revenue, operating results and financial position.

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles (“GAAP”) adopted by the Securities and Exchange Commission (“SEC”) for financial reporting in the United States. GAAP is subject to change by new and updated accounting pronouncements made by the Financial Accounting Standards Board, American Institute of Certified Public Accountants, or other standard setting organizations recognized by the SEC. In addition, the SEC may change its interpretation of existing accounting standards, issue new rules and regulations or change the accounting principles required or accepted for financial reporting in the United States. In particular, changes to regulations concerning revenue recognition could require us to alter our current revenue accounting practices and cause us to either defer revenue into a future period, or to recognize lower revenue in a current period, and the implementation of such changes could increase compliance costs. Any of these changes could have a significant impact on our previously reported financial statements, our revenue, operating results, and financial position this period, or in the future, and the comparability and consistency of our financial results with other periods.

The requirements of being a public company may strain our resources and divert management’s attention.

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (“Exchange Act”), the Dodd-Frank Wall Street Reform and Consumer Protection Act, the listing requirements of the NASDAQ Stock Market LLC and other applicable securities and rules and regulations. We have incurred and will continue to incur significant legal, accounting and other expenses from operating as a public company. The Sarbanes-Oxley Act of 2002 and the Dodd-Frank Act of 2010, as well as rules subsequently implemented by the SEC and The NASDAQ Stock Market LLC impose various requirements on public companies, including establishing effective internal controls and certain corporate governance practices. Our management and other personnel have begun to devote a substantial amount of time to these compliance initiatives, and additional laws and regulations may divert further management resources.

As a public company, we are also required, under Section 404 of the Sarbanes-Oxley Act (“Section 404”), to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting. This assessment must include disclosure of any material weaknesses identified by our management in our internal control over financial reporting. A material weakness is a deficiency or combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company's annual and interim financial statements will not be prevented or detected on a timely basis. We are required to disclose changes made in our internal control and procedures on a quarterly basis. However, our independent registered public accounting firm will not be required to formally attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 until the date we are no longer an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012 ("JOBS Act"). We will remain an emerging growth company until the earliest of (i) the last day of the fiscal year during which we have total annual gross revenue of $1 billion or more; (ii) April 30, 2017; (iii) the date on which we have, during the previous three-year period, issued more than $1 billion in non-convertible debt; and (iv) the date on which we are deemed to be a "large accelerated filer" under the Exchange Act.

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We have consumed, and will continue to consume, management resources and incur significant expenses for section 404 compliance on an ongoing basis. During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal controls are effective. If we are unable to conclude that our internal control over financial reporting is effective, we could lose investor confidence in the accuracy and completeness of our financial reports, which could cause the price of our common stock to decline.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management’s time and attention from revenue-generating activities to compliance activities. Greater expenditures may be necessary in the future with the advent of new laws, regulations and stock exchange listing requirements pertaining to public companies, particularly after we are no longer an emerging growth company. Moreover, if we are not able to comply with the requirements of new compliance initiatives in a timely manner, the market price of our stock could decline, and we could be subject to investigations and other actions by the SEC, The NASDAQ Stock Market LLC or other regulatory authorities, which would require additional financial and management resources. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us and our business may be harmed.

If we fail to maintain effective internal control over financial reporting in the future, we may not be able to accurately report our financial results or prevent fraud.

Preparing our consolidated financial statements involves a number of complex manual and automated processes, which are dependent upon individual data input or review and require significant management judgment. One or more of these elements may result in errors that may not be detected and could result in a material misstatement of our consolidated financial statements.

As part of our efforts to continue improving our internal control over financial reporting, we plan to continue to upgrade our existing financial information technology systems in order to automate several controls that are currently performed manually. We may experience difficulties in transitioning to these upgraded systems, including loss of data and decreases in productivity, as personnel become familiar with these new systems. In addition, our management information systems will require modification and refinement as our business needs change, which could prolong difficulties we experience with systems transitions, and we may not always employ the most effective systems for our purposes. If we experience difficulties in implementing new or upgraded information systems or experience significant system failures, or if we are unable to successfully modify our management information systems or respond to changes in our business needs, we may not be able to effectively manage our business and we may fail to meet our reporting obligations.

