Bazaarvoice Inc
Form 10-Q
March 14, 2013
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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 January 31, 2013

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	¨
Non-accelerated filer	x (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 February 28, 2013 was 72,787,229.

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Bazaarvoice, Inc.

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Bazaarvoice, Inc.

Condensed Consolidated Balance Sheets

(in thousands, except shares and per share data)

(unaudited)

	January 31, 2013		April 30, 2012	
Assets				
Current assets:				
Cash and cash equivalents	$	23,845	$	74,367
Restricted cash		604		500
Short-term investments		81,646		50,834
Accounts receivable, net of allowance for doubtful accounts of $1,564 and $788 as of January 31, 2013, and April 30, 2012, respectively		30,310		17,977
Prepaid expenses and other current assets		4,624		3,873
Total current assets		141,029		147,551
Property, equipment and capitalized internal-use software development costs, net		13,431		8,868
Goodwill		141,833		
Acquired intangible assets, net		53,465		
Other non-current assets		190		448
Total assets	$	349,948	$	156,867
Liabilities and stockholders equity				
Current liabilities:				
Accounts payable	$	6,189	$	2,523
Accrued expenses and other current liabilities		23,289		12,725
Deferred revenue		50,755		42,152
Total current liabilities		80,233		57,400
Deferred revenue less current portion		2,162		3,434
Deferred tax liability, long-term		1,393		31
Other liabilities, long-term		6,836		2,404
Total liabilities		90,624		63,269
Commitments and contingencies (Note 11)				
Stockholders equity:				
Common stock $0.0001 par value; 150,000,000 shares authorized, 72,948,155 shares issued and 72,698,155 shares outstanding as of January 31, 2013; 150,000,000 shares authorized, 58,779,937 shares issued and 58,529,937 shares outstanding as of April 30, 2012		7		6
Treasury stock, at cost 250,000 shares as of January 31, 2013 and April 30, 2012				
Additional paid-in capital		365,115		158,769
Accumulated other comprehensive loss		(33)		(20)
Accumulated deficit		(105,765)		(65,157)
Total stockholders equity		259,324		93,598
Total liabilities and stockholders equity	$	349,948	$	156,867

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 January 31, 2013	Three Months Ended January 31, 2012	Nine Months Ended January 31, 2013	Nine Months Ended January 31, 2012
Revenue	$ 42,678	$ 27,602	$ 116,966	$ 74,705
Cost of revenue	14,217	9,514	40,949	26,116
Gross profit	28,461	18,088	76,017	48,589
Operating expenses:				
Sales and marketing	20,710	12,152	53,882	35,469
Research and development	8,914	6,059	24,356	13,978
General and administrative	8,783	5,934	32,463	15,848
Acquisition-related and other	2,021		4,771	
Amortization of acquired intangible assets	1,165		2,543	
Total operating expenses	41,593	24,145	118,015	65,295
Operating loss	(13,132)	(6,057)	(41,998)	(16,706)
Other income (expense), net				
Interest income	61	4	110	17
Other income (expense)	(49)	(341)	(451)	(805)
Total other income (expense), net	12	(337)	(341)	(788)
Loss before income taxes	(13,120)	(6,394)	(42,339)	(17,494)
Income tax expense (benefit)	(2,293)	181	(1,731)	468
Net loss	$ (10,827)	$ (6,575)	$ (40,608)	$ (17,962)
Accretion of redeemable convertible preferred stock		(10)		(35)
Net loss applicable to common stockholders	$ (10,827)	$ (6,585)	$ (40,608)	$ (17,997)
Net loss per share applicable to common stockholders:				
Basic and diluted	$ (0.15)	$ (0.34)	$ (0.60)	$ (0.93)
Basic and diluted weighted average number of shares outstanding	71,940	19,613	68,115	19,284

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 January 31,		Nine Months Ended January 31,	
	2013	**2012**	**2013**	**2012**
Net loss	$ (10,827)	$ (6,575)	$ (40,608)	$ (17,962)
Other comprehensive gain (loss), net of tax:				
Foreign currency translation adjustment	(21)	(44)	(30)	(80)
Unrealized gain (loss) on investments	(6)		17	
Total other comprehensive loss, net of tax	(27)	(44)	(13)	(80)
Comprehensive loss	$ (10,854)	$ (6,619)	$ (40,621)	$ (18,042)

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					
(in thousands)	**Number of Shares**	**Amount**	**Number of Shares**	**Amount**	**Additional Paid-in Capital**	**Accumulated Other Comprehensive Loss**	**Accumulated Deficit**	**Total Stockholders Equity**
Balance at April 30, 2012	58,780	$ 6	250	$	$ 158,769	$ (20)	$ (65,157)	$ 93,598
Issuance of stock to acquire PowerReviews	6,381	1			119,694			119,695
Issuance of stock to acquire Longboard Media	460				5,802			5,802
Issuance of common stock, net of issuance costs	3,625				51,943			51,943
Excess tax benefit related to stock-based compensation					365			365
Stock-based expense					19,072			19,072
Issuance of restricted stock awards	50							
Exercise of stock options and vested restricted stock units	3,652				9,470			9,470
Change in foreign currency translation adjustment						(30)		(30)
Change in unrealized loss on investments						17		17
Net loss							(40,608)	(40,608)
Balance at January 31, 2013	72,948	$ 7	250	$	$ 365,115	$ (33)	$ (105,765)	$ 259,324

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)

	Nine Months Ended January 31, 2013	Nine Months Ended January 31, 2012
Operating activities		
Net loss	$ (40,608)	$ (17,962)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	7,473	2,247
Stock-based expense	19,072	5,758
Bad debt expense	1,643	925
Excess tax benefit related to stock-based compensation	(365)	
Changes in operating assets and liabilities:		
Accounts receivable	(10,581)	(8,394)
Prepaid expenses and other current assets	257	529
Other non-current assets	1,161	(361)
Accounts payable	521	2,005
Accrued expenses and other current liabilities	7,027	5,125
Deferred revenue	4,647	9,971
Other liabilities, long-term	(2,952)	1
Net cash used in operating activities	(12,705)	(156)
Investing activities		
Acquisitions, net of cash acquired, and purchase of intangible asset	(60,750)	
Purchases of property, equipment and capitalized internal-use software development costs	(8,004)	(3,806)
Purchases of short-term investments	(74,578)	
Proceeds from sale of short-term investments	43,783	
Increase in restricted cash		(250)
Net cash used in investing activities	(99,549)	(4,056)
Financing activities		
Payments of initial stock offering costs		(938)
Proceeds received from follow-on stock offering, net of costs	51,943	
Proceeds from exercise of stock options	9,470	2,478
Excess tax benefit related to stock-based compensation	365	
Net cash provided by financing activities	61,778	1,540
Effect of exchange rate fluctuations on cash and cash equivalents	(46)	(73)
Net decrease in cash and cash equivalents	(50,522)	(2,745)
Cash and cash equivalents at beginning of period	74,367	15,050
Cash and cash equivalents at end of period	$ 23,845	$ 12,305
Supplemental disclosure of other cash flow information:		
Cash paid for income taxes	$ 236	$ 105
Supplemental disclosure of non-cash investing and financing activities:		

Accretion of redeemable convertible preferred stock	$	$ 35
Accrued stock offering costs		1,600
Issuance of stock for acquisition	125,497	

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

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

Basis of Presentation

The Company s significant accounting policies and recent accounting pronouncements are described in Note 2 to the consolidated financial statements included in the Company s Annual Report on Form 10-K for the fiscal year ended April 30, 2012, filed on June 11, 2012. The unaudited condensed consolidated financial statements and notes included herein should be read in conjunction with the audited consolidated financial statements and notes included in the Company s Annual Report on Form 10-K for the fiscal year ended April 30, 2012, filed on June 11, 2012.

Unaudited Interim Financial Information

The accompanying unaudited condensed consolidated financial statements and notes have been prepared in accordance with Generally Accepted Accounting Principles in the United States of America (U.S. GAAP), as contained in the Financial Accounting Standards Board (FASB), Accounting Standards Codification for interim financial information and Article 10 of Regulation S-X issued by the United States Securities and Exchange Commission (SEC). Accordingly, they do not include all the information and footnotes required by U.S. GAAP for annual fiscal reporting periods. In the opinion of management, the interim financial information includes all adjustments of a normal recurring nature necessary for a fair presentation of the results of operations, financial position, changes in stockholders equity and cash flows. The results of operations for the three and nine months ended January 31, 2013 are not necessarily indicative of results that may be expected for the year ending April 30, 2013 or any other period.

Fair Value of Financial Instruments

The Company applies the authoritative guidance on fair value measurements for financial assets and liabilities and non-financial assets and liabilities, such as goodwill, indefinite-lived intangible assets and property plant and equipment that are measured at fair value on a non-recurring basis. The guidance defines fair value, thereby eliminating inconsistencies in guidance found in various prior accounting pronouncements, and increases disclosures surrounding fair value calculations. The guidance establishes a three-tiered fair value hierarchy that prioritizes inputs to valuation techniques used in fair value calculations. The three levels of inputs are defined as follows:

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

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

Level 3: Inputs that are unobservable in the marketplace and significant to the valuation.

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 January 31, 2013. The Company is exposed to the risk that counterparties to derivative contracts may fail to meet their contractual obligations.

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There have been no other significant changes or updates to the Company s significant accounting policies disclosed in its Annual report on Form 10-K for the fiscal year ended April 30, 2012, filed on June 11, 2012.

Recently Adopted Accounting Pronouncements

Goodwill

In September 2011, the FASB issued ASU 2011-08, Intangibles Goodwill and Other: Testing Goodwill for Impairment, which simplifies the periodic testing of goodwill for impairment. This guidance will allow companies to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test required under current accounting standards. This guidance will be effective for the Company s annual goodwill impairment test performed in the fiscal year ending April 30, 2013 and is not expected to have a material impact on the Company s consolidated financial statements.

Comprehensive Income

In June 2011, the FASB issued a standard to require an entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The standard eliminates the option to present the components of other comprehensive income as part of the statement of equity. The updated accounting guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 on a retrospective basis. Early application is permitted. The Company adopted the updated guidance in the first quarter of the fiscal year ending April 30, 2013.

In February 2013, the FASB issued an update to improve the reporting of reclassifications out of accumulated other comprehensive income (AOCI). Companies are also required to present reclassifications by component when reporting changes in AOCI balances. The updated accounting guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2012 on a prospective basis. This guidance will be effective for the fiscal year ending April 30, 2014 and is not expected to have a material impact on the Company s consolidated financial statements.

