Bazaarvoice Inc
Form 10-Q
December 05, 2014
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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 October 31, 2014

OR

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

For the transition period from __________ to __________

Commission file number 001-35433

BAZAARVOICE, INC.

(Exact name of registrant as specified in its charter)

State of Delaware	**20-2908277**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
3900 N. Capital of Texas Highway, Suite 300 Austin, Texas	**78746-3211**
(Address of principal executive offices)	**(Zip Code)**

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

Not Applicable

(Former name, former address, and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer	¨	Accelerated filer	x
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 x

The number of shares of the registrant s common stock outstanding as of December 1, 2014 was 78,634,797.

Bazaarvoice, Inc.

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Bazaarvoice, Inc.

Condensed Consolidated Balance Sheets

(in thousands, except shares and per share data)

(unaudited)

	October 31, 2014	April 30, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 32,855	$ 31,934
Restricted cash	1,000	604
Short-term investments	48,639	40,700
Accounts receivable, net of allowance for doubtful accounts of $2,976 and $2,324 as of October 31, 2014 and April 30, 2014, respectively	40,032	39,099
Prepaid expenses and other current assets	13,191	8,212
Assets held for sale		33,745
Total current assets	135,717	154,294
Property, equipment and capitalized internal-use software development costs, net	17,949	17,005
Goodwill	139,155	139,155
Acquired intangible assets, net	12,443	13,388
Other non-current assets	3,577	3,428
Total assets	$ 308,841	$ 327,270
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 4,013	$ 3,346
Accrued expenses and other current liabilities	26,739	27,071
Revolving line of credit	27,000	27,000
Deferred revenue	52,180	54,951
Liabilities held for sale		3,621
Total current liabilities	109,932	115,989
Deferred revenue less current portion	2,698	1,722
Deferred tax liability, long-term	1,666	1,730
Other liabilities, long-term	607	1,367
Total liabilities	114,903	120,808
Commitments and contingencies (Note 11)		
Stockholders equity:		
Common stock $0.0001 par value; 150,000,000 shares authorized, 78,872,263 shares issued and 78,622,263 shares outstanding as of October 31, 2014; 150,000,000 shares	8	8

authorized, 77,887,663 shares issued and 77,637,663 shares outstanding at April 30, 2014		
Treasury stock, at cost 250,000 shares as of October 31, 2014 and April 30, 2014		
Additional paid-in capital	407,590	398,201
Accumulated other comprehensive income (loss)	(112)	328
Accumulated deficit	(213,548)	(192,075)
Total stockholders equity	193,938	206,462
Total liabilities and stockholders equity	$ 308,841	$ 327,270

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

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Bazaarvoice, Inc.

Condensed Consolidated Statements of Operations

(in thousands, except net loss per share data)

(unaudited)

	Three Months Ended October 31, 2014	Three Months Ended October 31, 2013	Six Months Ended October 31, 2014	Six Months Ended October 31, 2013
Revenue	$ 47,325	$ 41,148	$ 93,302	$ 81,467
Cost of revenue	17,414	12,508	33,770	24,625
Gross profit	29,911	28,640	59,532	56,842
Operating expenses:				
Sales and marketing	18,931	20,837	39,926	41,833
Research and development	9,306	9,793	19,036	18,717
General and administrative	8,100	3,639	15,993	12,175
Acquisition-related and other	2,326	8,283	2,818	15,787
Amortization of acquired intangible assets	310	283	619	565
Total operating expenses	38,973	42,835	78,392	89,077
Operating loss	(9,062)	(14,195)	(18,860)	(32,235)
Other income (expense), net:				
Interest income	10	46	16	112
Interest expense	(250)	(32)	(482)	(32)
Other expense	(348)	(263)	(620)	(326)
Total other expense, net	(588)	(249)	(1,086)	(246)
Loss from continuing operations before income taxes	(9,650)	(14,444)	(19,946)	(32,481)
Income tax expense (benefit)	258	130	270	(261)
Net loss from continuing operations	$ (9,908)	$ (14,574)	$ (20,216)	$ (32,220)
Income (loss) from discontinued operations, net of tax		420	(1,257)	698
Net loss applicable to common stockholders	$ (9,908)	$ (14,154)	$ (21,473)	$ (31,522)
Net loss per share applicable to common stockholders:				
Continuing operations	$ (0.13)	$ (0.20)	$ (0.26)	$ (0.43)
Discontinued operations		0.01	(0.02)	0.01

Basic and diluted loss per share:	$ (0.13)	$ (0.19)	$ (0.28)	$ (0.42)
Basic and diluted weighted average number of shares outstanding	78,280	75,088	78,023	74,535

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

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Bazaarvoice, Inc.

Condensed Consolidated Statements of Comprehensive Loss

(in thousands)

(unaudited)

	Three Months Ended October 31,		Six Months Ended October 31,	
	2014	2013	2014	2013
Net loss from continuing operations	$ (9,908)	$ (14,574)	$ (20,216)	$ (32,220)
Other comprehensive gain (loss), net of tax:				
Foreign currency translation adjustment	(456)	194	(458)	133
Unrealized gain (loss) on investments	(29)	94	18	46
Total other comprehensive gain (loss), net of tax	(485)	288	(440)	179
Comprehensive loss	$ (10,393)	$ (14,286)	$ (20,656)	$ (32,041)

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

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Bazaarvoice, Inc.

Condensed Consolidated Statement of Changes in Stockholders Equity

(in thousands)

(unaudited)

	Common Stock		Treasury Stock					
	Number of Shares	Amount	Number of Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders Equity (Deficit)
Balance at April 30, 2014	77,888	$ 8	(250)	$	$ 398,201	$ 328	$ (192,075)	$ 206,462
Excess tax benefit related to stock-based expense					1			1
Stock-based expense					6,589			6,589
Issuance of restricted stock awards	75							
Exercise of stock options and vested restricted stock units	727				1,603			1,603
Shares issued under employee stock plans	182				1,196			1,196
Change in foreign currency translation adjustment						(458)		(458)
Change in unrealized gain on investments						18		18
Net loss applicable to common stockholders							(21,473)	(21,473)
Balance at October 31, 2014	78,872	8	(250)		407,590	(112)	(213,548)	193,938

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

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Bazaarvoice, Inc.

Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Six Months Ended October 31, 2014	Six Months Ended October 31, 2013
Operating activities:		
Net loss	$ (21,473)	$ (31,522)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	6,050	7,319
Loss on disposal of discontinued operations, net of tax	1,537	
Stock-based expense	6,589	7,656
Revaluation of contingent consideration		(3,270)
Bad debt expense	1,223	631
Excess tax benefit related to stock-based expense	(1)	(93)
Other non-cash expense	229	179
Changes in operating assets and liabilities:		
Accounts receivable	(2,156)	(1,789)
Prepaid expenses and other current assets	(508)	28
Other non-current assets	(205)	(813)
Accounts payable	455	(14)
Accrued expenses and other current liabilities	(1,355)	4,561
Deferred revenue	(1,794)	(3,925)
Other liabilities, long-term	(736)	(537)
Net cash used in operating activities	(12,145)	(21,589)
Investing activities:		
Acquisitions, net of cash acquired, and purchase of intangible asset		(205)
Proceeds from sale of discontinued operations	25,500	
Purchases of property, equipment and capitalized internal-use software development costs	(6,238)	(6,251)
Increase in restricted cash	(500)	
Purchases of short-term investments	(41,047)	(34,117)
Proceeds from maturities of short-term investments	28,015	39,899
Proceeds from sale of short-term investments	5,012	17,071
Net cash provided by investing activities	10,742	16,397
Financing activities:		
Proceeds from employee stock compensation plans	2,799	7,390
Excess tax benefit related to stock-based expense	1	93

Net cash provided by financing activities		2,800		7,483
Effect of exchange rate fluctuations on cash and cash equivalents		(476)		141
Net change in cash and cash equivalents		921		2,432
Cash and cash equivalents at beginning of period		31,934		25,045
Cash and cash equivalents at end of period	$	32,855	$	27,477
Supplemental disclosure of other cash flow information:				
Cash paid for income taxes, net of refunds	$	717	$	300
Cash paid for interest		451		

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

These Condensed Consolidated Statement of Cash Flows include combined cash flows from continuing operations along with discontinued operations.

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Bazaarvoice, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

1. Organization and Nature of Operations

Bazaarvoice, Inc. (Bazaarvoice or the Company) powers a network that connects brands and retailers to the authentic voices of people where they shop. 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. The Company s technology platform collects and displays ratings and reviews, questions and answers and stories from customers along with visual commerce capabilities that collectively amplify the voices of the consumers into the shopping experience before, during and after a purchase. The Company helps clients leverage social data derived from online word of mouth content 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, decrease product returns and enable retailers to launch and manage on-site advertising solutions and site monetization strategies.

2. Summary of Significant Accounting Policies

Fiscal Year

The Company s fiscal year end is April 30. References to fiscal year 2015, for example, refer to the fiscal year ending April 30, 2015.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (GAAP) and applicable rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. 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, 2014, filed on June 26, 2014. Therefore, these unaudited condensed consolidated financial statements and notes included herein should be read in conjunction with the audited consolidated financial statements and notes included in the Company s Annual Report on Form 10-K for the fiscal year ended April 30, 2014.

The condensed consolidated balance sheet data as of April 30, 2014 was derived from the audited consolidated financial statements which are included in the Company s Annual Report on form 10-K for the fiscal year ended April 30, 2014, filed with the SEC on June 26, 2014.

On July 2, 2014, the Company completed the sale of its PowerReviews business. The operating results of this business have been presented as discontinued operations for the three and six month periods ended October 31, 2014 and October 31, 2013. Certain prior year amounts have been reclassified to conform to the current year presentation as a result of discontinued operations (See Note 3). The statement of cash flows is reported on a combined basis without separately presenting cash flows from discontinued operations for all periods presented. All other disclosures and amounts in the notes to the condensed consolidated financial statements relate to the Company s continuing operations, unless otherwise indicated.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. On an ongoing basis, the Company evaluates its estimates, including those related to revenue recognition, allowance for doubtful accounts, income taxes, stock-based expense, accrued liabilities, useful lives of property and equipment and capitalized software development costs, among others. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from the estimates made by management with respect to these items.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of the Company and the accounts of the Company s wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation.

Unaudited Interim Financial Information

The accompanying unaudited condensed consolidated financial statements and notes have been prepared in accordance with GAAP, as contained in the Financial Accounting Standards Board (FASB) Accounting Standards Codification for interim financial information and Article 10 of Regulation S-X issued by the Securities and Exchange Commission. Accordingly, they do not include all the information and footnotes required by GAAP for annual fiscal reporting periods. In the opinion of management, the interim financial information includes all adjustments of a normal recurring nature necessary for a fair presentation of the results of operations, financial position, changes in stockholders equity and cash flows. The results of operations for the three and six months ended October 31, 2014 are not necessarily indicative of results that may be expected for the fiscal year ending April 30, 2015 or any other period.

Concentrations of Credit Risk and Significant Customers

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

No single client accounted for 10% or more of accounts receivable as of October 31, 2014 or April 30, 2014. No single client accounted for 10% or more of total revenue for the three and six months ended October 31, 2014 or 2013.

Revenue Recognition

In general, the Company recognizes revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered to the client, (iii) the fee is fixed or determinable and (iv) collectability is reasonably assured.

The Company generates revenue primarily from sales of the following services:

Software as a Service (SaaS)

The Company generates SaaS revenue principally from the sale of subscriptions to its hosted social commerce platform and sells its application services pursuant to service agreements that are generally one year in length. The client does not have the right to take possession of the software supporting the application service at any time, nor do the arrangements contain general rights of return. The Company accounts for these arrangements by recognizing the arrangement consideration for the application service ratably over the term of the related agreement, commencing upon the later of the agreement start date or when all revenue recognition criteria have been met.

Media

Media revenue consists primarily of fees charged to advertisers when their advertisements are displayed on websites owned by various third-parties (Publishers). The Company has revenue sharing agreements with these Publishers. The Company receives a fee from the advertisers and pays the Publishers based on their contractual revenue-share. Media revenues earned from the advertisers are recognized on a net basis as the Company has determined that it is acting as an agent in these transactions.

The Company s arrangements with its clients do not currently combine SaaS and Media services.

Deferred Revenue

Deferred revenue consists of billings or payments in advance of revenue recognition and is recognized as revenue recognition criteria are met. The Company invoices clients in a variety of installments and, consequently, the deferred revenue balance does not represent the total contract value of its non-cancelable subscription agreements. Deferred revenue that will be recognized during the succeeding 12-month period is recorded as current deferred revenue and the remaining portion is recorded as non-current deferred revenue.

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Cash and Cash Equivalents

The Company considers all highly liquid investments acquired with an original maturity of three months or less at the date of purchase and readily convertible to known amounts of cash to be cash equivalents. Cash and cash equivalents are deposited with banks in demand deposit accounts, money market funds, certificates of deposits and municipal bonds. Cash equivalents are stated at cost, which approximates market value, because of the short maturity of these instruments.

Short-term Investments

Short-term investments consist of certificates of deposits, municipal bonds, commercial paper and U.S. Treasury securities and agency securities that are a guaranteed obligation of the U.S. Government and are classified as available-for-sale securities. The Company may or may not hold securities with stated maturities greater than one year until maturity. After consideration of its risks versus reward objectives, as well as its liquidity requirements, the Company may sell these securities prior to their stated maturities. As the Company views these securities as available to support current operations, it has classified all available-for-sale securities as short-term. Available-for-sale securities are carried at fair value with unrealized gains and losses reported as a component of accumulated other comprehensive income (loss) in stockholders equity. For the periods presented, realized and unrealized gains and losses on short-term investments were not material. An impairment charge is recorded in the consolidated statements of operations for declines in fair value below the cost of an individual investment that are deemed to be other-than-temporary. The Company assesses whether a decline in value is temporary based on the length of time that the fair market value has been below cost, the severity of the decline, as well as the intent and ability to hold, or plans to sell, the investment. There have been no impairment charges recognized related to short-term investments for the three and six months ended October 31, 2014 or 2013.

Restricted Cash

The Company s restricted cash consists of a standby letter of credit under its Pledge and Security Agreement for corporate credit card services, secured by a money market account (See Note 9).

Fair Value of Financial Instruments

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

The Company applies the authoritative guidance on fair value measurements for financial assets and liabilities. 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 which require the Company to develop its own assumptions.

Derivative Financial Instruments

As a result of the Company s international operations, it is exposed to various market risks that may affect its consolidated results of operations, cash flows and financial position. These market risks include, but are not limited to, fluctuations in currency exchange rates. The Company s primary foreign currency exposures are in Euros and British Pound Sterling. The Company faces exposure to adverse movements in currency exchange rates as the financial results of certain of its operations are translated from local currency into U.S. dollars upon consolidation. Additionally, foreign exchange rate fluctuations on transactions denominated in currencies other than the functional currency result in gains and losses that are reflected in income.

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

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

Derivative contracts were not material as of October 31, 2014 and April 30, 2014. The Company is exposed to the risk that counterparties to derivative contracts may fail to meet their contractual obligations.

Property, Equipment and Capitalized Internal-Use Software Development Costs

Property and equipment is carried at cost less accumulated depreciation and amortization.

