NETSUITE INC
Form 10-Q
November 02, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2015

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 001-33870

NetSuite Inc.
(Exact name of registrant as specified in its charter)

Delaware	94-3310471
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2955 Campus Drive, Suite 100	
San Mateo, California	94403-2511
(Address of principal executive offices)	(Zip Code)

(650) 627-1000
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). (Check one): Yes S 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 definition of “large accelerated filer", "accelerated filer" and "smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filerx	Accelerated filer ¨

Non-accelerated filer ¨	(do not check if a smaller reporting company)	Smaller reporting company	¨

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

On October 28, 2015, 79,488,559 shares of the registrant’s Common Stock, $0.01 par value, were issued and outstanding.

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NetSuite Inc.

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PART I – Financial Information

ITEM 1. Financial Statements

NetSuite Inc.
Condensed Consolidated Balance Sheets
(dollars in thousands)
(unaudited)

	September 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$281,555	$367,769
Short-term marketable securities	90,025	82,622
Accounts receivable, net of allowances of $1,287 and $1,886 as of September 30, 2015 and December 31, 2014, respectively	156,792	139,221
Deferred commissions	58,387	53,377
Other current assets	33,863	30,012
Total current assets	620,622	673,001
Marketable securities, non-current	1,409	9,143
Property and equipment, net	82,893	58,539
Deferred commissions, non-current	15,148	13,499
Goodwill	293,116	123,049
Other intangible assets, net	66,468	32,404
Other assets	13,614	12,604
Total assets	$1,093,270	$922,239
Liabilities and total equity		
Current liabilities:		
Accounts payable	$17,437	$5,082
Deferred revenue	353,373	300,884
Accrued compensation	45,212	41,081
Accrued expenses	34,652	30,975
Other current liabilities (including note payable to related party of $2,868 and $2,774 as of September 30, 2015 and December 31, 2014, respectively)	17,444	14,751
Total current liabilities	468,118	392,773
Long-term liabilities:		
Convertible 0.25% senior notes, net	274,833	265,710
Deferred revenue, non-current	23,792	13,622
Other long-term liabilities (including note payable to related party of $3,765 and $5,928 as of September 30, 2015 and December 31, 2014, respectively)	15,721	15,900
Total long-term liabilities	314,346	295,232
Total liabilities	782,464	688,005
Commitments and contingencies (Note 4)		
Total equity:		
Common stock, par value $0.01, 500,000,000 shares authorized; 79,443,908 and 77,031,827 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	794	770
Additional paid-in capital	962,471	788,583
Accumulated other comprehensive loss	(10,912)	(5,912)

Accumulated deficit	(641,547)	(549,207)
Total equity	310,806	234,234
Total liabilities and total equity	$1,093,270	$922,239

See accompanying Notes to Condensed Consolidated Financial Statements.

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NetSuite Inc.
Condensed Consolidated Statements of Operations and Comprehensive Loss
(dollars and shares in thousands, except per share data)
(unaudited)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2015	2014	2015	2014
Revenue:				
Subscription and support	$428,557	$321,077	$154,661	$115,831
Professional services and other	106,363	77,338	38,162	27,829
Total revenue	534,920	398,415	192,823	143,660
Cost of revenue:				
Subscription and support	69,427	51,966	25,983	18,522
Professional services and other	108,171	74,307	40,113	27,477
Total cost of revenue	177,598	126,273	66,096	45,999
Gross profit	357,322	272,142	126,727	97,661
Operating expenses:				
Product development	98,368	78,158	36,112	28,610
Sales and marketing	281,202	208,105	102,145	74,699
General and administrative	65,899	48,236	21,824	20,097
Total operating expenses	445,469	334,499	160,081	123,406
Operating loss	(88,147)	(62,357)	(33,354)	(25,745)
Other income / (expense), net:				
Interest income	316	134	100	79
Interest expense	(10,909)	(10,667)	(3,756)	(3,625)
Other expense, net	(478)	(441)	(214)	(132)
Total other income / (expense), net	(11,071)	(10,974)	(3,870)	(3,678)
Loss before income taxes	(99,218)	(73,331)	(37,224)	(29,423)
(Benefit) / Provision for income taxes	(6,878)	1,361	116	(128)
Net loss	$(92,340)	$(74,692)	(37,340)	(29,295)
Net loss per common share, basic and diluted	$(1.18)	$(0.98)	$(0.47)	$(0.38)
Weighted average number of shares used in computing net loss per share	78,153	75,947	79,186	76,477
Comprehensive loss:				
Foreign currency translation (loss), net of taxes	(5,174)	(3,688)	(3,763)	(3,668)
Unrealized gain on marketable securities	29	—	13	—
Accumulated pension liability	145	141	47	47
Comprehensive loss	$(97,340)	$(78,239)	$(41,043)	$(32,916)

See accompanying Notes to Condensed Consolidated Financial Statements.

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NetSuite Inc.
Condensed Consolidated Statements of Cash Flows
(dollars in thousands)
(unaudited)

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net loss	$(92,340)	$(74,692)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	21,637	14,468
Amortization of other intangible assets	12,449	6,904
Amortization of debt discount and transaction costs	10,088	9,619
Provision for accounts receivable allowances	942	846
Stock-based compensation	81,686	70,256
Amortization of deferred commissions	72,951	53,478
Excess tax benefit on stock-based compensation	(207)	(519)
Changes in operating assets and liabilities, net of acquired assets and assumed liabilities:		
Accounts receivable	(13,993)	(17,650)
Deferred commissions	(79,616)	(61,892)
Other current assets	2,783	(1,745)
Other assets	3,944	(1,631)
Accounts payable	8,097	(1,395)
Accrued compensation	1,919	8,920
Deferred revenue	58,645	46,500
Other current liabilities	1,879	2,465
Other long-term liabilities	(11,511)	40
Net cash provided by operating activities	79,353	53,972
Cash flows from investing activities:		
Purchases of property and equipment	(32,831)	(15,469)
Capitalized internal use software	(2,262)	(1,125)
Cash paid in business combination, net of amounts received	(130,560)	(39,209)
Purchases of marketable securities	(93,795)	(59,815)
Maturities of marketable securities	92,463	—
Sales of marketable securities	1,504	799
Net cash used in investing activities	(165,481)	(114,819)
Cash flows from financing activities:		
Payments under capital leases	(166)	(300)
Payments under capital leases and long-term debt - related party	(2,069)	(2,379)
Payments related to business combinations	(1,335)	(5,890)
RSUs acquired to settle employee withholding liability	(7,028)	(96)
Excess tax benefit on stock-based compensation	207	519
Proceeds from issuance of common stock	11,969	5,573
Net cash (used in) / provided by financing activities	1,578	(2,573)
Effect of exchange rate changes on cash and cash equivalents	(1,664)	(735)
Net change in cash and cash equivalents	(86,214)	(64,155)
Cash and cash equivalents at beginning of period	367,769	451,577
Cash and cash equivalents at end of period	$281,555	$387,422