3. Fair Value of Financial Assets and Liabilities

The following table summarizes the Company s cash and cash equivalents as of January 31, 2013 and April 30, 2012 (in thousands):

	January 31, 2013	April 30, 2012
Demand deposit accounts	$ 14,845	$ 45,361
Money market funds	3	288
U.S. Treasury securities	8,997	7,499
Corporate bonds		21,219
Total cash and cash equivalents	$ 23,845	$ 74,367

The following table summarizes the Company s short-term investments as of January 31, 2013 (in thousands):

	Cost	Gross Unrealized Losses	Fair Value
Available-for-sale securities:			
Certificates of deposit	$ 11,596	$ (10)	$ 11,586
U.S. Treasury securities	70,080	(20)	70,060

Total short-term investments	$ 81,676	$ (30)	$ 81,646

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The following table summarizes the Company s short-term investments as of April 30, 2012 (in thousands):

	Cost	Gross Unrealized Losses	Fair Value
Available-for-sale securities:			
Certificates of deposit	$ 4,510	$ (14)	$ 4,496
U.S. Treasury securities	28,126	(28)	28,098
Corporate bonds	18,245	(5)	18,240
Total short-term investments	$ 50,881	$ (47)	$ 50,834

All short-term investments had original maturity dates of less than 12 months at January 31, 2013 and April 30, 2012.

The following table summarizes the fair value of the Company s financial assets and liabilities that were measured on a recurring basis as of January 31, 2013 and April 30, 2012 (in thousands):

	Fair Value Measurements at January 31, 2013				Fair Value Measurements at April 30, 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Cash equivalents:								
Money market funds	$ 3	$	$	$ 3	$ 288	$	$	$ 288
U.S. Treasury securities	8,997			8,997	7,499			7,499
Corporate bonds						21,219		21,219
Total cash equivalents	9,000			9,000	7,787	21,219		29,006
Restricted cash	604			604	500			500
Short-term investments:								
Certificates of deposit		11,586		11,586		4,496		4,496
Corporate bonds						18,239		18,239
U.S. Treasury securities	70,060			70,060	28,099			28,099
Total short-term investments	70,060	11,586		81,646	28,099	22,735		50,834
Total assets	$ 79,664	$ 11,586	$	$ 91,250	$ 36,386	$ 43,954	$	$ 80,340
Liabilities:								
Contingent consideration (see Note 4)	$	$	$ 4,270	$ 4,270	$	$	$	$
Total liabilities	$	$	$ 4,270	$ 4,270	$	$	$	$

The Company measures certain assets, including property and equipment, goodwill and intangible assets, at fair value on a non-recurring basis. These assets are recognized at fair value when they are deemed to be other-than-temporarily impaired.

The Company previously classified all of its cash equivalents, restricted cash and short-term investments using Level 1 inputs. The Company has determined that the pricing methods for certain of these investments use significant other observable inputs. Accordingly, such investments held in prior periods have been presented as Level 2. The reclassification had no impact on the fair value of investments in any of the periods presented.

4. Business Combinations

PowerReviews

On June 12, 2012, the Company acquired PowerReviews, Inc. (PowerReviews) for $31.1 million in cash and 6.4 million shares of the Company s common stock. In connection with the acquisition, the Company assumed the PowerReviews option plan. After conversion, the PowerReviews options were equivalent to vested and unvested options to purchase 1.7 million shares of the Company s common stock.

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

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

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

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

Cash and cash equivalents	$	745
Restricted cash		104
Accounts receivable		497
Prepaid expenses and other current assets		156
Property and equipment		280
Current deferred tax asset		239
Intangible assets:		
Domain name (indefinite useful life)		800
Developed technology (3 year useful life)		5,400
Customer relationships (3 to 10 year useful life)		35,000
Total identified intangibles		41,200
Goodwill		113,152
Total assets acquired		156,373
Accounts payable		(304)
Accrued liabilities		(2,167)
Deferred revenue		(2,627)
Non-current deferred tax liability		(521)
Total liabilities assumed		(5,619)
Net assets acquired	$	150,754

Using a price of $17.20 per share of common stock issued, which was the closing price of the Company s common stock on the NASDAQ Global Market on the date of the acquisition, the consideration paid was as follows (in thousands):

Cash	$	31,059
Common stock		109,745
Fair value of vested stock options assumed		9,950
Total consideration	$	150,754

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

Longboard Media, Inc.

On November 5, 2012, the Company acquired Longboard Media, Inc. (Longboard Media) for approximately $26.9 million in cash, 0.5 million shares of the Company s common stock and future contingent consideration with an acquisition date fair value of $4.3 million. The contingent consideration is payable on Longboard Media s achievement of certain performance goals as of December 31, 2013. The estimated fair value of contingent consideration was determined using a discounted cash flow model and the probability of various outcomes of achieving the performance goals. Changes in the fair value of this contingent consideration will be recorded in the income statement through the date of payout. A portion of the contingent consideration is also subject to requirements that certain identified key individuals remain employed with the Company through December 31, 2013. This portion of the contingent consideration was excluded from the purchase consideration and will be recorded as compensation expense over the period the services are provided. The Company currently estimates that approximately $2.0 million will be paid for this portion of the contingent consideration and as such has recorded compensation expense of $0.2 million for the three and nine months ended January 31, 2013. The maximum amount of contingent consideration that can be paid out is capped at $11.0 million.

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Longboard Media is a full service media management network for retailers, shopping publishers and advertisers. Longboard Media enables retailers to launch and manage on-site advertising solutions and site monetization strategies and enables brands to target consumers across shopping publishers, mobile commerce applications and retailers. The Company accounted for the Longboard Media acquisition using the acquisition method of accounting.

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

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

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

Cash and cash equivalents	$	588
Accounts receivable		2,899
Prepaid expenses and other current assets		53
Deferred tax asset current		437
Intangible assets		
Customer relationships (10 year useful life)		11,300
Total identified intangibles		11,300
Goodwill		28,681
Deferred tax asset long term		1,042
Total assets acquired		45,000
Accounts payable		(3,006)
Accrued liabilities		(1,112)
Deferred tax liability		(3,955)
Total liabilities assumed		(8,073)
Net assets acquired	$	36,927

Using a price of $12.60 per share of common stock issued, which was the closing price of the Company s common stock on the NASDAQ Global Market on the day prior to the date of acquisition, the consideration paid was as follows (in thousands):

Cash	$	26,855
Common stock		5,802
Fair value of contingent consideration		4,270
Total consideration	$	36,927

Goodwill represents the excess of the purchase price over the aggregate fair value of the net identifiable assets acquired and is not deductible for tax purposes. The goodwill for Longboard Media primarily results from the Company s expectation to continue developing network solutions to

leverage its consumer audience reach, content and data to create incremental value for its clients.

Pro Forma Adjusted Summary

The results of operations of PowerReviews and Longboard Media have been included in the Company s unaudited condensed consolidated financial statements subsequent to the acquisition date. The following unaudited pro forma adjusted summary for the three and nine months ended January 31, 2013 and 2012 assumes that PowerReviews and Longboard Media had been acquired on May 1, 2011 (in thousands, except net loss per share data):

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2013	2012	2013	2012
Pro forma adjusted total revenue	$ 42,771	$ 31,621	$ 120,497	$ 85,142
Pro forma adjusted net loss attributable to Bazaarvoice, Inc.	$ (8,662)	$ (10,724)	$ (36,253)	$ (46,225)
Pro forma adjusted net loss per share applicable to common stockholders attributable to Bazaarvoice, Inc.:				
Basic and diluted	$ (0.12)	$ (0.41)	$ (0.52)	$ (1.77)

The unaudited pro forma results for the three months ended January 31, 2012 include $1.6 million of amortization charges for acquired intangible assets and $0.6 million of stock-based expense related to the post-combination service arrangements entered into with the continuing employees. The unaudited pro forma results for the nine months ended January 31, 2012 include $4.9 million of amortization charges for acquired intangible assets, adjustments for $9.8 million of incremental stock-based expense related to the acceleration of options due to the acquisition, $1.7 million of stock-based expense related to the post-combination service arrangements entered into with the continuing employees and $4.8 million of acquisition costs.

The unaudited pro forma adjusted summary combines the historical results for Bazaarvoice for those periods with the historical results of PowerReviews and Longboard Media for the same periods. The summary is presented for informational purposes only and is not intended to be indicative of future results of operations or whether similar results would have been achieved if the acquisition had taken place at the beginning of fiscal year 2012.

5. Goodwill

At January 31, 2013, the Company had goodwill in the amount of $141.8 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 indicators of impairment as of January 31, 2013.

The following table reflects the changes in goodwill for the nine months ended January 31, 2013 (in thousands):

Balance, as of April 30, 2012	$	
Increase in goodwill related to PowerReviews acquisition		113,152
Increase in goodwill related to Longboard Media acquisition		28,681
Balance, as of January 31, 2013	$	141,833

6. Acquired Intangible Assets, net

On December 1, 2012, the Company closed an agreement to purchase customer contracts operated in Europe by Shopzilla, Inc. (Shopzilla) using PowerReviews technology under a license agreement between Shopzilla and PowerReviews. The Company determined that the transaction does not constitute a business combination. The entire purchase price of $4.7 million was allocated to a customer relationship intangible asset as the intent of the purchase was to gain access to Shopzilla s contractual customer relationships. Cash remitted on the date of purchase was $4.2 million, and $0.5 million of the purchase price has been recorded as a holdback liability recorded in accrued expenses and other current liabilities. The remaining useful life of the acquired contractual customer relationships was determined to be ten years.

Acquired intangible assets, net as of January 31, 2013 from business combinations (see Note 4) and the intangible asset purchase described above are as follows (in thousands):

		Gross Fair Value		Accumulated Amortization		Net Book Value
Customer relationships	$	51,027	$	(2,622)	$	48,405
Developed technology		5,400		(1,140)		4,260
Domain name (indefinite useful life)		800				800
	$	57,227	$	(3,762)	$	53,465

Intangible assets are amortized over their useful lives. Each period the Company evaluates the estimated remaining useful lives 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.