Depreciation and amortization is computed utilizing the straight-line method over the estimated useful lives of the related assets as follows:

Computer equipment	3 years
Furniture and fixtures	5 years
Office equipment	5 years
Software	3 years
Leasehold improvements	Shorter of estimated useful life or the lease term

When depreciable assets are sold or retired, the related cost and accumulated depreciation are removed from the accounts. Any gain or loss is included in other income (expense), net in the Company s statement of operations. Major additions and betterments are capitalized. Maintenance and repairs which do not materially improve or extend the lives of the respective assets are charged to operating expenses as incurred.

The Company capitalizes certain development costs incurred in connection with its internal-use software. These capitalized costs are primarily related to its proprietary social commerce platform that is hosted by the Company and accessed by its clients on a subscription basis. Costs incurred in the preliminary stages of development are expensed as incurred. Once an application has reached the development stage, direct internal and external costs are capitalized until the software is substantially complete and ready for its intended use. Maintenance and training costs are expensed as incurred. Internal-use software development costs are amortized on a straight-line basis over its estimated useful life, generally three years, into cost of revenue.

Goodwill, Intangible Assets, Long-Lived Assets and Impairment Assessments

The Company evaluates and tests the recoverability of its goodwill for impairment at least annually during the fourth quarter or more often if and when circumstances indicate that goodwill may not be recoverable (See Note 6).

Intangible assets are amortized over their useful lives. Each period the Company evaluates the estimated remaining useful life of its intangible assets and whether events or changes in circumstances warrant a revision to the remaining period of amortization. The carrying amounts of these assets are periodically reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Recoverability of these assets is measured by comparison of the carrying amount of each asset to the future undiscounted cash flows the asset is expected to generate. If the undiscounted cash flows used in the test for recoverability are less than the carrying amount of these assets, then the Company will recognize an impairment charge.

The Company evaluates the recoverability of its long-lived assets for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. If such review indicates that the carrying amount of long-lived assets is not recoverable, the carrying amount of such assets is reduced to fair value.

Stock-Based Expense

The Company records stock-based expense based upon the fair value for all stock options, restricted stock units and restricted stock awards issued to all persons to the extent that such options vest. The fair value of restricted stock units and restricted stock awards is based on the number of shares granted and the closing price of our common stock on the date of grant. The fair value of stock options is calculated by the Black-Scholes option pricing model.

The Company recognizes stock-based expense on a straight-line basis over the respective vesting period, net of estimated forfeitures. The Company recognizes stock-based expense for shares issued pursuant to its Employee Stock Purchase Plan (ESPP) on a straight-line basis over the offering period of six months. The Company includes an estimated effect of forfeitures in its compensation cost and updates the estimated forfeiture rate through the final vesting date of the awards.

The Company currently recognizes an insignificant tax benefit resulting from compensation costs expensed in the financial statements, however the Company provides a valuation allowance against the majority of deferred tax asset resulting from this type of temporary difference since it expects that it will not have sufficient future taxable income to realize such benefit.

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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.

Foreign Currency Translation

The U.S. dollar is the reporting currency for all periods presented. The functional currency of the Company s foreign subsidiaries is generally the local currency. All assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the exchange rate on the balance sheet date. Revenue and expenses are translated at the average rate during the period. Equity transactions are translated using historical exchange rates. Adjustments resulting from translating foreign currency financial statements into U.S. dollars are included in accumulated other comprehensive income (loss). Foreign currency transaction gains and losses are included in net loss for the period.

There have been no significant changes or updates to the Company s significant accounting policies disclosed in its Annual Report on Form 10-K the fiscal year ended April 30, 2014, filed on June 26, 2014.

Recent Accounting Pronouncements

Presentation of Financial Statements

In August 2014, the FASB issued Accounting Standards Update 2014-15, Presentation of Financial Statements Going Concern (Subtopic 205-40), Disclosure of Uncertainties about an Entities Ability to Continue as a Going Concern, (ASU 2014-15) which sets forth management s responsibility to evaluate whether there is substantial doubt about an entity s ability to continue as a going concern as well as required disclosures. ASU 2014-15 indicates that, when preparing financial statements for interim and annual financial statements, management should evaluate whether conditions or events, in the aggregate, raise substantial doubt about the entity s ability to continue as a going concern for one year from the date the financial statements are issued or are available to be issued. This guidance will be effective for annual periods ending after December 15, 2016 with early adoption permitted. Adoption of ASU 2014-15 is not expected to have a material impact on the Company s condensed consolidated financial statements.

Stock-based Expense

In June 2014, the FASB issued Accounting Standards Update 2014-12, Accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period, (ASU 2014-12) which requires performance-based awards with a performance target that affects vesting and that could be achieved after an employee completes the requisite service period to be accounted for as a performance condition. If performance targets are clearly defined and it is probable that the performance condition will be achieved, stock-based expense should be recognized over the remaining requisite service period. This guidance will be effective for fiscal year ending April 30, 2017 with early adoption permitted. The Company is currently evaluating the impact of this standards update on the Company s condensed consolidated financial statements.

Revenue

In May 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers, (ASU 2014-09) which provides updated, comprehensive revenue recognition guidance for contracts with customers, including a new principles-based five step framework that eliminates much of the industry-specific guidance in current accounting literature. Under ASU 2014-09, revenue recognition is based on a core principle that companies recognize revenue in an amount consistent with the consideration it expects to be entitled to in exchange for the transfer of goods or services. The standards update also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of recognized revenue. This guidance will be effective for fiscal year ending April 30, 2018 and may be applied on either a full or modified retrospective basis, with early adoption not permitted. The Company is currently evaluating the impact of this standards update on the Company s condensed consolidated financial statements.

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Discontinued Operations

In April 2014, the FASB issued Accounting Standards Update 2014-08, Reporting of Discontinued Operations and Disclosures of Disposals of Components of an entity, (ASU 2014-08) which changes the criteria for determining which disposals can be presented as discontinued operations and requires new disclosures for individually significant dispositions that do not quality as discontinued operations. ASU 2014-08 is effective prospectively for fiscal years and interim reporting periods within those years beginning after December 15, 2014, with early adoption permitted for transactions that have not been reported in financial statements previously issued or available for issuance. The standard will be effective for the fiscal year ending April 30, 2016. Adoption of ASU 2014-08 is not expected to have a material impact on the Company s condensed consolidated financial statements.

3. Discontinued Operations

On June 12, 2012, the Company acquired PowerReviews, Inc. (PowerReviews), a provider of social commerce solutions based in San Francisco, California. The total consideration paid for this transaction was $150.8 million, including the issuance of 6.4 million shares of the Company s common stock and assumption of vested and unvested options to purchase the common stock of PowerReviews equivalent to options to purchase 1.7 million shares of the Company s common stock, but excluding the potential cash proceeds that may arise from the exercise of these assumed options. On January 10, 2013, the U.S. Department of Justice (DOJ) filed a complaint against the Company with the U.S. District Court for the Northern District of California, San Francisco Division (the Court), alleging that the Company s acquisition of PowerReviews violated Section 7 of the Clayton Act, 15 U.S.C. Section 18 and seeking the Company s divestiture of assets sufficient to create a competing business that can replace the competitive significance of PowerReviews in the marketplace. On January 8, 2014, the Court ruled that the Company s acquisition of PowerReviews violated Section 7 of the Clayton Act, 15 U.S.C. Section 18. On April 24, 2014, the Company entered into a Joint Stipulation with the DOJ to resolve the DOJ s claims in the antitrust action challenging the acquisition of PowerReviews and, together with the DOJ, the Company submitted a proposed order to the Court (the Order). Under the terms of the Joint Stipulation and the Order, the Company was required to divest all of the assets of the PowerReviews business. On June 4, 2014, the Company entered into a definitive agreement to divest PowerReviews, LLC, the successor to PowerReviews, to Wavetable Labs, LLC (Wavetable) for $30.0 million in cash, $4.5 million of which is to be held in escrow as partial security for the Company s indemnification obligations under the definitive agreement. Any reduction in proceeds of the escrow would be recorded as an additional loss. The terms of this transaction were approved by the DOJ on June 26, 2014, and the transaction was completed on July 2, 2014. Wavetable subsequently changed its name to PowerReviews. As a result of the foregoing, PowerReviews revenues, related expenses and loss on disposal, net of tax, are components of loss from discontinued operations in the Condensed Consolidated Statements of Operations. As of April 30, 2014, on the Condensed Consolidated Balance Sheets, the assets and liabilities of the discontinued operations of PowerReviews were presented as Assets held for sale and Liabilities held for sale, respectively. The statement of cash flows is reported on a combined basis without separately presenting cash flows from discontinued operations for all periods presented.

The Company incurred a total loss on the disposal of the PowerReviews business of $10.7 million; of which, $9.2 million was recognized as an estimated loss on disposal of discontinued operations during the three months ended April 30, 2014. The additional $1.5 million loss was primarily caused by a decrease of $0.5 million in estimated cash proceeds and incremental transaction costs of $0.4 million. The Company recognized the additional loss of $1.5 million in the six months ended October 31, 2014.

Summarized results from discontinued operations were as follows (in thousands):

	Three Months Ended October 31, 2014	Three Months Ended October 31, 2013	Six Months Ended October 31, 2014	Six Months Ended October 31, 2013
Revenues from discontinued operations	$	$ 4,390	$ 2,535	$ 8,642
Income from discontinued operations before income taxes	$	$ 673	$ 303	$ 1,119
Income tax expense		253	23	421
Net income from discontinued operations		420	280	698
Loss on disposal of discontinued operations, net of tax			(1,537)	
Net income (loss) from discontinued operations, net of tax	$	$ 420	$ (1,257)	$ 698

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The carrying amounts of the major classes of assets and liabilities of discontinued operations were as follows (in thousands):

	July 2, 2014	April 30, 2014
ASSETS:		
Restricted cash	$ 104	$
Accounts receivable, net	1,097	1,036
Prepaid expenses and other current assets	48	49
Total current assets	1,249	1,085
Property and equipment, net	37	37
Goodwill	9,002	9,002
Acquired intangible assets, net	32,813	32,813
Total assets	$ 43,101	$ 42,937
LIABILITIES:		
Accounts payable	$ 76	$ 221
Accrued expenses and other current liabilities	823	895
Deferred revenue	2,230	2,505
Total Liabilities	$ 3,129	$ 3,621

The Company recorded a loss on the disposal of discontinued operations of $1.5 million, net of tax, in the six months ended October 31, 2014 which was calculated as follows (in thousands):

Cash consideration	$ 30,000
Less:	
Basis in net assets as of July 2, 2014	39,972
Costs incurred directly attributable to the transaction	1,039
Loss before income taxes	(11,011)
Income tax benefit	(282)
Loss on disposal of discontinued operations, net of taxes	(10,729)
Loss on disposal of discontinued operations, net of taxes, previously recognized	9,192
Loss on disposal of discontinued operations, net of tax, recognized in current period	$ (1,537)

The carrying amount of assets held for sale in the condensed consolidated balance sheet was calculated as follows (in thousands):

	April 30, 2014
Total assets of discontinued operations	$ 42,937
Estimated loss on disposal of discontinued operations, net of tax	(9,192)
Assets held for sale	$ 33,745

As of October 31, 2014, there were no assets held for sale as the divestiture of the PowerReviews business was completed on July 2, 2014. The $4.5 million held in escrow is recorded as a receivable in Prepaid expenses and other current assets on the Condensed Consolidated Balance Sheet as of October 31, 2014. As of October 31, 2014, the Company has received no claims for indemnification under the definitive agreement.

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4. Fair Value of Financial Assets and Liabilities

The following table summarizes the Company s cash and cash equivalents as of October 31, 2014 and April 30, 2014 (in thousands):

	October 31, 2014	April 30, 2014
Demand deposit accounts	$ 28,603	$ 24,721
Money market funds	4,149	6,971
Certificates of deposit		242
Municipal bonds	103	
Total cash and cash equivalents	$ 32,855	$ 31,934

The following table summarizes the Company s short-term investments as of October 31, 2014 (in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
Certificates of deposit	$ 7,510	$ 4	$ (2)	$ 7,512
Municipal bonds	3,278	19	(10)	3,287
Commercial paper	5,997	2		5,999
U.S. Treasury notes	31,830	13	(2)	31,841
Total short-term investments	$ 48,615	$ 38	$ (14)	$ 48,639

The following table summarizes the Company s short-term investments as of April 30, 2014 (in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
Certificates of deposit	$ 7,466	$ 17	$ (9)	$ 7,474
U.S. Treasury notes	33,226	2	(2)	33,226
Total short-term investments	$ 40,692	$ 19	$ (11)	$ 40,700

All short-term investments had original maturity dates of less than 12 months as of October 31, 2014 and April 30, 2014. Realized gains and losses from the sale of short-term investments were not material for the three and six months ended October 31, 2014 and 2013.

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The following table summarizes the fair value of the Company s financial assets and liabilities that were measured on a recurring basis as of October 31, 2014 and April 30, 2014 (in thousands):

	Fair Value Measurements at October 31, 2014				Fair Value Measurements at April 30, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Cash equivalents:								
Money market funds	$ 4,149	$	$	$ 4,149	$ 6,971	$	$	$ 6,971
Certificates of deposit					242			242
Municipal bonds		103		103				
Total cash equivalents	4,149	103		4,252	7,213			7,213
Restricted cash	1,000			1,000	604			604
Short-term investments:								
Certificates of deposit		7,512		7,512		7,474		7,474
Municipal bonds		3,287		3,287				
Commercial paper		5,999		5,999				
U.S. Treasury notes	31,841			31,841	33,226			33,226
Total short-term investments	31,841	16,798		48,639	33,226	7,474		40,700
Total assets	$ 36,990	$ 16,901	$	$ 53,891	$ 41,043	$ 7,474	$	$ 48,517

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

5. Business Combinations

On April 15, 2014, during the fourth quarter of fiscal year 2014, the Company acquired FeedMagnet Inc. (FeedMagnet) for $9.3 million in cash. FeedMagnet was a privately-owned social media curation company that enables brands to collect, curate and display consumer-generated images, video and social content on their websites and other marketing properties. The Company accounted for the FeedMagnet acquisition using the acquisition method of accounting. As of October 31, 2014, the Company did not record any adjustments to the preliminary purchase price allocation.

6. Goodwill

As of October 31, 2014 and April 30, 2014, the Company had goodwill in the amount of $139.2 million. The Company assesses goodwill for impairment annually in the fourth fiscal quarter, or more frequently if other indicators of potential impairment arise. There were no potential indicators of impairment as of October 31, 2014.

7. Acquired Intangible Assets, net

Acquired intangible assets, net, as of October 31, 2014 and April 30, 2014 for continuing operations are as follows (in thousands):

	October 31, 2014			April 30, 2014		
	Gross Fair Value	**Accumulated Amortization**	**Net Book Value**	**Gross Fair Value**	**Accumulated Amortization**	**Net Book Value**
Customer relationships	$ 11,835	$ (2,303)	$ 9,532	$ 11,835	$ (1,684)	$ 10,151
Developed technology	3,265	(354)	2,911	3,265	(28)	3,237
Total	$ 15,100	$ (2,657)	$ 12,443	$ 15,100	$ (1,712)	$ 13,388

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Acquired intangible assets, net, as of April 30, 2014 for discontinued operations are as follows (in thousands):

	April 30, 2014			
	Gross Fair Value	Accumulated Amortization	Impairment	Net Book Value
Customer relationships	$ 39,966	$ (7,463)	$ (2,354)	$ 30,149
Developed technology	5,400	(3,390)	(146)	1,864
Domain name (indefinite useful life)	800			800
Total	$ 46,166	$ (10,853)	$ (2,500)	$ 32,813

The sale of the PowerReviews business was completed on July 2, 2014; as such, there were no acquired intangible assets, net, for discontinued operations as of October 31, 2014.