Supplemental cash flow disclosure:		
Cash paid for interest to related parties	$271	$359
Cash paid for interest to other parties	$498	$510
Cash paid for income taxes, net of tax refunds	$1,632	$1,008
Noncash financing and investing activities:		
Common stock issued in connection with business combination	$85,881	$22,785

See accompanying Notes to Condensed Consolidated Financial Statements.

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NetSuite Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1. Organization

NetSuite Inc. (the “Company”) provides cloud-based financials/Enterprise Resource Planning (“ERP”) and omnichannel commerce software suites. In addition, the Company offers a broad suite of applications, including financial management, Customer Relationship Management (“CRM”), ecommerce and retail management, commerce marketing automation, Professional Services Automation (“PSA”) and Human Capital Management ("HCM") that enable companies to manage most of their core business operations in its single integrated suite. The Company’s "real-time dashboard" technology provides an easy-to-use view into up-to-date, role-specific business information. The Company also offers customer support and professional services related to implementing and supporting its suite of applications. The Company delivers its suite over the Internet as a subscription service using the software-as-a-service ("SaaS") model. The Company’s headquarters are located in San Mateo, California. The Company conducts its business worldwide with international locations in Canada, Europe, Asia, Australia and Uruguay.

Note 2. Basis of Presentation

The Condensed Consolidated Financial Statements as of and for the nine months ended September 30, 2015 included in this Quarterly Report on Form 10-Q have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). The condensed consolidated balance sheet data as of December 31, 2014 was derived from the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2014 filed on March 2, 2015. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures contained in this Quarterly Report comply with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, for a Quarterly Report on Form 10-Q and are adequate to make the information presented not misleading. These Condensed Consolidated Financial Statements are meant to be, and should be, read in conjunction with the Consolidated Financial Statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2014 filed on March 2, 2015.

The unaudited Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q reflect all adjustments (which include only normal, recurring adjustments and those items discussed in these Notes) that are, in the opinion of management, necessary to state fairly the financial position and results for the dates and periods presented. The results for such periods are not necessarily indicative of the results to be expected for the full fiscal year.

Recent Accounting Pronouncements

In September 2015, the Financial Accounting Standards Board ("FASB") issued new accounting guidance: Business Combinations - Simplifying the Accounting for Measurement-Period Adjustments. The guidance requires the acquirer to recognize adjustments to provisional amounts identified during the measurement period in the reporting period in which the adjustment amounts are determined. The business combination guidance is effective for interim and annual periods beginning after December 15, 2015, with early adoption permitted, and is to be applied on a prospective basis. The Company has elected not to early adopt. The adoption of the business combination guidance is not expected to have a material impact on the Company's condensed consolidated financial statements.

In April 2015, the Financial Accounting Standard Board ("FASB") issued new accounting guidance Simplifying the Presentation of Debt Issuance Costs. The guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The debt issuance costs guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted. The Company has elected not to early adopt. The adoption of the debt guidance is not expected to have a material impact on the Company's condensed consolidated financial statements.

In April 2015, the FASB issued new accounting guidance Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. This guidance is intended to help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement, primarily to determine whether the arrangement includes a sale or license of software. The new guidance is effective for annual periods, including interim periods within those annual periods, beginning after December 15,

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2015. Early adoption is permitted. The Company has elected not to early adopt. The adoption of the guidance is not expected to have a material impact on the Company's condensed consolidated financial statements.

In May 2014, the FASB issued new accounting guidance related to revenue recognition, Revenue from Contracts with Customers. This new standard will replace most existing U.S. GAAP guidance on this topic. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. In July 2015, the FASB approved a one-year deferral of the effective date for the new revenue reporting standard for entities reporting under U.S. GAAP. In accordance with the deferral, this guidance will be effective for the Company beginning January 1, 2018 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. Early adoption is permitted beginning January 1, 2017. The Company is evaluating the impact of adopting this new accounting standard on its financial statements and has not selected a transition method.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

The Company generates revenue from two sources: (1) subscription and support; and (2) professional services and other. Subscription and support revenue includes subscription fees from customers accessing its on-demand application suite and support fees from customers purchasing support. Arrangements with customers do not provide the customer with the right to take possession of the software supporting the on-demand application service at any time. Professional services and other revenue includes fees generated from training and consulting services such as business process mapping, configuration, data migration and integration. Amounts that have been invoiced are recorded in accounts receivable and in deferred revenue or revenue, depending on whether the revenue recognition criteria have been met. For the most part, subscription and support agreements are entered into for 12 to 36 months. In aggregate, more than 90% of the professional services component of the arrangements with customers is performed within 300 days of entering into a contract with the customer.

The subscription agreements generally provide service level commitments of 99.5% uptime per period, excluding scheduled maintenance. The failure to meet this level of service availability may require the Company to credit qualifying customers up to the value of an entire month of their subscription and support fees. In light of the Company’s historical experience with meeting its service level commitments, the Company has not accrued any liabilities on its balance sheet for these commitments.

