

Bazaarvoice Inc  
Form 10-Q  
September 10, 2012  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended July 31, 2012

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 No. 001-35433

**BAZAARVOICE, INC.**

(Exact name of registrant as specified in its charter)

Edgar Filing: Bazaarvoice Inc - Form 10-Q

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**20-2908277**  
(I.R.S. Employer  
Identification No.)

**3900 N. Capital of Texas Highway, Suite 300**

**Austin, Texas**  
(Address of principal executive offices)

**78746-3211**  
(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 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  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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

The number of shares of the registrant's common stock outstanding as of August 31, 2012 was 69,054,675.

**Table of Contents**

**Bazaarvoice, Inc.**

**Table of Contents**

	<b>Page</b>
Part I. Financial Information	
Item 1. Financial Statements:	
<u>Unaudited Condensed Consolidated Balance Sheets as of July 31, 2012 and April 30, 2012</u>	3
<u>Unaudited Condensed Consolidated Statements of Operations for the three months ended July 31, 2012 and July 31, 2011</u>	4
<u>Unaudited Condensed Consolidated Statements of Comprehensive Loss for the three months ended July 31, 2012 and July 31, 2011</u>	5
<u>Unaudited Condensed Consolidated Statement of Changes in Stockholders' Equity for the three months ended July 31, 2012</u>	6
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended July 31, 2012 and July 31, 2011</u>	7
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	8
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	23
Item 4. <u>Controls and Procedures</u>	24
Part II. <u>Other Information</u>	24
Item 1. <u>Legal Proceedings</u>	24
Item 1A. <u>Risk Factors</u>	24
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	39
Item 6. <u>Exhibits</u>	39
<u>Signature</u>	40
<u>Exhibit Index</u>	41

**Table of Contents****Bazaarvoice, Inc.****Unaudited Condensed Consolidated Balance Sheets**

	July 31, 2012	April 30, 2012
	(in thousands except share and per share data)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 68,145	\$ 74,367
Restricted cash	604	500
Short-term investments	74,660	50,834
Accounts receivable, net of allowance for doubtful accounts of \$878 and \$788, as of July 31, 2012, and April 30, 2012, respectively	18,409	17,977
Prepaid expenses and other current assets	3,624	3,873
<b>Total current assets</b>	<b>165,442</b>	<b>147,551</b>
Property, equipment, and capitalized software, net	11,339	8,868
Goodwill	112,700	
Acquired intangibles, net	40,481	
Other non-current assets	393	448
<b>Total assets</b>	<b>\$ 330,355</b>	<b>\$ 156,867</b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 4,754	\$ 2,523
Accrued expenses and other current liabilities	12,704	12,725
Deferred revenue	46,450	42,152
<b>Total current liabilities</b>	<b>63,908</b>	<b>57,400</b>
Deferred revenue less current portion	2,684	3,434
Deferred tax liability, non-current	1,357	31
Other liabilities, non-current	2,605	2,404
<b>Total liabilities</b>	<b>70,554</b>	<b>63,269</b>
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Common stock \$0.0001 par value; 150,000,000 shares authorized, 69,029,568 shares issued and 68,779,568 shares outstanding as of July 31, 2012; 150,000,000 shares authorized, 58,779,937 shares issued and 58,529,937 shares outstanding as of April 30, 2012	7	6
Treasury stock, at cost 250,000 shares at July 31, 2012 and April 30, 2012		
Additional paid-in capital	343,602	158,769
Accumulated other comprehensive income (loss)	(112)	(20)
Accumulated deficit	(83,696)	(65,157)
<b>Total stockholders' equity</b>	<b>259,801</b>	<b>93,598</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 330,355</b>	<b>\$ 156,867</b>

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



**Table of Contents****Bazaarvoice, Inc.****Unaudited Condensed Consolidated Statements of Operations**

	<b>Three Months Ended July 31,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(in thousands except per share data)</b>	
<b>Revenue</b>	\$ 35,662	\$ 22,088
Cost of revenue	12,633	7,797
<b>Gross profit</b>	23,029	14,291
<b>Operating expenses:</b>		
Sales and marketing	15,322	11,192
Research and development	7,494	3,343
General and administrative	16,196	5,099
Acquisition related	1,384	
Amortization of acquired intangible assets	480	
<b>Total operating expenses</b>	40,876	19,634
<b>Operating loss</b>	(17,847)	(5,343)
<b>Other income (expense), net</b>		
Interest income	49	7
Other income (expense)	(453)	(91)
<b>Total other (expense), net</b>	(404)	(84)
<b>Loss before income taxes</b>	(18,251)	(5,427)
Income tax expense	288	109
<b>Net loss</b>	\$ (18,539)	\$ (5,536)
Less accretion of redeemable convertible preferred stock		(13)
Net loss applicable to common stockholders	\$ (18,539)	\$ (5,549)
<b>Net loss per share applicable to common stockholders:</b>		
Basic and diluted	\$ (0.30)	\$ (0.29)
<b>Basic and diluted weighted average number of shares outstanding</b>	62,451	18,817

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

**Table of Contents****Bazaarvoice, Inc.****Unaudited Condensed Consolidated Statements of Comprehensive Loss**

	<b>For the Three Months Ended July 31,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(in thousands)</b>	
Net loss	\$ (18,539)	\$ (5,536)
Other comprehensive loss, net of tax:		
Foreign currency translation adjustment	(70)	(14)
Cumulative unrealized loss on marketable securities	(22)	
Total other comprehensive loss, net of tax	(92)	(14)
Comprehensive loss	\$ (18,631)	\$ (5,550)

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

**Table of Contents****Bazaarvoice, Inc.****Unaudited Condensed Consolidated Statement of Changes in Stockholders' Equity**

(in thousands)	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive (Loss)	Accumulated Deficit	Total Stockholders Equity
	Number of Shares	Amount	Number of Shares	Amount				
<b>Balance at April 30, 2012</b>	<b>58,780</b>	<b>\$ 6</b>	<b>(250)</b>	<b>\$</b>	<b>\$ 158,769</b>	<b>\$ (20)</b>	<b>\$ (65,157)</b>	<b>\$ 93,598</b>
Stock issued to acquire PowerReviews	6,381	1			119,695			119,696
Issuance of common stock (net of issuance costs)	3,625				51,937			51,937
Excess tax benefit related to stock options					82			82
Stock-based expense					12,338			12,338
Exercise of stock options	244				781			781
Foreign currency translation adjustment						(70)		(70)
Change in unrealized (loss)/gain on investments						(22)		(22)
Net loss							(18,539)	(18,539)
<b>Balance at July 31, 2012</b>	<b>69,030</b>	<b>\$ 7</b>	<b>(250)</b>	<b>\$</b>	<b>\$ 343,602</b>	<b>\$ (112)</b>	<b>\$ (83,696)</b>	<b>\$ 259,801</b>

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



**Table of Contents****Bazaarvoice, Inc.****Unaudited Condensed Consolidated Statements of Cash Flows**

	<b>Three Months Ended July 31,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(in thousands)</b>	
<b>Operating activities</b>		
Net loss	\$ (18,539)	\$ (5,536)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	1,713	665
Stock-based expense	12,338	1,558
Bad debt expense	153	192
Excess tax benefit related to stock options	(82)	
Changes in operating assets and liabilities:		
Accounts receivable	1,129	(1,249)
Prepaid expenses and other current assets	442	605
Other non-current assets	57	
Accounts payable	2,086	1,471
Accrued expenses and other current liabilities	(1,044)	1,334
Deferred revenue	(276)	1,475
Other liabilities, long-term	201	
<b>Net cash (used in) provided by operating activities</b>	<b>(1,822)</b>	<b>515</b>
<b>Investing activities</b>		
Acquisitions, net of cash acquired	(30,313)	
Purchases of property and equipment and capitalized internal use software development cost	(3,196)	(687)
Purchases of short-term investments	(24,126)	
Maturity of short-term investments	277	
Increase of restricted cash		(250)
<b>Net cash used in investing activities</b>	<b>(57,358)</b>	<b>(937)</b>
<b>Financing activities</b>		
Proceeds from follow-on offering, net of costs	52,184	
Proceeds from exercise of stock options	780	1,569
Excess tax benefit related to stock options	82	
<b>Net cash provided by financing activities</b>	<b>53,046</b>	<b>1,569</b>
<b>Effect of exchange rate fluctuations on cash and cash equivalents</b>	<b>(88)</b>	<b>(16)</b>
Net change in cash and cash equivalents	(6,222)	1,131
Cash and cash equivalents at beginning of quarter	74,367	15,050
<b>Cash and cash equivalents at end of quarter</b>	<b>\$ 68,145</b>	<b>\$ 16,181</b>
<b>Supplemental disclosure of other cash flow information:</b>		
Cash paid for income taxes	\$ 236	\$ 1
<b>Supplemental disclosure of non-cash investing and financing activities:</b>		
Accretion of redeemable convertible preferred stock	\$	\$ 13
Accrued stock offering costs	246	670
Issuance of stock for acquisition	119,696	

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



---

**Table of Contents**

**Bazaarvoice, Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**1. Organization and Nature of Operations**

Bazaarvoice is a leading provider of social commerce solutions that help its clients capture, display and analyze online word of mouth, including consumer-generated ratings and reviews, questions and answers, stories, recommendations, photographs, videos and other content about its clients' brands, products or services. Bazaarvoice, which literally means "voice of the marketplace," was founded on the premise that online word of mouth is critical to consumers and businesses because of its influence on purchasing decisions, both online and offline.

**2. Summary of Significant Accounting Policies**

***Basis of Presentation***

The Company's significant accounting policies and recent accounting pronouncements are described in Note 2 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2012, filed on June 11, 2012. There have been no changes in the Company's accounting policies since April 30, 2012. The 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 Form 10-K.

***Unaudited Interim Financial Information***

The accompanying unaudited condensed consolidated financial statements and notes have been prepared in accordance with Generally Accepted Accounting Principles in the United States of America (U.S. 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 United States Securities and Exchange Commission (the SEC). Accordingly, they do not include all the information and footnotes required by U.S. 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 presentation 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, 2012 are not necessarily indicative of results that may be expected for the year ending April 30, 2013 or any other period.

***Fair Value of Financial Instruments***

The Company applies the authoritative guidance on fair value measurements for financial assets and liabilities and non-financial assets and liabilities, such as goodwill, indefinite-lived intangible assets and property plant and equipment that are measured at fair value on a non-recurring basis. The guidance defines fair value, thereby eliminating inconsistencies in guidance found in various prior accounting pronouncements, 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 and significant to the valuation.

***Recently Adopted Accounting Pronouncements***

***Comprehensive Income***

In June 2011, the FASB issued a standard to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The standard eliminates the option to present the components of other comprehensive income as part of the statement of equity. The updated accounting guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 on a retrospective basis. Early application is permitted. The Company has adopted the updated guidance in the first quarter of fiscal year 2013.