The Sarbanes-Oxley Act requires, among other things, that as a publicly-traded company we disclose whether our internal control over financial reporting and disclosure controls and procedures are effective. If a material misstatement occurs in the future, we may fail to meet our future reporting obligations, we may need to restate our financial results and the price of our common stock may decline. Any failure of our internal controls could also adversely affect the results of the periodic management evaluations and annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting that are required under Section 404 of the Sarbanes-Oxley Act. Effective internal controls are necessary for us to produce reliable financial reports and are important to helping prevent financial fraud. Furthermore, any potential transition in enterprise resource planning or other major operational systems could impact the timely generation of our financial statements. If we cannot provide reliable financial reports or prevent fraud, our business and results of operations could be harmed, investors could lose confidence in our reported financial information, and the trading price of our

stock could drop significantly.
We are an "emerging growth company," and the reduced disclosure requirements applicable to "emerging growth companies" could make our common stock less attractive to investors. Additionally, if we cease to be an emerging growth company prior to April 30, 2017, we may not be able to meet all the regulatory requirements applicable to non-emerging growth companies.
We are an "emerging growth company," as defined in the JOBS Act. For as long as we are an emerging growth company, we may take advantage of certain exemptions from various reporting requirements, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding advisory "say-on-pay" votes on executive compensation and shareholder advisory votes on golden parachute compensation. We will remain an emerging growth company until the earliest of (i) the last day of the fiscal year during which we have total annual gross revenue of $1 billion or more; (ii) April 30, 2017; (iii) the date on which we have, during the previous three-year period, issued more than $1 billion in non-convertible debt; and (iv) the date on which we are deemed to be a "large accelerated filer"

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under the Exchange Act. Under this definition, we are currently an "emerging growth company" but will cease to be one no later than April 30, 2017. Until such time, we cannot predict if investors will find our common stock less attractive to the extent we rely on the exemptions available to emerging growth companies. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile. Further, if we become a large accelerated filer prior to April 30, 2017, we may not be able to satisfy all the regulatory requirements.

In addition, Section 107 of the JOBS Act also provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. However, we have chosen to opt out of such extended transition period, and as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Section 107 of the JOBS Act provides that our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

Our charter documents and Delaware law could prevent a takeover that stockholders consider favorable and could also reduce the market price of our stock.

Our current certificate of incorporation and bylaws contain provisions that could delay or prevent a change in control of our company. These provisions could also make it more difficult for stockholders to elect directors and take other corporate actions. These provisions include:

- a classified board of directors whose members serve staggered three-year terms;
- not providing for cumulative voting in the election of directors;
- authorizing our board of directors to issue, without stockholder approval, preferred stock with rights senior to those of our common stock;
- prohibiting stockholder action by written consent; and
- requiring advance notification of stockholder nominations and proposals.

These and other provisions in our current certificate of incorporation and bylaws, and under Delaware law could discourage potential takeover attempts, reduce the price that investors might be willing to pay in the future for shares of our common stock and result in the market price of our common stock being lower than it would be without these provisions.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 6. Exhibits

See the Exhibit Index immediately following the signature page of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized.

	BAZAARVOICE, INC.
Dated: September 8, 2016	/s/ James R. Offerdahl
	James R. Offerdahl
	Chief Financial Officer
	(Principal Financial Officer)

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EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date
3.1	Amended and Restated Certificate of Incorporation, as currently in effect	S-1	333-176506	3.1	August 26, 2011
3.2	Amended and Restated Bylaws, as currently in effect	S-1	333-176506	3.2	August 26, 2011
10.1*	Offer of Employment between the Registrant and Elizabeth Ritzcovan, dated November 2, 2015				
10.2*	Offer of Employment between the Registrant and Gary Allison, dated November 12, 2013				
31.1*	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
31.2*	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
101.INS*	XBRL Instance Document				
101.SCH*	XBRL Taxonomy Extension Schema Document				
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document				
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document				

* Filed herewith.
** Furnished herewith.