The Company commences revenue recognition when all of the following conditions are met:

- There is persuasive evidence of an arrangement;
- The service is being provided to the customer;

- The collection of the fees is reasonably assured; and
- The amount of fees to be paid by the customer is fixed or determinable.

In most instances, revenue from new customer acquisition is generated under sales agreements with multiple elements, comprised of subscription and support fees from customers accessing the Company's on-demand application suite and professional services associated with consultation services. The Company evaluates each element in a multiple-element arrangement to determine whether it represents a separate unit of accounting. An element constitutes a separate unit of accounting when the delivered item has standalone value and delivery of the undelivered element is probable and within the Company’s control. Subscription and support have standalone value because they are routinely sold separately by the Company. Professional services have standalone value because the Company has sold professional services separately and there are several third-party vendors that routinely provide similar professional services to its customers on a standalone basis.

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The Company allocates revenue to each element in an arrangement based on a selling price hierarchy. The selling price for a deliverable is based on its vendor-specific objective evidence ("VSOE"), if available, third-party evidence ("TPE"), if VSOE is not available, or estimated selling price ("ESP"), if neither VSOE nor TPE is available. As the Company has been unable to establish VSOE or TPE for the elements of its arrangements, the Company establishes the ESP for each element primarily by considering the weighted average of actual sales prices of professional services sold on a standalone basis and subscription and support including various add-on modules when sold together without professional services, and other factors such as gross margin objectives, pricing practices and growth strategy. The consideration allocated to subscription and support is recognized as revenue over the contract period commencing when the subscription service is made available to the customer. The consideration allocated to professional services is recognized as revenue using the proportional performance method.

The total arrangement fee for a multiple element arrangement is allocated based on the relative ESP of each element. However, since the professional services are generally completed prior to completion of delivery of subscription and support services, the revenue recognized for professional services in a given reporting period does not include fees subject to delivery of subscription and support services. This results in the recognition of revenue for professional services that is generally no greater than the contractual fees for those professional services.

For single element sales agreements, subscription and support revenue is recognized ratably over the contract term beginning on the provisioning date of the contract. The Company recognizes professional services revenue using the proportional performance method for single element arrangements.

Sales and other taxes collected from customers to be remitted to government authorities are excluded from revenues.

Concentration of Credit Risk and Significant Customers

Financial instruments potentially exposing the Company to concentration of credit risk consist primarily of cash and cash equivalents, marketable securities, restricted cash and trade accounts receivable. The Company maintains an allowance for doubtful accounts receivable balances. The allowance is based upon historical loss patterns and an evaluation of the potential risk of loss associated with problem accounts. The Company generally charges off the receivable balances of uncollectible accounts when accounts are 120 days past-due based on the account's contractual terms. Credit risk arising from accounts receivable is mitigated due to the large number of customers comprising the Company's customer base and their dispersion across various industries. As of September 30, 2015 and December 31, 2014, there were no customers that represented more than 10% of the net accounts receivable balance. There were no customers that individually exceeded 10% of the Company's revenue in any of the periods presented. As of September 30, 2015 and December 31, 2014, long-lived assets located outside the United States were not significant.

Revenue by geographic region, based on the billing address of the customer, was as follows for the periods presented:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2015	2014	2015	2014
	(dollars in thousands)			
United States	$398,311	$299,071	$143,673	$107,007
International	136,609	99,344	49,150	36,653
Total revenue	$534,920	$398,415	$192,823	$143,660
Percentage of revenue generated outside of the United States	26 %	25 %	25 %	26 %

No single country outside the United States represented more than 10% of revenue during the nine months ended September 30, 2015 or 2014.

The Company maintains cash balances at several banks. Accounts located in the United States are insured by the Federal Deposit Insurance Corporation (“FDIC”), up to $250,000. Certain operating cash accounts may exceed the FDIC limits.

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Intellectual Property Rights Indemnification

The Company’s arrangements include provisions indemnifying customers against liabilities if the Company's products infringe a third-party’s intellectual property rights. The Company has not incurred any costs as a result of such indemnifications and has not accrued any liabilities related to such obligations in the accompanying condensed consolidated financial statements.

Qualified Operating Expense Reimbursements

At the Company's product development facility in the Czech Republic, the Company participated in a government subsidy program for employing local residents. Under the program, the Czech government would reimburse the Company for certain operating expenses it incurs. In the period the Company incurs the reimbursable operating expense, it would record a reduction in product development expense and a receivable from the Czech government. During the nine months ended September 30, 2015, the Company's product development operating expenses were reduced by $569,000 for reimbursement of eligible operating expenses incurred during this time period. During the nine and three months ended September 30, 2014, the Company's product development operating expenses were reduced by $1.2 million and $355,000, respectively, for reimbursement of eligible operating expenses incurred. During the nine and three months ended September 30, 2015, the Company received $1.2 million and $654,000, respectively, from the Czech government. During the nine and three months ended September 30, 2014, the Company received $1.9 million and $589,000, respectively, from the Czech government. As of September 30, 2015, no reimbursements were due the Company. The Company has reached its subsidy reimbursement limit under this program. Currently, the Company is evaluating alternative subsidy employment programs offered by the Czech Republic and other countries.

Business Combinations

Monexa Software

On August 5, 2015, the Company completed the purchase of all the outstanding equity of Monexa Services Inc. ("Monexa"), a private company that provides cloud-based invoicing and payment services for its customers. Monexa functionality will enhance the Company’s existing invoicing and payment solution. Beginning in the third quarter of 2015, Monexa assets, liabilities and operating results are reflected in the Company’s condensed consolidated financial statements from the date of acquisition. On the closing date, the Company paid approximately $33.1 million in cash. Of the consideration paid, $5.7 million is being held in escrow for up to 15 months following the close of the transaction in the event of certain breaches of representations, warranties and potential tax obligations covered in the purchase agreement. In connection with the transaction, the Monexa Board of Directors accelerated the vesting of certain Monexa employee stock options that were exercised shortly before the closing date. Since Monexa accelerated the stock option vesting in contemplation of the business combination, the Company was required to record the $1.8 million in net proceeds received by Monexa employees as compensation cost in the general and administrative expense line of the Company's financial statements. Acquisition related transaction costs amounted to $2.0 million in the period ended September 30, 2015, and are reflected as general and administrative expense in the statement of operations.