**Table of Contents****Bazaarvoice, Inc.****Notes to Unaudited Condensed Consolidated Financial Statements****3. Fair Value of Financial Assets and Liabilities**

The following table summarizes the Company's cash and cash equivalents as of July 31, 2012 and April 30, 2012:

(in thousands)	July 31, 2012	April 30, 2012
Demand deposit accounts	\$ 62,698	\$ 45,361
Money market funds	447	288
U.S. Treasury bills	5,000	7,499
Corporate bonds (U.S. Gov. guaranteed)		21,219
<b>Total cash and cash equivalents</b>	<b>\$ 68,145</b>	<b>\$ 74,367</b>

The following table summarizes the Company's short-term investments as of July 31, 2012:

(in thousands)	Cost	Gross Unrealized Gains (Losses)	Fair Value
Available-for-sale securities:			
Certificates of deposit (U.S. Gov. guaranteed)	\$ 7,354	\$ (10)	\$ 7,344
U.S. Treasury notes	49,153	(4)	49,149
Corporate bonds (U.S. Gov. guaranteed)	18,175	(8)	18,167
<b>Total short-term investments</b>	<b>\$ 74,682</b>	<b>\$ (22)</b>	<b>\$ 74,660</b>

All short-term investments have an original maturity date less than 12 months, at July 31, 2012

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, 2012 and April 30, 2012:

(in thousands)	Fair Value Measurements at July 31, 2012				Fair Value Measurements at April 30, 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets:</b>								
Cash equivalents:								
Money market funds	\$ 447	\$	\$	\$ 447	\$ 288	\$	\$	\$ 288
U.S. Treasury bills	5,000			5,000	7,499			7,499
Corporate bonds (U.S. Gov. guaranteed)					21,219			21,219
<b>Total cash equivalents</b>	<b>5,447</b>			<b>5,447</b>	<b>29,006</b>			<b>29,006</b>
Restricted cash	604			604	500			500
Short-term investments:								
Certificates of deposit (U.S. Gov. guaranteed)	7,344			7,344	4,496			4,496

## Edgar Filing: Bazaarvoice Inc - Form 10-Q

U.S. Treasury notes	49,149		49,149	28,099		28,099		
Corporate bonds (U.S. Gov. guaranteed)	18,167		18,167	18,239		18,239		
Total short-term investments	74,660		74,660	50,834		50,834		
Total assets	\$ 80,711	\$	\$	\$ 80,711	\$ 80,340	\$	\$	\$ 80,340

The Company measures certain assets, including property and equipment, goodwill and intangible assets, at fair value on a nonrecurring basis. These assets are recognized at fair value when they are deemed to be other-than-temporarily impaired. During the three months ended July 31, 2012 and 2011, there were no fair value measurements of assets or liabilities measured at fair value on a nonrecurring basis subsequent to their initial recognition.

#### 4. Business Combinations

On June 12, 2012, the Company acquired PowerReviews, Inc., or PowerReviews, for \$30.9 million in cash and 6.4 million shares of the Company's common stock. In connection with the acquisition, the Company assumed the PowerReviews option plan. After conversion, the PowerReviews options are equivalent to vested and unvested options to purchase 1.7 million shares of the Company's common stock.

PowerReviews' solutions are offered through two platforms, an enterprise platform that is similar to the Company's current Conversations platform and an Express platform that provides certain ratings and reviews solutions as a turn-key offering. The Company accounted for the PowerReviews acquisition using the acquisition method of accounting.

**Table of Contents****Bazaarvoice, Inc.****Notes to Unaudited Condensed Consolidated Financial Statements**

The Company preliminarily allocated the purchase price to the assets acquired, including intangible assets, and liabilities assumed based on estimated fair values at the date of the acquisition. The Company estimated the value of assets and liabilities based on purchase price and future intended use. The Company derived the value of intangible assets from the present value of estimated future benefits from the various intangible assets acquired.

While the Company uses its best estimates and assumptions as part of the purchase price allocation process to value assets acquired and liabilities assumed at the business combination date, its estimates and assumptions are subject to refinement. As a result, during the preliminary purchase price allocation period, which may be up to one year from the business combination date, the Company may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. The Company records adjustments to assets acquired or liabilities assumed subsequent to the measurement period in its operating results in the period in which the adjustments were determined.

The Company allocated the purchase price for PowerReviews as follows (in thousands):

Cash and cash equivalents	\$ 744
Restricted cash	104
Accounts receivable	471
Prepaid expenses and other current assets	188
Property and equipment	281
Current deferred tax asset	239
Other non-current assets	23
Intangible assets:	
Domain name (Indefinite useful life)	800
Developed technology (3 year useful life)	5,400
Customer relationships (3 to 10 year useful life)	35,000
Total identified intangibles	41,200
Goodwill	112,700
Total assets acquired	155,951
Accounts payable	(308)
Accrued liabilities	(1,787)
Deferred revenue	(2,581)
Non-current deferred tax liability	(521)
Total liabilities assumed	(5,197)
Net assets acquired	\$ 150,754

The consideration paid using a price of \$17.20 per share of common stock issued was as follows (in thousands):

Cash	\$ 31,058
Common stock	109,745
Fair Value of Vested Stock Options Assumed	9,951
Total consideration	\$ 150,754

## Edgar Filing: Bazaarvoice Inc - Form 10-Q

Goodwill represents the excess of the purchase price over the aggregate fair value of the net identifiable assets acquired and is not deductible for tax purposes. Goodwill for PowerReviews resulted primarily from the Company's expectations that PowerReviews' solutions will enhance the Company's product offering and delivery. The Company integrated PowerReviews' business into the Company's operations. Therefore, there are no separate revenue and earnings for PowerReviews since the integration.

At July 31, 2012, the Company had goodwill in the amount of \$112.7 million. The Company assesses goodwill for impairment annually in the fourth quarter, or more frequently if other indicators of potential impairment arise. There were no indicators of impairment as of July 31, 2012.

The following table reflects the changes in goodwill for the three months ended July 31, 2012:

<b>Balance, as of April 30, 2012</b>	\$
Increase in goodwill related to acquisition	112,700
<b>Balance, as of July 31, 2012, gross</b>	<b>\$ 112,700</b>
Accumulated impairment loss	
<b>Balance, as of July 31, 2012, net</b>	<b>\$ 112,700</b>



**Table of Contents****Bazaarvoice, Inc.****Notes to Unaudited Condensed Consolidated Financial Statements*****Pro Forma Adjusted Summary***

The results of operations of PowerReviews have been included in the unaudited condensed consolidated financial statements subsequent to the acquisition date. The following unaudited pro forma adjusted summary for the three months ended July 31, 2012 and 2011 assumes that PowerReviews had been acquired at the beginning of fiscal year 2011 (in thousands, except per share data):

	<b>Three Months Ended</b>	
	<b>July 31,</b>	
	<b>2012</b>	<b>2011</b>
Pro forma adjusted total revenue	\$ 37,266	\$ 24,896
Pro forma adjusted net loss attributable to Bazaarvoice, Inc.	\$ (16,778)	\$ (20,566)
Pro forma adjusted net loss per share attributable to Bazaarvoice, Inc.:		
Basic and Diluted	\$ (0.26)	\$ (0.82)

The unaudited pro forma results for the three months ended July 31, 2011 include \$1.3 million of amortization charges for acquired intangible assets, adjustments for \$9.8 million of incremental stock-based expense related to the acceleration of options due to the acquisition, \$0.5 million of stock-based expense related to the post-combination service arrangements entered into with the continuing employees and \$1.4 million of acquisition costs. The unaudited pro forma adjusted summary combines the historical results for Bazaarvoice for those periods with the historical results of PowerReviews for the same periods. The summary is presented for informational purposes only and is not intended to be indicative of future results of operations or whether similar results would have been achieved if the acquisition had taken place at the beginning of fiscal year 2011.

**5. Income Taxes**

The Company uses the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities will be recognized in the period that includes the enactment date. A valuation allowance is established against the deferred tax assets to reduce their carrying value to an amount that is more likely than not to be realized.

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, 2012 was (1.58) percent compared to (2.00) percent for the three months ended July 31, 2011. The negative tax rates were primarily attributable to estimated foreign and state income tax expense compared to a consolidated pre-tax book loss.

**6. Debt**

On July 18, 2007, the Company entered into a loan and security agreement, or the Loan Agreement, with a financial institution under which the Company secured a revolving line of credit with a borrowing capacity of up to \$2.0 million and a \$0.3 million equipment loan facility, which terminated by its maturity on January 18, 2011. On November 30, 2008, the Company entered into an amendment to the Loan Agreement, increasing the borrowing capacity of the revolving line of credit to \$7.0 million and creating a credit card services subfacility of up to \$0.2 million. On July 20, 2009, the Company entered into a second amendment that created a letter of credit subfacility of up to \$0.9 million, and on January 22, 2010, the Company entered into a third amendment, increasing the letter of credit sublimit to \$1.0 million to increase the face amount of the letter of credit in connection with its expanded leased office space in Austin, Texas. On September 27, 2010, the Company entered into a fourth amendment to the Loan Agreement increasing the borrowing capacity of the revolving line of credit to \$10.0 million with an option to increase the line to \$15.0 million and the combined letter of credit and credit card services sub-facility to \$2.65 million. On May 12, 2011, the Company increased the face amount of the standby letter of credit issued under the Loan Agreement in favor of its landlord by \$0.8 million and on February 28, 2012, the Company increased the face amount of the standby letter of credit issued under the Loan Agreement in

## Edgar Filing: Bazaarvoice Inc - Form 10-Q

favor of its landlord by another \$0.5 million as collateral for additional office space leased at the Company's headquarters in Austin, Texas. On January 31, 2012, the Company entered into a fifth amendment to the Loan Agreement. This amendment increased the borrowing capacity of the revolving line of credit to \$30.0 million. The Company may request advances in an aggregate outstanding amount not to exceed the lesser of (a) \$30.0 million or (b) 100% of eligible monthly service fees as defined in the Loan Agreement, inclusive of any amounts outstanding under the credit card services sublimit. The revolving line of credit expires on January 31, 2015

**Table of Contents****Bazaarvoice, Inc.****Notes to Unaudited Condensed Consolidated Financial Statements**

with all advances immediately due and payable. The revolving line of credit bears interest at the prime based rate as defined in the Loan Agreement except during any period of time during which, in accordance with the Loan Agreement, the line bears interest at the daily adjusting LIBOR rate. Borrowings under the revolving line of credit are collateralized by substantially all assets of the Company. The Loan Agreement contains certain financial and nonfinancial covenants. As of July 31, 2012 and July 31, 2011, the Company was in compliance with the terms of these covenants.

On November 4, 2008, the Company entered into a pledge and security agreement with a financial institution for a standby letter of credit for credit card services from a separate financial institution for an amount not to exceed \$0.1 million. The Company pledged a security interest in its money market account, in which the balance must equal at least the credit extended. On March 17, 2010, the standby letter of credit for credit card services was increased to \$0.3 million. On May 18, 2011, the standby letter of credit for credit card services was increased to \$0.5 million. This letter of credit expires annually and the pledged security interest is recorded as short-term restricted cash in the Company's financial statements.