For the three and nine months ended January 31, 2013, the Company incurred amortization expense on acquired intangible assets of $1.7 and $3.7 million, respectively, of which $0.5 and $1.2 million, respectively, was included in cost of revenue. The Company did not have any acquired intangible assets at April 30, 2012, nor did it incur any amortization expense for acquired intangible assets for the three and nine months ended January 31, 2012.

7. Income Taxes

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

The Company computes its interim provision for income taxes by applying the estimated annual effective tax rate to income from operations and adjusts the provision for discrete tax items occurring in the period. The Company s effective tax rate for the three and nine months ended January 31, 2013 was 17.5% and 4.1%, respectively, compared to (2.8%) and (2.7%) for the three and nine months ended January 31, 2012, respectively. During the three months ended January 31, 2013, the Company recorded a tax benefit of $2.5 million resulting from a reduction in the valuation allowance associated with the Longboard Media acquisition. The negative tax rates for the three and nine months ended January 31, 2012 were primarily attributable to estimated foreign and state income tax expense compared to a consolidated pre-tax book loss.

8. 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 November 2012. 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 $2.65 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. 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 and nonfinancial covenants. As of January 31, 2013 and 2012, the Company was in compliance with the terms of these covenants.

On November 4, 2008, the Company entered into a pledge and security agreement with a financial institution for a standby letter of credit for credit card services from a separate financial institution. As amended, the agreement provides for a standby letter of credit for credit card services in an amount not to exceed $0.5 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.

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Prior to its acquisition by the Company, PowerReviews entered into a standby letter of credit for approximately $0.1 million from a financial institution in favor of its sub-landlord. PowerReviews pledged a security interest in its money market account to secure the reimbursement obligations in connection with this letter of credit. This letter of credit is extended annually until terminated, and the pledged money market account is recorded as short-term restricted cash in the Company s condensed consolidated financial statements.

9. 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 nine months ended January 31, 2013 and 2012, respectively (in thousands, except net loss per share data).

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2013	2012	2013	2012
Net loss	$ (10,827)	$ (6,575)	$ (40,608)	$ (17,962)
Less accretion of redeemable convertible preferred stock		(10)		(35)
Net loss applicable to common stockholders	$ (10,827)	$ (6,585)	$ (40,608)	$ (17,997)
Net loss per share applicable to common stockholders, basic and diluted	$ (0.15)	$ (0.34)	$ (0.60)	$ (0.93)
Weighted average number of shares outstanding, basic and diluted	71,940	19,613	68,115	19,284
Potentially dilutive securities [(1)]:				
Outstanding stock options	4,435	5,597	6,786	5,381
Redeemable convertible preferred shares		27,897		27,897

(1) These securities were excluded from the computation of diluted net loss per share applicable to common stockholders because the effect would be anti-dilutive.

10. Common Stock

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

11. Commitments and Contingencies

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.

On January 10, 2013, the U.S. Department of Justice filed a complaint against the Company with the U.S. District Court for the Northern District of California, San Francisco Division, alleging that the Company s acquisition of PowerReviews violates 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. The Company disputes the allegations and intends to vigorously contest the matter. Due to the early stages of the case, it is not possible to reliably predict the outcome of the case. Therefore, the Company cannot currently estimate the possible loss or range of loss that could result from the case.

At January 31, 2013, the Company was in the process of assessing the sales tax status of the Bazaarvoice enterprise service offering with sales tax agencies in the states in which it operates. Based on the limited information received from certain of these states, the Company cannot estimate with certainty which of its service offerings and features these states may determine to be subject to state sales tax. The Company preliminarily estimates that its liability, net of amounts to be recovered from customers, will be between $1.1 million and $2.7 million. The Company has accrued a liability of $1.7 million, representing the best estimate of the amount within this range that will probably be incurred to settle these obligations. The estimated range includes an action plan for recovering the amounts due from the Company s customers. If it is determined that the portion of the Company s product offering subject to state

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sales tax is greater than that used to determine the accrual at January 31, 2013, 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 Event

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 complaint in this matter alleges 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 proceeds received from such sales of the Company s stock, damages on behalf of the Company, and equitable relief. The Company disputes the allegations and intends to vigorously contest the matter. Due to the early stages of the case, it is not possible to reliably predict the outcome of the case. Therefore, the Company cannot currently estimate the possible loss or range of loss that could result from the case.

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

Forward Looking Statements

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements 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, 2012, filed on June 11, 2012, 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, or 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, sh plan, expect or the negative or plural of these words or similar expressions, although not all forward-looking statements contain these words. These forward-looking statements include, but are not limited to, statements concerning the following:

- our ability to timely and effectively scale and adapt our existing technology and network infrastructure;
- our ability to increase adoption of our platforms by our customers internal and external users;
- our ability to protect our users information and adequately address security and privacy concerns;
- our ability to maintain an adequate rate of growth;
- our future expenses;
- the expected benefits of the PowerReviews acquisition, including the ability to establish us with small and medium-sized businesses and further expand the reach and value of our network, and our ability to achieve significant cost synergies;
- the expected benefits of the Longboard Media acquisition, including 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 anticipated trends of our operating metrics and financial and operating results;
- the effects of increased competition in our market;
- our ability to effectively manage our growth;

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

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

the attraction and retention of qualified employees and key personnel; and

our expectations regarding the outcome of litigation proceedings.

The outcome of the events described in these forward-looking statements is subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from the results anticipated by these forward-looking statements, including those factors we discuss in the Risk Factors sections of this Quarterly Report on Form 10-Q, our Annual Report on Form 10-K for the fiscal year ended April 30, 2012, filed on June 11, 2012, and in our other filings with the SEC. You should read these factors and the other cautionary statements made in this Quarterly Report on Form 10-Q as being applicable to all related forward-looking statements wherever they appear in this Quarterly Report on Form 10-Q. These risks are not exhaustive. Although we believe the expectations reflected in the forward-looking statements are based on reasonable assumptions, we can give no assurance we will attain these expectations or that any deviations will not be material. Except as required by law, we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this Quarterly Report on Form 10-Q to conform these statements to actual results or to changes in our expectations.

Overview

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

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

The following table summarizes these measures of our growth over the three and nine months ended January 31, 2013 and 2012:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2013	2012	2013	2012
Growth Trends:				
Revenue (in thousands)	$ 42,678	$ 27,602	$ 116,966	$ 74,705
Number of active enterprise clients (period end) [1]	1,179	737	1,179	737
Full-time employees (period end)	796	608	796	608
Service as a software (SaaS) impressions served (in thousands) [2]	43,661	38,848	109,970	92,794

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

(2) The number of impressions for the three and nine months ended January 31, 2013 are exclusive of impressions served on either the PowerReviews enterprise platform or the Express platform.

For the three and nine months ended January 31, 2013, through the continued enhancement and expansion of our social commerce platforms, we achieved significant growth as compared to the three and nine months ended January 31, 2012 in both the number of active enterprise clients and the revenue we generated from our active enterprise clients. Our revenue was $42.7 million and $117.0 million for the three and nine months ended January 31, 2013, respectively, which represented a 54.6% and 56.6% increase, respectively, from the three and nine months ended January 31, 2012.

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

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

On November 5, 2012, we completed the acquisition of Longboard Media, Inc., a full service media management company that enables online retailers, shopping publishers and mobile commerce applications to launch and manage on-site advertising solutions and site monetization strategies. Through Longboard Media s shopper media network, brand advertisers are able to target consumers throughout the online shopping experience, often immediately prior to the point of sale. It will also enable retailers to launch and manage on-site advertising solutions and site-monetization strategies.

On December 1, 2012, we closed a purchase of customer contracts operated in Europe by Shopzilla Inc. using the PowerReviews technology under a license agreement between Shopzilla and PowerReviews. Through this transaction we added 48 active enterprise clients.

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.

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We have experienced substantial growth in our business over the past several years, which has resulted in increased revenues over time. While we expect that our business will continue to grow, we anticipate that our revenue growth rate will generally decrease over time. As of January 31, 2013, we had 796 full-time employees, which represented an increase of 30.9% compared to the same period last year.

Business Model

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

In connection with the acquisition of new clients, we incur and recognize significant upfront costs. These costs include sales and marketing costs associated with generating client agreements, such as sales commission expenses that are recognized fully in the period in which we execute a client contract. However, we recognize revenue ratably over the entire term of those contracts, which commences only when the client is able to begin using our solution. Although we expect each client to be profitable for us over the duration of our relationship, the costs we incur with respect to any client relationship may exceed revenue in earlier periods because we recognize those costs in advance of the recognition of revenue. As a result, an increase in the mix of new clients as a percentage of total clients will initially have a negative impact on our operating results. On the other hand, we expect that a decrease in the mix of new clients as a percentage of total clients will initially have a positive impact on our operating results. Additionally, many clients pay in advance of the recognition of revenue and, as a result, our cash flow from these clients may exceed the amount of revenue recognized for those clients in earlier periods of our relationship.

Key Business Metrics

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

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2013	2012	2013	2012
	(in thousands, except number of clients and client retention)			
Revenue				
SaaS	$ 40,710	$ 27,602	$ 114,998	$ 74,705
Media	1,968		1,968	
	$ 42,678	$ 27,602	$ 116,966	$ 74,705
Cash flow used in operations	$ (6,741)	$ (1,370)	$ (12,705)	$ (156)
Number of active enterprise clients (period end)	1,179	737	1,179	737
SaaS revenue per active enterprise client [1]	$ 35.6	$ 38.4	$ 108.8	$ 112.3
Active enterprise client retention rate [2]	97.0%	97.4%	91.4%	91.9%
Total revenue per employee [3]	$ 54.3	$ 47.0	$ 154.8	$ 136.6

(1) Calculated based on the average number of active enterprise clients for the period on a quarterly basis.
(2) Calculated based on active enterprise client retention over the three and nine month periods.
(3) Calculated based on the average number of full-time employees for the three and nine month periods.

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 each time their advertisements are displayed on our publishers websites and is net of amounts due to such publishers.

Cash Flow Used in Operations

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

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Number of Active Enterprise Clients

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

SaaS Revenue per Active Enterprise Client

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

Active Enterprise Client Retention Rate

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

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. We believe revenue per employee is a leading indicator of our productivity and operating leverage, and we monitor revenue per employee as an indicator of our profitability because a significant portion of our cost of revenue and operating expenses are driven by our number of employees. The growth of our business is dependent on our ability to hire the talented people we require to effectively capitalize on our market opportunity and scale with rapid growth while maintaining a high level of client service. As a result, we expect revenue per employee to decrease in periods of investment when we add employees in advance of anticipated growth, particularly in periods when we are developing new markets or solutions. Our objective is to balance our investments in growth with return on investment over time and to consistently build operating leverage through productivity gains, thus increasing revenue per employee over time.