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

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

Fiscal period:	Amount
Remaining six months of Fiscal year 2015	$ 945
Fiscal year 2016	1,890
Fiscal year 2017	1,890
Fiscal year 2018	1,890
Fiscal year 2019	1,856
Thereafter	3,972
Total	$ 12,443

8. Income Taxes

The Company computes its interim provision for income taxes by applying the estimated annual effective tax rate to income from operations and adjusts the provision for discrete tax items occurring in the period. For continuing operations, the Company s effective tax rate for the three months ended October 31, 2014 was (2.7) percent compared to (0.9) percent for the three months ended October 31, 2013. For continuing operations, the Company s effective tax rate for the six months ended October 31, 2014 was (1.4) percent compared to 0.8 percent for the six months ended October 31, 2013. The negative tax rates for the three and six months ended October 31, 2014 were primarily attributable to estimated foreign and state income tax expense compared to a consolidated pre-tax book loss. During the six months ended October 31, 2013, a benefit of $0.4 million was recorded as a discrete item related to the 2013 Texas state research and development credit which was enacted in the first quarter of the prior fiscal year.

9. Debt

On July 18, 2007, the Company entered into a loan and security agreement (Loan Agreement) with a financial institution, which was most recently amended in June 2013. As amended, the Loan Agreement provides for a revolving line of credit with a borrowing capacity of up to 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 $2.7 million sublimit for corporate credit card and letter of credit services. The revolving line of credit expires on January 31, 2015 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 plus 2.5%. Borrowings under the revolving line of credit are collateralized by substantially all assets of the Company and of its U.S. subsidiaries. The Loan Agreement contains certain financial covenants. As of October 31, 2014 and April 30, 2014, the Company had drawn down $1.6 million in the form of a letter of credit as security deposits for its leased corporate headquarters. As of October 31, 2014, the Company had drawn down an additional $0.3 million in the form of a letter of credit as security deposits for its leased San Francisco office space. On February 21, 2014, the Company drew down $27.0 million of its unused balance of the revolving line of credit. The outstanding loan balance is subject to all terms and conditions described above in the Loan Agreement and its subsequent amendments. The unused balance of the revolving line of credit was $1.1 million and $1.4 million as of October 31, 2014 and April 30, 2014, respectively. The Company was in compliance with all financial covenants as of October 31, 2014 and April 30, 2014.

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On November 21, 2014, the Company entered into a $70.0 million secured revolving credit facility (the Credit Facility), with a sublimit of $3.0 million for the incurrence of swingline loans and a sublimit of $15.0 million for the issuance of letters of credit pursuant to an Amended and Restated Credit Agreement between the Company, the lenders party thereto and Comerica Bank, as administrative agent, sole lead arranger and sole bookrunner (the Credit Agreement). The Credit Agreement amended and restated the Loan Agreement. Borrowings under the Credit Agreement are collateralized by substantially all assets of the Company and of its U.S. subsidiaries. The Credit Agreement contains certain financial covenants. The revolving line of credit bears interest at the adjusted LIBOR rate plus 3.5%. On November 21, 2014, the Company drew down $57.0 million of the unused balance of the Credit Agreement, of which, $27.0 million was used to repay the entire outstanding balance on the Loan Agreement. On December 4, 2014, the Company drew down $8.0 million in the form of a letter of credit under the Credit Facility as a security deposit for the lease for the Company s new headquarters, resulting in an unused balance of the Credit Facility of $3.1 million. The Credit Facility expires on November 21, 2017 with all advances immediately due and payable (See Note 12).

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. On October 29, 2014, the Company amended the agreement and increased the standby letter of credit by $0.5 million to $1.0 million. The Company pledged a security interest in its money market account, in which the balance must equal at least the credit extended. This letter of credit expires annually, and the pledged security interest is recorded as short-term restricted cash in the Company s condensed consolidated financial statements.

10. Net Loss Per Share Applicable to Common Stockholders

The following table sets forth the computations of net loss per share applicable to common stockholders for the three and six months ended October 31, 2014 and 2013, respectively (in thousands, except net loss per share data):

	Three Months Ended October 31,		Six Months Ended October 31,	
	2014	2013	2014	2013
Net loss from continuing operations	$ (9,908)	$ (14,574)	$ (20,216)	$ (32,220)
Net income (loss) from discontinued operations, net of tax		420	(1,257)	698
Net loss applicable to common stockholders	$ (9,908)	$ (14,154)	$ (21,473)	$ (31,522)
Basic and diluted loss per share				
Continuing operations	$ (0.13)	$ (0.20)	$ (0.26)	$ (0.43)
Discontinued operations		0.01	(0.02)	0.01
Basic and diluted loss per share:	$ (0.13)	$ (0.19)	$ (0.28)	$ (0.42)
Basic and diluted weighted average number of shares outstanding	78,280	75,088	78,023	74,535
Potentially dilutive securities [(1)]:				
Outstanding stock options	813	2,757	864	2,933
Restricted shares	301	351	243	270

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

11. Commitments and Contingencies

In the ordinary course of business, the Company may be subject to various legal proceedings and claims including alleged infringement of third-party patents and other intellectual property rights. The Company reviews the status of each matter and records a provision for a liability when it is considered both probable that a liability has been incurred and that the amount of the loss can be reasonably estimated. These provisions are reviewed quarterly and adjusted as additional information becomes available. If either or both of the criteria are not met, the Company assesses whether there is at least a reasonable possibility that a loss, or additional losses, may be incurred. If there is a reasonable possibility that a loss may be incurred, the Company discloses the estimate of the amount of loss or range of losses, discloses that the amount would not have a material effect on the Company s condensed consolidated financial statements (if applicable) or discloses that an estimate of the possible loss or range of loss cannot be made. Legal fees are recognized as incurred when the legal services are provided, and therefore are not recognized as a part of a loss contingency accrual.

On June 12, 2012, the Company acquired PowerReviews, Inc. (PowerReviews), a provider of social commerce solutions based in San Francisco, California. The total consideration paid for this transaction was $150.8 million, including the issuance of 6.4 million shares of the Company s common stock and assumption of vested and unvested options to purchase the common stock of PowerReviews equivalent to options to purchase 1.7 million shares of the Company s common stock, but excluding the potential cash proceeds that may arise from the exercise of these assumed options. On January 10, 2013, the U.S. Department of Justice (the DOJ) filed a complaint against the Company with the U.S. District Court for the Northern District of California, San Francisco Division (the Court), alleging that the Company s acquisition of PowerReviews violated Section 7 of the Clayton Act, 15 U.S.C. Section 18 and seeking the Company s divestiture of assets sufficient to create a competing business that can replace the competitive significance of PowerReviews in the marketplace. On January 8, 2014, the Court ruled that the Company s acquisition of PowerReviews violated Section 7 of the Clayton Act, 15 U.S.C. Section 18. On April 24, 2014, the Company entered into a Joint Stipulation with the DOJ to resolve the DOJ s claims in the antitrust action challenging the acquisition of PowerReviews and, together with the DOJ, the Company submitted a proposed order to the Court (the Order). Under the terms of the Joint Stipulation and the Order, the Company was required to divest all of the assets of the PowerReviews business. On June 4, 2014, the Company entered into a definitive agreement to divest PowerReviews, LLC, the successor to PowerReviews, to Wavetable Labs, LLC (Wavetable) for $30.0 million in cash, $4.5 million of which is to be held in escrow as partial security for the Company s indemnification obligations under the definitive agreement. The terms of this transaction were approved by the DOJ on June 26, 2014, and the transaction was completed on July 2, 2014. Wavetable subsequently changed its name to PowerReviews. As a result of the foregoing, PowerReviews revenues, related expenses and loss on disposal, net of tax, are components of loss from discontinued operations in the Condensed Consolidated Statement of Operations. On the Condensed Consolidated Balance Sheets, the assets and liabilities of the discontinued operations of PowerReviews have been presented as Assets held for sale and Liabilities held for sale, respectively. The statement of cash flows is reported on a combined basis without separately presenting cash flows from discontinued operations.

The Company realized a total loss on the disposal of PowerReviews of $10.7 million; of which, $9.2 million was recognized as an estimated loss on disposal of discontinued operations during the fiscal year ended April 30, 2014. The Company recognized the incremental loss of $1.5 million in the current fiscal year (See Note 3).

On August 20, 2014, the Company was informed that the DOJ was investigating whether the Company retained any PowerReviews technology in violation of the Joint Stipulation and Order. This matter has been resolved by an agreement between the Company and the DOJ to modify the Proposed Final Judgment through the addition of terms relating to the appointment of an antitrust compliance officer. These agreed modifications to the Proposed Final Judgment were filed with the Court on December 1, 2014 and the Final Judgment was entered by the Court on December 2, 2014.

On March 12, 2013, a purported shareholder derivative action was filed in the Texas State District Court for Travis County, Texas against certain of the Company s officers and directors, former officers and directors, and against the Company as nominal defendant. The original petition in this matter alleged claims purportedly on behalf of the Company against the individual defendants for corporate waste, breaches of fiduciary duties and breaches of the Company s corporate policies in connection with the acquisition of PowerReviews and certain of the Company s officers and directors sales of shares of the Company s stock. The original petition requested declaratory judgment, a disgorgement of $91.4 million in proceeds received from such sales of the Company s stock, unspecified damages on behalf of the Company, reasonable attorneys , accountants and experts fees, and equitable relief. On October 23, 2013, the court granted a motion filed by the Company and individual defendants and ruled that the plaintiff s original petition failed to allege particularized facts sufficient to excuse plaintiff from making pre-suit demand on the Company s Board of Directors. The court ordered the plaintiff to file an amended complaint within 30 days setting forth particularized facts sufficient to excuse demand. On November 22, 2013, the plaintiff filed its amended petition, which again asserted claims for corporate waste, breaches of fiduciary duties and breaches of the Company s corporate policies in connection with the acquisition of PowerReviews and certain of the Company s officers and directors sales of shares of the Company s stock. The court stayed the lawsuit and its ruling on the Company s motion for summary judgment to allow the parties to participate in mediation. On July 9, 2014, the parties attended mediation and agreed to preliminary settlement terms which were later reduced to a comprehensive settlement agreement. On September 23, 2014, the court preliminarily approved the settlement agreement and directed the Company to notify its shareholders of the proposed settlement, a final hearing on November 24, 2014, and a motion for attorneys fees and expenses. On November 24, 2014, the court signed a Final Judgment approving of the notice to shareholders, approving of the proposed settlement and payments to plaintiff and plaintiff s counsel, and dismissing all claims arising out of, relating to, or concerning the PowerReviews acquisition or divestiture, any reports, disclosures, or statements made by the current or former directors or officers of Bazaarvoice, Inc. in relation to the PowerReviews acquisition or divestiture, or any matter that could have been asserted in the lawsuit or any other action or proceeding regarding allegations of breach of fiduciary duty or allegations relating to or arising out of any act, statement, omission, transaction, event, or circumstance in relation to the PowerReviews acquisition or divestiture. The settlement did not have a material impact on the Company s condensed consolidated financial statements.

As of October 31, 2014, the Company was in the process of assessing the sales tax status of the Bazaarvoice enterprise service offering with sales tax agencies in certain states in which it operates. Based on the limited information received from certain of these states, the Company cannot determine with certainty the historical time period for which these services were taxable, and, for certain states, which of its service offerings and features these states may determine to be subject to state sales tax. The Company currently estimates that its liability, net of amounts to be recovered from clients, will be between \$2.8 million and \$3.3 million. The Company has accrued a liability of \$3.1 million, representing the best estimate of the amount within this range that will probably be incurred to settle these obligations. The estimated range includes continuing to execute its action plan for recovering these amounts due from the Company s clients. If it is determined that the time period in which the products are taxable or the portion of the Company s product offering subject to state sales tax is greater than that used to determine the accrual as of October 31, 2014, or if there are changes in our underlying assumptions, then the actual liability incurred will likely approach the higher end of the current estimated range.

12. Subsequent Events

On November 13, 2014, the Company entered into a lease (the Lease), pursuant to which the Company will lease approximately 137,615 square feet of office space in Austin, Texas. This will serve as the new headquarters of the Company and will be used for general office purposes. The term of the Lease commences on January 1, 2016 unless otherwise modified (Commencement Date)

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and terminates approximately ten years and six months after the Commencement Date. The Company has the option to extend the term of the Lease for up to two successive periods of five years each and the Company is required to obtain a stand by letter of credit of $8.0 million as a security deposit for the Lease. The expected lease payments for the original term are estimated to be approximately $0.3 million for fiscal year ended April 30, 2016, $3.8 million for fiscal year ended April 30, 2017, $3.8 million for fiscal year ended April 30, 2018, $3.9 million for fiscal year ended April 30, 2019, $4.0 million for the fiscal year ended April 30, 2020 and $25.9 million for the fiscal years ended April 30th thereafter.

On November 21, 2014, the Company entered into a $70.0 million secured revolving credit facility (the Credit Facility), with a sublimit of $3.0 million for the incurrence of swingline loans and a sublimit of $15.0 million for the issuance of letters of credit pursuant to an Amended and Restated Credit Agreement between the Company, the lenders party thereto and Comerica Bank, as administrative agent, sole lead arranger and sole bookrunner (the Credit Agreement). The Credit Agreement amended and restated the Company s prior $30.0 million secured revolving credit facility pursuant to a loan and security agreement dated July 18, 2007 and subsequent amendments thereto (the Loan Agreement). Borrowings under the Credit Agreement are collateralized by substantially all assets of the Company and of its U.S. subsidiaries. The Credit Agreement contains certain financial covenants. The revolving line of credit bears interest at the adjusted LIBOR rate plus 3.5%. The Credit Agreement will provide funds for general corporate purposes and working capital. Amounts repaid under the Credit Facility may be reborrowed. The Credit Facility matures on November 21, 2017 and is payable in full upon maturity. On November 21, 2014, the Company drew down $57.0 million of the unused balance of the Credit Agreement, of which, $27.0 million was used to repay the entire outstanding balance on the Loan Agreement (See Note 9). On December 4, 2014, the Company drew down $8.0 million in the form of a letter of credit under the Credit Facility as a security deposit for the Lease, resulting in an unused balance of the Credit Facility of $3.1 million.

On November 24, 2014, the court signed a Final Judgment approving of the notice to shareholders, approving of the proposed settlement and payments to plaintiff and plaintiff s counsel, and dismissing all claims arising out of, relating to, or concerning the PowerReviews acquisition or divestiture, any reports, disclosures, or statements made by the current or former directors or officers of Bazaarvoice, Inc. in relation to the PowerReviews acquisition or divestiture, or any matter that could have been asserted in the lawsuit or any other action or proceeding regarding allegations of breach of fiduciary duty or allegations relating to or arising out of any act, statement, omission, transaction, event, or circumstance in relation to the PowerReviews acquisition or divestiture. The Company does not expect the settlement to have a material impact on the Company s condensed consolidated financial statements.

On December 1, 2014, the DOJ agreed to modifications to the Proposed Final Judgment related to their investigation of whether the Company retained any PowerReviews technology in violation of the Joint Stipulation and Order. The matter has been resolved by an agreement between the Company and the DOJ proposing additional terms to the Proposed Final Judgment relating to the appointment of an antitrust compliance officer. These agreed modifications to the Proposed Final Judgment were filed with the Court on December 1, 2014 and the Final Judgment was entered by the Court on December 2, 2014.