**7. Loss Per Share Applicable to Common Stockholders**

The following table sets forth the computations of loss per share applicable to common stockholders for the three months ended July 31, 2012 and 2011, respectively (in thousands, except per share data).

	<b>Three Months Ended July 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Net loss</b>	\$ (18,539)	\$ (5,536)
Less accretion of redeemable convertible preferred stock		(13)
<b>Loss applicable to common stockholders</b>	<b>\$ (18,539)</b>	<b>\$ (5,549)</b>
Basic and diluted earnings per share	\$ (0.30)	\$ (0.29)
Weighted average number of shares	62,451	18,817
Potentially dilutive securities (1):		
Outstanding stock options	7,849	4,575
Redeemable convertible preferred shares		27,897

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

**8. Common Stock**

On July 23, 2012, the Company completed a follow-on offering in which 9,775,000 shares of our common stock were sold, of which 3,625,000 shares were offered by the Company and 6,150,000 shares were offered by selling stockholders, at a price of \$15.40 per share. The gross proceeds raised by the Company from the sale of its common stock in the offering was approximately \$55.8 million, resulting in net proceeds to the Company from the sale of its common stock of approximately \$51.9 million, after deducting underwriting discounts and commissions of approximately \$2.7 million and other offering expenses of approximately \$1.2 million.

**9. Commitments and Contingencies**

After the completion of the Company's acquisition of PowerReviews, the Department of Justice, Antitrust Division, notified the Company that it has opened an investigation to determine whether the acquisition violated Section 7 of the Clayton Act, 15 U.S.C. Section 18. Because the investigation is in an early stage, it is not possible to reliably predict the outcome of the investigation. Therefore, the Company cannot currently estimate the loss, if any, associated with the investigation.



## **Table of Contents**

### **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 condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q.*

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (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, expect or the negative or plural of these words or similar expressions. These forward-looking statements include, but are not limited to, statements concerning the following:

our ability to timely and effectively scale and adapt our existing technology and network infrastructure;

our ability to increase adoption of our platforms by our customers' 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;

our future expenses;

the effects of increased competition in our market;

our ability to effectively manage our growth;

our ability to successfully enter new markets and manage our international expansion;

our ability to maintain, protect and enhance our brand and intellectual property; and

the attraction and retention of qualified employees and key personnel.

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 the results anticipated by these forward-looking statements, including those factors we discuss in the Risk Factors sections of this Quarterly Report on Form 10-Q, our prospectus filed pursuant to Rule 424(b) under the Securities Act of 1933, as amended, or the Securities Act, with the Securities and Exchange Commission, or SEC, on July 18, 2012, and in our other filings with the SEC. You should read these factors and the other cautionary statements made in this Quarterly Report on Form 10-Q as being applicable to all related forward-looking statements wherever they appear in this Quarterly Report on Form 10-Q. These risks are not exhaustive. Although we believe the expectations reflected in the forward-looking statements are based on reasonable assumptions, we can give no assurance we will attain these expectations or that any deviations will not be material. Except as required by law, we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this Quarterly Report on Form 10-Q to conform these statements to actual results or to changes in our expectations.

## Overview

We are a leading provider of social commerce solutions that help our clients capture, display and analyze online word of mouth, including consumer-generated ratings and reviews, questions and answers, stories, recommendations, photographs, videos and other content about our clients' brands, products or services. Bazaarvoice, which literally means "voice of the marketplace," was founded on the premise that online word of mouth is critical to consumers and businesses because of its influence on purchasing decisions, both online and offline. We enable our clients to place consumers at the center of their business strategies by helping consumers generate and share sentiment, preferences and other content about brands, products or services. Through our technology platforms, our clients leverage online word of mouth to increase sales, acquire new customers, improve marketing effectiveness, enhance consumer engagement across channels, increase success of new product launches, improve existing products and services, effectively scale customer support and decrease product returns.

Since inception, we have experienced rapid revenue growth primarily driven by our active enterprise clients who have adopted either our Conversations platform or the PowerReviews enterprise platform. In order to take advantage of our significant growth opportunity and to provide high levels of client service, we have also substantially expanded our number of full-time employees. We believe our growth is further illustrated by impressions served, which we define as single instances of online word of mouth delivered to an end user's web browser. While this metric does not drive our pricing, it measures the reach of our network to a consumer audience.

The following table summarizes these measures of our growth over the three months ended July 31, 2012 and 2011:

	<b>Three Months Ended July 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Growth Trends:</b>		
Revenue (in thousands)	\$ 35,662	\$ 22,088
Number of active enterprise clients (period end) (1)	1,076	640
Full-time employees (period end)	771	520
Impressions served (in thousands) (2)	33,026,288	25,864,164

- (1) In connection with our acquisition of PowerReviews, which closed in June 2012, we expanded the types of clients that we serve. To reflect differences among our clients and the services that we offer, we now define our clients as active enterprise clients and active network clients, the definitions of which are set forth in the Key Business Metrics section. In this Quarterly Report on Form 10-Q, historical references to active clients for periods prior to the closing of the acquisition include both active enterprise clients and active network clients on an aggregate basis. As a result of this nomenclature change resulting from our acquisition of PowerReviews, comparisons of active clients and active client retention rates for periods prior to June 2012 and after June 2012 may not be directly comparable as we have not made this distinction retrospectively. This change has a corresponding impact on metrics that are driven by number of clients, such as revenue per active client; however, we believe the change has had an immaterial impact on these metrics.
- (2) The number of impressions for the period ended July 31, 2012 are exclusive of impressions served on either the PowerReviews enterprise platform or the Express platform.

For the three months ended July 31, 2012, through the continued enhancement and expansion of our social commerce platforms, we achieved significant growth as compared to the three months ended July 31, 2011 in both the number of active enterprise clients and the revenue we generate from our active enterprise clients over time. Our revenue was \$35.7 million for the three months ended July 31, 2012, which represented a 61.5% increase from the three months ended July 31, 2011.

On June 12, 2012, we completed the acquisition of PowerReviews, a provider of social commerce solutions based in San Francisco, California. PowerReviews' solutions are offered through two platforms, an enterprise platform that is similar to our Conversations platform and an Express platform that provides certain ratings and reviews solutions as a turn-key offering. Through our acquisition of PowerReviews, we added approximately 300 active enterprise clients, approximately 800 active network clients and 81 new employees to our business. We believe that the acquisition will establish us with small and medium-size businesses and further expand the reach and value of our network. We also expect to achieve significant cost synergies by combining the operations of PowerReviews with our own.

## Table of Contents

On July 23, 2012, we completed a follow-on offering in which we sold 9,775,000 shares of our common stock, of which 3,625,000 shares were offered by us and 6,150,000 shares were offered by selling stockholders, at a price of \$15.40 per share. The gross proceeds raised by us from the sale of our common stock in the offering was approximately \$55.8 million, resulting in net proceeds from the sale of our common stock of approximately \$51.9 million, after deducting underwriting discounts and commissions of approximately \$2.7 million and other offering expenses of approximately \$1.2 million.

For the remainder of fiscal year 2013, we plan to continue to invest for long-term growth. We expect to continue the enhancement of our platforms by developing new solutions, adding new features and functionality and expanding the potential applications of our existing solutions. We also plan to continue our investments in research and development and to pursue strategic acquisitions of complementary businesses and technologies that will enable us to continue to drive growth in the future. To support these efforts, we expect to increase our workforce which will result in an increase of headcount related expenses, including stock-based compensation. As of July 31, 2012, we had 771 full-time employees, which represented an increase of 48.3% compared to the same period last year.

### Business Model

Our business model focuses on maximizing the lifetime value of a client relationship. 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. However, we recognize revenue ratably over the entire term of those contracts, which commences only 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, many 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.

### 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.

	<b>Three Months Ended July 31,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(in thousands, except for number of clients and client retention)</b>	
Revenue	\$ 35,662	\$ 22,088
Cash flow from operations	(1,822)	515
Number of active enterprise clients (period end)	1,076	640
Revenue per active enterprise client <sup>(1)</sup>	38.2	36.0
Active client retention rate <sup>(2)</sup>	97.3%	97.6%
Revenue per employee <sup>(3)</sup>	50.5	43.6

(1) Calculated based on the average number of active enterprise clients for the period on a quarterly basis.

(2) Calculation is based on active enterprise client retention over the three month period.

(3) Calculated based on the average number of full time employees for the three month period.

In connection with our acquisition of PowerReviews, which closed in June 2012, we expanded the types of clients that we serve. To reflect differences among our clients and the services that we offer, we now define our clients as active enterprise clients and active network clients, the definitions of which are set forth in this section. In this Quarterly Report on Form 10-Q, historical references to active clients for periods prior to the closing of the acquisition include both active enterprise clients and active network clients on an aggregate basis. As a result of this

## Edgar Filing: Bazaarvoice Inc - Form 10-Q

nomenclature change resulting from our acquisition of PowerReviews, comparisons of active clients and active client retention rates for periods prior to June 2012 and after June 2012 may not be directly comparable as we have not made this distinction retrospectively. This change has a corresponding impact on metrics that are driven by number of clients, such as revenue per active client; however, we believe the change has had an immaterial impact on these metrics.



## **Table of Contents**

### ***Revenue***

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 one year. 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.

### ***Cash Flow from Operations***

Cash flow from operations is the cash that we generate 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 flows from operations to be a key measure of our true operating performance.

### ***Number of Active Enterprise Clients***

We define an active enterprise client as an organization that has implemented either the Conversations platform or the PowerReviews enterprise platform and from which we are currently recognizing revenue, and we count organizations that are closely related as one client, even if they have signed separate contractual agreements. We believe that our ability to increase our enterprise client base is a leading indicator of our ability to grow revenue.

### ***Number of Active Network Clients***

We define an active network client as an organization that has implemented one or more of our solutions but has not implemented either the Conversations or PowerReviews enterprise platforms. Such solutions may include our Connections solutions, media solutions or Express platform. We count organizations that are closely related as one client, even if they have signed separate contractual agreements. We believe that our network client base in combination with our enterprise client base is an indicator of the reach of our network.

### ***Revenue per Active Enterprise Client***

Revenue per active enterprise client is calculated as revenue recognized during the period divided by the average number of active clients for the period. One of our key goals is to provide exceptional client service to drive client lifetime value. Our experience indicates that the better client service we provide, the more likely we are to increase our revenue per active client and retain clients. In addition, we seek to increase revenue per active client by selling our solutions to new brands within existing clients or selling additional solutions to existing clients. Indeed, many of our clients have multiple brands that have deployed our solutions. Increasing revenue per active client coupled with high client retention maximizes lifetime client value and, by extension, the value of our business. Due to the acquisition of PowerReviews, we have expanded our penetration within the small to medium business market segments. This metric may decline as we gain further traction in these market segments.