Active Network Clients

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

Key Components of Our Consolidated Statements of Operations

Revenue

We generate revenue principally from fixed commitment subscription contracts under which we provide clients with various services, including access to our hosted software platforms. We sell these services under contractual agreements 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 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 nine months ended January 31, 2013 and 2012.

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Cost of Revenue

Cost of revenue consists primarily of personnel costs and related expenses associated with employees and contractors who provide our subscription services. This includes the costs of our implementation team, which were $2.6 million and $9.1 million for the three and nine months ended January 31, 2013 and $3.1 million and $9.5 million for the three and nine months ended January 31, 2012, respectively, along with our content moderation teams and other support services provided as part of the fixed commitment subscription contracts. Cost of revenue also includes professional fees, including third-party implementation support, travel-related expenses and an allocation of general overhead costs. 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, and the amortization of developed technology acquired from PowerReviews. The amortization expense associated with capitalized internal-use software development costs was $0.7 million and $1.6 million for the three and nine months ended January 31, 2013 and $0.3 million and $0.7 million for the three and nine months ended January 31, 2012, respectively. The amortization expense associated with the developed technology acquired from PowerReviews was $0.5 million and $1.2 million for the three and nine months ended January 31, 2013, respectively.

We intend to continue to invest additional resources in our client services teams and in the capacity of our hosting service infrastructure and, as we continue to invest in technology innovation through our research and development organization, we may also see an increase in the amortization expense associated with capitalized internal-use software development costs incurred in connection with enhancing our software architecture and adding new features and functionality to our platforms. The level and timing of investment in these areas could affect our cost of revenue, both in terms of absolute dollars and as a percentage of revenue in the future.

Operating Expenses

We classify our operating expenses into 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.

Sales and marketing. Sales and marketing expenses consist primarily of personnel costs for our sales, marketing and business development employees and executives, including salaries, benefits, stock-based expense, bonuses and commissions earned by our sales personnel. Also included are non-personnel costs such as professional fees, an allocation of our general overhead expenses and the costs of our marketing and brand awareness programs. Our marketing programs include our Social Summits, 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 future, sales and marketing expenses will increase and continue to be our largest operating cost.

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

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General and administrative. General and administrative expenses consist primarily of personnel costs, including salaries, benefits, stock-based expense and bonuses for our administrative, legal, human resources, finance, accounting and information technology employees and executives. Also included are non-personnel costs, such as travel-related expenses, professional fees and other corporate expenses, along with an allocation of our general overhead expenses. We expect to incur incremental costs associated with supporting the growth of our business, both in terms of size and geographical diversity, and to meet the increased compliance requirements associated with being a public company. Those costs include increases in our accounting and legal personnel, additional consulting, legal, 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 consisted of costs incurred related to the acquisition of PowerReviews and Longboard Media and included legal, banking, accounting and other advisory fees of third parties and severance costs for employees.

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

Other Income (Expense)

Other income (expense) consists primarily of interest income, 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 initial public offering and follow-on offering. Foreign exchange gains and losses arise from revaluations of foreign currency denominated monetary assets and liabilities and are partially offset by the change in market value of our foreign exchange contracts.

Income Tax Expense

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

Results of Operations

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

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Consolidated Statements of Operations Data:

	Three Months Ended January 31, 2013	Three Months Ended January 31, 2012	Nine Months Ended January 31, 2013	Nine Months Ended January 31, 2012
	(in thousands)		(in thousands)	
Revenue	$ 42,678	$ 27,602	$ 116,966	$ 74,705
Cost of revenue [1]	14,217	9,514	40,949	26,116
Gross profit	28,461	18,088	76,017	48,589
Operating expenses:				
Sales and marketing [1]	20,710	12,152	53,882	35,469
Research and development [1]	8,914	6,059	24,356	13,978
General and administrative [1]	8,783	5,934	32,463	15,848
Acquisition-related and other	2,021		4,771	
Amortization of acquired intangible assets	1,165		2,543	
Total operating expenses	41,593	24,145	118,015	65,295
Operating loss	(13,132)	(6,057)	(41,998)	(16,706)
Total other income (expense), net	12	(337)	(341)	(788)
Loss before income taxes	(13,120)	(6,394)	(42,339)	(17,494)
Income tax expense	(2,293)	181	(1,731)	468
Net loss	$ (10,827)	$ (6,575)	$ (40,608)	$ (17,962)
Other Data:				
Adjusted EBITDA [2]	$ (5,510)	$ (2,985)	$ (12,256)	$ (9,396)

[1] Includes stock-based expense as follows:

Cost of revenue	$ 443	$ 319	$ 1,320	$ 986
Sales and marketing	710	419	3,405	1,233
Research and development	674	356	2,370	920
General and administrative	1,312	1,409	11,977	2,619
	$ 3,139	$ 2,503	$ 19,072	$ 5,758

[2] We define Adjusted EBITDA as net loss adjusted for stock-based expense, adjusted depreciation and amortization (which excludes amortization of capitalized internal-use software development costs), integration and other costs related to acquisitions, income tax expense and other (income) expense, net. Adjusted EBITDA is a financial measure that is not calculated in accordance with U.S. 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 U.S. GAAP. Our Adjusted EBITDA may not be comparable to similarly titled measures of other organizations

because other organizations may not calculate Adjusted EBITDA in the same manner. We prepare Adjusted EBITDA to eliminate the impact of items that we do not consider indicative of our core operating performance. You are encouraged to evaluate these adjustments and the reason we consider them appropriate.

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

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

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

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

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

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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 U.S. 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 Adjusted EBITDA to net loss, the most comparable U.S. GAAP measure, for each of the periods indicated, in thousands.

	Three Months Ended January 31, 2013	Three Months Ended January 31, 2012	Nine Months Ended January 31, 2013	Nine Months Ended January 31, 2012
	(in thousands)		(in thousands)	
Adjusted EBITDA:				
GAAP net loss	$ (10,827)	$ (6,575)	$ (40,608)	$ (17,962)
Stock-based expense	3,139	2,503	19,072	5,758
Adjusted depreciation and amortization	2,462	569	5,899	1,552
Acquisition-related and other expense	2,021		4,771	
Income tax expense (benefit)	(2,293)	181	(1,731)	468
Total other (income) expense, net	(12)	337	341	788
Adjusted EBITDA	$ (5,510)	$ (2,985)	$ (12,256)	$ (9,396)

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

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Consolidated Statements of Operations Data:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2013	2012	2013	2012
Revenue	100.0%	100.0%	100.0%	100.0%
Cost of revenue [1]	33.3	34.5	35.0	35.0
Gross profit	66.7	65.5	65.0	65.0
Operating expenses:				
Sales and marketing [1]	48.5	44.0	46.1	47.5
Research and development [1]	20.9	22.0	20.8	18.7
General and administrative [1]	20.6	21.5	27.8	21.2
Acquisition related	4.7		4.1	
Amortization of acquired intangible assets	2.8		2.1	
Total operating expenses	97.5	87.5	100.9	87.4
Operating loss	(30.8)	(22.0)	(35.9)	(22.4)
Total other income (expense), net		(1.2)	(0.3)	(1.1)
Loss before income taxes	(30.8)	(23.2)	(36.2)	(23.4)
Income tax expense	(5.4)	0.7	(1.5)	0.6
Net loss	(25.4)%	(23.8)%	(34.7)%	(24.0)%
Other Data:				
Adjusted EBITDA [2]	(12.9)%	(10.8)%	(10.5)%	(12.6)%

(1) Includes stock-based expense as follows:

Cost of revenue	1.0%	1.2%	1.1%	1.3%
Sales and marketing	1.7	1.5	2.9	1.7
Research and development	1.6	1.3	2.0	1.2
General and administrative	3.1	5.1	10.2	3.5
	7.4%	9.1%	16.3%	7.7%

(2) We define Adjusted EBITDA as net loss adjusted for stock-based expense, adjusted depreciation and amortization (which excludes amortization of capitalized internal-use software development costs), acquisition-related costs, income tax expense and other (income) expense, net. See note [2] to the Consolidated Statement of Operations Data on page 23 of this Quarterly Report on Form 10-Q for a reconciliation of net loss to Adjusted EBITDA.

Comparison of the Three Months Ended January 31, 2013 and 2012

Revenue

	Three Months Ended January 31,		
	2013	2012	% Change
	(dollars in thousands)		
Revenue	$ 42,678	$ 27,602	54.6%

Our revenue increased by $15.1 million, or 54.6%, for the three months ended January 31, 2013 compared to the three months ended January 31, 2012. Of this increase, $7.2 million was generated from new clients utilizing our platforms as we continued to increase the market penetration of our solutions, as well as the revenue contribution from our new clients related to our recent acquisition of PowerReviews. Included in the increase is $2.0 million of media revenue resulting from the acquisition of Longboard Media. The remaining $5.9 million increase was generated from existing clients due to increased subscriptions of our products and offerings coupled with our client retention which was 88.3% for the 12 months ended January 31, 2013, partially offset by decreasing revenue per client (in thousands), which was $35.6 for the three months ended January 31, 2013 and $38.4 for the three months ended January 31, 2012.

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Cost of Revenue and Gross Profit Percentage

	Three Months Ended January 31,		
	2013	2012	% Change
	(dollars in thousands)		
Cost of revenue [1]	$ 14,217	$ 9,514	49.4%
Gross profit	28,461	18,088	57.3%
Gross profit percentage[2]	66.7%	65.5%	

(1) Includes amortization of intangible assets of $0.5 million for the three months ended January 31, 2013 and none for the three months ended January 31, 2012.

(2) Gross Profit percentage was higher for the three months ended January 31, 2013 as this was the first quarter that included media revenue which generated a higher gross profit percentage than our SaaS revenue.

Cost of Revenue. Cost of revenue increased $4.7 million, or 49.4%, for the three months ended January 31, 2013 compared to the three months ended January 31, 2012. This increase was primarily due to increases of $2.2 million in personnel-related expenses, $0.4 million in professional fees and $0.2 million in facility-related expenses as we continue to expand the capacity of our infrastructure. We also incurred a $1.9 million increase in costs associated with hosting services, amortization of developed technology acquired from PowerReviews and amortization of capitalized internal-use software development costs.