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

Forward Looking Statements

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and the notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q and our other filings with the Securities and Exchange Commission (SEC), including our Annual Report on Form 10-K for the fiscal year ended April 30, 2014, filed on June 26, 2014, *which discuss our business in greater detail.*

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Forward-looking statements may be identified by the use of forward-looking words such as anticipate, believe, may, will, continue, seek, estimate, intend, hope, predict, could, should, would, project, plan, ex plural of these words or similar expressions, although not all forward-looking statements contain these words. Statements that contain these words should be read carefully because they discuss our future expectations, contain projections of our future results of operations or of our financial position, or state other forward-looking information. We believe that it is important to communicate our future expectations to our investors. However, there may be events in the future that we are not able to predict accurately or control. The factors listed in the Risk Factors section of our Annual Report on Form 10-K filed with the Securities and Exchange Commission, or SEC, and this quarterly report on Form 10-Q, provide some, but not all possible examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements.

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

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

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- our ability to retain clients or renew them at similar prices and upsell to existing clients;
- our ability to attract new clients and launch without delays;
- our ability to increase adoption of our platforms by our clients internal and external users;
- our ability to protect our users information and adequately address security and privacy concerns;
- our ability to maintain an adequate rate of growth;
- our ability to effectively execute and adapt our business model in a dynamic market;
- our future expenses;
- our ability to expand our network;
- our ability to integrate clients, employees and operations of acquired companies into our business;
- our ability to earn revenue based on ads that are served on our network;
- our plan to continue investing in long-term growth and research and development, enhancing our platforms, and pursuing strategic acquisitions of complementary businesses and technologies to drive future growth;
- our ability to increase engagement of our solutions by our clients, partners and professional organizations and launch those solutions without delay;
- our anticipated trends of our operating metrics and financial and operating results;
- the effects of increased competition and commoditization of products we offer, including pricing pressure, reduced profitability or loss of market share;
- our ability to 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;

the attraction and retention of qualified employees and key personnel;

our expectations regarding the outcome of litigation proceedings; and

other risk factors included under Risk Factors in this Quarterly Report on Form 10-Q.

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

Overview

We power a network that connects brands and retailers to the authentic voices of people where they shop. 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. Our technology platform collects and displays ratings and reviews, questions and answers and stories from consumers along with visual commerce capabilities that collectively amplify the voices of the consumers into the shopping experience before, during and after a purchase. We help clients leverage social data derived from online word of mouth content 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, decrease product returns and enable retailers to launch and manage on-site advertising solutions and site monetization strategies.

Since our inception in May 2005, we have experienced revenue growth primarily driven by our active clients. In order to take advantage of our growth opportunity and to provide high levels of client service, we have expanded our number of full-time employees since the fiscal year following our IPO. We believe our growth is further illustrated by SaaS impressions served, which we define as single instances of online word of mouth delivered to an end user s web browser, as this metric measures the reach of our network to a consumer audience.

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The following table summarizes measures of our growth from continuing operations for the three and six months ended October 31, 2014 to the three and six months ended October 31, 2013:

	Three Months Ended October 31,		Six Months Ended October 31,	
	2014	2013	2014	2013
Revenue (in thousands)	$ 47,325	$ 41,148	$ 93,302	$ 81,467
Number of active clients (period end) (1)	1,258	980	1,258	980
Full-time employees (period end) (2)	814	798	814	798
SaaS impressions served (in millions) (3)	64,037	48,719	125,297	94,692

(1) Beginning as of our fourth quarter of fiscal year 2014, we define an active client as an organization from which we are currently recognizing recurring revenue. 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 active client base is a leading indicator of our ability to grow revenue. Further, due to the presentation of the PowerReviews business as discontinued operations, the number of active clients above are from continuing operations only. As a result of this analysis, each category could include a common client who may have organizations for which we recognized recurring revenue that have separate signed contractual agreements. All periods prior to the fourth quarter of fiscal 2014 have been revised to conform to this definition of an active client from continuing operations.

(2) Included in full-time employees for three and six months ended October 31, 2013 are 27 full-time employees attributable to discontinued operations of PowerReviews.

(3) The number of SAAS impressions for the three and six months ended October 31, 2014 and 2013 are exclusive of impressions served on either the PowerReviews enterprise platform or the Express platform.

For the three and six months ended October 31, 2014, through the continued enhancement and expansion of our social commerce platform, we achieved continued growth as compared to the three and six months ended October 31, 2013 in the number of active clients. Our revenue from continuing operations was $47.3 million and $93.3 million for the three and six months ended October 31, 2014, respectively, which represents a 15.0% and 14.5% increase from the three and six months ended October 31, 2013, respectively.

For the remainder of fiscal year 2015, 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.

Business Model

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

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

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Key Business Metrics

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

	Three Months Ended October 31,		Six Months Ended October 31,	
	2014	2013	2014	2013
	(in thousands, except number of clients and client retention rate)			
Revenue:				
SaaS	$ 45,199	$ 39,896	$ 89,523	$ 78,759
Media	2,126	1,252	3,779	2,708
Total revenue	$ 47,325	$ 41,148	$ 93,302	$ 81,467
Cash flow used in operations	$ (8,733)	$ (12,475)	$ (12,145)	$ (21,589)
Number of active clients (period end)	1,258	980	1,258	980
SaaS revenue per active client (1)	$ 36.8	$ 42.0	$ 74.9	$ 84.5
Active client retention rate (2)	95.3%	97.0%	89.8%	94.4%
Total revenue per employee (3)	$ 59.1	$ 54.2	$ 117.4	$ 106.8

(1) Calculated based on the average number of active clients for the three and six month periods from continuing operations.
(2) Calculated based on active client retention over a three and six month period from continuing operations.
(3) Calculated based on the average number of full-time employees for the three and six month periods. For the purpose of this calculation, we have excluded content moderators and full-time employees attributable to discontinued operations of PowerReviews for the three and six months ended October 31, 2013.

Revenue

SaaS revenue consists primarily of fees from the sale of subscriptions to our hosted social commerce solutions, and we generally recognize revenue ratably over the related subscription period, which is typically 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.

Media revenue consists primarily of fees charged to advertisers when their advertisements are displayed on our publishers websites and is net of amounts due to such publishers.

Cash Flow Used in Operations

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

Number of Active Clients

Beginning with our fourth quarter of fiscal year 2014, we define an active client as an organization from which we are recognizing recurring 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 active client base is a leading indicator of our ability to grow revenue.

All prior periods have been revised to conform to the current period definition of an active client.

SaaS Revenue per Active Client

SaaS revenue per active client is calculated as SaaS revenue recognized during the period divided by the average number of active clients for the period. Since some of our new clients are added at initial pricing that is lower than our average pricing, our SaaS revenue per client could decline in the future.

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Active Client Retention Rate

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

Total Revenue per Employee

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

Key Components of Our Condensed Consolidated Statements of Operations

Revenue

We generate revenue principally from fixed commitment subscription contracts under which we provide clients with various services, including access to our hosted software platforms. We sell these services under contractual agreements for service terms that are generally one year in length. Clients typically commit to fixed rate fees for the service term. 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 agreements are due in full within 30 to 90 days of invoicing and non-refundable regardless of the actual use of the service and contain no general rights of return. No single client accounted for more than 10.0% of our revenue for the three and six months ended October 31, 2014 and 2013.

Cost of Revenue

Cost of revenue consists primarily of personnel costs and related expenses associated with employees and contractors who provide our subscription services, our implementation team, our content moderation teams and other support services provided as part of the fixed commitment subscription contracts. Cost of revenue also includes professional fees, including third-party implementation support, travel-related expenses and an allocation of general overhead costs. We allocate general overhead expenses to all departments based on the number of employees in each department, which we consider to be a fair and representative means of allocation. 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, the amortization of capitalized internal-use software development costs incurred in connection with our hosted software platforms, personnel costs and third-party service costs to support and retain our clients.

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. Increases in the volume of impressions could result in increased hosting costs which would impact our gross margin.

Operating Expenses

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

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Sales and marketing. Sales and marketing expenses consist primarily of personnel costs for our sales, marketing and business development employees and executives, including salaries, benefits, stock-based expense, bonuses and commissions earned by our sales personnel. Sales and marketing also includes contingent consideration resulting from the acquisition of Longboard Media. 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, 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, and focusing our marketing efforts on direct sales support and pipeline generation, which we believe will enable us to add new clients and increase penetration within our existing client base. We expect that in the foreseeable future, sales and marketing expenses may decrease as a percentage of revenue but will 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.

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. General and administrative expenses also include contingent consideration (included as compensation) and revaluation of contingent consideration related to the acquisition of Longboard Media. 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, audit and tax fees, insurance costs, board of directors compensation and the costs of achieving and maintaining compliance with Section 404 of the Sarbanes-Oxley Act. 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 and other. Acquisition-related and other expenses consist of ongoing costs to comply with our obligations resulting from the divestiture of the PowerReviews business and costs incurred related to the acquisition of FeedMagnet. Legal and advisory expenses related to the completed divestiture of PowerReviews have been included as a component of loss from discontinued operations, net of tax. Included in acquisition-related and other expenses for all prior periods presented are legal and advisory fees for the U.S. Department of Justice suit related to our acquisition of PowerReviews and legal and advisory fees for Longboard Media.

Amortization of acquired intangible assets. The amortization of acquired intangible assets represents amortization of acquired customer relationship intangible assets from FeedMagnet and Longboard Media. Due to the presentation of PowerReviews as discontinued operations, all intangible assets related to PowerReviews for periods prior to its divestiture are included in assets held for sale and the related amortization expenses of these intangible assets for prior reporting periods are included as a component of loss from discontinued operations, net of tax.

Other Income (Expense), Net

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

Income Tax Expense (Benefit)

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

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Results of Operations

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

Consolidated Statements of Operations Data:

	Three Months Ended October 31, 2014	Three Months Ended October 31, 2013	Six Months Ended October 31, 2014	Six Months Ended October 31, 2013
	(in thousands)		(in thousands)	
Revenue	$ 47,325	$ 41,148	$ 93,302	$ 81,467
Cost of revenue [(1)]	17,414	12,508	33,770	24,625
Gross profit	29,911	28,640	59,532	56,842
Operating expenses:				
Sales and marketing [(1)]	18,931	20,837	39,926	41,833
Research and development [(1)]	9,306	9,793	19,036	18,717
General and administrative [(1)]	8,100	3,639	15,993	12,175
Acquisition-related and other	2,326	8,283	2,818	15,787
Amortization of acquired intangible assets	310	283	619	565
Total operating expenses	38,973	42,835	78,392	89,077
Operating loss	(9,062)	(14,195)	(18,860)	(32,235)
Total other expense, net	(588)	(249)	(1,086)	(246)
Loss from continuing operations before income taxes	(9,650)	(14,444)	(19,946)	(32,481)
Income tax expense (benefit)	258	130	270	(261)
Net loss from continuing operations	$ (9,908)	$ (14,574)	$ (20,216)	$ (32,220)
Other Financial Data:				
Adjusted EBITDA from continuing operations [(2)]	$ (1,795)	$ (5,473)	$ (7,075)	$ (10,779)

(1) Includes stock-based expense as follows:

Cost of revenue	$ 458	$ 236	$ 772	$ 554
Sales and marketing	1,162	1,324	2,106	2,551
Research and development	522	662	1,169	1,467
General and administrative	1,201	1,245	2,418	2,702

(2) We define Adjusted EBITDA from continuing operations (Adjusted EBITDA) as generally accepted accounting principles (GAAP) net loss from continuing operations adjusted for stock-based expense, contingent

considerations related to acquisitions, adjusted depreciation and amortization (which excludes amortization of capitalized internal-use software development costs), integration and other costs related to acquisitions, other non-business costs and benefits, income tax expense and other (income) expense, net. Adjusted EBITDA is a financial measure that is not calculated in accordance with 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 reasons we consider them appropriate.

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

- Adjusted EBITDA is widely used by investors and securities analysts to measure a company s operating performance without regard to items, such as stock-based expense, adjusted depreciation and amortization, acquisition costs, income tax expense and other income, net, that can vary substantially from company to company depending upon their financing, capital structures and the method by which assets were acquired;

- Our management uses Adjusted EBITDA in conjunction with GAAP financial measures for planning purposes, including the preparation of our annual operating budget, as a measure of operating performance and the effectiveness of our business strategies and in communications with our board of directors concerning our financial performance;

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

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

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

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 from continuing operations, the most comparable GAAP measure, to Adjusted EBITDA for each of the periods indicated:

	Three Months Ended October 31,		Six Months Ended October 31,	
	2014	**2013**	**2014**	**2013**
	(in thousands)		**(in thousands)**	
GAAP net loss from continuing operations	$ (9,908)	$ (14,574)	$ (20,216)	$ (32,220)
Stock-based expense	3,343	3,467	6,465	7,274
Contingent consideration related to acquisition (1)		(4,230)		(3,860)
Adjusted depreciation and amortization	1,598	1,202	2,932	2,255
Acquisition-related and other expense	2,326	8,283	2,818	15,787
Other stock-related benefit (2)			(430)	
Income tax expense (benefit)	258	130	270	(261)
Total other expense, net	588	249	1,086	246
Adjusted EBITDA from continuing operations	$ (1,795)	$ (5,473)	$ (7,075)	$ (10,779)

(1) Contingent consideration related to acquisition includes the following:				
(a) Revaluation of contingent consideration				
General and administrative	$	$ (3,270)	$	$ (3,270)
(b) Contingent consideration included in compensation expense				
General and administrative		(480)		(295)
Sales and marketing		(480)		(295)
Contingent consideration related to acquisition	$	$ (4,230)	$	$ (3,860)

Revaluation of contingent consideration is the decrease in fair value of the liability-classified contingent consideration related to the acquisition of Longboard Media, Inc. Contingent consideration included in compensation expense relates to certain Longboard Media employees whose right to receive such compensation is forfeited if they terminate their employment. The contingent consideration was payable to Longboard Media s achievement of certain performance goals for the period from January 1, 2013 to December 31, 2013. On October 31, 2013, the Company determined that the probability of the attainment of the underlying performance goals was remote and the resultant payout was estimated to be zero. As a result, the fair value of the liability-classified contingent consideration and the liability accrued for contingent consideration included in compensation expense were reduced to zero. On January 31, 2014, the Company concluded that the underlying performance goals were not met and the payout was zero. We exclude these items from our non-GAAP financial measures in order to facilitate the comparison of post-acquisition operating results.

(2) Other stock-related expense represents an estimated liability for taxes and related items in connection with our treatment of certain stock option grants. Since the estimated liability directly relates to stock option grants and as stock-based expenses are consistently excluded from our non-GAAP financial measures, we have excluded this estimated liability. During the six months ended October 31, 2014, the Company recorded a benefit of $0.4 million due to a reduction of this estimated liability.