### ***Active Enterprise Client Retention Rate***

Active enterprise client retention rate is calculated based on the number of active clients at period end that were also active enterprise clients at the start of the period divided by the number of active enterprise clients at the start of the period. As mentioned above, we believe that our ability to retain our active enterprise 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.

### ***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, excluding content moderators. We believe revenue per employee is a leading indicator of our productivity and operating leverage, and we monitor revenue per employee as an indicator of our profitability because a significant portion of our cost of revenue and operating expenses are driven by our number of employees. 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 rapid growth while maintaining a high level of client service. As a result, we expect revenue per employee to decrease in periods of investment when we add employees in advance of anticipated growth, particularly in periods when we are developing new markets or solutions. Our objective is to balance our investments in growth with return on investment over time and to consistently build operating leverage through productivity gains, thus increasing revenue per employee over time.

**Key Components of Our 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. We sell these services under contractual agreements that are generally one year in length. Clients typically commit to fixed rate fees for the service term, payable in advance. Revenue from these agreements is recognized ratably over the period of service and any revenue that does not meet 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

---

## **Table of Contents**

agreements are due in full and non-refundable regardless of the actual use of the service and contain no general rights of return. We have a growing, diverse, global and balanced client base, and no single client accounted for more than 10.0% of our revenue for the three months ended July 31, 2012 and 2011.

### ***Cost of Revenue***

Cost of revenue consists primarily of personnel costs and related expenses associated with employees and contractors who provide our subscription services. This includes the costs of our implementation team, which were \$3.1 million and \$3.0 million, for the three months ended July 31, 2012 and 2011, respectively, along with 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, including depreciation, facility- and office-related expenses. Personnel costs include salaries, benefits, bonuses and stock-based expense. We generally increase our capacity, particularly in the areas of implementation and support, ahead of the growth in revenue we expect those investments to drive, which can result in lower margins in the given investment period.

Cost of revenue also includes hosting costs and the amortization of capitalized internal-use software development costs incurred in connection with our hosted software platforms, which includes the amortization of developed technology acquired from PowerReviews. The amortization expense associated with capitalized internal-use software development costs was \$0.6 million and \$0.2 million for the three months ended July 31, 2012 and 2011, respectively, and has not been material to our cost of revenue. 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. As such, general overhead expenses, including depreciation and facilities costs, are reflected in our cost of revenue.

We intend to continue to invest additional resources in our client services teams and in the capacity of our hosting service infrastructure and, as we continue to invest in technology innovation through our research and development organization, we may also see an increase in the amortization expense associated with capitalized internal-use software development costs incurred in connection with enhancing our software architecture and adding new features and functionality to our platforms. 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 three categories: sales and marketing; research and development; and general and administrative. In each category, our operating expenses consist primarily of personnel costs, marketing program expenses, professional fees and travel-related expenses, as applicable. In addition, 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 each of our operating expense categories. Operating expenses grew from \$19.6 million for the three months ended July 31, 2011 to \$40.9 million for the three months ended July 31, 2012 due primarily to the increase in our number of full-time employees from 520 at July 31, 2011 to 771 at July 31, 2012.

*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. Also included are 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 Social Summits in the United States and Europe, regional user groups, corporate communications, public relations and other brand building and product marketing expenses. We expense sales commissions when a client contract is executed because we believe our obligation to pay a sales commission arises at that time. We plan to continue investing in sales and marketing by increasing the number of direct sales personnel, expanding our domestic and international sales and marketing activities, building brand awareness and sponsoring additional marketing events, which we believe will enable us to add new clients and increase penetration within our existing client base. We expect that, in the future, sales and marketing expenses will increase and continue to be our largest operating cost.

*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, and we anticipate increasing this focus on innovation through technology. 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 therefore expect that, in the future, research and development expenses will increase, as will the amount of development expenses capitalized in connection with our internal-use hosted software platforms.



**Table of Contents**

*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 and other corporate expenses, along with an allocation of our general overhead expenses. We expect to incur incremental costs associated with supporting the growth of our business, both in terms of size and geographical diversity, and 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 and audit fees, insurance costs, board of directors' compensation and the costs of achieving and maintaining compliance with Section 404 of the Sarbanes-Oxley Act. As a result, we expect our general and administrative expenses to increase in absolute dollars in future periods but to decrease as a percentage of revenue over time.

*Acquisition related.* Acquisition related expenses include one-time expenses related to the acquisition of PowerReviews.

*Amortization of acquired intangible assets.* The amortization of acquired intangible assets represents the amortization of acquired customer relationship intangibles from PowerReviews.

**Other Income (Expense)**

Other income (expense) consists primarily of interest income and foreign exchange gains and losses. Interest income represents interest received on our cash and investments. We expect interest income to increase in subsequent periods as we earn interest income from proceeds received from our initial public offering. Foreign exchange gains and losses arise from revaluations of foreign currency denominated monetary assets and liabilities.

**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, as our profits increase both in the United States and in foreign jurisdictions.

**Results of Operations**

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

**Consolidated Statements of Operations Data:**

	<b>Three Months Ended July 31, 2012                      2011</b>	
	<b>(in thousands)</b>	
<b>Revenue</b>	\$ 35,662	\$ 22,088
Cost of revenue <sup>(1)</sup>	12,633	7,797
<b>Gross profit</b>	23,029	14,291
<b>Operating expenses:</b>		
Sales and marketing <sup>(1)</sup>	15,322	11,192
Research and development <sup>(1)</sup>	7,494	3,343
General and administrative <sup>(1)</sup>	16,196	5,099
Acquisition related	1,384	
Amortization of acquired intangible assets	480	
Total operating expenses	40,876	19,634
<b>Operating loss</b>	(17,847)	(5,343)

## Edgar Filing: Bazaarvoice Inc - Form 10-Q

Total other income, net	(404)	(84)
<b>Loss before income taxes</b>	<b>(18,251)</b>	<b>(5,427)</b>
Income tax expense	288	109
<b>Net loss</b>	<b>\$ (18,539)</b>	<b>\$ (5,536)</b>
<b>Other Data:</b>		
Adjusted EBITDA <sup>(2)</sup>	\$ (2,787)	\$ (3,314)

(1) Includes stock-based expense as follows:

Cost of revenue	\$ 294	\$ 323
Sales and marketing	1,825	402
Research and development	642	204
General and administrative	9,577	629
	<b>\$ 12,338</b>	<b>\$ 1,558</b>

(2) We define Adjusted EBITDA as net loss adjusted for stock-based expense, adjusted depreciation and amortization (which excludes amortization of capitalized internal-use software development costs), acquisition related costs, income tax expense and other (income) expense, net. Adjusted EBITDA is a financial measure that is not calculated in accordance with U.S. generally accepted accounting principles, or GAAP.

Adjusted EBITDA should not be considered as an alternative to net loss, operating loss or any other measure of financial performance calculated and presented in accordance with GAAP. 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 reason 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, adjusted depreciation and amortization, 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 results; and

We anticipate that our investor and analyst presentations will include Adjusted EBITDA as a supplemental measure to evaluate our overall operating performance.

## Edgar Filing: Bazaarvoice Inc - Form 10-Q

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:

Adjusted 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, in thousands.

	Three Months Ended July 31,	
	2012	2011
<b>Adjusted EBITDA:</b>		
Net loss	\$ (18,539)	\$ (5,536)
Stock-based expense	12,338	1,558
Adjusted depreciation and amortization	1,338	471
Acquisition related	1,384	
Income tax expense	288	109
Total other expense, net	404	84
Adjusted EBITDA	\$ (2,787)	\$ (3,314)

**Table of Contents**

The following tables set 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:**

	<b>Three Months Ended July 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Revenue</b>	100%	100%
Cost of revenue <sup>(1)</sup>	35%	35%
<b>Gross profit</b>	65%	65%
<b>Operating expenses:</b>		
Sales and marketing <sup>(1)</sup>	43%	51%
Research and development <sup>(1)</sup>	21%	15%
General and administrative <sup>(1)</sup>	45%	23%
Acquisition related	4%	%
Amortization of acquired intangible assets	1%	%
Total operating expenses	115%	89%
<b>Operating loss</b>	(50)%	(24)%
Total other income, net	(1)%	%
<b>Loss before income taxes</b>	(51)%	(24)%
Income tax expense	1%	(1)%
<b>Net loss</b>	(52)%	(25)%
<b>Other Data:</b>		
Adjusted EBITDA <sup>(2)</sup>	(8)%	(15)%

(1) Includes stock-based expense as follows:

Cost of revenue	0.8%	1.5%
Sales and marketing	5.1%	1.8%
Research and development	1.8%	0.9%
General and administrative	26.9%	2.8%
	34.6%	7.1%

(2) We define Adjusted EBITDA as net loss adjusted for stock-based expense, adjusted depreciation and amortization (which excludes amortization of capitalized internal-use software development costs), acquisition related costs, income tax expense and other (income) expense, net. See note (2) on page 17 of this Quarterly Report on Form 10-Q for a reconciliation of net loss to Adjusted EBITDA.



**Table of Contents****Comparison of the Three Months Ended July 31, 2012 and 2011****Revenue**

	Three Months Ended July 31,		%
	2012	2011	
		(dollars in thousands)	Change
	\$ 35,662	\$22,088	61.5%

Our revenue increased by \$13.6 million, or 61.5%, for the three months ended July 31, 2012 compared to the three months ended July 31, 2011. Of this increase, \$8.0 million was generated from 58.5% increase in the number of new clients utilizing our platforms during the period as we continued to increase the market penetration of our solutions, as well as the revenue contribution from our new clients related to our recent acquisition of PowerReviews. The remaining \$5.6 million increase was generated from existing clients, primarily from a combination of strong client retention, which was 89.2% for the twelve months ended July 31, 2012, and from increasing revenue per client (in thousands), which was \$38.2 for the three months ended July 31, 2012 and \$36.0 for the three months ended July 31, 2011.

**Cost of Revenue and Gross Profit Percentage**

	Three Months Ended July 31,		%
	2012	2011	
		(dollars in thousands)	Change
Cost of revenue (1)	\$ 12,633	\$ 7,797	62.0%
Gross profit	23,029	14,291	61.1%
Gross profit percentage	64.6%	64.7%	

(1) Includes amortization of intangibles of \$0.2 million for the three months ended July 31, 2012 and none for the three months ended July 31, 2011.

*Cost of Revenue.* Cost of revenue increased \$4.8 million, or 62.0%, for the three months ended July 31, 2012 compared to the three months ended July 31, 2011. This increase was primarily due to a \$1.8 million increase in costs associated with hosting services, amortization expense associated with capitalized internal-use software development costs and amortization of developed technology acquired from PowerReviews. We also experienced increases of \$1.7 million in personnel-related expenses and a \$0.7 million increase in professional fees as we expanded the capacity of our infrastructure to enhance redundancy in our network.