Under the acquisition method of accounting, the Company allocated the purchase price to the identifiable assets and liabilities based on their estimated fair value at the date of acquisition. To determine the value of the intangible assets, the Company made various estimates and assumptions. Methodologies used in valuing the intangible assets include, but are not limited to, multiple period excess earnings method for customer relationships, relief of royalty for trademarks, and replacement cost and relief from royalty methods for developed technology. The excess of the purchase price over the total net identifiable assets has been recorded as goodwill which includes synergies expected

from the expanded service capabilities and the value of the assembled work-force in accordance with generally accepted accounting principles. $7.3 million of the acquired Monexa goodwill is expected to be deductible for tax purposes. The Company did not record any in-process research and development intangible assets in connection with the acquisition.

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The following table summarizes the preliminary allocation of the consideration to the fair value of assets acquired and liabilities assumed at the acquisition date:

	(dollars in thousands)
Cash	$594
Accounts receivable	301
Fixed assets	231
Developed technology	8,700
Customer relationships	4,200
Trademarks	400
Goodwill	18,717
Other assets / liabilities, net	(23)
Fair value of assets acquired and liabilities assumed	$33,120

The Company will amortize certain intangible assets on a straight-line basis over the following periods:

	Fair Value Amount (dollars in thousands)	Useful Life (in years)
Developed technology	$8,700	5
Customer relationships	4,200	4
Trademarks	400	2

The initial accounting for Monexa accounts receivable, fixed assets, intangible assets, other customer related liabilities, vendor obligations and employee related liabilities is incomplete because the Company is in the process of determining the fair value of these assets and liabilities. The Company is also undertaking an analysis of certain tax matters associated with the Monexa acquisition which could result in an adjustment to the acquisition price allocation.

Comparative pro forma financial information for this acquisition has not been presented because Monexa historical financial results are not material to the Company's condensed consolidated results of operations.

Bronto Software

On June 8, 2015, the Company completed the purchase of all the outstanding equity of Bronto Software, Inc. (“Bronto"), a private company that provides a cloud-based marketing platform for its customers to drive revenue through their email, mobile and social campaigns. Bronto functionality will enhance the Company’s existing email marketing solution and its existing omnichannel commerce platform. Beginning in the second quarter of 2015, Bronto assets, liabilities and operating results are reflected in the Company’s condensed consolidated financial statements from the date of acquisition. The Company paid approximately $98.2 million in cash and issued 1,030,508 unregistered shares of the Company's common stock with a fair value of $85.9 million, inclusive of a discount from the quoted market price due to certain trading restrictions associated with the shares. Of the consideration paid, $39.6 million is being held in escrow for up to 18 months following the close of the transaction in the event of certain breaches of representations and warranties covered in the purchase agreement. Another $3.9 million is being held in escrow for up to two years as protection against tax contingencies and losses. Acquisition related transaction costs amounted to $4.7 million and are reflected as general and administrative expense in the statement of operations.

Under the acquisition method of accounting, the Company allocated the purchase price to the identifiable assets and liabilities based on their estimated fair value at the date of acquisition. To determine the value of the intangible assets, the Company made various estimates and assumptions. Methodologies used in valuing the intangible assets include,

but are not limited to, the with-and-without excess earnings and multiple period excess earnings method for customer relationships, relief of royalty for trademarks and multiple period excess earnings method for developed technology. The excess of the purchase price over the total net identifiable assets has been recorded as goodwill which includes synergies expected from the expanded service capabilities and the value of the assembled work-force in accordance with generally accepted accounting principles.

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Goodwill is not expected to be deductible for tax purposes. The Company did not record any in-process research and development intangible assets in connection with the acquisition.

The following table summarizes the allocation of the consideration to the fair value of assets acquired and liabilities assumed at the acquisition date:

	(dollars in thousands)
Cash	$1,667
Accounts receivable	4,139
Fixed assets	4,009
Deferred tax assets	5,547
Developed technology	13,400
Customer relationships	13,100
Customer relationships - backlog	3,000
Trademarks	3,060
Goodwill	156,385
Deferred tax liabilities	(13,792)
Taxes payable	(2,358)
Other assets / liabilities, net	(4,051)
Fair value of assets acquired and liabilities assumed	$184,106

The fair value of the 1,030,508 unregistered shares of common stock issued as part of the consideration paid for Bronto ($85.9 million) was determined on the basis of the closing market price of the Company’s common stock on the acquisition date less a discount for lack of marketability due to the 6-month restriction of resale as a result of SEC Rule 144 for issuance of unregistered shares to a non-affiliate as such term is defined therein.

The Company will amortize certain intangible assets on a straight-line basis, except for customer relationship - backlog, which is amortized in proportion to the related revenue recognition, over the following periods:

	Fair Value Amount (dollars in thousands)	Useful Life (in years)
Developed technology	$13,400	5
Customer relationships	13,100	7
Customer relationships - backlog	3,000	1.5
Trademarks	3,060	3

The initial accounting for Bronto accounts receivable, fixed assets, other customer related liabilities, vendor obligations and employee related liabilities is incomplete because the Company is in the process of determining the fair value of these assets and liabilities. The Company is also undertaking an analysis of certain tax matters associated with the Bronto acquisition which could result in an adjustment to the acquisition price allocation.

In accordance with the Bronto acquisition agreement, in the third quarter of 2015, the Company granted $15.0 million in restricted stock units to certain former employees of Bronto that were hired by the Company, and will grant another $10.0 million in restricted stock units on the one year anniversary of the close date to certain employees of the Company that are working on the Bronto business. The restricted stock units vest over four years in accordance with the terms of the Company's equity compensation plan. The fair value of the equity grants will be recognized as stock-based compensation expense in the Company's statement of operations over the four-year vesting period.