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

Consolidated Statements of Operations Data:

	Three Months Ended October 31,		Six Months Ended October 31,	
	2014	**2013**	**2014**	**2013**
Revenue	100.0%	100.0%	100.0%	100.0%
Cost of revenue [1]	36.8	30.4	36.2	30.2
Gross profit	63.2	69.6	63.8	69.8
Operating expenses:				
Sales and marketing [1]	40.0	50.7	42.8	51.3
Research and development [1]	19.7	23.8	20.4	23.0
General and administrative [1]	17.1	8.8	17.1	14.9
Acquisition-related and other	4.9	20.1	3.0	19.4
Amortization of acquired intangible assets	0.7	0.7	0.7	0.7
Total operating expenses	82.4	104.1	84.0	109.3
Operating loss	(19.2)	(34.5)	(20.2)	(39.5)
Total other expense, net	(1.2)	(0.6)	(1.2)	(0.3)
Loss from continuing operations before income taxes	(20.4)	(35.1)	(21.4)	(39.8)
Income tax expense (benefit)	0.5	0.3	0.3	(0.3)
Net loss from continuing operations	(20.9)%	(35.4)%	(21.7)%	(39.5)%
Other Financial Data:				
Adjusted EBITDA from continuing operations[2]	(3.8)%	(13.3)%	(7.6)%	(13.2)%
[1] Includes stock-based expense as follows:				
Cost of revenue	1.0%	0.6%	0.8%	0.7%
Sales and marketing	2.5	3.2	2.3	3.1
Research and development	1.1	1.6	1.3	1.8
General and administrative	2.5	3.0	2.6	3.3

(2) We define Adjusted EBITDA from continuing operations as GAAP net loss from continuing operations adjusted for stock-based expense, contingent considerations related to acquisition, adjusted depreciation and amortization (which excludes amortization of capitalized internal-use software development costs), integration and other costs related to acquisitions, other non-business costs and benefits, income tax expense and other (income) expense, net. See Note [2] to the Consolidated Statement of Operations Data on page 25 of this Quarterly Report on Form 10-Q for a reconciliation of net loss to Adjusted EBITDA from continuing operations.

Comparison of the Three Months Ended October 31, 2014 and 2013

Revenue

	Three Months Ended October 31,		
	2014	2013	% Change
	(dollars in thousands)		
Revenue	$ 47,325	$ 41,148	15.0%

Our revenue increased $6.2 million, or 15.0%, for the three months ended October 31, 2014 compared to the three months ended October 31, 2013. This increase is composed of an increase in SaaS revenue of $5.3 million and an increase in Media revenue of $0.9 million. Of the $5.3 million increase in SaaS revenue, $4.4 million was largely generated from new launches of active clients utilizing our platform and solutions since the prior year period. The remaining $0.9 million increase was generated from existing clients due to increased subscriptions of our products and offerings. For the three months ended October 31, 2014, net new active client launches were 61 and our active client retention rate was 95.3% compared to net new active client launches additions of 58 and active client retention rate of 97.0% for the three months ended October 31, 2013. Our client retention rates can be impacted due to a variety of reasons including, but not limited to, non-renewals, renewals at less favorable terms, and the cyclical and discretionary nature of marketing and advertising spending. SaaS revenue per active client (in thousands) was $36.8 for the three months ended October 31, 2014, compared to SaaS revenue per active client (in thousands) of $42.0 for the three months ended October 31, 2013.

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Cost of Revenue and Gross Profit Percentage

	Three Months Ended October 31, 2014	2013	% Change
	(dollars in thousands)		
Cost of revenue	$ 17,414	$ 12,508	39.2%
Gross profit	29,911	28,640	4.4
Gross profit percentage	63.2%	69.6%	

Cost of revenue increased $4.9 million, or 39.2%, for the three months ended October 31, 2014 compared to the three months ended October 31, 2013. This increase was primarily due to increases of $1.0 million in costs associated with hosting services due to an increase in the volume of impressions and an increase of $2.5 million in personnel related expenses due to an increase in headcount to support our new and additional product offerings. Additional increases include $0.5 million in professional fees and travel and $0.7 million in allocated overhead expenses. Our cost of revenue for the three months ended October 31, 2014 includes $0.2 million of amortization of developed technology acquired from FeedMagnet.

Operating Expenses

	Three Months Ended October 31, 2014		2013		
	Amount	% of Revenue	Amount	% of Revenue	% Change
	(dollars in thousands)				
Sales and marketing	$ 18,931	40.0%	$ 20,837	50.7%	(9.1)%
Research and development	9,306	19.7	9,793	23.8	(5.0)
General and administrative	8,100	17.1	3,639	8.8	122.6
Acquisition-related and other	2,326	4.9	8,283	20.1	(71.9)
Amortization of acquired intangible assets	310	0.7	283	0.7	9.5
Total operating expenses	$ 38,973	82.4%	$ 42,835	104.1%	(9.0)%

Sales and marketing. Sales and marketing expenses decreased by $1.9 million, or 9.1%, for the three months ended October 31, 2014 compared to the three months ended October 31, 2013. For the three months ended October 31, 2014, personnel-related expenses and allocated overhead expenses decreased by $1.7 million and $0.1 million, respectively, due to a decrease in headcount as we continue to leverage our more experienced sales force. Professional services decreased by $0.6 million due to decreased use of third-party contractor resources. A benefit of $0.5 million was realized during the three months ended October 31, 2013 due to the decrease in fair value of the liability for contingent consideration related to the acquisition of Longboard Media as the payout was estimated to be zero as of October 31, 2013.

Research and development. Research and development expenses decreased by $0.5 million, or 5.0%, for the three months ended October 31, 2014 compared to the three months ended October 31, 2013. Personnel-related expenses decreased $0.8 million for the three months ended October 31, 2014 due to a decrease in headcount. This decrease was partially offset by an increase of $0.2 million in facility-related expenses and an increase of $0.1 million in professional services.

General and administrative. General and administrative expenses increased $4.5 million, or 122.6%, for the three months ended October 31, 2014 compared to the three months ended October 31, 2013. This increase is primarily from a benefit of $3.8 million realized during the three months ended October 31, 2013 due to the decrease in fair value of the liability for contingent consideration related to the acquisition of Longboard Media as the payout was estimated to be zero as of October 31, 2013. Bad debt expense increased $0.7 million for the three months ended October 31, 2014.

Acquisition-related and other. Acquisition-related and other expenses decreased $6.0 million, or 71.9%, for the three months ended October 31, 2014 compared to the three months ended October 31, 2013. This decrease was primarily due to the completion of the U.S. Department of Justice suit in the first half of fiscal year 2015 related to our acquisition of PowerReviews. We incurred $2.3 million in legal fees and other expenses for the three months ended October 31, 2014 primarily due to legal and other advisory costs incurred to comply with our ongoing obligations from the divestiture of the PowerReviews business and the shareholder derivative action filed in connection with the acquisition of PowerReviews. For the three months ended October 31, 2013, we incurred $8.3 million in legal and advisory fees primarily due to the U.S. Department of Justice suit related to our acquisition of PowerReviews.

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Amortization of acquired intangibles. Amortization for acquired intangible assets stayed relatively constant at $0.3 million in the three months ended October 31, 2014 and 2013. Amortization of acquired intangible assets represents amortization of acquired customer relationship intangible assets from FeedMagnet and Longboard Media. Due to the presentation of PowerReviews as discontinued operations as of April 30, 2014, the related amortization expense of the PowerReviews intangible assets for the three months ended October 31, 2013 is included as a component of loss from discontinued operations, net of tax.

Other Expense, Net

	Three Months Ended October 31,				
	2014		2013		
	Amount	% of Revenue	Amount	% of Revenue	% Change
	(dollars in thousands)				
Interest income	$ 10	%	$ 46	0.1%	(78.3)%
Interest expense	(250)	(0.5)	(32)	(0.1)%	681.3
Other expense	(348)	(0.7)	(263)	(0.6)	32.3
Total other expense, net	$ (588)	(1.2)%	$ (249)	(0.6)%	136.1%

Total other expense, net, increased by $0.3 million for the three months ended October 31, 2014 compared to the three months ended October 31, 2013 primarily due to inclusion of $0.3 million of interest expense on the $27.0 million revolving line of credit for the three months ended October 31, 2014.

Income Tax Expense

	Three Months Ended October 31,				
	2014		2013		
	Amount	% of Revenue	Amount	% of Revenue	% Change
	(dollars in thousands)				
Income tax expense	$ 258	0.5%	$ 130	0.3%	98.5%

Income tax expense increased by $0.1 million in the three months ended October 31, 2014 compared to the three months ended October 31, 2013 due to an increase in estimated foreign and state income tax expenses.

Comparison of the Six Months Ended October 31, 2014 and 2013

Revenue

	Six Months Ended October 31,		
	2014	2013	% Change
	(dollars in thousands)		

Revenue	$ 93,302	$ 81,467	14.5%

Our revenue increased by $11.8 million, or 14.5%, for the six months ended October 31, 2014 compared to the six months ended October 31, 2013. Included in this increase was an increase in SaaS revenue of $10.8 million and an increase in Media revenue of $1.0 million. Of the $10.8 million increase in SaaS revenue, $8.5 million was largely generated from new launches of active clients utilizing our platform and solutions since the prior year period. The remaining $2.3 million increase was generated from existing clients due to increased subscriptions of our products and offerings and a one-time termination fee from an existing client. For the six months ended October 31, 2014, net new active client launches were 125 and our active client retention rate was 89.8% compared to net new active client launches additions of 95 and active client retention rate of 94.4% for the six months ended October 31, 2013. For the six months ended October 31, 2014, our client retention rate was lower as we reduced our client count by 23 clients which represents an adjustment for previous fiscal quarters due to Connections only clients who converted to a Freemium model and clients from the

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Shopzilla asset purchase which were a part of the PowerReviews divestiture. Further, the reduction in the client count also included certain clients from our FeedMagnet acquisition whose contracts expired. The annual subscription fees for these clients were not significant. Our client retention rates can be impacted due to a variety of reasons including, but not limited to, non-renewals, renewals at less or more favorable terms, and the cyclical and discretionary nature of marketing and advertising spending. SaaS revenue per active client (in thousands) was $74.9 for the six months ended October 31, 2014 compared to SaaS revenue per active client (in thousands) of $84.5 for the six months ended October 31, 2013.

Cost of Revenue and Gross Profit Percentage

	Six Months Ended October 31,		
	2014	2013	% Change
	(dollars in thousands)		
Cost of revenue	$ 33,770	$ 24,625	37.1%
Gross profit	59,532	56,842	4.7
Gross profit percentage	63.8%	69.8%	

Cost of revenue increased $9.1 million, or 37.1%, for the six months ended October 31, 2014 compared to the six months ended October 31, 2013. This increase was primarily due to increases of $3.0 million in costs associated with hosting services due to an increase in the volume of impressions and $3.8 million in personnel related expenses due to an increase in headcount to support more diverse product offerings for the six months ended October 31, 2014. Additional increases include $0.9 million in professional fees and travel, $0.8 million in allocated overhead expenses and $0.2 million in facility-related expenses and depreciation. Our cost of revenue for the six months ended October 31, 2014 includes $0.4 million of amortization of developed technology acquired from FeedMagnet.

Operating Expenses

	Six Months Ended October 31,				
	2014		2013		
	Amount	% of Revenue	Amount	% of Revenue	% Change
	(dollars in thousands)				
Sales and marketing	$ 39,926	42.8%	$ 41,833	51.3%	(4.6)%
Research and development	19,036	20.4	18,717	23.0	1.7
General and administrative	15,993	17.1	12,175	14.9	31.4
Acquisition-related and other	2,818	3.0	15,787	19.4	(82.1)
Amortization of acquired intangible assets	619	0.7	565	0.7	9.6
Total operating expenses	$ 78,392	84.0%	$ 89,077	109.3%	(12.0)%

Sales and marketing. Sales and marketing expenses decreased by $1.9 million, or 4.6%, for the six months ended October 31, 2014 compared to the six months ended October 31, 2013. For the six months ended October 31, 2014, personnel-related expenses decreased by $2.3 million due to a decrease in headcount as we continue to leverage our more experienced sales force. Professional services decreased by $1.2 million due to decreased use of third-party contractor resources. These decreases were offset by a $1.1 million increase in marketing expenses as we hosted our annual marketing event Bazaarvoice Summit for current and prospective clients during the six months ended October 31, 2014 and a $0.2 million increase in other expenses associated with the event. The Company hosted the last Bazaarvoice Summit in March 2013. A benefit of $0.3 million was realized during the six months ended October 31, 2013 due to the decrease in fair value of the liability for contingent consideration related to the acquisition of Longboard media as the payout was estimated to be zero as of October 31, 2013.

Research and development. Research and development expenses increased $0.3 million, or 1.7%, for the six months ended October 31, 2014 compared to the six months ended October 31, 2013. This increase was primarily due to an increase in professional fees of $0.6 million resulting from an increased use of third-party contractor resources to supplement our research and development efforts and training programs and a $0.5 million increase in allocated overhead expenses and facilities-related expenses. These increases were partially offset by a decrease of $0.8 million in personnel-related expenses.

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General and administrative. General and administrative expenses increased $3.8 million, or 31.4%, for the six months ended October 31, 2014 compared to the six months ended October 31, 2013. The increase was primarily from a benefit of $3.6 million realized during the six months ended October 31, 2013 due to the decrease in fair value of the liability for contingent consideration related to the acquisition of Longboard Media as the payout was estimated to be zero as of October 31, 2013. During the six months ended October 31, 2014, a $0.6 million increase in bad debt expense was partially offset by a benefit of $0.4 million representing a reduction in our estimated liability recorded in fiscal year 2013 in connection with our treatment of certain stock option grants.

Acquisition-related and other. Acquisition-related and other expenses decreased $13.0 million, or 82.1%, for the six months ended October 31, 2014 compared to the six months ended October 31, 2013. This decrease was primarily due to the completion of the U.S Department of Justice suit in the six months ending October 31, 2014 related to our acquisition of PowerReviews. We incurred $2.8 million in legal fees and other expenses for the six months ended October 31, 2014 primarily due to legal and advisory costs incurred to comply with our ongoing obligations from the divesture of the PowerReviews business and the shareholder derivative action filed in connection with the acquisition of PowerReviews. For the six months ended October 31, 2013, we incurred $15.8 million in legal and advisory fees primarily due to the U.S. Department of Justice suit related to our acquisition of PowerReviews.

Amortization of acquired intangibles. The amortization of acquired intangible assets represents amortization of acquired customer relationship intangible assets from FeedMagnet and Longboard Media. Due to the presentation of PowerReviews as discontinued operations as of April 30, 2014, the related amortization expense of the PowerReviews intangible assets for the six months ended October 31, 2013 is now included as a component of loss from discontinued operations, net of tax. Amortization from continuing operations is presented separately in the statement of operations and was $0.6 million for the six months ended October 31, 2014 and 2013. The $0.1 million increase in amortization expense for the six months ended October 31, 2014 was due to the amortization of FeedMagnet customer relationships which was acquired on April 15, 2014.

Other Expense, Net

	Six Months Ended October 31,				
	2014		2013		
	Amount	% of Revenue	Amount	% of Revenue	% Change
	(dollars in thousands)				
Interest income	$ 16	%	$ 112	0.1%	(85.7)%
Interest expense	(482)	(0.5)%	(32)	(0.0)%	1,406.3%
Other expense	(620)	(0.7)	(326)	(0.4)	90.2
Total other expense, net	$ (1,086)	(1.2)%	$ (246)	(0.3)%	341.5%

Total other expense, net, increased by $0.8 million in the six months ended October 31, 2014 compared to the six months ended October 31, 2013 primarily due to inclusion of $0.5 million of interest expense on the $27.0 million revolving line of credit for the six months ended October 31, 2014 and an increase of $0.3 million in realized gains and losses on transactions in foreign currencies.