**Operating Expenses**

	2012		Three Months Ended July 31, 2011		% Change
	Amount	% of Revenue	Amount	% of Revenue	
					(dollars in thousands)
Sales and marketing	\$ 15,322	43.0%	11,192	50.7%	36.9%
Research and development	7,494	21.0	3,343	15.1	124.2
General and administrative	16,196	45.4	5,099	23.1	217.6
Acquisition related	1,384	3.9			n/a
Amortization of acquired intangible assets	480	1.3			n/a
Total operating expenses	\$ 40,876	114.6%	19,634	88.9%	108.2%

## Edgar Filing: Bazaarvoice Inc - Form 10-Q

*Sales and marketing.* Sales and marketing expenses increased \$4.1 million, or 36.9%, for the three months ended July 31, 2012 compared to the three months ended July 31, 2011. This increase was primarily due to an increase in personnel-related expenses of \$3.3 million, which included \$1.2 million of stock-based expense related to the termination of former PowerReviews executives after the acquisition, and our expansion of our sales and marketing teams. We also experienced increases of \$0.5 million in facility-related expenses and \$0.4 million in travel-related expenses.

**Table of Contents**

*Research and development.* Research and development expenses increased \$4.2 million, or 124.2%, for the three months ended July 31, 2012 compared to the three months ended July 31, 2011. This increase was primarily due to an increase in personnel-related expenses of \$3.1 million as we continued to expand our research and development team. We also experienced increases of \$0.4 million in facility-related expenses and \$0.3 million in professional fees.

*General and administrative.* General and administrative expenses increased \$11.1 million, or 217.6%, for the three months ended July 31, 2012 compared to the three months ended July 31, 2011. This increase was primarily due to an increase in personnel-related expenses of \$9.7 million, which included 8.6 million of stock-based expense related to the termination of former PowerReviews executives after the acquisition of PowerReviews. The remaining increase was driven primarily by \$0.7 million of professional fees, particularly in the areas of accounting and audit-related services and a \$0.7 million increase in facilities related expenses.

*Acquisition related and amortization of acquired intangible assets.* The \$1.4 million acquisition related expense and \$0.7 million of amortization of acquired intangible assets related to the acquisition of PowerReviews have been presented separately in our statement of operations for the three months ended July 31, 2012 and also excluded from our calculation of Adjusted EBITDA.

**Other Income (Expense), Net**

	2012		Three Months Ended July 31, 2011		% Change
	Amount	% of Revenue	Amount	% of Revenue	
	(dollars in thousands)				
Interest income	\$ 49	0.1%	7	0.0%	600.0%
Other expense	(453)	(1.2)	(91)	(0.4)	397.8
Total other expense, net	\$ (404)	(1.1)%	(84)	(0.4)%	381.0%

Interest income, which is not material to our operations, increased by a nominal amount during the three months ended July 31, 2012 compared to the three months ended July 31, 2011, as a result of modest returns on the balance of cash proceeds from our IPO in February 2012 and our follow-on offering in July 2012. Other expense increased for the three months ended July 31, 2012 compared to the three months ended July 31, 2011, due to foreign exchange movement on our foreign currency denominated monetary assets.

**Income Tax Expense**

	2012		Three Months Ended July 31, 2011		% Change
	Amount	% of Revenue	Amount	% of Revenue	
	(dollars in thousands)				
Income tax expense	\$ 288	0.8%	109	0.5%	(364.2)%

Income tax expense for the three months ended July 31, 2012, increased compared to the three months ended July 31, 2011, as a result of increased profits from our international subsidiaries and an increase in state taxes.

**Liquidity and Capital Resources**

Our principal source of liquidity at July 31, 2012 consisted of \$143.4 million of cash, cash equivalents and short-term investments. We have also secured a revolving line of credit with a borrowing capacity of up to \$30.0 million. Cash and cash equivalents consist of cash, money market funds and U.S. treasury securities. Our short-term investments consist of certificates of deposit, U.S. treasury securities and corporate securities backed by the U.S. Department of the Treasury.

Our principal needs for liquidity include funding our ongoing operations, working capital requirements, capital expenditures and acquisitions. We believe that our available resources are sufficient to fund our liquidity requirements for at least the next 12 months.



**Table of Contents**

We anticipate making significant investments in growth and initiatives designed to improve our operating efficiency for the foreseeable future, which may impact our ability to generate positive cash flow from operating activities in the near-term. 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 and the timing of introductions of new features and enhancements to our social commerce platforms. To the extent that existing cash 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.

The following table summarizes our cash flows for the periods indicated:

	<b>Three Months Ended July 31,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(in thousands)</b>	
Net cash (used in) provided by operating activities	\$ (1,822)	\$ 515
Net cash used in investing activities	(57,358)	(937)
Net cash provided by financing activities	53,046	1,569

***Net Cash (Used in) Provided by Operating Activities***

Net cash (used in) provided by 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. The amount of cash used in operating activities over the last two years has been relatively small as compared to our net loss for the periods. The offsetting generation of cash has come from changes in our operating assets and liabilities, particularly in the area of deferred revenue.

For the three months ended July 31, 2012, operating activities used \$1.8 million of cash after changes in our operating assets and liabilities offset a net loss of \$18.5 million, which included non-cash depreciation and amortization of \$1.7 million, non-cash stock-based expense of \$12.3 million, non-cash bad debt expense of \$0.2 million and a non-cash benefit related to stock options of \$0.1 million. Accounts payable, accrued expenses and other liabilities increased \$1.2 million and deferred revenue decreased \$0.3 million, partially offset by an increase of \$1.6 million in accounts receivable, prepaid expenses and other assets. The increase in our accounts receivable, accounts payable and accrued expenses and other current liabilities was primarily due to our continued growth during the three months ended July 31, 2012.

For the three months ended July 31, 2011, operating activities provided \$0.5 million of cash after changes in our operating assets and liabilities offset a net loss of \$5.5 million, which included non-cash depreciation and amortization of \$0.7 million, non-cash stock-based expense of \$1.6 million and non-cash bad debt expense of \$0.2 million. Accounts payable and accrued liabilities increased \$2.8 million and deferred revenue increased \$1.5 million, partially offset by an increase of \$0.6 million in accounts receivable, prepaid expenses and other current assets. The increase in our deferred revenue, accounts receivable, accounts payable and accrued expenses and other current liabilities was primarily due to our continued growth during the three months ended July 31, 2011.

***Net Cash Used in Provided by Investing Activities***

For the three months ended July 31, 2012, investing activities used \$57.4 million, which included \$30.2 million, net of cash acquired, used in our acquisition of PowerReviews in June 2012. The remainder of our investing activities were related to the purchase and maturity of short-term investments, purchase of property, plant and equipment, costs capitalized as a result of our internal-use software and an increase in our restricted cash.

For the three months ended July 31, 2011, investing activities used \$0.9 million, primarily related to the purchase of 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 platforms.

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 platforms. We expect to continue to invest in short-term investments, property and equipment and developing our software platforms for the foreseeable future.

***Net Cash Provided by Financing Activities***

## Edgar Filing: Bazaarvoice Inc - Form 10-Q

Our financing activities have consisted primarily of net proceeds from the issuance of common and preferred stock and proceeds from the exercises of options to purchase common stock.

For the three months ended July 31, 2012, financing activities provided \$53.0 million, which included \$52.2 million of net proceeds from our follow-on offering in July 2012 and \$0.8 million of proceeds from the exercise of options to purchase shares of our common stock.

**Table of Contents**

On July 23, 2012, we completed a follow-on offering of 9,775,000 shares of our common stock, of which 3,625,000 shares were offered by us and 6,150,000 shares were offered by selling stockholders, with a price to the public of \$15.40 per share. This offering was effected pursuant to a Registration Statement on Form S-1 (File No. 333-182382), which the SEC declared effective on July 17, 2012. The gross proceeds raised by us from the sale of our common stock in the offering were approximately \$55.8 million, resulting in net proceeds from the sale of our common stock of approximately \$51.9 million, after deducting underwriting discounts and commissions of approximately \$2.7 million and other offering expenses of approximately \$1.2 million. No payments were made by us to directors, officers or persons owning ten percent or more of our common stock or to their associates, or to our affiliates, other than payments in the ordinary course of business to officers for salaries, or as a result of sales of shares of common stock by selling stockholders in the offering.

For the three months ended July 31, 2011, financing activities provided \$1.6 million due to the exercise of options to purchase shares of our common stock.

**Contractual Obligations and Commitments**

We have non-cancelable operating lease obligations related to our office space, the largest of which is for our headquarters in Austin, Texas. We do not have any debt or material capital lease obligations and all of our property, equipment and software has been purchased with cash. We have no material purchase obligations outstanding with any vendors or third parties.

The following table summarizes our future minimum payments under non-cancelable operating leases as of July 31, 2012:

	Payments Due by Period (in thousands)				More Than 5 Years
	Total	Less Than 1 Year	1-3 Years	3-5 Years	
Operating lease obligations	\$ 10,032	\$ 3,260	\$ 5,757	\$ 1,015	\$

The contractual commitment amounts in the table above are associated with agreements that are enforceable and legally binding. Obligations under contracts that we can cancel without cause and without a material penalty are not included in the table above.

On July 18, 2007, we entered into a loan and security agreement, or the Loan Agreement, with a financial institution under which we secured a revolving line of credit with a borrowing capacity of up to \$2.0 million and a \$0.3 million equipment loan facility, which terminated by its maturity on January 18, 2011. On November 30, 2008, we entered into an amendment to the Loan Agreement, increasing the borrowing capacity of the revolving line of credit to \$7.0 million and creating a credit card services subfacility of up to \$0.2 million. On July 20, 2009, we entered into a second amendment that created a letter of credit subfacility of up to \$0.9 million and on January 22, 2010, we entered into a third amendment, increasing the letter of credit sublimit to \$1.0 million to increase the face amount of the letter of credit in connection with our expanded leased office space in Austin, Texas. On September 27, 2010, we entered into a fourth amendment to the Loan Agreement increasing the borrowing capacity of the revolving line of credit to \$10.0 million with an option to increase the line to \$15.0 million and the combined letter of credit and credit card services subfacility to \$2.7 million. On May 12, 2011, we increased the face amount of the standby letter of credit by \$0.8 million in favor of the landlord of our headquarters in Austin, Texas. On January 31, 2012, we entered into a fifth amendment to the Loan Agreement increasing the borrowing capacity of the revolving line of credit to \$30.0 million. On February 28, 2012, we increased the face amount of the standby letter of credit by another \$0.5 million in favor of the landlord of our headquarters in Austin, Texas.

As of July 31, 2012, there were no loans outstanding under our revolving line of credit other than a \$2.3 million letter of credit issued by the financial institution in favor of the landlord of the leased office space, which is serving as our headquarters in Austin, Texas. Borrowings under the revolving line of credit are collateralized by substantially all of our assets and bear interest at a floating interest rate equal to the prime rate (or the financial institution's daily adjusting LIBOR rate plus 2.5% if greater), which is payable monthly. The revolving line of credit expires and all interest and principal thereunder is payable in full on January 31, 2015.