Bronto revenue included in the Company's condensed consolidated financial statements for nine and three months ended September 30, 2015 was $10.6 million and $8.9 million, respectively. Bronto's operations have been integrated into the Company's operations so it is impractical to determine Bronto's results of operations on a standalone basis.

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The financial information in the table below summarizes the combined results of operations of the Company and Bronto, on a pro forma basis, as though the companies had been combined as of January 1, 2014. The pro forma financial information for Bronto is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place on January 1, 2014 or of results that may occur in the future. The pro forma results include adjustments primarily related to amortization of developed technology, customer relationships and trademarks. The pro forma results also include a one-time adjustment to exclude $3.1 million in Bronto transaction costs.

Supplemental information on a pro forma basis, as if Bronto had been acquired on January 1, 2014, is presented as follows:

	Nine Months Ended September 30,	
	2015	2014
	(dollars in thousands)	
Pro forma total revenue	$554,010	$425,423
Pro forma net loss	$(99,378)	$(82,522)
Pro forma loss per share - basic and diluted	$(1.26)	$(1.07)

Venda

On July 17, 2014, the Company completed the purchase of all the outstanding equity of Venda, a private company that provides Ecommerce solutions to its customers. On the closing date, the Company paid $25.7 million in cash and issued 304,364 unregistered shares of the Company's common stock with a fair value of $22.8 million inclusive of a discount from the quoted market price due to certain trading restrictions associated with the shares. Of the cash consideration paid, $10.1 million is being held in escrow for up to two years following the close of the transaction as protection against tax contingencies and losses the Company may incur in the event of certain breaches of representations and warranties covered in the purchase agreement.

In the first quarter of 2015, the Company completed the valuation of intangible assets with definitive lives which resulted in $1.2 million being reallocated from goodwill to developed technology. Following this reallocation, the amount allocated to developed technology is $8.9 million. In the third quarter of 2015, the Company completed the initial accounting for Venda by making a $1.0 million working capital adjustment and other adjustments totaling $368,000.

Other Intangible Assets

	Gross carrying amount	Accumulated amortization	Net carrying amount
	September 30, 2015		
	(dollars in thousands)		
Developed technology	$50,417	$(19,756)	$30,661
Trade name	8,702	(4,008)	4,694
Customer relationships	53,013	(21,900)	31,113
Total	$112,132	$(45,664)	$66,468
	December 31, 2014		
	(dollars in thousands)		
Developed technology	$27,432	$(15,073)	$12,359
Trade name	5,305	(2,696)	2,609

Customer relationships	32,959	(15,622)	17,337
Non-competition agreements	962	(863)	99
Total	$66,658	$(34,254)	$32,404

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Goodwill

The following table details the Company's goodwill activity during the nine months ended September 30, 2015:

	(dollars in thousands)
Balance as of January 1, 2015	$123,049
Acquisition of Bronto	156,385
Acquisition of Monexa	18,717
Other adjustments to goodwill	(1,844)
Foreign exchange adjustment	(3,191)
Balance as of September 30, 2015	$293,116

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss is comprised of foreign currency translation gains and losses, net of tax, marketable securities unrealized gains and losses and an accumulated pension liability for employees located in the Philippines. There were no significant reclassification adjustments out of accumulated other comprehensive loss to the condensed consolidated statement of operations and comprehensive loss.

Note 3. Financial Instruments

The Company invests primarily in money market funds, commercial paper, highly liquid debt instruments of the U.S. government and its agencies, U.S. municipal obligations, and U.S. and foreign corporate debt securities. All highly liquid investments with maturities of 90 days or less from date of purchase are classified as cash equivalents and all highly liquid investments with maturities of greater than 90 days but less than a year from date of purchase are classified as short-term marketable securities. Highly liquid investments with maturities of greater than a year from the balance sheet date are classified as marketable securities, non-current. Short-term marketable securities and marketable securities, non-current are also classified as available-for-sale. The Company intends to hold marketable securities, non-current, until maturity; however, it may sell these securities at any time for use in current operations or for other purposes, such as consideration for acquisition. Consequently, the Company may or may not hold securities with stated maturities greater than twelve months until maturity.

The Company carries its fixed income investments at fair value and unrealized gains and losses on these investments, net of taxes, are included in accumulated other comprehensive loss, a component of total equity. Realized gains or losses are included in other income / (expense), net section of the condensed consolidated statement of operations and comprehensive loss. When a determination has been made that an other-than-temporary decline in fair value has occurred, the amount of the decline that is related to a credit loss is realized and is included in the other income / (expense), net section of the consolidated statement of operations and comprehensive loss.

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Cash equivalents and Marketable securities consist of the following investments:

	September 30, 2015			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Cash equivalents:	(in thousands)			
Money market funds	$15,883	$—	$—	$15,883
Commercial paper	8,473	1	—	8,474
Marketable securities:				
Commercial paper	36,419	11	—	36,430
Corporate notes and obligations	21,076	—	(2)	21,074
U.S. agency bonds	7,410	—	—	7,410
U.S. treasury securities	26,506	14	—	26,520
Total	$115,767	$26	$(2)	$115,791

	December 31, 2014			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Cash equivalents:	(in thousands)			
Money market funds	$152,673	$—	$—	$152,673
Commercial paper	8,149	—	—	8,149
Marketable securities:				
Commercial paper	70,737	8	—	70,745
Corporate notes and obligations	11,886	—	(9)	11,877
U.S. treasury securities	9,147	—	(4)	9,143
Total	$252,592	$8	$(13)	$252,587

The Company does not believe any of the unrealized losses represent an other-than-temporary impairment based on its evaluation of available evidence as of September 30, 2015. The Company expects to receive the full principal and interest on the following cash equivalents and marketable securities as of September 30, 2015:

	Fair Value
	(in thousands)
Due within one year	$114,382
Due within two years	1,409
Total	$115,791

Fair Value Measurements

The Company measures certain financial assets at fair value on a recurring basis based on a fair value hierarchy that requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of inputs that may be used to measure fair value are:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.