Operating Expenses

	Three Months Ended January 31,				
	2013		2012		
	Amount	% Rev.	Amount	% Rev.	% Change
	(dollars in thousands)				
Sales and marketing	$ 20,710	48.5%	12,152	44.0%	70.4%
Research and development	8,914	20.9	6,059	22.0	47.1
General and administrative	8,783	20.6	5,934	21.5	48.0
Acquisition-related and other	2,021	4.7			n/a
Amortization of acquired intangible assets	1,165	2.8			n/a
Total operating expenses	$ 41,593	97.5%	24,145	87.5%	72.3%

Sales and marketing. Sales and marketing expenses increased $8.6 million, or 70.4%, for the three months ended January 31, 2013 compared to the three months ended January 31, 2012. This increase was primarily due to an increase in sales and marketing staff, including increases of $5.1 million for personnel-related expenses, $1.6 million for travel-related expenses and $0.3 million of facility-related expenses. Included in the increase for personnel-related expenses is $1.0 million resulting from the acquisition of Longboard Media. Professional fees increased by $0.8 million. Additionally, we incurred a $0.8 million expense due to an increase in estimates of uncollectible sales tax liabilities.

Research and development. Research and development expenses increased $2.9 million, or 47.1%, for the three months ended January 31, 2013 compared to the three months ended January 31, 2012. This increase was primarily due to an increase in personnel-related expenses of $1.8 million as we continued to expand our research and development team. This expansion also resulted in increases of $0.1 million each in travel and facility-related expenses. We also experienced increases of $0.9 million in professional fees.

General and administrative. General and administrative expenses increased $2.8 million, or 48.0%, for the three months ended January 31, 2013 compared to the three months ended January 31, 2012. This was primarily due to an increase in our staffing to support infrastructure growth and additional expenses associated with being a publicly traded company. These increases include a $1.1 million increase in facility-related fees, a

$0.8 million increase in personnel-related expenses and a $0.1 million increase in travel-related expenses. Professional fees increased by $0.8 million.

Acquisition-related and other. We incurred $2.0 million in acquisition-related expenses for the three months ended January 31, 2013, including $1.2 million of legal and advisory fees primarily for the U.S. Department of Justice suit related to our acquisition of PowerReviews and $0.4 million each for severance to former PowerReviews executives, and legal and advisory expenses related to our acquisition of Longboard Media.

Amortization of acquired intangibles. Amortization of acquired intangibles represents amortization of the customer relationships purchased in the PowerReviews and Longboard Media acquisitions. This amortization is presented separately in the statement of operations and was $1.2 million for the three months ended January 31, 2013.

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Other Income (Expense), Net

	Three Months Ended January 31,				
	2013		2012		
	Amount	% Rev.	Amount	% Rev.	% Change
			(dollars in thousands)		
Interest income	$ 61	0.1%	4	%	1,425.0%
Other income (expense)	(49)	(0.1)	(341)	(1.2)	(85.6)
Total other income (expense), net	$ 12	%	(337)	(1.2)%	(103.6)%

Interest income increased by $0.1 million during the three months ended January 31, 2013 compared to the three months ended January 31, 2012 primarily due to returns on our investments of proceeds from our initial public offering and follow-on offering. Other income increased by $0.3 million for the three months ended January 31, 2013 compared to the three months ended January 31, 2012, due primarily to changes in realized and unrealized gains on transactions in foreign currencies.

Income Tax Expense

	Three Months Ended January 31,				
	2013		2012		
	Amount	% Rev.	Amount	% Rev.	% Change
			(dollars in thousands)		
Income tax expense (benefit)	$ (2,293)	(5.4)%	181	0.7%	(1,366.9)%

We recognized a net income tax benefit of $2.3 million for the three months ended January 31, 2013 compared to income tax expense of $0.2 million for the three months ended January 31, 2012, primarily as the result of a $2.5 million tax benefit from a reduction in the valuation allowance related to our acquisition of Longboard Media.

Comparison of the Nine Months Ended January 31, 2013 and 2012

Revenue

	Nine Months Ended January 31,		
	2013	2012	% Change
		(dollars in thousands)	
Revenue	$ 116,966	$ 74,705	56.6%

Our revenue increased by $42.3 million, or 56.6%, for the nine months ended January 31, 2013 compared to the nine months ended January 31, 2012. Of this increase, $16.1 million was generated from new clients utilizing our platforms as we continued to increase the market penetration of our solutions and revenue contributions from our new clients related to our recent acquisition of PowerReviews. Included in the increase is $2.0 million of media revenue resulting from the acquisition of Longboard Media. The remaining $24.2 million increase was generated from existing clients, due to increased subscriptions of our products and offerings coupled with our client retention which was 88.3% for the 12 months ended January 31, 2013, partially offset by decreasing revenue per client (in thousands), which was $108.8 for the nine months ended January 31, 2013 and $112.3 for the nine months ended January 31, 2012.

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Cost of Revenue and Gross Profit Percentage

	Nine Months Ended January 31,		
	2013	2012	% Change
	(dollars in thousands)		
Cost of revenue[(1)]	$ 40,949	$ 26,116	56.8%
Gross profit	76,017	48,589	56.4%
Gross profit percentage	65.0%	65.0%	

(1) Includes amortization of intangible assets of $1.2 million for the nine months ended January 31, 2013 and none for the nine months ended January 31, 2012.

Cost of Revenue. Cost of revenue increased $14.8 million, or 56.8%, for the nine months ended January 31, 2013 compared to the nine months ended January 31, 2012. This increase was primarily due to increases of $6.5 million in personnel-related expenses, $1.6 million in professional fees, $0.9 million in facility-related expenses as we continue to expand the capacity of our infrastructure and $0.3 million in travel-related expenses. We also incurred a $5.5 million increase in costs associated with hosting services, amortization of developed technology acquired from PowerReviews and amortization of capitalized internal-use software development costs.

Operating Expenses

	Nine Months Ended January 31,				
	2013		2012		
	Amount	% Rev.	Amount	% Rev.	% Change
	(dollars in thousands)				
Sales and marketing	$ 53,882	46.1%	35,469	47.5%	51.9%
Research and development	24,356	20.8	13,978	18.7	74.2
General and administrative	32,463	27.8	15,848	21.2	104.8
Acquisition-related and other	4,771	4.1			n/a
Amortization of acquired intangible assets	2,543	2.1			n/a
Total operating expenses	$ 118,015	100.9%	65,295	87.4%	80.7%

Sales and marketing. Sales and marketing expenses increased $18.4 million, or 51.9%, for the nine months ended January 31, 2013 compared to the nine months ended January 31, 2012. This increase was primarily due to an increase in sales and marketing staff, including increases of $13.1 million for personnel-related expenses which included $1.2 million of stock-based expense related to the termination of former PowerReviews executives after the acquisition, $2.7 million for travel-related expenses, $1.0 million resulting from the acquisition of Longboard Media and $0.9 million of facility-related expenses. Professional fees increased by $0.9 million. Additionally, we incurred a $0.8 million expense due to an increase in estimates of uncollectible sales tax liabilities.

Research and development. Research and development expenses increased $10.4 million, or 74.2%, for the nine months ended January 31, 2013 compared to the nine months ended January 31, 2012. This increase was primarily due to an increase in personnel-related expenses of $7.0 million as we continued to expand our research and development team. This expansion also resulted in increases of $0.8 million each in travel and facility-related expenses. We also experienced increases of $1.8 million in professional fees due to increased use of third party contractor resources.

General and administrative. General and administrative expenses increased $16.6 million, or 104.8%, for the nine months ended January 31, 2013 compared to the nine months ended January 31, 2012. This was primarily due to an increase in our staffing and facilities to support infrastructure growth and additional expenses associated with being a publicly traded company. The increase was primarily due to an $11.5

million increase in personnel-related expenses which included $8.6 million of stock-based expense related to the termination of former PowerReviews executives after the acquisitions, a $2.1 million increase in facility-related fees, a $0.4 million increase in depreciation and amortization, and a $0.1 million increase in travel-related expenses. Professional fees increased by $2.5 million.

Acquisition-related and other. We incurred $4.8 million in acquisition-related expenses for the nine months ended January 31, 2013. $4.0 million of these expenses were for our acquisition of PowerReviews, including $1.0 million in legal and advisory fees, $1.1 million in severance to former PowerReviews executives and $1.9 million in legal fees for the U.S. Department of Justice suit related to the acquisition. The remaining $0.8 million was for legal and advisory expenses related to our acquisition of Longboard Media.

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Amortization of acquired intangibles. Amortization of acquired intangibles represents amortization of the customer relationships purchased in the PowerReviews and Longboard Media acquisitions. This amortization is presented separately in the statement of operations and was $2.5 million for the nine months ended January 31, 2013.

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Other Income (Expense), Net

	Nine Months Ended January 31,				
	2013		2012		
	Amount	% Rev.	Amount	% Rev.	% Change
			(dollars in thousands)		
Interest income	$ 110	0.1%	17	0.0%	547.1%
Other income (expense)	(451)	(0.4)	(805)	(1.1)	(44.0)
Total other income (expense), net	$ (341)	(0.3)%	(788)	(1.1)%	(56.7)%

Interest income increased by $0.1 million during the nine months ended January 31, 2013 compared to the nine months ended January 31, 2012 primarily due to returns on our investments of proceeds from our initial public offering in February 2012 and our follow-on offering in July 2012. Other expense decreased by $0.4 million for the nine months ended January 31, 2013 compared to the nine months ended January 31, 2012, due primarily to changes in realized and unrealized gains on transactions in foreign currencies.

Income Tax Expense

	Nine Months Ended January 31,				
	2013		2012		
	Amount	% Rev.	Amount	% Rev.	% Change
			(dollars in thousands)		
Income tax expense (benefit)	$ (1,731)	(1.4)%	468	0.6%	(469.9)%

We recognized a net income tax benefit of $1.7 million for the nine months ended January 31, 2013 compared to income tax expense of $0.5 million for the nine months ended January 31, 2012, primarily as the result of a $2.5 million tax benefit from a reduction in the valuation allowance related to our acquisition of Longboard Media.

Liquidity and Capital Resources

Our principal source of liquidity at January 31, 2013 consisted of $105.5 million of cash and cash equivalents and short-term investments. We also have a revolving line of credit with a borrowing capacity of up to $30.0 million. Cash and cash equivalents consist of cash, money market funds and U.S. treasury securities. Our short-term investments consist of certificates of deposit, U.S. treasury securities and corporate securities backed by the U.S. Department of the Treasury.