The Loan Agreement contains certain restrictive covenants that limit our ability and our subsidiaries' abilities to, among other things, incur additional indebtedness or guarantee indebtedness of others; make payments on additional indebtedness or make changes to certain agreements related to additional indebtedness; enter into hedging arrangements; create liens on our assets; make loans and investments; make capital expenditures; dispose of assets; store inventory and equipment with others; pay dividends or make distributions on, or purchase or redeem, our capital stock; enter into mergers or consolidations with or into other entities; undergo a change of control; engage in different lines of business; or enter into transactions with affiliates. The Loan Agreement also contains numerous affirmative covenants, including covenants regarding, among other things, compliance with applicable laws and regulations, reporting, payment of taxes and other obligations, maintenance of

## Edgar Filing: Bazaarvoice Inc - Form 10-Q

insurance coverage, maintenance of bank and investment accounts with the financial institution and its affiliates, registration of intellectual property rights, and obtaining certain third-party consents and waivers. As of July 31, 2012, we were in compliance with the terms of these covenants.



## **Table of Contents**

On November 4, 2008, we entered into a pledge and security agreement with a financial institution for a standby letter of credit for credit card services from a separate financial institution for an amount not to exceed \$0.1 million. We pledged a security interest in our money market account, in which the balance must equal at least the credit extended. On March 17, 2010, the standby letter of credit for credit card services was increased to \$0.3 million. On May 18, 2011, the standby letter of credit for credit card services was increased to \$0.5 million. This letter of credit expires annually and the pledged security interest is recorded as short-term restricted cash in our financial statements.

On July 23, 2012, we assumed an agreement from PowerReviews to maintain cash balances at Silicon Valley Bank of no less than \$0.1 million through June 15, 2015 as a security deposit for subleasing office space in San Francisco, CA. The restricted cash balance is included in restricted cash in our financial statements.

## **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 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 condensed consolidated financial statements in our 2012 Annual Report on Form 10-K describe the significant accounting estimates and policies used in preparation of the condensed consolidated financial statements. Actual results in these areas could differ from management's estimates. During the three months ended July 31, 2012, there were no significant changes in our critical accounting policies or estimates from those reported in our 2012 Annual Report on Form 10-K, which was filed with the SEC on June 11, 2012.

## **New Accounting Pronouncements**

See Note 2 of the notes to the condensed consolidated financial statements in this Quarterly Report on Form 10-Q for a discussion of new accounting pronouncements.

## **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 will be 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. Our historical 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 the U.S. dollar. Our expenses are generally denominated in the currencies of the countries in which our operations are located, with our most significant operations today being 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, fair values and cash flows 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

## Edgar Filing: Bazaarvoice Inc - Form 10-Q

liabilities, principally accounts receivable and intercompany balances, as of July 31, 2012, would be a loss of approximately \$0.7 million.

---

## **Table of Contents**

We do not currently enter into forward exchange contracts to hedge exposure to these foreign currencies nor do we enter into any derivative financial instruments for trading or speculative purposes; however we may do so in the future if we consider this exposure to be material. Thus, fluctuations in currency exchange rates could harm our business 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 harm our business, financial condition and results of operations.

## **Item 4. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Management, with the participation of our chief executive officer and our chief financial officer and review of our Audit Committee, evaluated the effectiveness of our disclosure controls and procedures as of July 31, 2012. 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 the evaluation of our disclosure controls and procedures as of July 31, 2012, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

### **Changes in Internal Control Over Financial Reporting**

There were no changes 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 quarter ended July 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **Item 1. Legal Proceedings**

From time to time, we are subject to legal proceedings and litigation arising in the ordinary course of business, including, but not limited to, certain pending patent and privacy matters, including inquiries, investigations, audits and other regulatory proceedings, such as the investigation described below. We believe that there are no claims or actions pending or threatened against us, the ultimate disposition of which would have a material adverse effect on us.

After the completion of our acquisition of PowerReviews, the Department of Justice, Antitrust Division, or DOJ, notified us that it has opened a preliminary investigation to determine whether the acquisition violated Section 7 of the Clayton Act, 15 U.S.C. Section 18. We subsequently received a Civil Investigative Demand, or CID, from the DOJ pursuant to the Antitrust Civil Process Act of 1976. The CID seeks documentary materials and information regarding our acquisition of PowerReviews. We are in the process of responding to the CID and intend to cooperate fully. Because the investigation is in an early stage, it is not possible to reliably predict the outcome of the investigation. Therefore, we cannot currently estimate the loss, if any, associated with the investigation.

### **Item 1A. Risk Factors**

#### **Risks Related to Our Business**

***We are an early stage company with a limited operating history, which makes it difficult to evaluate our current business and future prospects and may increase the risk of your investment.***

We began our operations in May 2005. Our limited operating history 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 enhance our software architecture to allow us to efficiently and cost effectively develop and implement new solutions, make our solutions easy to implement and download, ensure 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 an early-stage company.

***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 a net loss of \$24.3 million and \$20.1 million during fiscal year 2012 and 2011, respectively. At July 31, 2012, we had an accumulated deficit of \$83.7 million.

---

## **Table of Contents**

The losses and accumulated deficit were due to the substantial investments we made to grow our business and acquire clients. Expenses associated with the purchase of PowerReviews, and integration of its customers, employees and operations 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 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. 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.

***We operate in a new and unproven market for social commerce solutions. Our success depends upon the continued development of this market, and if the market does not develop as we expect, our business could be harmed.***

We are focused on the market for social commerce solutions, which is new and unproven with little market research or data. It is uncertain whether the market in which we operate will continue to develop or if our solutions will achieve and sustain a level of demand and market acceptance sufficient for us to continue to generate revenue and achieve profitability. Due to our evolving business model, the uncertain size of our market and the unpredictability of future general economic and financial market conditions, we may not be able to forecast our growth rate accurately.

In particular, we believe our success will depend to a large extent on the willingness of brands to use online word of mouth in their marketing and advertising materials. Many of our potential clients remain hesitant to embrace our solutions, such as Ratings & Reviews, since they are uncomfortable displaying negative reviews about products or services offered on their websites. In addition, many brands may continue to devote significant portions of their marketing and advertising budgets to traditional, offline media or other types of online marketing or advertising initiatives that do not use online word of mouth. Some brands may be open to the idea of making online word of mouth available to consumers and yet may be unwilling or unable to implement third-party SaaS solutions similar to ours. We believe that the continued growth and acceptance of our solutions will depend on the perceived authenticity of online word of mouth and effectiveness of using online word of mouth to influence purchase decisions, both online and offline, and better understand consumer preferences regarding products and services. The existence of fraudulent reviews may call into question the authenticity of online word of mouth. We also depend on the continued growth of the social web and adoption of mobile devices, among other factors. If any of these factors are not realized, then the market for social commerce solutions may not develop as we expect, or it may develop more slowly than we expect, either of which would significantly harm our business and operating results.

***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 at an early stage of development, rapidly evolving, fragmented and subject to potential disruption by new technological innovations.

Our main competition is from 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. These businesses may consider their internal solutions adequate, even if our solutions are superior.

We have several direct and indirect competitors that provide third-party social commerce solutions, including companies like Reviewworld Ltd. 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 may also face competition from companies entering our market, including large Internet companies like Google, Inc. and Facebook, Inc., which could expand their platforms or acquire a competitor. While these companies do not currently focus on our market, they have significantly greater financial resources and, in the case of 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.



## Table of Contents

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 may adopt certain aspects of our business model, which could reduce our ability to differentiate our solutions. As market dynamics change, or as new and existing competitors introduce more competitive pricing 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 same pricing model as previously used. 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.

***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:

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 clients;

our ability to sell additional 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, economic conditions and other factors affecting our sales in each of these regions;

our ability, and the ability of our clients, to timely implement our solutions;

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;

the cyclical and discretionary nature of marketing spending, especially spending on social commerce solutions;

the amount and timing of operating expenses and capital expenditures related to the expansion of our operations and infrastructure and client acquisition;

our failure to achieve the growth rate that was anticipated by us in setting our operating and capital expense budgets;

active client retention rates, which have ranged on a year-to-year basis from 88.4% to 89.0% for the fiscal years 2010 through 2012;

## Edgar Filing: Bazaarvoice Inc - Form 10-Q

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 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, including in connection with our acquisition of PowerReviews;

unforeseen litigation costs and related settlement costs, particularly those related to intellectual property infringement and our obligation to fulfill related client indemnification obligations;

changes in currency exchange rates and associated costs of hedging to manage foreign currency fluctuations; 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 or using the Internet as a medium for communications and commerce.

We offer our solutions primarily through subscription agreements and generally recognize revenue ratably over the related subscription period, which is typically one year. As a result, revenue attributable to a contract signed in a particular quarter will not be fully and immediately recognized in the quarter that 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 that 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.



---

**Table of Contents**

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 business depends substantially on renewing agreements with existing clients and selling additional solutions to them. 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.***

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 our solutions primarily through subscription agreements and generally recognize revenue ratably over the related subscription period, which is typically one year. 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. 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. If our 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.

For fiscal years 2010, 2011 and 2012, our active client retention rates on a year-to-year basis were 88.4%, 89.7%, and 89.0%, respectively. Our retention rates have declined in the past and 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 new clients the value of our solutions within the initial contract term, 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;

the timing and quality of ratings and reviews posted to our clients' websites and the existence of negative reviews;

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, 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 will be harmed.

## Edgar Filing: Bazaarvoice Inc - Form 10-Q

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 face risks associated with our recent acquisition of PowerReviews that may adversely impact our operating results.***

In June 2012, we acquired PowerReviews, a provider of social commerce solutions based in San Francisco, California. This was our first acquisition. We may not successfully evaluate, utilize or integrate the acquired products, technologies or personnel, or accurately forecast the financial impact of the acquisition, including accounting charges or the impact on our existing business. For example, customers of Bazaarvoice and PowerReviews may not continue to use Bazaarvoice or PowerReviews to the same extent as they would have if PowerReviews had remained an independent company, or they may cancel existing agreement. Accordingly, we may not realize the potential benefits of the acquisition. In addition to these risks, the integration of PowerReviews into our company will be a time-consuming and expensive process and will require us to bear ongoing costs associated with maintaining and supporting the existing PowerReviews technology platforms. We may lose key PowerReviews employees as a result of the acquisition, which would increase our costs and challenges in supporting the acquired technology. If our integration effort is not successful, if we do not estimate associated costs accurately or if we cannot effectively manage costs, we may not realize anticipated synergies or other benefits of the PowerReviews acquisition, or it may take longer to realize these benefits than we currently expect, either of which could materially harm our business or results of operations.