- Level 3 - Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

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Level 1 Measurements

The Company's cash equivalents held in money market funds and available-for-sale United States Treasury securities are measured at fair value using level 1 inputs.

Level 2 Measurements

The Company's available-for-sale corporate debt securities, commercial paper and United States government agency securities are measured at fair value using level 2 inputs. The Company obtains the fair values of its level 2 available-for-sale securities from a professional pricing service.

The Company's foreign currency forward contracts are measured at fair value using foreign currency rates quoted by banks or foreign currency dealers and other public data sources. Such instruments are classified as Level 2 and are included in other current assets and liabilities.

The fair value of these financial assets and liabilities was determined using the following inputs as of September 30, 2015 and December 31, 2014:

	September 30, 2015				December 31, 2014			
	Fair value measurements at reporting date using				Fair value measurements at reporting date using			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(in thousands)				(in thousands)			
Assets:								
Cash and cash equivalents								
Cash	$257,198	$—	$—	$257,198	$206,947	$—	$—	$206,947
Money market funds	15,883	—	—	15,883	152,673	—	—	152,673
Commercial paper	—	8,474	—	8,474	—	8,149	—	8,149
Marketable securities								
Commercial paper	—	36,430	—	36,430	—	70,745	—	70,745
Corporate notes and obligations	—	21,074	—	21,074	—	11,877	—	11,877
U.S. agency bonds	—	7,410	—	7,410	—	—	—	—
U.S. treasury securities	26,520	—	—	26,520	9,143	—	—	9,143
Foreign exchange contracts	—	554	—	554	—	1,231	—	1,231
Total	$299,601	$73,942	$—	$373,543	$368,763	$92,002	$—	$460,765
Liabilities:								
Foreign exchange contracts	$—	$49	$—	$49	$—	$1	$—	$1
Total	$—	$49	$—	$49	$—	$1	$—	$1

Balance Sheet Hedging - Hedging of Foreign Currency Assets and Liabilities

During the nine months ended September 30, 2015, the Company hedged certain of its nonfunctional currency denominated assets and liabilities to reduce the risk that earnings would be adversely affected by changes in exchange

rates. Gains and losses from these forward contracts are recorded each period as a component of other income / (expense) in the condensed consolidated statements of operations. The notional amount of derivative instruments acquired during the period was $242.4 million. The Company accounts for derivative instruments as other current assets and liabilities on the balance sheet and measures them at fair value with changes in the fair value recorded as other income / (expense). These derivative instruments do not subject the Company to material balance sheet risk due to exchange rate movements because gains and losses on these derivatives are intended to offset gains and losses on the assets and liabilities being economically hedged.

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As of September 30, 2015 and December 31, 2014, the Company had the following outstanding foreign exchange forward contracts:

	September 30, 2015		December 31, 2014	
	Notional Value Sold	Notional Value Purchased	Notional Value Sold	Notional Value Purchased
	(US dollars in thousands)		(US dollars in thousands)	
Australian dollar	$13,705	$6,853	$16,004	$7,494
British pound	11,290	7,991	16,939	7,284
Philippines peso	9,440	9,440	7,540	5,020
Czech crown	6,060	6,080	6,510	4,710
Japan yen	4,105	—	3,355	—
Canadian dollar	3,154	1,330	796	1,267
Euro	6,870	638	2,344	547
New Zealand dollar	677	414	258	—
Mexican peso	398	—	268	110
Total	$55,699	$32,746	$54,014	$26,432

The fair value of the derivative instruments reported on the Company's Condensed Consolidated Balance Sheet were as follows:

	Asset Derivatives			Liability Derivatives		
Derivatives and forward contracts	Balance Sheet Location	September 30, 2015 Fair Value	December 31, 2014 Fair Value	Balance Sheet Location	September 30, 2015 Fair Value	December 31, 2014 Fair Value
	(in thousands)			(in thousands)		
Foreign exchange contracts	Other current assets	$554	$1,231	Other current liabilities	$49	$1
Total		$554	1,231		$49	$1

The effect of derivative instruments on the Company's Condensed Consolidated Statement of Operations and Comprehensive Loss was as follows for the periods presented:

Derivatives and forward contracts	Location of net gain (loss) recognized in income on derivatives	Amount of net gain (loss) recognized in income on derivatives during the			
		Nine Months Ended September 30,		Three Months Ended September 30,	
		2015	2014	2015	2014
		(in thousands)			
Foreign exchange contracts	Other income/ (expense), net	$843	$446	$126	$1,099
Total		$843	$446	$126	$1,099

The Company has entered into all of its foreign exchange contracts with a single counterparty. During the periods such contracts are open, the Company is subject to a potential maximum amount of loss due to credit risk equal to the gross fair value of the derivative instrument, if the counterparty to the instruments failed completely to perform according to the terms of the contracts. Generally, the Company has the right of offset for gains earned and losses incurred under these agreements. The agreements with the counterparty do not require either party to provide collateral to mitigate the credit risk of the agreements.

Note 4. Commitments and Contingencies

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The Company is involved in various legal proceedings and receives claims from time to time, arising from the normal course of business activities. The Company has accrued for estimated losses in the accompanying condensed consolidated financial statements for matters with respect to which it believes the likelihood of an adverse outcome is probable and the amount of the loss is reasonably estimable.

In May 2015, the Company amended its headquarters lease in San Mateo, California to extend the term for existing office space and to expand the facilities to accommodate expected growth. The amended lease terms expires in May 2022. Over the amended lease term, the Company will make minimum lease payments totaling $27.0 million, net of any lessor lease incentives.

In connection with acquisition of Bronto, the Company assumed lease agreements related to Bronto offices in North Carolina and the United Kingdom. The leases expire at various dates through 2023. Over the lease term, the Company will make minimum lease payments totaling $19.7 million.

Also, during May 2015, the Company renewed its Manila, Philippines, office lease for three years. The renewal term expires in April 2018. Over the lease term, the Company will make minimum lease payments totaling $4.5 million.