Income Tax Expense (Benefit)

	Six Months Ended October 31,				
	2014		2013		
	Amount	% of Revenue	Amount	% of Revenue	% Change
	(dollars in thousands)				
Income tax expense (benefit)	$ 270	0.3%	$ (261)	(0.3)%	203.4%

Income tax expense increased by $0.5 million in the six months ended October 31, 2014 compared to the six months ended October 31, 2013 due to an estimated increase in foreign and state taxes payable. Further, the six months ended October 21, 2013 included a benefit of $0.4 million from the 2013 Texas state research and development tax credit, which was enacted in the first quarter of fiscal year 2014.

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Liquidity and Capital Resources

Our principal source of liquidity at October 31, 2014 consisted of $81.5 million of cash and cash equivalents and short term investments. Cash and cash equivalents consist of cash, money market funds and municipal bonds. Our short-term investments consist of certificates of deposit, municipal bonds, commercial paper and U.S. Treasury securities. As of October 31, 2014, the amount of cash and cash equivalents held by foreign subsidiaries was $4.6 million. If these funds are needed for our domestic operations, we would be required to accrue and pay U.S. taxes to repatriate these funds. However, our intent is to permanently reinvest these funds outside the U.S. and our current plans do not demonstrate a need to repatriate them to fund our domestic operations. We do not provide for federal income taxes on the undistributed earnings of our foreign subsidiaries.

On February 21, 2014, we drew down $27.0 million of the unused balance of the revolving line of credit. The funds were largely used for general corporate purposes and for the acquisition of FeedMagnet in fiscal year 2014. On July 2, 2014, we completed the sale of PowerReviews for total consideration of $30.0 million and received $25.5 million in cash. On November 21, 2014, we entered into a $70.0 million secured revolving credit facility pursuant to an Amended and Restated Credit Agreement (the Credit Agreement) dated as of November 21, 2014. The Credit Agreement amended and restated the Company s prior $30.0 million secured revolving credit facility pursuant to a loan and security agreement dated July 18, 2007. On November 21, 2014, we drew down $57.0 million of the unused balance of the Credit Agreement, of which, $27.0 million was used to repay the $27.0 million drawn down from February 21, 2014. Our principal needs for liquidity include funding our operating losses, working capital requirements, capital expenditures, repaying our outstanding revolving line of credit and acquisitions. We believe that our available resources are sufficient to fund our liquidity requirements for at least the next 12 months.

Further, 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, our needs to expand our existing infrastructure and facilities, the timing and extent of spending to support product development efforts, the timing of introductions of new features and enhancements to our social commerce platforms and future acquisitions of, or investments in, complementary businesses and technologies. The timing, frequency, and pattern of our billing mix can also impact our operating cash flows. To the extent that existing cash, cash equivalents and short-term investments along with future cash flow from operations are insufficient to fund our future activities, we may need to raise additional funds through public or private equity or debt financing. Additional funds may not be available on terms favorable to us or at all.

We typically invoice our new and existing SAAS business clients for our subscription services in a varying mix of frequencies such as; monthly, quarterly, semiannual and annual billings. Increases in new client launches lead to increased billings, which in turn also increases our accounts receivable. The operating cash flow benefit of increased billing activity generally occurs in the subsequent quarters when we collect from our clients.

An increase in accounts receivable due to the factors described above also causes an increase in days sales outstanding (DSO), which is calculated by dividing period end accounts receivable by average daily sales for the fiscal quarter. DSO was 78 days for the three months ended October 31, 2014 compared to 64 days for the three months ended October 31, 2013.

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

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

	Six Months Ended October 31, 2014	2013
	(in thousands)	
Net cash used in operating activities	$ (12,145)	$ (21,589)
Net cash provided by investing activities	10,742	16,397
Net cash provided by financing activities	2,800	7,483

Net Cash Used in Operating Activities

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

For the six months ended October 31, 2014, operating activities used $12.1 million of cash after changes in our operating assets and liabilities, offsetting a net loss of $21.5 million, which included non-cash depreciation and amortization of $6.1 million, non-cash loss on disposal of discontinued operations, net of tax, of $1.5 million, non-cash stock-based expense of $6.6 million and non-cash bad debt and other non-cash expense of $1.4 million. Accounts receivable, prepaid expenses and other current assets and other non-current assets increased $2.9 million. A decrease of $3.8 million in accrued expenses and other current liabilities, other long-term liabilities and deferred revenue was partially offset by a $0.5 million increase in accounts payable; resulting in a net decrease of $6.2 million due to changes in operating assets and liabilities. Included in changes for accrued liabilities and accounts payable was $2.7 million which was spent on legal and advisory fees for the divestiture of PowerReviews.

For the six months ended October 31, 2013, operating activities used $21.6 million of cash after changes in our operating assets and liabilities partially offset a net loss of $31.5 million. Changes in our operating assets and liabilities included non-cash depreciation and amortization of $7.3 million, non-cash stock-based expense of $7.7 million, a non-cash benefit related to the revaluation of contingent consideration of $3.3 million, non-cash bad debt expense of $0.6 million, a non-cash tax benefit related to stock-based expense of $0.1 million and other non-cash expense of $0.2 million. Accounts receivable and other non-current assets increased $2.5 million. A decrease of $4.5 million in deferred revenue and other long-term liabilities accounts payable was offset by a $4.5 million in accrued expenses and other current liabilities; resulting in a net decrease of $2.5 million in operating assets and liabilities. Included in changes for accrued liabilities and accounts payable was $14.0 million which was spent on legal and advisory fees for the DOJ suit related to our acquisition of PowerReviews.

Net Cash Provided by Investing Activities

Our primary investing activities have consisted of acquisitions, purchases of short-term investments and property and equipment, including technology hardware and software to support our growth as well as costs capitalized in connection with the development of our internal-use hosted software platform. Purchases of property and equipment may vary from period to period due to the timing of the expansion of our operations and the development cycles of our internal-use hosted software platform. We expect to continue to invest in short-term investments, property and equipment and developing our software platform for the foreseeable future.

For the six months ended October 31, 2014, investing activities provided $10.7 million which included $25.5 million from the sale of the PowerReviews business offset by $8.0 million of purchases of short term investments, net sales and maturities of short term investments, $6.3 million in purchases of property, equipment and capitalized internal-use software development costs, and a $0.5 million increase in restricted cash.

For the six months ended October 31, 2013, investing activities provided $16.4 million, including $22.8 million of proceeds from the maturities and sales of short term investments, net of purchases of short term investments, offset by $6.2 million in purchases of property, equipment and capitalized internal-use software development costs and a $0.2 million purchase of an intangible asset.

Net Cash Provided by Financing Activities

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

For the six months ended October 31, 2014, financing activities provided $2.8 million due to proceeds of $1.6 million from the exercise of options to purchase our common stock and contributions of $1.2 million to our Employee Stock Purchase Plan.

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For the six months ended October 31, 2013, financing activities provided $7.5 million primarily due to proceeds of $6.0 million from the exercise of options to purchase our common stock and contributions of $1.4 million to our Employee Stock Purchase Plan.

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. On November 13, 2014, we entered into a new lease (the Lease), pursuant to which we will lease approximately 137,615 square feet of office space in Austin, Texas. This will serve as the new headquarters of the Company and will be used for general office purposes. The term of the Lease commences on January 1, 2016 unless otherwise modified and terminates approximately ten years and six months thereafter. We do not have any 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.

Obligations arising from unrecognized tax benefits are not included in the contractual obligations because it is expected that the unrecognized benefits would result in an insignificant amount of cash payments as we have generated net operating losses.

On July 18, 2007, we entered into a loan and security agreement (Loan Agreement) with a financial institution, which was most recently amended in June 2013. As amended, the Loan Agreement provides for a revolving line of credit with a borrowing capacity of up to 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 $2.7 million sublimit for corporate credit card and letter of credit services.

As of October 31, 2014 and April 30, 2014, we had drawn down $1.6 million in the form of a letter of credit as security deposits for our leased corporate headquarters. As of October 31, 2014, we had drawn down an additional $0.3 million in the form of a letter of credit as security deposits for our lease San Francisco office space. On February 21, 2014, we drew down $27.0 million of the unused balance of the revolving line of credit. The outstanding loan balance is subject to all terms and conditions described above in the Loan Agreement and its subsequent amendments. The unused balance of the revolving line of credit was $1.1 million and $1.4 million as of October 31, 2014 and April 30, 2014, respectively. 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 (defined as the financial institution s daily adjusting LIBOR rate plus 2.5%), 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 and our subsidiaries ability 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 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. We were in compliance with all financial covenants as of October 31, 2014 and April 30, 2014.

On November 21, 2014, we entered into a $70.0 million secured revolving credit facility (the Credit Facility), with a sublimit of $3.0 million for the incurrence of swingline loans and a sublimit of $15.0 million for the issuance of letters of credit pursuant to an Amended and Restated Credit Agreement between us, the lenders party thereto and Comerica Bank, as administrative agent, sole lead arranger and sole bookrunner (the Credit Agreement). The Credit Agreement amended and restated the Loan Agreement, as amended. Borrowings under the Credit Agreement are collateralized by substantially all of our assets and bear interest at the adjusted LIBOR rate plus 3.5%. On November 21, 2014, we drew down $57.0 million of the unused balance of the Credit Agreement, of which, $27.0 million was used to repay the entire outstanding balance on the Loan agreement. On December 4, 2014, the Company drew down $8.0 million in the form of a letter of credit under the Credit Facility as a security deposit for the Lease, resulting in an unused balance of the Credit Facility of $3.1 million. The Credit Facility expires and all interest and principal thereunder is payable in full on November 21, 2017 (See Note 12).

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 and, on October 29, 2014, the standby letter of credit for credit card services was increased to $1.0 million. This letter of credit expires annually and the pledged security interest is recorded as short-term restricted cash in our condensed consolidated 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.

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Critical Accounting Policies and the Use of Estimates

Preparation of our condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. We believe the most complex and sensitive judgments, because of their significance to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Management s Discussion and Analysis and Note 2 to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended April 30, 2014, filed on June 26, 2014 describe the significant accounting estimates and policies used in the preparation of our condensed consolidated financial statements. Actual results in these areas could differ from management s estimates. During the six months ended October 31, 2014, there were no significant changes in our critical accounting policies or estimates from those reported in our Annual Report on Form 10-K for the fiscal year ended April 30, 2014, filed on June 26, 2014.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Sensitivity

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

Foreign Currency Risk

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

We assess the market risk of changes in foreign currency exchange rates utilizing a sensitivity analysis that measures the potential impact on earnings, 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 liabilities, principally accounts receivable and intercompany balances, as of October 31, 2014, would be immaterial.

We have entered into forward exchange contracts to partially hedge our exposure to these foreign currencies. We do not enter into any derivative financial instruments for trading or speculative purposes. We may enter into additional forward exchange contracts to further contain our exposure to foreign currencies fluctuations. To date, we have hedged against some of the fluctuations in currency exchange rates, however fluctuations in exchange rates could still cause harm to 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 disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of October 31, 2014. 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

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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 October 31, 2014, management concluded that our disclosure controls and procedures were effective as of October 31, 2014.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the six months ended October 31, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to legal proceedings and litigation arising in the ordinary course of business which from time to time might include intellectual property and privacy litigation matters, including class action lawsuits. Although occasional adverse decisions or settlements may occur, we do not believe that the final disposition of any of these matters will have a material effect on our business. Certain of these matters include speculative claims for substantial or indeterminate amounts of damages, and could include claims for injunctive relief. We record a liability when we believe that it is both probable that a loss has been incurred and the amount can be reasonably estimated. Periodically, we evaluate developments in our legal matters that could affect the amount of liability that has been previously accrued, if any, and make adjustments as appropriate. Significant judgment is required to determine both likelihood of there being, and the estimated amount of, a loss related to such matters, and our judgment may be incorrect. The outcome of any proceeding is not determinable in advance. Until the final resolution of any such matters that we may be required to accrue for, there may be an exposure to loss in excess of the amount accrued and such amounts could be material.

There have been and continue to be regulatory developments that affect our industry. For example, the Federal Trade Commission has directed attention to compensated blogging, endorsements and reviews and state, U.S. federal and international government agencies have become increasingly focused on privacy in social networks and social commerce, including with respect to collection and use of personally identifiable information and the deployment and use of cookies. In addition, with respect to our clients that are in regulated industries, such as banking and finance or healthcare, our activities may be subject to the regulations governing such businesses.

On June 12, 2012, we acquired PowerReviews, Inc. (PowerReviews), a provider of social commerce solutions based in San Francisco, California. The total consideration paid for this transaction was $150.8 million, including the issuance of 6.4 million shares of our common stock and assumption of vested and unvested options to purchase the common stock of PowerReviews equivalent to options to purchase 1.7 million shares of our common stock, but excluding the potential cash proceeds that may arise from the exercise of these assumed options. On January 10, 2013, the U.S. Department of Justice (the DOJ) filed a complaint against us with the U.S. District Court for the Northern District of California, San Francisco Division (the Court), alleging that our acquisition of PowerReviews violated Section 7 of the Clayton Act, 15 U.S.C. Section 18 and seeking the divestiture of assets sufficient to create a competing business that can replace the competitive significance of PowerReviews in the marketplace. On January 8, 2014, the Court ruled that our acquisition of PowerReviews violated Section 7 of the Clayton Act, 15 U.S.C. Section 18. On April 24, 2014, we entered into a Joint Stipulation with the DOJ to resolve the DOJ s claims in the antitrust action challenging the acquisition of PowerReviews and, together with the DOJ, we submitted a proposed order to the Court (the Order). Under the terms of the Joint Stipulation and the Order, we were required to divest all of the assets of the PowerReviews business. On June 4, 2014, we entered into a definitive agreement to divest PowerReviews, LLC, the successor to PowerReviews, to Wavetable Labs, LLC (Wavetable) for $30.0 million in cash, $4.5 million of which is to be held in escrow as partial security for the our indemnification obligations under the definitive agreement. The terms of this transaction were approved by the DOJ on June 26, 2014, and the transaction was completed on July 2, 2014. Wavetable subsequently changed its name to PowerReviews. We have recorded a total loss on disposal of $10.7 million.

On March 12, 2013, a purported shareholder derivative action was filed in the Texas State District Court for Travis County, Texas against certain of our officers and directors, former officers and directors, and against us as nominal defendant in *Edmans v. Hurt et al.*, Case No. D-1-GN-13-000874. The original petition in this matter alleged claims purportedly on behalf of us against the individual defendants for corporate waste, breaches of fiduciary duties and breaches of our corporate policies in connection with the acquisition of PowerReviews and certain of our officers and directors sales of shares of our stock. The original petition requested declaratory judgment, a disgorgement of $91.4 million in proceeds received from such sales of our stock, unspecified damages on behalf of us, reasonable attorneys , accountants and experts fees, and equitable relief. On October 23, 2013, the court granted a motion filed by us and individual defendants and ruled that the plaintiff s original petition failed to allege particularized facts sufficient to excuse plaintiff from making pre-suit demand on our Board of Directors. The court ordered the plaintiff to file an amended complaint within 30 days setting forth particularized facts sufficient to excuse demand. On November 22, 2013, the plaintiff filed its amended petition, which again asserted claims for corporate waste, breaches of fiduciary duties and breaches of our corporate policies in connection with the acquisition of PowerReviews and certain of our officers and directors sales of shares of our stock. We filed a motion for summary judgment asserting that the amended petition failed to cure the defects in the original petition. The court stayed the lawsuit and its ruling on the motion for summary judgment to allow the parties to participate in mediation. On July 9, 2014, the parties attended mediation and agreed to preliminary settlement terms which were later reduced to a comprehensive settlement agreement. On September 23, 2014, the court preliminarily approved the settlement agreement and directed us to notify our shareholders of the proposed settlement, a final hearing on November 24, 2014, and a motion for attorneys fees and expenses. On November 24, 2014, the court signed a Final Judgment approving of the notice to shareholders, approving of the proposed settlement and payments to plaintiff and plaintiff s counsel, and dismissing all claims arising out of, relating to, or concerning the PowerReviews acquisition or divestiture, any reports, disclosures, or statements made by our current or former directors or officers in relation to the PowerReviews acquisition or divestiture, or any matter that could have been asserted in the lawsuit or any other action or proceeding regarding allegations of breach of fiduciary duty or allegations relating to or arising out of any act, statement, omission, transaction, event, or circumstance in relation to the PowerReviews acquisition or divestiture. The settlement did not have a material impact on our condensed consolidated financial statements.