After the completion of our acquisition of PowerReviews, the Department of Justice, Antitrust Division, or DOJ, notified us that it has opened a preliminary investigation to determine whether the acquisition violated Section 7 of the Clayton Act, 15 U.S.C. Section 18. We subsequently received a Civil Investigative Demand, or CID, from the DOJ pursuant to the Antitrust Civil Process Act of 1976. The CID seeks documentary materials and information regarding our acquisition of PowerReviews. We are in the process of responding to the CID and intend to cooperate fully. The DOJ's investigation could be lengthy, and we may be required to produce documents and data and offer to the DOJ other written and oral testimony, including such materials and information as requested in the CID, which could result in material legal fees and associated costs and require considerable time and attention of our management. Further, if the DOJ determines our acquisition of PowerReviews violates the Section 7 of the Clayton Act, we could be required to divest part, or all, of PowerReviews operations and assets. As a result, this investigation could have a material adverse effect on our operating results and could materially impact our business strategy going forward.

---

## **Table of Contents**

***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.

***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. 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. We do not control our clients' implementation schedule. 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. 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 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.

***Our management team has a limited history of working together and may not be able to execute our business plan.***

Our management team has worked together for only a limited period of time and has a limited track record of executing our business plan as a team. Most of our executives, including our Chief Executive Officer, have limited or no experience in managing publicly traded companies or companies of our size. In addition, we have recently filled a number of positions in our senior management and finance and accounting staff. 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.

***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 rapid growth, which has increased the complexity of our operations. As our operations have expanded, we have grown from 70 employees at April 30, 2007 to 993 employees at July 31, 2012, consisting of 771 full-time employees and 222 part-time content moderators. We have increased the size of our client base from 32 active clients at April 30, 2007 to 1,076 active enterprise clients at July 31, 2012. In addition, as a result of our acquisition of PowerReviews, we added approximately 300 active enterprise clients, approximately 800 active network clients and 81 additional employees to our business as of June 12, 2012, which was the date of this acquisition. 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.

***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 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

## Edgar Filing: Bazaarvoice Inc - Form 10-Q

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.

---

## **Table of Contents**

***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 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.

***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 in anticipation of the introduction of new solutions or technologies. In addition, because the market for our social commerce solutions is new and unproven and because our business model 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 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. Our business plan was developed in large part by our executive officers, and its implementation requires their skills and knowledge. 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. Further, we are conducting a search for a senior executive to join our management team as president to help us scale our operations. Competition for qualified employees is intense in our industry and particularly in Austin, Texas, where most of our employees are based. The loss of even a few qualified employees, or an inability to retain, attract, relocate and motivate additional highly skilled employees required for the 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. In addition, in making employment decisions, particularly in the software 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.

***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 recently undertaken a plan 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 have hired new sales leaders, have terminated under-performing sales personnel and have otherwise engaged in a restructuring of our sales organization in order to scale our sales operations to grow our revenue. This restructuring may be disruptive to our sales process and may not have the desired effect of expanding our business and generating anticipated revenue. Additionally, we have hired a number of new sales personnel to replace terminated personnel and to grow our sales team in both existing and new markets. These efforts may initially be disruptive to our sales process.

Our sales force upgrade and expansion may not have the desired effect of expanding our business and generating anticipated revenue. 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

## Edgar Filing: Bazaarvoice Inc - Form 10-Q

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.

***If we are not able to successfully leverage data we and our clients collect and manage through our solutions, we may not be able to increase our revenue through our analytics and other data solutions.***

Our ability 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. Our ability to successfully leverage such data, in turn,

---

## **Table of Contents**

depends on our ability to collect and obtain rights to utilize such data in our solutions 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, and we may implement them more broadly 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. If we are unable to effectively 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 of the collection of information concerning consumer behavior on the Internet and the increased use of features that allow website visitors to modify their settings 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 but currently license the data from our clients for limited aggregation purposes. If we are not able to obtain sufficient rights to the data, we may not be able to utilize it in our solutions. 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 analytics and other data solutions and could harm our future operating results.

***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 today. If we are unable to continue developing enhanced features for this solution to maintain demand or to diversify our revenue base by increasing demand for our other solutions and successfully developing and introducing new solutions either by internal development or acquisition, our operating results could be negatively impacted. We are currently modifying our software architecture to be able to develop and implement new solutions more efficiently and cost effectively. We are also 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 or upgraded architecture 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.

***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, Australia, France, Germany and Sweden. We have limited experience in operating in foreign jurisdictions outside the United States 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. Shopzilla, Inc., or Shopzilla, has the exclusive right to provide the PowerReviews services to customers in the European Union, Switzerland and Norway and has an option to purchase a perpetual license to use the PowerReviews technology, which perpetual license would permit Shopzilla to use the PowerReviews technology to compete with us in the European Union, Switzerland and Norway. 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;

## Edgar Filing: Bazaarvoice Inc - Form 10-Q

legal uncertainty regarding the application of unique local laws to social commerce solutions or a lack of clear precedent of applicable law;

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 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;

increased financial accounting and reporting burdens and complexities and difficulties in implementing and maintaining adequate internal controls;

political, social and economic instability abroad, terrorist attacks and security concerns in general;



---

**Table of Contents**

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.

***Unfavorable conditions in the market for social commerce solutions or the global economy or reductions in marketing spending, particularly in the online retail market, 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 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. As of July 31, 2012, a majority of our clients were online retailers. To the extent that weak economic conditions cause our clients and potential clients to freeze or reduce their marketing budgets, particularly in the online retail market, 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 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.

***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, healthcare 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 have unique and complex regulatory requirements that may make it more difficult or costly for us to market, sell or implement 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.

***Our growth depends in part on the success of our development and implementation support relationships with third parties.***

We currently depend on, and intend to pursue additional relationships with, various third parties related to product development, including technology and service providers and social media 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 Costa Rica. 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 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.

Additionally, our Applications for Facebook integrates certain of our solutions directly with Facebook's social media platform. We currently rely on Facebook's cooperation in order to integrate our solutions with Facebook's platform, and we do not have a formal, written agreement with Facebook. There is no assurance that Facebook will continue to cooperate with us. Changes in Facebook's technology or terms of use may inhibit or restrict us from continuing to integrate our solutions with Facebook's platform. If Facebook does not continue to cooperate with us or if Facebook changes their technology or terms of use in ways that inhibit, restrict or increase the costs of the integration of our solutions with Facebook, our business could be harmed.



---

## **Table of Contents**

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, 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 a third-party data center facility located in Texas. 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, 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 or denial-of-service or other attacks on their systems, or due to power loss, telecommunications failures, fires, floods, earthquakes, hurricanes, tornadoes or similar events, 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.

***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 and 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 or legislation or new interpretations of existing regulations or legislation restricting Internet commerce or communications or imposing greater fees for Internet use 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 or legislation or new interpretations of existing regulations or legislation, 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.

***Public scrutiny of Internet privacy issues may result in increased regulation and different industry standards, which could require us to incur significant expenses in order to comply with such regulations or deter or prevent us from providing our products and solutions to clients, thereby harming our business.***

## Edgar Filing: Bazaarvoice Inc - Form 10-Q

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 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

**Table of Contents**

increased public scrutiny. The U.S. government, including the White House, the Federal Trade Commission and the Department of Commerce, are reviewing the need for greater regulation for the collection of information concerning consumer behavior on the Internet, including regulation aimed at restricting certain targeted advertising practices. The White House recently published a report calling for a consumer privacy Bill of Rights that could impact the collection of data on the Internet. Recently, the State of California and several other states have adopted privacy guidelines with respect to mobile applications. We will also face additional privacy issues as we expand into other international markets, as many nations have privacy protections more stringent than those in the United States. For example, the European Union is in the process of proposing reforms to its existing data protection legal framework, which may result in a greater compliance burden for companies with users in Europe. Various government and consumer agencies have also called for new regulation and changes in industry practices.

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, the design of our solutions or our privacy policy.

***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, as a result, 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. 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 also 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

## Edgar Filing: Bazaarvoice Inc - Form 10-Q

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

---

## **Table of Contents**

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.

As of July 31, 2012, we had four issued U.S. patents, 15 pending U.S. non-provisional patent applications and five pending U.S. provisional patent applications. We cannot be certain that any additional patents will be issued with respect to our current or potential 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 that is enabled by our solutions. 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. 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 the nature and 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 or moderated by us and 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 enable. Should the content enabled by our solutions violate the intellectual property rights of others or otherwise 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.

***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.

***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. Despite testing, our solutions, or third-party products that we incorporate into our solutions, may contain undetected errors, defects or viruses that could, among other things:

require us to make extensive changes to our solutions, which would increase our expenses;

## Edgar Filing: Bazaarvoice Inc - Form 10-Q

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.



**Table of Contents**

*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. For example, in July 2012, we completed a follow-on offering in which we sold and issued a total of approximately 3.6 million shares of our common stock. 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 July 18, 2007, we entered into a loan and security agreement with a financial institution. As amended to date, the loan agreement provides for borrowings up to \$30.0 million, subject to a borrowing formula, under a revolving line of credit, with a sublimit of \$2.65 million for the issuance of corporate credit cards and letters of credit on our behalf. As of July 31, 2012, we had no borrowings and a \$2.3 million standby letter of credit issued under our loan agreement. 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, or 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.

***If Internet search engines methodologies are modified, our SEO capability could be harmed.***

In connection with search engine optimization, or SEO, capabilities that we provide our clients, including our SEO solution, we 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

---

**Table of Contents**

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. 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.

***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. However, we have no intention of succumbing to this pressure, which could make it even more difficult to attract necessary personnel.

***Our revenue may be adversely affected if we are required to charge sales taxes in additional jurisdictions or other taxes 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.

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

In addition to our acquisition of PowerReviews in June 2012, we may support our growth through acquisitions of additional complementary businesses, services or technologies in the future. 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 customers 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 have incurred substantial expenses and devoted 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, including some or substantially all of the proceeds from our initial public offering, 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.

***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, 2012, we had federal net operating loss carry-forwards of \$49.1 million due to prior period losses, which expire beginning in 2026. We also have federal research tax credit carry-forwards of approximately \$1.4 million that will begin to expire in 2026. 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

**Table of Contents**

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 United States federal and state taxable income may be subject to limitations.

***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. Even if we were 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 we experience material weaknesses in the future, as we have in the past, or otherwise fail to maintain an effective system of internal controls in the future, we may not be able to accurately report our financial condition or results of operations which may adversely affect investor confidence in us and, as a result, the value of our common stock.***

As a public company, we are required, under Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting beginning with the filing of our Annual Report on Form 10-K for fiscal year 2013. This assessment will need to 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 will be 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 later of the year following our first annual report required to be filed with the SEC, or the date we are no longer an emerging growth company as defined in the recently enacted Jumpstart Our Business Startups Act of 2012, or the JOBS Act, if we take advantage of the exemptions contained in the JOBS Act. We may remain an emerging growth company for up to five years from the date of our initial public offering, which was February 23, 2012, although if the market value of our common stock that is held by non-affiliates exceeds \$700 million as of any October 31 before that time, we would cease to be an emerging growth company at the end of that fiscal year.