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

We anticipate making significant investments in growth and initiatives designed to improve our operating efficiency for the foreseeable future, which may impact our ability to generate positive cash flow from operating activities in the near-term. Our future capital requirements will depend on many factors, including our rate of client and revenue growth, the expansion of our sales and marketing activities, the timing and extent of spending to support product development efforts, 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. 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.

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

	Nine Months Ended January 31,	
	2013	2012
	(in thousands)	
Net cash used in operating activities	$ (12,705)	$ (156)
Net cash used in investing activities	(99,549)	(4,056)
Net cash provided by financing activities	61,778	1,540

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

For the nine months ended January 31, 2013, operating activities used $12.7 million of cash after changes in our operating assets and liabilities offset a net loss of $40.6 million, which included non-cash depreciation and amortization of $7.5 million, non-cash stock-based expense of $19.1 million, non-cash bad debt expense of $1.6 million and a non-cash tax benefit related to stock options of $0.4 million. Accounts payable, accrued expenses, deferred revenue and other liabilities increased $9.2 million, which offset an increase of $9.2 million in accounts receivable, prepaid expenses and other assets. The increase in our accounts receivable, accounts payable and accrued expenses and other current liabilities was primarily due to our continued growth during the nine months ended January 31, 2013.

For the nine months ended January 31, 2012, operating activities used $0.2 million of cash after changes in our operating assets and liabilities offset a net loss of $18.0 million, which included non-cash depreciation and amortization of $2.2 million, non-cash stock-based expense of $5.8 million and non-cash bad debt expense of $1.0 million. Accounts payable, accrued expenses and other liabilities increased $7.1 million and deferred revenue increased $10.0 million, partially offset by an increase of $8.2 million in accounts receivable, prepaid expenses and other assets. The increase in our deferred revenue, accounts payable and accrued expenses and other current liabilities was primarily due to our continued growth in the nine months ended January 31, 2012.

Net Cash Used in Investing Activities

For the nine months ended January 31, 2013, investing activities used $99.5 million, which included $60.8 million, net of cash acquired, used in our acquisitions of PowerReviews, Longboard Media, and the purchase of customer contracts from Shopzilla. The remainder of our investing activities were related to the purchase and maturity of short-term investments, purchase of property, plant and equipment and costs capitalized as a result of our internal-use software.

For the nine months ended January 31, 2012, investing activities used $4.1 million, primarily related to the purchase of property and equipment, including technology hardware and software to support our growth as well as costs capitalized in connection with the development of our internal-use hosted software platforms.

Purchases of property and equipment may vary from period to period due to the timing of the expansion of our operations and the development cycles of our internal-use hosted software platforms. We expect to continue to invest in short-term investments, property and equipment and developing our software platforms for the foreseeable future.

Net Cash Provided by Financing Activities

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

For the nine months ended January 31, 2013, financing activities provided $61.8 million, which included $51.9 million of net proceeds from our follow-on offering in July 2012 and $9.5 million of proceeds from the exercise of options to purchase shares of our common stock.

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For the nine months ended January 31, 2012, we received $2.5 million from the exercise of options to purchase common stock and used $1.0 million for payments of initial stock offering costs.

Contractual Obligations and Commitments

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

On July 18, 2007, we entered into a loan and security agreement, or the Loan Agreement, with a financial institution, which was most recently amended in November 2012. 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 $2.65 million sublimit for corporate credit card and letter of credit services.

As of January 31, 2013, there were no loans outstanding under our revolving line of credit other than a $1.9 million letter of credit issued by the financial institution in favor of the landlord of the leased office space, which is serving as our headquarters in Austin, Texas. Borrowings under the revolving line of credit are collateralized by substantially all of our assets and the assets of our U.S. subsidiaries and bear interest at a floating interest rate equal to the prime rate (or the financial institution s daily adjusting LIBOR rate plus 2.5% if greater), which is payable monthly. The revolving line of credit expires and all interest and principal thereunder is payable in full on January 31, 2015.

The Loan Agreement contains certain restrictive covenants that limit our ability and our subsidiaries abilities to, among other things, incur additional indebtedness or guarantee indebtedness of others; make payments on additional indebtedness or make changes to certain agreements related to additional indebtedness; enter into hedging arrangements; create liens on our assets; make loans and investments; make capital expenditures; dispose of assets; store inventory and equipment with others; pay dividends or make distributions on, or purchase or redeem, our capital stock; enter into mergers or consolidations with or into other entities; undergo a change of control; engage in different lines of business; or enter into transactions with affiliates. The Loan Agreement also contains numerous affirmative covenants, including covenants regarding, among other things, compliance with applicable laws and regulations, reporting, payment of taxes and other obligations, maintenance of insurance coverage, maintenance of bank and investment accounts with the financial institution and its affiliates, registration of intellectual property rights, and obtaining certain third-party consents and waivers. As of January 31, 2013, we were in compliance with the terms of these covenants.

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

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

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, 2012, filed on June 11, 2012 describe the significant accounting estimates and policies used in preparation of the condensed consolidated financial statements. Actual results in these areas could differ from management s estimates. During the three and nine months ended January 31, 2013, 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, 2012, filed on June 11, 2012.

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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 today being located in the United States, the United Kingdom, Germany, France, Australia and Sweden.

We assess the market risk of changes in foreign currency exchange rates utilizing a sensitivity analysis that measures the potential impact on earnings, fair values and cash flows of a hypothetical 10% change in the value of the U.S. dollar on foreign currency denominated monetary assets and liabilities. The effect of an immediate 10% adverse change in exchange rates on foreign currency denominated monetary assets and liabilities, principally accounts receivable and intercompany balances, as of January 31, 2013, would be immaterial.

We have recently entered into forward exchange contracts to partially hedge our exposure to these foreign currencies. We did 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. Management, with the participation of our chief executive officer and our chief financial officer and review of our Audit Committee, evaluated the effectiveness of our disclosure controls and procedures as of January 31, 2013. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of January 31, 2013, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended January 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

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

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, alleging that our acquisition of PowerReviews violates 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. We dispute the allegations and intend to vigorously contest the matter.

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 breaches of fiduciary duties and breaches of our corporate policies in connection with our acquisition of PowerReviews and certain of our officers and directors sales of shares of our stock. The complaint requests declaratory judgment, a disgorgement of proceeds received from such sales of our stock, damages on our behalf, and equitable relief. We dispute the allegations and intend to vigorously contest the matter.

Item 1A. Risk Factors

Risks Related to Our Business

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

We began our operations in May 2005. Our limited operating history may make it difficult to evaluate our current business and our future prospects. We have encountered and will continue to encounter risks and difficulties frequently experienced by growing companies in rapidly developing and changing industries, including challenges in forecasting accuracy, determining appropriate investments of our limited resources, market acceptance of our existing and future solutions, managing client implementations and developing new solutions. Our current operating model may require changes in order for us to achieve profitability and scale our operations efficiently. For example, we may need to enhance our software architecture to allow us to efficiently and cost effectively develop and implement new solutions, make our solutions easy to implement and download, ensure our marketing engine is designed to drive highly qualified leads cost effectively and implement changes in our sales model to improve the predictability of our sales and reduce our sales cycle. If we fail to implement these changes on a timely basis or are unable to implement them due to factors beyond our control, our business may suffer. You should consider our business and prospects in light of the risks and difficulties we face as an early-stage company.

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

We have incurred significant losses in each fiscal period since our inception in 2005. We experienced a net loss of $40.6 million for the nine months ended January 31, 2013 and $24.3 million during fiscal year 2012. At January 31, 2013, we had an accumulated deficit of $105.8 million. 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 customers, employees and operations of PowerReviews and Longboard Media into our business could further delay our profitability. We anticipate that our operating expenses will increase substantially in the foreseeable future as we continue to invest to grow our business and acquire clients, develop our platforms and develop new products and solutions. These efforts may prove more expensive than we currently anticipate, and we may not succeed in increasing our revenue sufficiently to offset these higher expenses. Many of our efforts to generate revenue from our business are new and unproven, and any failure to increase our revenue or generate revenue from new products and solutions could prevent us from attaining or increasing profitability. Furthermore, to the extent we are successful in increasing our client base, we could also incur increased losses because costs associated with entering into client agreements are generally incurred up front, while revenue is generally recognized ratably over the term of the agreement. We cannot be certain that we will be able to attain or increase profitability on a client-by-client basis or on a quarterly or annual basis. If we are unable to effectively manage these risks and difficulties as we encounter them, our business, financial condition and results of operations may suffer.

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

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

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

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

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

Our main competition is from traditional marketing and advertising programs used by businesses that remain hesitant to embrace social commerce solutions such as Ratings & Reviews. Additionally, some businesses have developed, or may develop in the future, social commerce solutions internally. These businesses may consider their internal solutions adequate, even if our solutions are superior.

We have several direct and indirect competitors that provide third-party social commerce solutions, including but not limited to companies like Pluck, Reevoo, Gigya and Viewpoints. Additionally, we face potential competition from participants in adjacent markets that may enter our markets by leveraging related technologies and partnering with other companies.

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

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.

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Our quarterly financial results are subject to fluctuations; as a result, we could fail to meet or exceed expectations of analysts or investors, which could cause our stock price to decline.

Our revenue, expenses, operating results and cash flows have fluctuated from quarter to quarter in the past and are likely to continue to do so in the future. These fluctuations are due to, or may in the future result from, many factors, some of which are outside of our control, including:

- the timing differences between when we incur sales commissions, implementation costs and other client acquisition costs associated with new solutions sales and when we generate revenue from these sales, particularly related to larger sales to new clients;

- our ability to sell additional solutions to existing clients and to add new clients, in multiple regions around the world, particularly in the United States and Europe, which has fluctuated and is likely to continue to fluctuate, due to the effectiveness of our sales execution, economic conditions and other factors affecting our sales in each of these regions;

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

- the amount, timing and effectiveness of our product development investments and related expenses and delays in generating revenue from these new solutions;

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

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

- seasonal variations and unpredictability in our customers 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 the active enterprise client retention rate, which has ranged on a year-to-year basis from 88.3% to 89.7% for the fiscal years 2010 through 2012 and was 88.3% for the twelve months ended January 31, 2013;

- the timing and success of new solutions, product and service offerings and pricing policies by us or our competitors or any other changes in the competitive dynamics of our industry;

- the timing of expenses related to the development or acquisition of technologies or businesses and potential future charges for impairment of goodwill or intangible assets from acquired companies, including in connection with our acquisitions of PowerReviews and Longboard Media;

- 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 customers;

- 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, which is typically one year, 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. Any decline in our client renewals or expansions would likely harm our future operating results, especially if we are unable to recognize sufficient revenue to offset related client acquisition costs prior to such termination or cancellation of our client agreements.