During the three months ended September 30, 2015, the Company amended its lease in Denver, Colorado to expand the facilities to accommodate expected growth. The amended lease terms expires in October 2019. Over the amended lease term, the Company will make minimum lease payments totaling $5.0 million, net of any lessor lease incentives.

Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of September 30, 2015 are as follows:

	Operating leases (dollars in thousands)
Years ending:	
Remainder of 2015	$4,458
2016	23,486
2017	21,591
2018	20,558
2019	16,934
Thereafter	30,400
Future minimum lease payments	$117,427

Note 5. Stock-based Compensation

During the first quarter of 2015, the Company granted 91,929 performance shares (“PS”), with a fair value of $92.58 per share, to selected executives and other key employees. The PS vesting is contingent upon the Company meeting certain company-wide revenue performance goals (performance-based) in 2015 and 2017. The Company's Board of Directors ("BOD") set the performance metrics in the first quarter of 2015. These shares are subject to term vesting conditions. The PS fair value and the related stock-based compensation expense are determined based on the value of the underlying shares on the date of grant and are recognized over the vesting term. During the interim financial periods, management estimates the probable number of PS that will be granted until the achievement of the performance goals are known at December 31, 2015 and 2017, respectively. The Company also awarded an equal number of PS for 2016 and 2017 for which the performance metrics have not yet been set by the Company's Board of Directors. As such, there is no accounting for these awards until the period the performance metrics are set.

Note 6. Debt

0.25% Convertible Senior Notes

In June 2013, the Company issued at par value $310.0 million of 0.25% convertible senior notes due June 1, 2018 (the “Notes”). Interest is payable semi-annually in arrears on December 1 and June 1 of each year, commencing December 1, 2013.

The Notes are governed by an indenture dated as of June 4, 2013, between the Company, as issuer, and Wells Fargo Bank, National Association, as trustee. The Notes do not contain any financial covenants or any restrictions on the payment of dividends, the incurrence of senior debt or other indebtedness, or the issuance or repurchase of securities by the Company. The Notes are unsecured and rank senior in right of payment to the Company's future indebtedness that is expressly subordinated in right of payment to the Notes, rank equal in right of payment to the Company's existing and future unsecured indebtedness that is not so subordinated. The Notes are effectively subordinated in right of payment to any of the Company's secured indebtedness to the extent of the value of the assets securing such indebtedness and are structurally subordinated to all existing and future indebtedness, liabilities incurred by our subsidiaries including trade payables, and preferred stock of the Company.

Upon conversion, the Company may choose to pay or deliver, as the case may be, either cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock. If converted, holders will receive, at the Company's election, cash and/or shares of the Company's common stock for the principal amount of the Notes and any amounts in excess of the principal amounts. The Company intends to settle the principal amount of the Notes with cash if converted.

The initial conversion rate is 8.6133 shares of the Company's common stock per $1,000 principal amount of Notes, subject to anti-dilution adjustments. The initial conversion price is approximately $116.10 per share of the Company's common stock and represents a conversion premium of approximately 35% based on the last reported sale price of the Company's common stock of $86.00 on May 29, 2013, the date the Notes offering was priced. The conversion rate is subject to adjustment from time to time upon the occurrence of certain events, including, but not limited to, the issuance of stock dividends and payment of cash dividends. Holders of the Notes will not receive any cash payment representing accrued and unpaid interest upon conversion of a Note unless the conversion date occurs after a regular record date related to the Notes and prior to the related interest payment date. At any time prior to the close of business on the business day immediately preceding March 1, 2018, holders may convert their Notes at their option only under the following circumstances:

during any calendar quarter commencing after the calendar quarter ended on September 30, 2013 (and only during such calendar quarter), if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;

during the five business day period after any five consecutive trading day period (the “measurement period”) in which the trading price per $1,000 principal amount of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day; or

upon the occurrence of certain corporate transactions described in the indenture governing the Notes.

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On and after March 1, 2018 until the close of business on the business day immediately preceding the maturity date, holders may convert their Notes at any time, regardless of the foregoing circumstances. If a make-whole fundamental change (as defined in the Indenture governing the Notes) occurs when the Company's stock price is between $86.00 and $275.00 per share and a holder elects to convert its Notes in connection with such make-whole fundamental change, such holder may be entitled to an increase in the conversion rate as provided for in the Indenture governing the Notes.

As of September 30, 2015, circumstances that would give rise to a conversion option for the holders of Notes do not exist.

Holders of the Notes have the right to require the Company to purchase with cash all or a portion of the Notes upon the occurrence of any event that constitutes a fundamental change (as defined in the Indenture governing the Notes) at a purchase price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest.

In accounting for the issuance of the Notes, the Company separated the Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the par value of the Notes as a whole. The excess of the principal amount of the liability component over its carrying amount (“debt discount”) is amortized to interest expense using the effective interest method over the term of the Note. The equity component is not remeasured as long as it continues to meet the conditions for equity classification.

In accounting for the $8.4 million in transaction costs related to the Note issuance, the Company allocated the total amount incurred to the liability and equity components based on their relative values. The $6.7 million in transaction costs attributable to the liability component included in other assets are being amortized to interest expense over the term of the Notes, and the $1.7 million in transaction costs attributable to the equity component were netted with the equity component in additional paid-in capital. Debt issuance costs, net of amortization, were $3.7 million as of September 30, 2015. The Notes consisted of the following as of September 30, 2015:

	(in thousands)
Equity component (1)	$60,931
Liability component:	
Principal	$310,000
Less: debt discount, net	(35,167)
Net carrying amount	$274,833
Fair value - level 2	$313,565

(1) Included in the consolidated balance sheets within additional paid-in capital, net of the $1.7 million in equity issuance costs.

The Notes are carried at face value less any unamortized debt discount and also require disclosure of an estimate of fair value. The Company considers the fair value of the Notes at each balance sheet date to be a level 2 measurement because it is determined based on a recent quoted market price or dealer quote for the Notes. The Notes quoted market price or dealer quote is based on the trading price of the Company's common stock and market activity that is less than an active exchange.