We are further enhancing the computer systems processes and related documentation necessary to perform the evaluation needed to comply with Section 404. We may not be able to complete our evaluation, testing and any required remediation in a timely fashion. 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 would likely cause the price of our common stock to decline.

We have in the past identified a material weakness in our internal control over financial reporting, and although we have remediated the material weakness identified, we cannot assure you that there will not be material weaknesses in our internal controls in the future. Prior to fiscal year 2010, our independent accounting firm was not registered by the Public Company Accounting Oversight Board, or PCAOB. In fiscal year 2010, we appointed a PCAOB registered independent accounting firm. In connection with our fiscal year 2008 and fiscal year 2009 audits following this appointment, we and our independent registered public accounting firm identified one material weakness in our internal control over financial reporting. For fiscal year 2008 and fiscal year 2009, we did not maintain a sufficient complement of personnel with an appropriate level of accounting knowledge, experience and training in the application of generally accepted accounting principles commensurate with our financial reporting requirements. Specifically, we lacked sufficient finance and accounting staff with adequate depth and skill in the application of generally accepted accounting principles with respect to the accounting for revenue recognition and internal-use software. This control deficiency resulted in material errors, requiring the restatement of our financial results for our fiscal years ended April 30, 2008 and 2009.

Since the periods with respect to which this material weakness was identified, we have taken steps to address the material weakness disclosed in the preceding paragraph, including hiring a new chief financial officer, corporate controller and other appropriately qualified accounting personnel, forming an audit committee and implementing additional financial accounting controls and procedures. As a result of these actions, we believe that this material weakness has been remediated and our consolidated financial



---

**Table of Contents**

statements and related notes included elsewhere reflect the correct application of accounting guidance in accordance with GAAP. However, we have not completed the necessary documentation and testing procedures under Section 404 of the Sarbanes-Oxley Act and cannot assure you that we will be able to implement and maintain an effective internal control over financial reporting in the future. Any failure to maintain such controls could severely inhibit our ability to accurately report our financial condition or results of operations.

***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 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.

***The concentration of our capital stock ownership with insiders will likely limit your ability to influence corporate matters.***

Our executive officers, directors, beneficial owners of 5.0% or more of our outstanding shares of common stock and affiliated entities together beneficially owned approximately 41.8% of our common stock outstanding as of July 31, 2012. As a result, these stockholders, acting together, may be able to control our management and affairs and matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as mergers, consolidations or the sale of substantially all of our assets. Consequently, this concentration of ownership could limit your ability to influence corporate matters and may have the effect of delaying or preventing a change of control, including a merger, consolidation or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, even if such a change of control would benefit our other stockholders. This significant concentration of share ownership may adversely affect the trading price for our common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders.

***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 68,779,568 outstanding shares of common stock as of July 31, 2012. All 10,906,941 shares of common stock sold in our initial public offering and all 9,775,000 shares of common stock sold in our follow-on public offering are freely tradeable without restrictions, unless these shares are held by affiliates, as that term is defined in Rule 144 under the Securities Act. In addition, after giving effect to the release of the underwriters lock-up from our initial public offering, which occurred on August 22, 2012, approximately 15 million additional shares became eligible for sale, subject in some cases to volume and other restrictions under Rule 144 and Rule 701 under the Securities Act. The remaining shares of common stock outstanding as of July 31, 2012 are restricted as a result of securities laws, lock-up agreements or other contractual restrictions. The underwriters of our follow-on offering may, in their sole discretion and without notice, release all or any portion of the shares from the restrictions of the lock-up agreements executed in connection with such offering. In addition, these lock-up agreements are subject to the exceptions described in the section of our initial public offering prospectus titled "Underwriters."

All shares issued in connection with our acquisition of PowerReviews are subject to a lock-up agreement with us, which expires approximately 180 days following the closing of our acquisition of PowerReviews, which will be December 10, 2012.

In addition, General Atlantic Partners 90, L.P., GAP Coinvestments III, LLC, GAP Coinvestments IV, LLC, GAP Coinvestments CDA, L.P. and GAPCO GmbH & Co. KG, or collectively the GA Stockholders, have also agreed with us, subject to limited exceptions, not to sell or

## Edgar Filing: Bazaarvoice Inc - Form 10-Q

otherwise dispose of any shares of our common stock without our prior written consent for a period of 18 months after the date of our initial public offering. These shares are expected to be released from this lock-up on August 29, 2013.

After the expiration of the applicable lock-up periods, the holders of certain shares of our common stock will 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.

Some of our employees, including all of our named executive officers, have entered into 10b5-1 trading plans regarding sales of shares of our common stock. These plans provide for sales to occur from time to time after the expiration of the applicable lock-up periods. Sales of shares under those plans by our named executive officers, as well as any other employee who has entered into a 10b5-1 trading plan who participated as a selling stockholder in the follow-on offering, will not be made during the 90-day lock-up period related to our follow-on public offering, which period may be extended under certain conditions and is anticipated to expire on October 16, 2012.

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, manner of sale, notice and public information requirements applicable to our affiliates and, as applicable, the lock-up agreements signed in connection with our initial public offering.

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.



---

## **Table of Contents**

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

We do not anticipate paying any cash dividends on 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.

***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.***

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 that are applicable to other public companies that are not emerging growth companies, 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 revenues 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. We will be deemed a large accelerated filer on the first day of the fiscal year after the market value of our common equity held by non-affiliates exceeds \$700 million, measured on October 31. 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.

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. An emerging growth company can therefore delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. However, we are choosing 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.

***We have incurred and will continue to incur increased costs and demands upon management as a result of complying with the laws and regulations affecting public companies, which could adversely affect our operating results.***

As a public company, we have incurred and will continue to incur significant legal, accounting and other expenses that we did not incur as a private company, and 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. The Sarbanes-Oxley Act of 2002 and the Dodd-Frank Act of 2010, as well as rules subsequently implemented by the Securities and Exchange Commission 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. 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 Securities and Exchange Commission and The NASDAQ Stock Market LLC, or other regulatory authorities, which would require additional financial and management resources.

***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 amended and restated certificate of incorporation and our amended and restated 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:

creating 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 amended and restated certificate of incorporation and our amended and restated 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**

### **Unregistered Sale of Equity Securities**

In connection with our acquisition of PowerReviews, we agreed to issue up to an aggregate of 6,380,538 shares of our common stock as a portion of the acquisition consideration. The final number of shares of our common stock to be issued in connection with the acquisition is subject to adjustment based on (i) potential downward purchase price adjustment provisions and (ii) indemnification obligations of the former PowerReviews equityholders after the closing of the acquisition.

The issuance of shares of our common stock in connection with the acquisition was in reliance on the private offering exemption of Section 4(2) of the Securities Act and/or the private offering safe harbor provision of Rule 506 of Regulation D promulgated thereunder based on the following factors: (i) the number of offerees or purchasers, as applicable; (ii) the absence of general solicitation; (iii) representations obtained from the PowerReviews equityholders with respect to their status as accredited investors; (iv) the provision of appropriate disclosure; and (v) the placement of restrictive legends on the book entry entitlements reflecting the securities coupled with investment representations obtained from the former PowerReviews equityholders being issued shares of our common stock.

### **Use of Proceeds from Public Offering of Common Stock**

On February 29, 2012, we completed our initial public offering of 10,906,941 shares of our common stock, of which 10,422,645 shares were offered by us and 484,296 shares were offered by selling stockholders at a price to the public of \$12.00 per share. The aggregate offering price for shares sold in the offering was approximately \$130.9 million. This offering was effected on February 23, 2012 pursuant to a registration statement on Form S-1 (File No. 333-176506), which the SEC declared effective on such date. Morgan Stanley & Co. LLC, Deutsche Bank Securities Inc. and Credit Suisse Securities (USA) LLC acted as representatives of the underwriters in the offering. The gross proceeds that we raised from the sale of our common stock in the offering was approximately \$125.1 million, resulting in net proceeds from the sale of our common stock of approximately \$112.8 million, after deducting underwriting discounts and commissions of approximately \$8.8 million and other offering expenses of approximately \$3.5 million. No payments were made by us to directors, officers or persons owning ten percent or more of our common stock or to their associates, or to our affiliates, other than payments in the ordinary course of business to officers for salaries, or as a result of sales of shares of common stock by selling stockholders in the offering.

On July 23, 2012, we completed our follow-on offering of 9,775,000 shares of our common stock at a price to the public of \$15.40 per share. The aggregate offering price for shares sold in the offering was approximately \$150.5 million. This offering was effected on July 17, 2012 pursuant to a registration statement on Form S-1 (File No. 333-182382), which the SEC declared effective on such date. Morgan Stanley & Co. LLC, Deutsche Bank Securities Inc. and Credit Suisse Securities (USA) LLC acted as representatives of the underwriters in the offering. The gross proceeds that we raised from the sale of our common stock in the offering was approximately \$55.8 million, resulting in net proceeds from the sale of our common stock of approximately \$51.9 million, after deducting underwriting discounts and commissions of approximately \$2.7 million and other offering expenses of approximately \$1.2 million. No payments were made by us to directors, officers or persons owning ten percent or more of our common stock or to their associates, or to our affiliates, other than payments in the ordinary course of business to officers for salaries, or as a result of sales of shares of common stock by selling stockholders in the offering.

The proceeds from our initial public offering and our follow-on offering have been used for working capital and general corporate purposes. We initially invested our net proceeds from our initial public offering in U.S. government-guaranteed short-term investments and, in connection with our acquisition of PowerReviews, we used approximately \$30.9 million in cash in our first fiscal quarter of 2013. We have broad discretion over the uses of the net proceeds. Pending other uses, we plan to invest the remaining net proceeds from our initial public offering and follow-on offering in short-term, interest-bearing obligations, investment-grade instruments, certificates of deposit or direct or guaranteed obligations of

## Edgar Filing: Bazaarvoice Inc - Form 10-Q

the U.S. government. There have been no material differences between the actual use of proceeds and intended use of proceeds as originally described in our initial public offering or follow-on offering.

### **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.

**Table of Contents**

**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.

Dated: September 7, 2012

BAZAARVOICE, INC.

/s/ Brett Hurt  
Brett Hurt  
Director, Founder, Chief Executive Officer and President  
(Principal Executive Officer)

/s/ Stephen Collins  
Stephen Collins  
Chief Financial Officer and Chief Innovation Officer  
(Principal Financial Officer and Principal Accounting Officer)

**Table of Contents****EXHIBIT INDEX**

Exhibit Number	Exhibit Description	Form	Incorporated by Reference		
			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
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*	Certifications 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*	Certifications 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.

In accordance with Rule 406T of Regulation S-T, the information in these exhibits is furnished and deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Exchange Act of 1934, and otherwise is not subject to liability under these sections.