In order for us to improve our operating results, it is important that our clients renew their agreements with us when the initial term expires and also purchase additional solutions from us. We offer our social commerce solutions primarily through subscription agreements and generally recognize revenue ratably over the related subscription period, which is typically one year. Our clients have no renewal obligation after their initial term expires, and we cannot assure you that we will be able to renew agreements with our clients at the same or higher contract value. Moreover, under specific circumstances, our clients may have the right to cancel their agreements with us before they expire, for example, in the event of an uncured breach by us. Similarly, our contracts with our media clients 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. If our clients do not renew their agreements, renew on less favorable terms or fail to purchase additional solutions, our revenue may decline, and our operating results would likely be harmed.

For fiscal years, 2011, 2012 and the 12 months ended January 31, 2013, our active enterprise client retention rates on a year-to-year basis were 89.7%, 89.0% and 88.3%, respectively. Our retention rates have declined in the past and may decline in the future due to a variety of factors, including:

- the availability, price, performance and functionality of our solutions and competing products and services;
- our ability to demonstrate to new clients the value of our solutions within the initial contract term, particularly if we are unable to introduce planned solutions innovation;
- poor performance or discontinuation of our clients brands;
- changes in our clients marketing or advertising strategies 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;
- reductions in our clients spending levels;
- consolidation in our client base;
- the development by our clients of internal solutions for their social commerce needs; and
- the effects of economic downturns and global economic conditions.

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

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

We face risks associated with our recent acquisitions of PowerReviews and Longboard Media that may adversely impact our operating results.

In June 2012, we acquired PowerReviews, a provider of social commerce solutions based in San Francisco, California, and in November 2012, we acquired Longboard Media, a full service media network for retailers, shopping publishers and advertisers based in San Francisco, California. These were our first two acquisitions. 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. For example, customers of Bazaarvoice and PowerReviews may not continue to use Bazaarvoice or PowerReviews to the same extent as they would have if PowerReviews had remained an independent company, or they may cancel existing agreements. The acquisition of Longboard Media has provided us with a new line of business, and the entry into a new line of business in which we are inexperienced 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 take full advantage of the business opportunities available to us as we expand this new line of business. Accordingly, we may not realize the potential benefits of the acquisitions. In addition to these risks, the integration of each of PowerReviews and Longboard Media into our company will be a time-consuming and expensive process and will require us to bear ongoing costs associated with maintaining and supporting the existing technology platforms of the acquired companies. We may lose key employees from each of PowerReviews and Longboard Media as a result of the acquisitions, which would increase our costs and

challenges in supporting the acquired technology. We may invest significant time and resources, including our management s time and attention that would otherwise be available for ongoing development of our existing business. If we are not able to successfully implement the new line of business, if our integration efforts are not successful, if we do not estimate associated costs accurately or if we cannot effectively manage costs, we may not realize anticipated synergies or other benefits of the acquisitions, or it may take longer to realize these benefits than we currently expect, either of which could materially harm our business or results of operations.

After the completion of our acquisition of PowerReviews, the Department of Justice, Antitrust Division (DOJ) filed a complaint against us with the U.S. District Court for the Northern District of California, San Francisco Division, alleging that our acquisition of PowerReviews violates 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. The lawsuit could be lengthy, could result in material legal fees and associated costs, and require considerable time and attention of our management. Further, we could be required to divest part, or all, of PowerReviews operations and assets. As a result, this lawsuit could have a material adverse effect on our operating results and could materially impact our business strategy going forward.

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

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

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

In general, implementation of our solutions may require lengthy and significant work. We generally incur sales and marketing expenses related to the commissions owed to our sales representatives and make upfront investments in technology and personnel to support the engagements before we begin recognizing revenue from client contracts. We do not control our clients implementation schedule. As a result, as we have experienced in the past, if our clients do not allocate internal resources necessary to meet their implementation responsibilities or if we face unanticipated implementation difficulties, the implementation may be delayed 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 relationships with some of our clients may be adversely affected. In addition, competitors with more efficient operating models with lower implementation costs could penetrate our client relationships.

Our management team has a limited history of working together and may not be able to execute our business plan. 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 for only a limited period of time and has a limited track record of executing our business plan as a team. Most of our executives have limited or no experience in managing publicly traded companies or companies of our size. In addition, we have recently filled a number of positions in our senior management and finance and accounting staff, which changes include the recent appointments of our President and Chief Executive Officer, and our new Chief Financial Officer. Accordingly, certain key personnel have only recently assumed the duties and responsibilities they are now performing, and it is difficult to predict whether our management team, individually and collectively, will be effective in operating our business. These changes may cause speculation and uncertainty regarding our future business strategy and direction and may cause or result in:

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

stock price volatility; and

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

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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. Our business plan was developed in large part by our executive officers, and its implementation requires their skills and knowledge. We do not maintain key person life insurance policies on any of our employees. We may not be able to offset the impact on our business of the loss of the services of one or more of our executive officers or key employees. Our business also requires skilled technical and sales personnel, who are in high demand and are often subject to competing offers. As we expand into new vertical and geographic markets, we will require personnel with expertise in these new areas. Competition for qualified employees is intense in our industry and particularly in Austin, Texas, where most of our employees are based. We have experienced 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 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. 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 rapid growth, which has increased the complexity of our operations. As our operations have expanded, we have grown from 70 employees at April 30, 2007 to 1,142 employees at January 31, 2013, consisting of 796 full-time employees and 346 part-time content moderators. We have increased the size of our client base from 32 active clients at April 30, 2007 to 1,179 active enterprise clients at January 31, 2013, including approximately 300 active enterprise clients plus approximately 800 active network clients added to our business as a result of our acquisition of PowerReviews on June 12, 2012. 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 customers, 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 have recently refocused our sales efforts on generating business from new customers. Our future success, particularly our ability to grow revenue, will depend largely upon the success of this effort. Our sales force and marketing team must 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 customers to our pipeline there could eventually be a negative impact on our ability to grow our revenue in the future.

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

The average sales price of our solutions may decline for a variety of reasons, including competitive pricing pressures in anticipation of the introduction of new solutions or technologies. In addition, because the market for our social commerce solutions is new and unproven and because our business model is evolving, we may not be able to achieve and sustain a level of demand and market acceptance sufficient for us to continue to maintain the current average sales price for our solutions. Furthermore, the composition of our clients may change in a manner that makes it more difficult to maintain such prices. Any failure to maintain our prices could have an adverse effect on our business, results of operations and financial condition.

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 are upgrading and expanding 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 hiring new sales leaders, and are restructuring our sales organization in order to scale our sales operations to grow our revenue. This restructuring may not have the desired effect of expanding our business and generating anticipated revenue. Additionally, we are hiring a number of new sales personnel to replace terminated personnel and to grow our sales team in both existing and new markets. These efforts may initially be disruptive to our sales process.

Our sales force upgrade and expansion may not have the desired effect of expanding our business and generating anticipated revenue. Competition for qualified sales personnel is intense, and there can be no assurance that we will be able to retain our existing sales personnel or attract, integrate or retain sufficient highly qualified sales personnel, which could adversely affect our revenue growth. Many of the companies with which we compete for experienced personnel have greater resources than we have. If any of our sales representatives were to leave us and join one of our competitors, we may be unable to prevent such sales representatives from helping competitors to solicit business from our existing clients, which could adversely affect our revenue.

In addition, new sales hires require training and typically take several months to achieve productivity, if at all. For internal planning purposes, we assume that it will take significant time before a newly hired sales representative is fully trained and productive in selling our solutions. This amount of time may be longer for sales personnel focused on new geographies or new verticals. As a result, the cost of hiring and carrying new representatives cannot be offset by the revenue they produce for a significant period of time. Furthermore, because of the length of our sales 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.

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. 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 features that allow website visitors to modify their settings to prevent or delete cookies and to sweep all cookies from their computers. Further, we currently do not own the data collected through the use of our solutions 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. 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.

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We derive a substantial portion of our revenue from a limited number of our solutions. If we are unable to maintain demand for these solutions or diversify our revenue sources by successfully developing and introducing new or enhanced solutions, we could lose existing clients or fail to attract new clients and our business could be harmed.

Ratings & Reviews was our first social commerce solution and still remains the core element of our technology platform today. If we are unable to continue developing enhanced features for this solution to maintain demand or to diversify our revenue base by increasing demand for our other solutions and successfully developing and introducing new solutions either by internal development or acquisition, our operating results could be negatively impacted. We are currently modifying our software architecture to be able to develop and implement new solutions more efficiently and cost effectively. We are also currently investing significant amounts in research and development in connection with our efforts to leverage data that we and our clients collect and manage through the use of our solutions. Improving our architecture and developing and delivering new or upgraded solutions may require us to make substantial investments, and we have no assurance that such new or upgraded architecture solutions will generate sufficient revenue to offset their costs. If we are unable to efficiently develop, license or acquire such new or upgraded solutions on a timely and cost-effective basis, or if such solutions are not effectively brought to market, are not appropriately timed with market opportunity or do not achieve market acceptance, we could lose existing clients or fail to attract new clients, and our business and operating results could be materially adversely affected.

In addition, we must continuously modify and enhance our solutions to keep pace with rapid changes in the social web and Internet-related hardware, software communication, browser, database and social commerce technologies. If we are unable to respond in a timely and cost-effective manner to rapid technological developments, our solutions could become less marketable and less competitive or become obsolete, and our operating results could be negatively affected.