As of September 30, 2015, the remaining life of the Notes is approximately 2.7 years. The following table sets forth total interest expense recognized related to the Notes:

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	Nine Months Ended September 30,		Three Months Ended September 30,	
	2015	2014	2015	2014
	(dollars in thousands)			
Contractual interest expense	$581	$581	$194	$194
Amortization of debt issuance costs	965	923	325	311
Amortization of debt discount	9,123	8,697	3,122	2,976
Total	$10,669	$10,201	$3,641	$3,481
Effective interest rate	5.4%			

Note 7. Income Taxes

The Company has incurred annual operating losses since inception. As a result of those continuing losses, management has determined insufficient evidence exists to support that it is more likely than not that the Company will realize the benefits of its U.S. net deferred tax assets and therefore has recorded a valuation allowance to reduce the net carrying value of these deferred tax assets to zero. Accordingly, the Company has not recorded a provision for income taxes for any of the periods presented other than provisions for state and foreign income taxes.

During the three months ended June 30, 2015, the Company recorded approximately $8.0 million of additional net deferred tax liabilities related to the Bronto acquisition. These additional deferred tax liabilities create a new source of taxable income, thereby requiring us to release a portion of our deferred tax asset valuation allowance with a related reduction in income tax expense for the three months ended June 30, 2015 of approximately $8.0 million. The Company recorded an additional reduction in income tax expense of approximately $350,000 related to a revision of estimates during the three months ended September 30, 2015.

As of September 30, 2015, the Company had net deferred tax liabilities in foreign jurisdictions of approximately $33,000. Based on available evidence, both positive and negative, the Company believes that it is more likely than not that the benefits of the foreign deferred tax assets will be realized in full with the exception of the Japanese deferred tax assets and the deferred tax asset related to the Canadian Scientific Research and Developmental "SR&ED" that exceeds the current utilization.

The Company does not anticipate a material change in the total amount or composition of its unrecognized tax benefits within 12 months of the reporting date.

As of September 30, 2015, the Company has not provided for residual U.S. taxes on any of its income from foreign jurisdictions since it intends to indefinitely reinvest the net undistributed earnings of its foreign subsidiaries offshore.

The Company files federal, state and foreign income tax returns in jurisdictions with varying statutes of limitations. Due to the carry forward of net operating losses, the Company's income tax returns generally remain subject to examination by federal and most state tax authorities. In most of the Company's significant foreign jurisdictions, 2008 through the current taxable year remain subject to examination by their respective tax authorities.

Note 8. Net Loss Per Share of Common Stock

Basic net loss per common share is computed by dividing net loss by the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share of common stock is computed by giving effect to all potential dilutive shares of common stock, including options, restricted stock units ("RSUs"), performance share units ("PSUs"), performance shares ("PS") and convertible debt shares. Basic and diluted net loss per share of

common stock were the same for all periods presented as the impact of all potentially dilutive securities outstanding was anti-dilutive.

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The following table presents the calculation of the numerator and denominator used in the basic and diluted net loss per share of common stock:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2015	2014	2015	2014
	(dollars and shares in thousands, except per share amounts)			
Numerator:				
Net loss	$(92,340)	$(74,692)	$(37,340)	$(29,295)
Denominator:				
Weighted-average number of shares of common stock outstanding used in computing basic and diluted net loss per share of common stock	78,153	75,947	79,186	76,477
Net loss per share of common stock, basic and diluted	$(1.18)	$(0.98)	$(0.47)	$(0.38)

The Company’s unvested RSUs, PSUs and PS do not contain non-forfeitable rights to dividends and dividend equivalents. As such, unvested RSUs, PSUs and PS are not participating securities and the Company is not required to use the two-class method to calculate diluted earnings per share in periods when the Company has net income.

The following table presents the weighted average potential shares that are excluded from the computation of diluted net loss per common share for the periods presented because including them would have had an anti dilutive effect:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2015	2014	2015	2014
	(Shares in thousands)			
Options to purchase shares of common stock	2,200	2,087	2,126	2,206
Unvested RSUs, PSUs and PS awards	2,976	2,701	3,081	2,803
Total	5,176	4,788	5,207	5,009

The effect of the convertible Notes is reflected in diluted earnings per share by application of the treasury stock method as the Company intends to settle the principal amount of the Note in cash upon conversion. During the nine and three months ended September 30, 2015, the Company's weighted average common stock price was below the Notes conversion price for the periods during which the Notes were outstanding.

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Note 9. Related Party Transactions

The Company has entered into various software license agreements with Oracle USA, Inc., an affiliate of Oracle Corporation. Lawrence J. Ellison, who beneficially owns a significant portion of the Company’s common stock, is the Chief Technology Officer, a director and a principal stockholder of Oracle Corporation.

On February 28, 2013, the Company entered into the third amendment to the perpetual software license agreement with Oracle USA ("Amendment"). The Amendment provides for a 48 month extension to the May 2010 second amendment to the Oracle unlimited license agreement. The Amendment provides that the Company will pay a one-time fee of $13.1 million to extend the term for unlimited licenses from May 31, 2014 to May 31, 2018. The Amendment also provides for technical support services. The Company paid $2.4 million for the support services from February 28, 2013 to February 27, 2014. During the first quarters of 2014 and 2015, the Company renewed the support service agreement for $4.3 million per annum and may renew support services for the two subsequent annual periods at the same rate. The support services to be provided to the Company by Oracle automatically renew unless the Company provides written notice of cancellation at least 60 days prior to the support renewal date. The Company financed the license fees due under the Amendment pursuant to a note issued to Oracle Credit Corporation. The note bears interest at a rate of 2.00% per annum with payments scheduled over the term of the amendment. The Company discounted the note at a rate of 4.5% because it approximates the interest rate the Company would obtain on the open market. The $12.4 million discounted note value was recorded as an asset addition to property and equipment that will be depreciated over seven years.

Future debt payments under notes payable as of September 30, 2015 are as follows:

	(dollars in thousands)
Years ending:	
Remainder of 2015	$780
2016	3,119
2017	3,119
Future debt payments	7,018
Amount representing interest	385