On August 20, 2014, we were informed that the DOJ was investigating whether we retained any PowerReviews technology in violation of the Joint Stipulation and Order. This matter has been resolved by an agreement between us and the DOJ to modify the Proposed Final Judgment through the addition of terms relating to the appointment of an antitrust compliance officer. These agreed modifications to the Proposed Final Judgment were filed with the Court on December 1, 2014 and the Final Judgment was entered by the Court on December 2, 2014.

Item 1A. Risk Factors

We have 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 continue to enhance our software architecture to allow us to efficiently and cost effectively develop and implement new solutions, make our solutions easy to implement, ensure 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 net losses of $52.8 million and $47.5 million from continuing operations during fiscal years 2014 and 2013, respectively. As of October 31, 2014, we had an accumulated deficit of $213.5 million which also includes losses from discontinued operations. The losses and accumulated deficit were due to the substantial investments we made to grow our business and acquire clients. Expenses associated with the integration of the clients, employees and operations of acquired companies into our business could further delay our profitability. We anticipate that our operating expenses will increase substantially in the foreseeable future as we continue to invest to grow our business and acquire clients, develop our platforms and develop new products and solutions. These efforts may prove more expensive and more difficult than we currently anticipate, and we may not succeed in increasing our revenue sufficiently to offset these higher expenses. Many of our efforts to generate revenue from our business are new and unproven, and any failure to increase our revenue or generate revenue from new products and solutions could prevent us from attaining or increasing profitability. Furthermore, to the extent we are successful in increasing our client base; we could also incur increased losses because costs associated with entering into client agreements are generally incurred up front, while revenue is generally recognized ratably over the term of the agreement. Additionally, we currently sell our products on a fixed price basis. However, many of the third-party costs associated with providing our products are subject to variable pricing. We cannot be certain that we will be able to attain or increase profitability on a client-by-client basis or on a quarterly or annual basis. If we are unable to effectively manage these risks and difficulties as we encounter them, our business, financial condition and results of operations may suffer.

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. Other social commerce solutions we have developed or acquired include Connections Solutions, Analytics Solutions, BV Local and Curations. If we are unable to continue developing enhanced features for these solutions 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.

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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.

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 or may seek to develop such solutions internally. 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 could 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 across the regions we serve that provide third-party social commerce solutions, including but not limited to companies such as PowerReviews (formerly named Wavetable), Pluck, Reevoo, eKomi, Yotpo, Rating System and Gigya. As a result of our divestiture of the PowerReviews business, our competition with PowerReviews (formerly Wavetable) may likely become more intense. 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 Amazon, Google and Facebook, which could expand their platforms or acquire one or more of our competitors. While these companies do not currently focus on our market, they have significantly greater financial resources and, in the case of Amazon and Google, a longer operating history. They may be able to devote greater resources to the development and improvement of their services than we can and, as a result, they may be able to respond more quickly to technological changes and clients changing needs. Because our market is changing rapidly, it is possible that new entrants, especially those with substantial resources, more efficient operating models, more rapid product development cycles or lower marketing costs, could introduce new solutions that disrupt the manner in which businesses use online word of mouth and engage with consumers online to address the needs of our clients and potential clients. Our business and operating results could be harmed if any such disruption occurs.

We believe we compete primarily on the basis of product breadth and functionality, scope, quality and breadth of client base, amount and quality of content, service, price, reputation and the efficiency of our operating model. Our competitors or potential competitors 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 models or new or disruptive technologies, or as clients develop internal solutions for their social commerce needs, we may be unable to renew our agreements with existing clients or attract new clients at the same price or based on the 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 or existing clients;

- our ability to sell additional solutions, including our media 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, increased competition, the timing of larger sales opportunities and other factors affecting our sales in each of these regions;

- 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;

- our ability, and the ability of our clients, to timely and effectively 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;

increases in our hosting costs, which could result in advance payments to our hosting vendors, due to variations in demand for storage capacity and computing consumption without a corresponding increase in pricing from our existing clients;

the timing, frequency and pattern of our billing mix;

our ability to adjust our cost structure, particularly our personnel costs, in response to reductions in revenue;

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

seasonal variations and unpredictability in our clients advertising budgets;

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

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

changes in our active client retention rates;

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;

unforeseen litigation costs and related settlement costs, particularly those related to intellectual property infringement and our obligation to fulfill related client indemnification obligations and regulatory investigations or restructuring activities, including settlement costs and regulatory penalties assessed related to government enforcement actions;

our ability to accurately estimate state and local sales tax obligations and to collect such actual amounts from our clients;

our ability to accurately estimate payroll and related taxes for wages and equity transactions;

our ability to accurately estimate bonus and other incentive payments to key employees based on performance and market conditions;

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

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

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

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

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

Our active client retention rates may decline in the future due to a variety of factors, including:

- the availability, price, performance and functionality of our solutions and competing products and services;
- our ability to demonstrate to 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 which can be cyclical, reflecting overall economic conditions as well as budgeting and discretionary buying patterns;
- the timing and quality of ratings and reviews posted to our clients websites and the existence of negative reviews;
- changes in key personnel at our clients;
- reductions in our clients spending levels;

- consolidation in our client base;
- the development by our clients of internal solutions for their social commerce needs; and
- the effects of economic downturns and global economic conditions.

We incur most of our client acquisition costs at the time of sale. Depending upon the scope of the client s needs, these costs can be significant. In certain cases, clients may have the right to terminate or cancel agreements with us if we fail to maintain service level requirements or we are otherwise in breach under the client agreements. If a client does not renew or cancels its agreement with us or we are otherwise required to provide price concessions to retain the client, we may not recognize sufficient revenue from that client prior to the termination or cancellation to offset the acquisition costs associated with that client. If the cost to acquire clients is greater than the revenue we generate over time from those clients, our business and operating results may be harmed.

In addition, our costs associated with maintaining and increasing revenue from existing clients may be lower than costs associated with generating revenue from new clients. Therefore, the loss of recurring revenue or a reduction in the rate of revenue increase from our existing clients, even if offset by an increase in revenue from new clients, could have a material adverse effect on our operating results.

We face risks associated with our acquired companies that may adversely impact our operating results.

In November 2012, we acquired Longboard Media, a full service media network for retailers, shopping publishers and advertisers based in San Francisco, California. In April 2014, we acquired FeedMagnet, a privately-owned social media curation company that enables brands to collect, curate and display consumer-generated images, video and social content on their websites and other marketing priorities. We may not successfully evaluate, utilize or integrate the acquired products, technologies or personnel, or accurately forecast the financial impact of the acquisitions, including accounting charges or the impact on our existing business. The acquisitions of Longboard Media and FeedMagnet have provided us with new lines of business and/or products that may result in unforeseen operating difficulties and expenditures. External factors, such as competition from companies with greater resources and experience and our clients willingness to purchase new and different services from us, may also limit our ability to make further investment in this business in order to take full advantage of these product opportunities available to us. Accordingly, we may not realize the potential benefits of the acquisitions.

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

After the completion of our acquisition of PowerReviews, the DOJ filed a complaint against us with the U.S. District Court for the Northern District of California, San Francisco Division (the Court) alleging that our acquisition of PowerReviews violated Section 7 of the Clayton Act, 15 U.S.C. Section 18, and seeking the divestiture of assets sufficient to create a competing business that can replace the competitive significance of PowerReviews in the marketplace. On January 8, 2014, the Court ruled that our acquisition of PowerReviews violated Section 7 of the Clayton Act, 15 U.S.C. Section 18. On April 24, 2014, we entered into a Joint Stipulation with the DOJ to resolve the DOJ s claims in the antitrust action challenging the acquisition of PowerReviews and, together with the DOJ, we submitted the Order to the Court. Under the terms of the Joint Stipulation and the Order, we were required to divest all of the assets of the PowerReviews business. On June 4, 2014, we entered into a definitive agreement to divest PowerReviews, LLC, the successor to PowerReviews, to Wavetable Labs, LLC (Wavetable) for $30.0 million in cash, $4.5 million of which is to be held in escrow as partial security for the Company s indemnification obligations under the definitive agreement. The terms of this transaction were approved by the DOJ on June 26, 2014, and the transaction was completed on July 2, 2014. Wavetable subsequently changed its name to PowerReviews. As a result of this divestiture, we expect to experience in the short term a decrease in our SaaS revenues and a negative impact on our adjusted EBITDA and our progress towards profitability and positive operating cash flows. In addition, competition in the social commerce solutions market will become more intense as a result of this divestiture. We will also have ongoing obligations arising as a result of the terms of the Joint Stipulation with the DOJ, the Order and the divestiture agreement with PowerReviews. If we fail to comply with these obligations, our business could be adversely affected. For example, on August 20, 2014, we were informed that the DOJ is investigating whether we retained any PowerReviews technology in violation of the Joint Stipulation and Order. This investigation has now been closed. This matter has been resolved by an agreement between us and the DOJ to modify the Proposed Final Judgment through the addition of terms relating to the appointment of an antitrust compliance officer. These agreed modifications to the Proposed Final Judgment were filed with the Court on December 1, 2014 and the Final Judgment was entered by the Court on December 2, 2014.

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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. In addition, at this time we cannot accurately predict the impact the divestiture of PowerReviews and the ongoing obligations related thereto may have on our future performance. 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 schedules. As a result, as we have experienced in the past, if our clients do not allocate internal resources necessary to meet their implementation responsibilities or if we face unanticipated implementation difficulties, the implementation may be delayed and/or cancelled. Further, in the past, our implementation capacity has at times constrained our ability to successfully and timely implement our solutions for our clients, particularly during periods of high demand. If the client implementation process is not executed successfully or if execution is delayed, whether due to our clients or our capacity constraints, we could incur significant costs prior to generating revenue and our clients may delay their payment to us, and our relationships with some of our clients may be adversely affected. In addition, competitors with more efficient operating models with lower implementation costs could penetrate our client relationships.

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

Our management team has worked together at the Company for only a limited period of time and has a limited track record of executing our business plan as a team. In addition, we have recently filled a number of positions in our senior management. Accordingly, certain key personnel have only recently assumed the duties and responsibilities they are now performing, and it is difficult to predict whether our management team, individually and collectively, will be effective in operating our business. In addition, our Chief Executive Officer assumed his current position on January 31, 2014, becoming our third Chief Executive Officer in an 18 month period. These changes may cause speculation and uncertainty regarding our future business strategy and direction and may cause or result in:

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

stock price volatility; and

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

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

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

Our success depends in large part on our ability to retain and attract high-quality management and operating personnel. We do not maintain key person life insurance policies on any of our employees. We may not be able to offset the impact on our business of the loss of the services of one or more of our executive officers or key employees. Our business also requires skilled technical and sales personnel, who are in high demand and are often subject to competing offers. As we expand into new vertical and geographic markets, we will require personnel with expertise in these new areas. Competition for qualified employees is intense in our industry and particularly in Austin, Texas, where most of our employees are based. We continue to experience increased employee turnover since our initial public offering and have incurred additional expenses as a result. An inability to retain, attract, relocate and motivate additional highly skilled employees required for the operation and planned expansion of our business, could harm our operating results

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and impair our ability to grow. To retain and attract key personnel, we use various measures, including an equity incentive program and incentive bonuses for executive officers and other key employees. These measures may not be sufficient to retain and attract the personnel we require to operate our business effectively. A significant portion of the stock options held by our employees have exercise prices that are higher than the current market price for our common stock. As a result, such stock options may no longer provide additional incentive for our employees to remain employed by us and we may be required to issue additional equity grants to retain key employees. In addition, in making employment decisions, particularly in the 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.

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

Since our inception, we have experienced growth, which has increased the complexity of our operations. As our operations have expanded, we have grown from 640 full-time employees at April 30, 2012 to 814 full-time employees at October 31, 2014. We have increased the size of our client base from 782 active clients at April 30, 2012 to 1,258 active clients at October 31, 2014. 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 social commerce solutions primarily through subscription agreements and generally recognize revenue ratably over the related subscription period, which is typically one year. As a result, some portion of the revenue we report in each quarter is revenue from contracts entered into during prior quarters. Consequently, a decline in the revenue recognizable under contracts for new active clients signed in any quarter or a decline in the growth rate of revenue recognizable under contracts signed in any quarter will not be fully and immediately reflected in the revenue of that quarter and would negatively affect our revenue in future quarters. In addition, we may be unable to adjust our cost structure rapidly, or at all, to take account of this reduced revenue.

Our sales cycle can be long and unpredictable and require considerable time and expense, which may cause our operating results to fluctuate. Additionally, if we do not continue to identify and qualify new clients, our ability to grow our revenue may be adversely effected.

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.

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

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, and the introduction of new solutions or pricing models. 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.

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

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

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 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 and services, we may not be able to increase our revenue through our media services, analytics and other data solutions. Additionally, if the costs to obtain the rights to utilize the data are high, our results of operations could be adversely effected.

Our ability to optimize the placement and scheduling of advertisements for our media clients and to grow our revenue through analytics and other data solutions depends on our ability to successfully leverage data that we and our clients collect and manage through the use of our solutions and services. Our ability to successfully leverage such data, in turn, depends on our ability to collect and obtain rights to utilize such data in our solutions and services and to maintain and grow our network of clients. We currently employ cookies, which are small files of non-personalized information placed on an Internet user s computer, on a limited basis with respect to our social commerce solutions and more broadly with respect to our media services. Additionally, if we introduce new pricing methodologies we may be required to implement changes to our billing and collection systems and processes which could involve the expenditure of significant time and resources. The cookies are used to collect information related to the user, such as the user s Internet Protocol, or IP, address, demographic information and history of the user s interactions with our clients and any advertisements we deliver. If we are unable to effectively utilize or introduce cookies more broadly, our ability to collect such data could be impaired.

Additionally, our ability to both collect and utilize data may be affected by a number of factors outside of our control, including increased government regulation of the collection of information concerning consumer behavior on the Internet and the increased use of technologies that allow website visitors to modify their settings to prevent or delete cookies and to sweep all cookies from their computers. Further, we currently do not own the data collected through the use of our solutions and services but currently license the data from our clients for limited aggregation purposes. If our clients decide not to allow us to collect the data or if we are not able to obtain sufficient rights to the data, we may not be able to utilize it in our solutions and services. Additionally, the costs to us related to obtaining sufficient rights to utilize this data could be high and such costs could affect our future operating results.

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

Our client relationships and overall business will suffer if we encounter significant problems migrating clients to our next-generation technology platform, or if the new platform does not meet expectations.

In fiscal year 2013, we began implementation of Conversations, our next-generation social commerce technology platform, and we intend to migrate all of our clients to this new technology platform over time. We have limited experience migrating clients from one platform to another. Given the complexity and significance of this transition, including the amount of client data within our systems that will need to be accessed and migrated, our client relationships, our reputation, and our overall business could be severely damaged if these migrations go poorly. To the extent we encounter difficulties in implementation and migration of Conversations, we may be required to incur additional costs, including research and development costs, to address issues identified during the process. In addition, we have incurred additional expenses as a result of the dual technology platforms we maintain (Conversation and our previous social commerce technology platform), and if we experience any delays or technical problems as a result of the migration to Conversations, we may incur such expenses for a much longer period of time than anticipated. Also, one of the anticipated benefits of Conversations is that client implementation times should be shortened, which should result in reduced costs and earlier revenue recognition. Delays in the launch of and migration to Conversations would result in corresponding delays in our ability to achieve these anticipated benefits and could result in client dissatisfaction. Similarly, even if the migrations go smoothly, our business operations and client relationships will be at high risk if the new platform does not meet our performance expectations, or those of our clients. All of this could harm our business in numerous ways including, without limitation, a loss of revenue, lost client contracts, and damage to our reputation.

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

As our operations have expanded, we have established and currently maintain offices in the United States, the United Kingdom, France, Germany, the Netherlands, Sweden, Singapore and Australia. 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. In addition, conducting international operations subjects us to risks, including the following:

- the cost and resources required to localize our solutions;
- competition with companies that understand the local market better than we do or who have pre-existing relationships with potential clients in those markets;
- legal uncertainty regarding the application of unique local laws to social commerce solutions or a lack of clear precedent of applicable law;
- lack of familiarity with and the burden of complying with a wide variety of other foreign laws, legal standards and foreign regulatory requirements, which are subject to unexpected changes;
- difficulties in managing and staffing key leadership positions in international operations;
- fluctuations in currency exchange rates;
- potentially adverse tax consequences, including the complexities of foreign value added tax systems and restrictions on the repatriation of earnings;

developing and maintaining the appropriate tax structure;

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

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

reduced or varied protection for intellectual property rights in some countries; and

higher telecommunications and Internet service provider costs.

Operating in international markets also requires significant management attention and financial resources. The investment and additional resources required to establish operations and manage growth in other countries may not produce desired levels of revenue or profitability.

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

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

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

We currently market our solutions to a variety of industries, including the retail, consumer products, travel and leisure, technology, telecommunications, financial services, 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, such as financial services and healthcare, have unique and complex regulatory requirements that may make it more difficult or costly for us to develop, market, sell implement or continue to develop our solutions in those markets. Moreover, our solutions may not achieve market acceptance in new markets, and our efforts to expand beyond our existing markets may not generate additional revenue or be profitable. Our inability to further penetrate our existing markets or our inability to identify additional markets and achieve acceptance of our solutions in these additional markets could adversely affect our business, results of operations and financial condition.

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

We currently depend on, and intend to pursue additional relationships with, various third parties related to product development, including technology and service providers and social media platforms, and our media services. Identifying, negotiating and documenting these relationships requires significant time and resources, as does integrating our solutions with third-party technologies. In some cases, we do not have formal written agreements with our development partners. Even when we have written agreements, they are typically non-exclusive and do not prohibit our development partners from working with our competitors or from offering competing services. Our competitors may be effective in providing incentives to third parties to favor their products or services.

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

We integrate 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.

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

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

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

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

We host our solutions and serve our clients primarily from third-party data center facilities located in Texas, Virginia and Oregon. We also utilize third-party services that deploy data centers worldwide. We do not control the operation of any of the third- party data center facilities we use. These facilities may be subject to break-ins, computer viruses, denial-of-service attacks, sabotage, acts of vandalism and other misconduct. They are also vulnerable to damage or interruption from power loss, telecommunications failures, fires, floods, earthquakes, hurricanes, tornadoes and similar events. As a result, we may in the future experience website disruptions, outages and other performance problems. Despite our efforts, the occurrence of any of these events, 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.

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

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

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

We have incurred, and will continue to incur, expenses to comply with privacy and security standards and protocols imposed by law, regulation, industry standards or contractual obligations. Increased domestic or international regulation of data utilization and distribution practices, including self-regulation, could require us to modify our operations and incur significant expense, which could have an adverse effect on our business, financial condition and results of operations. Our business, including our ability to operate and expand internationally, could be adversely affected if legislation or regulations are adopted, interpreted, or implemented in a manner that is inconsistent with our current or planned business practices and that require changes to these practices, 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. Even in cases where commercially reasonable security measures are in place, employee errors or intentional acts may be able to circumvent protections meant to secure consumer data from external threats. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose potential sales and existing clients.

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

Companies in the Internet and technology industries, and other patent, copyright and trademark holders, own large numbers of patents, copyrights, trademarks and trade secrets and frequently enter into litigation based on claims of infringement or other violations of intellectual property rights. We have received in the past, and expect to receive in the future, notices that claim we or our clients using our solutions have misappropriated or misused other parties intellectual property rights. There may be intellectual property rights held by others, including issued or pending patents, copyrights and trademarks, that cover significant aspects of our technologies, content, branding or business methods. Any intellectual property claim against us or against our clients requiring us to indemnify our clients, regardless of merit, could be time-consuming and expensive to settle or litigate and could divert our management s attention and other resources. These claims 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 access to our trade secrets and proprietary information. These agreements and the other actions we take may not provide meaningful protection for our trade secrets, know-how or other proprietary information from unauthorized use, misappropriation or disclosure. Existing copyright and patent laws may not provide adequate or meaningful protection in the event competitors independently develop technology, products or services similar to our solutions. Even if such laws provide protection, we may have insufficient resources to take the legal actions necessary to protect our interests.

Upon discovery of potential infringement of our intellectual property, we promptly take action we deem appropriate to protect our rights. Even if we do detect violations and decide to enforce our intellectual property rights, litigation may be necessary to enforce our rights, and any enforcement efforts we undertake could be time-consuming and expensive, could divert our management s attention and may result in a court determining that our intellectual property rights are unenforceable. A failure to protect our intellectual property in a cost-effective and meaningful manner could have a material adverse effect on our ability to compete.

As of October 31, 2014, we had six issued U.S. patents and 24 pending U.S. non-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 and other third-party content that is enabled and delivered by our solutions and services. If we are required to pay damages or expenses in connection with these legal claims, our operating results and business may be harmed.

Our solutions enable our clients to collect and display user-generated content, in the form of online word of mouth, on their websites and other third-party websites. We are also involved in the syndication and moderation of such content and the delivery of other forms of third-party content in connection with our media services. Consequently, in connection with the operation of our business, we face potential liability based on a variety of theories, including fraud, defamation, negligence, copyright or trademark infringement or other legal theories based on 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, moderated or delivered by us or displayed on our clients websites or social networks. These claims, whether brought in the United States, or abroad, could divert management time and attention away from our business and result in significant costs to investigate and defend, regardless of the merit of these claims. If we become subject to these or similar types of claims and are not successful in our defense, we may be forced to pay substantial damages. There is no guarantee that we will avoid future liability and potential expenses for legal claims based on the content of the materials that our solutions and services enable. Should the content enabled by our solutions and services 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.

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

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

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

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

We might require additional capital to support business growth, and this capital might not be available.

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges, including the need to develop new solutions or enhance our existing solutions and platforms, enhance our operating infrastructure and acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock, including shares of common stock sold in our initial public offering which was completed in February 2012, or our follow-on public offering, which was completed in July 2012. Any debt financing secured by us in the future would likely be senior to our common stock and could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, we may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly limited.

Our loan agreement contains operating and financial covenants that may restrict our business and financing activities and expose us to risks that could adversely affect our liquidity and financial condition.

On November 21, 2014, we entered into a secured revolving credit facility of up to $70.0 million (the Credit Facility), with a sublimit of $3.0 million for the incurrence of swingline loans and a sublimit of $15.0 million for the issuance of letters of credit pursuant to an Amended and Restated Credit Agreement dated as of November 21, 2014, among us, the financial institutions from time to time party thereto and Comerica Bank, as administrative agent, sole lead arranger and sole bookrunner. The credit agreement amended and restated our prior $30.0 million secured revolving credit facility pursuant to a loan and security agreement dated July 18, 2007, between the Company and Comerica Bank, as amended. Advances made under the credit agreement may be used for general corporate purposes and working capital purposes. Amounts repaid under the credit agreement may be reborrowed. The Credit Facility matures on November 21, 2017 and is payable in full upon maturity. If we cannot obtain the funds to repay this loan or otherwise refinance it on terms favorable to us, or at all, our liquidity and general financial condition could be adversely effected. 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;

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- 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 search engine optimization (SEO) capability could be harmed.

In connection with 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 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.

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

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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 Longboard Media in November 2012 and our acquisition of FeedMagnet in April 2014, we may support our growth through acquisitions of, or investments in, 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 clients based on their concerns regarding the acquired business or technologies; and
- additional dilution to our existing stockholders if we use our common stock as consideration for such acquisitions.

As a result of these risks, we may not be able to achieve the expected benefits of any acquisition. If we are unsuccessful in completing or integrating acquisitions, we may be required to reevaluate our growth strategy and we may incur substantial expenses and 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 October 31, 2014, we had federal net operating loss carry-forwards of $205.6 million due to prior period losses, which expire beginning in 2027. We also have federal research tax credit carry-forwards of approximately $4.8 million that will begin to expire in 2027. As of October 31, 2014, we had state net operating loss carry-forwards of $98.2 million, which will begin expiring in 2016 if not utilized, and research and development credits of $1.7 million, of which a portion will begin expiring in 2034 and a portion will not expire. Realization of these net operating loss and research tax credit carry-forwards depends on many factors, including our future income. There is a risk that due to regulatory changes or unforeseen reasons our existing carry-forwards could expire or otherwise be unavailable to offset future income tax liabilities, which would adversely affect our operating results. In addition, under Section 382/383 of the Internal Revenue Code of 1986, as amended, or the Code, if a corporation undergoes an ownership change, the corporation s ability to use its pre-change net operating loss carry-forwards and other pre-change tax attributes, such as research tax credits, to offset its post-change income may be limited. As a result, if we earn net taxable income, our ability to use our pre-change net operating loss carry-forwards or other pre-change tax attributes to offset U.S. federal and state taxable income may be subject to limitations.

We are exposed to fluctuations in currency exchange rates.

We face exposure to adverse movements in currency exchange rates, which may cause our revenue and operating results to differ materially from expectations. A decline in the U.S. dollar relative to foreign currencies would increase our non-U.S. revenue, when translated into U.S. dollars. Conversely, if the U.S. dollar strengthens relative to foreign currencies, our revenue would be adversely affected. Our operating results could be negatively impacted depending on the amount of expense denominated in foreign currencies. As exchange rates vary, revenue, cost of revenue, operating expenses and other operating results, when translated, may differ materially from expectations. In addition, our revenue and operating results are subject to fluctuation if our mix of U.S. and foreign currency denominated transactions and expenses changes in the future. We currently enter into forward exchange contracts and as we continue to implement hedging strategies to mitigate foreign currency risk, these strategies might not eliminate our exposure to foreign exchange rate fluctuations and would involve costs and risks of their own, such as ongoing management time and expertise, external costs to implement the strategies and potential accounting implications.

If construction of our new headquarters building is not completed on schedule or if we experience difficulties in moving to our new location, we risk increased costs and possible interruption of our business.

We entered into a long term lease for a new headquarters building that commenced construction in December 2014 and is anticipated to be completed in December 2015. We intend to move into the new building at the end of 2015. If the new headquarters facility is not completed by December 31, 2015, we do not expect our current landlord to further extend our current lease and therefore we could experience interruptions to our business while we secure a new headquarters facility. In addition, moving our headquarters is a complex, time-consuming, and expensive process that, without proper planning and effective and timely implementation, could significantly distract management from operating our business. Our inability to adequately address challenges that may arise during this transition could have an adverse effect on our business and results of operations.

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

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

As a public company, we are also required, under Section 404 of the Sarbanes-Oxley Act (Section 404), to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting. This assessment 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 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 through April 30, 2017, which would be the last day of the fiscal year following the fifth anniversary of our initial public offering, although if the market value of our common stock that is held by non-affiliates exceeds $700 million as of any October 31 before February 23, 2017, we would cease to be an emerging growth company at the end of that fiscal year.

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

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management s time and attention from revenue-generating

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activities to compliance activities. Greater expenditures may be necessary in the future with the advent of new laws, regulations and stock exchange listing requirements pertaining to public companies, particularly after we are no longer an emerging growth company. Moreover, if we are not able to comply with the requirements of new compliance initiatives in a timely manner, the market price of our stock could decline, and we could be subject to investigations and other actions by the SEC and The NASDAQ Stock Market LLC, or other regulatory authorities, which would require additional financial and management resources. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us and our business may be harmed.

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 owned approximately 54.6% of our common stock outstanding as of October 31, 2014. 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 78,634,797 outstanding shares of common stock as of December 1, 2014. Shares beneficially owned by our affiliates and certain employees are subject to volume and other restrictions under Rules 144 or 701 of the Securities Act, as well as our insider trading policy and any applicable 10b5-1 trading plan. Certain of our employees, including many of our executive officers, have entered into 10b5-1 trading plans providing for sales of shares of our common stock from time to time.

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

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

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

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

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

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 last day of the fiscal year for which the market value of our common equity held by non-affiliates exceeds $700 million, measured on October 31. As of October 31, 2014, we did not meet this threshold. 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.

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

We are, and in the future may be, subject to legal actions in the ordinary course of our operations, both domestically and internationally. For example, on January 10, 2013, the U.S. Department of Justice filed a complaint against us with the U.S. District Court for the Northern District of California, San Francisco Division, with respect to our acquisition of PowerReviews. See Item 1: *Legal Proceedings* for further discussion of this claim. In addition, on March 12, 2013, a purported shareholder derivative action was filed in the Texas State District Court for Travis County, Texas against certain of our officers and directors, former officers and directors, and against us as nominal defendant in *Edmans v. Hurt et al*., Case No. D-1-GN-13-000874. The complaint in this matter alleges corporate waste, breaches of fiduciary duties and breaches of the Company s corporate policies in connection with the acquisition of PowerReviews and certain of the Company s officers and directors sales of shares of the Company s stock. The complaint requests declaratory judgment, a disgorgement of $91.4 million in proceeds received from such sales of the Company s stock, unspecified damages on behalf of the Company, reasonable attorneys , accountants and experts fees, and equitable relief. On July 9, 2014, the parties attended mediation and agreed to preliminary settlement terms, subject to board approval, court approval, and notice to our shareholders. On September 23, 2014, the court preliminarily approved the settlement agreement and directed us to notify our shareholders of the proposed settlement, a final hearing on November 24, 2014, and a motion for attorneys fees and expenses. On November 24, 2014, the court signed a Final Judgment approving the proposed settlement. See Item 1: *Legal Proceedings* for further description of each of this claim. There can be no assurances as to the favorable outcome of any litigation. An unfavorable outcome in any litigation matter against us could result in additional litigation. In addition it can be costly to defend litigation and these costs could negatively impact our financial results.

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

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

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

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

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

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.

Some of the proceeds from our initial public 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. In connection with our acquisition of PowerReviews, we used approximately $31.1 million in cash in our first fiscal quarter of 2013. On November 5, 2012, we used approximately $26.9 million in cash in our purchase of Longboard Media. 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.

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SIGNATURES

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

	BAZAARVOICE, INC.
Dated: December 5, 2014	/s/ James R. Offerdahl James R. Offerdahl Chief Financial Officer (Principal Financial Officer)

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EXHIBIT INDEX

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

* Filed herewith.