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

We have begun implementation of Conversations 2013, our next-generation social commerce technology platform, and we intend to migrate all of our customers to this new technology platform over time. We have limited experience migrating customers from one platform to another. Given the complexity and significance of this transition, including the amount of customer data within our systems that will need to be accessed and migrated, our customer relationships, our reputation, and our overall business could be severely damaged if these migrations go poorly. In addition, we expect to incur additional expenses as a result of our near term plans to run dual technology platforms for several quarters as we commence the launch of Conversations 2013 while maintaining our existing technology platform, and if we experience any delays or technical problems as a result of the launch of and migration to Conversations 2013, we may incur such expenses for a much longer period of time than anticipated. Similarly, even if the migrations go smoothly, our business operations and customer relationships will be at high risk if the new platform does not meet our performance expectations, or those of our customers. This could harm our business in numerous ways including, without limitation, a loss of revenue, lost customer 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, Australia, France, Germany and Sweden. We have limited experience in operating in foreign jurisdictions outside the United States and are making significant investments to build our international operations. Managing a global organization is difficult, time-consuming and expensive, and any international expansion efforts that we may undertake may not be successful. 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 international operations;
- fluctuations in currency exchange rates;
- potentially adverse tax consequences, including the complexities of foreign value added tax systems and restrictions on the repatriation of earnings;
- increased financial accounting and reporting burdens and complexities and difficulties in implementing and maintaining adequate internal controls;
- political, social and economic instability abroad, terrorist attacks and security concerns in general;
- reduced or varied protection for intellectual property rights in some countries; and
- higher telecommunications and Internet service provider costs.

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

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

Our operating results may vary based on the impact on us or our clients of changes in the market for social commerce solutions or the global economy. In addition, the revenue growth and potential profitability of our business depends on marketing spending by companies in the markets we serve. As of January 31, 2013, a majority of our clients were online retailers. To the extent that weak

economic conditions cause our clients and potential clients to freeze or reduce their marketing budgets, particularly in the online retail market, demand for our solutions may be negatively affected. Historically, economic downturns have resulted in overall reductions in marketing spending. If economic conditions deteriorate or do not materially improve, our clients and potential clients may elect to decrease their marketing budgets by deferring or reconsidering product purchases, which would limit our ability to grow our business and negatively affect our operating results.

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

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

Our growth depends in part on the success of our 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 Costa Rica. We also rely on a third-party relationship to assist with client implementation support. We believe that supplementing our product development and implementation support activities with our outsourced third-party contractors enhances the efficiency and cost-effectiveness of these activities. If we experience problems with our third-party contractors or the costs charged by our contractors increases, we may not be able to develop new solutions or enhance existing solutions or meet our clients implementation support needs in an alternate manner that is equally or more efficient and cost-effective.

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.

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

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

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

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

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

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

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

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. The U.S. government, including the White House, the Federal Trade Commission and the Department of Commerce, are reviewing the need for

greater regulation for the collection of information concerning consumer

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

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

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

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

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

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

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

If we are unable to protect our intellectual property, our competitors could use our intellectual property to market products and services similar to ours and our ability to compete effectively would be impaired. To protect our intellectual property we rely on a combination of copyright, trademark, patent and trade secret laws, contractual provisions and technical measures. These protections may not be adequate to prevent our competitors from copying or reverse-engineering our technology and services to create similar offerings. The scope of patent protection, if any, we may obtain from our patent applications is difficult to predict and, if issued, our patents may be found invalid, unenforceable or of insufficient scope to prevent competitors from offering similar services. Our competitors may independently develop technologies that are substantially equivalent or superior to our technology. To protect our trade secrets and other proprietary information, we require employees, consultants, advisors, subcontractors and collaborators to enter into confidentiality agreements, and we maintain policies and procedures to limit 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 January 31, 2013, we had five issued U.S. patents, 20 pending U.S. non-provisional patent applications and three pending U.S. provisional patent applications. We cannot be certain that any additional patents will be issued with respect to our current or potential patent applications. Any current or future patents issued to us may be challenged, invalidated or circumvented, may not provide sufficiently broad protection or may not prove to be enforceable inactions against alleged infringers. Furthermore, effective patent, trademark, copyright and trade secret protection may not be available in every country in which our products are available over the Internet. In addition, the legal standards relating to the validity, enforceability and scope of protection of intellectual property rights are uncertain and still evolving.

We face potential liability and expenses for legal claims based on online word of mouth 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.

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, 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. For example, in July 2012, we completed a follow-on offering in which we sold and issued a total of approximately 3.6 million shares of our common stock. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock, including shares of common stock sold in our initial public offering which was completed in February 2012, or our follow-on public offering, which was completed in July 2012. Any debt financing secured by us in the future would likely be senior to our common stock and could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, we may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly limited.

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

On July 18, 2007, we entered into a loan and security agreement with a financial institution. As amended to date, the loan agreement provides for borrowings up to $30.0 million, subject to a borrowing formula, under a revolving line of credit, with a sublimit of $2.65 million for the issuance of corporate credit cards and letters of credit on our behalf. As of January 31, 2013, we had no borrowings and a $1.9 million standby letter of credit issued under our loan agreement. Any borrowings, letters of credit and credit card services pursuant to our loan agreement are secured by substantially all of our assets, including our intellectual property. Our loan agreement limits, among other things, our ability to:

- incur additional indebtedness or guarantee the obligations of other persons;
- make payments on additional indebtedness or make changes to certain agreements related to additional indebtedness;
- enter into hedging arrangements;
- create, incur or assume liens and other encumbrances;
- make loans and investments, including acquisitions;

make capital expenditures;

sell, lease, license or otherwise dispose of assets;

store inventory and equipment with other persons;

pay dividends or make distributions on, or purchase or redeem, our capital stock;

consolidate or merge with or into other entities;

undergo a change in control;

engage in new or different lines of business; or

enter into transactions with affiliates.

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

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

We collect or have imposed upon us sales or other taxes related to the solutions we sell in certain states and other jurisdictions. Additional states, countries or other jurisdictions may seek to impose sales or other tax collection obligations on us in the future, or states or jurisdictions in which we already pay tax may increase the amount of taxes we are required to pay. A successful assertion by any state, country or other jurisdiction in which we do business that we should be collecting sales or other taxes on the sale of our products and services could, among other things, create significant administrative burdens for us, result in substantial tax liabilities for past sales, discourage clients from purchasing solutions from us or otherwise substantially harm our business and results of operations.

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

In addition to our acquisition of PowerReviews in June 2012 and our acquisition of Longboard Media in November 2012, 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 customers based on their concerns regarding the acquired business or technologies; and
- additional dilution to our existing stockholders if we use our common stock as consideration for such acquisitions.

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

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

We may not be able to utilize a significant portion of our net operating loss or research tax credit carry-forwards, which could adversely affect our operating results.

As of April 30, 2012, we had federal net operating loss carry-forwards of $49.1 million due to prior period losses, which expire beginning in 2026. We also have federal research tax credit carry-forwards of approximately $1.4 million that will begin to expire in 2026. Realization of these net operating loss and research tax credit carry-forwards depends on many factors, including our future income. There is a risk that due to regulatory changes or unforeseen reasons our existing carry-forwards could expire or otherwise be unavailable to offset future income tax liabilities, which would adversely affect our operating results. In addition, under Section 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. Even if we were to implement hedging strategies to mitigate foreign currency risk, these strategies might not eliminate our exposure to foreign exchange rate fluctuations and would involve costs and risks of their own, such as ongoing management time and expertise, external costs to implement the strategies and potential accounting implications.

If we experience material weaknesses in the future, as we have in the past, or otherwise fail to maintain an effective system of internal controls in the future, we may not be able to accurately report our financial condition or results of operations which may adversely affect

investor confidence in us and, as a result, the value of our common stock.

As a public company, we are required, under Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting beginning with the filing of our Annual Report on Form 10-K for fiscal year 2013. This assessment will need to include disclosure of any material weaknesses identified by our management in our internal control over financial reporting. A material weakness is a deficiency or combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company s annual and interim financial statements will not be prevented or detected on a timely basis. We will be required to disclose changes made in our internal control and procedures on a quarterly basis. However, our independent registered public accounting firm will not be required to formally attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 until the later of the year following our first annual report required to be filed with the SEC, or the date we are no longer an emerging growth

company as defined in the recently enacted Jumpstart Our Business Startups Act of 2012, or the JOBS Act, if we take advantage of the exemptions contained in the JOBS Act. We may remain an emerging growth company 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 are further enhancing the computer systems processes and related documentation necessary to perform the evaluation needed to comply with Section 404. We may not be able to complete our evaluation, testing and any required remediation in a timely fashion. During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal controls are effective. If we are unable to conclude that our internal control over financial reporting is effective, we could lose investor confidence in the accuracy and completeness of our financial reports, which would likely cause the price of our common stock to decline.

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

Since the periods with respect to which this material weakness was identified, we have taken steps to address the material weakness disclosed in the preceding paragraph, including hiring a new chief financial officer, corporate controller and other appropriately qualified accounting personnel, forming an audit committee and implementing additional financial accounting controls and procedures. As a result of these actions, we believe that this material weakness has been remediated and our consolidated financial statements and related notes included elsewhere reflect the correct application of accounting guidance in accordance with U.S. GAAP. However, we have not completed the necessary documentation and testing procedures under Section 404 of the Sarbanes-Oxley Act and cannot assure you that we will be able to implement and maintain an effective internal control over financial reporting in the future. Any failure to maintain such controls could severely inhibit our ability to accurately report our financial condition or results of operations.

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

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

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

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

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

Our executive officers, directors, beneficial owners of 5.0% or more of our outstanding shares of common stock and affiliated entities together owned approximately 47.8% of our common stock outstanding as of February 28, 2013. 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 72,787,229 outstanding shares of common stock as of February 28, 2013. Of these shares, approximately 69.5 million are freely tradable, subject to volume and other restrictions under Rules 144 and 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.

Of the remaining shares that are not freely tradable, all shares issued in connection with our acquisition of Longboard Media are subject to a lock-up agreement with us, which expires approximately 180 days following the closing of our acquisition of Longboard Media, or May 4, 2013.

In addition, General Atlantic Partners 90, L.P., GAP Coinvestments III, LLC, GAP Coinvestments IV, LLC, GAP Coinvestments CDA, L.P. and GAPCO GmbH & Co. KG, or collectively the GA Stockholders, have also agreed with us, subject to limited exceptions, not to sell or otherwise dispose of any shares of our common stock without our prior written consent for a period of 18 months after the date of our initial public offering. These shares are expected to be released from this lock-up on August 29, 2013.

The holders of certain shares of our common stock have rights, subject to some conditions, including the expiration of any applicable lock-up period, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or other stockholders.

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

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

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

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

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

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shareholder advisory votes on golden parachute compensation. We will remain an emerging growth company until the earliest of (i) the last day of the fiscal year during which we have total annual gross revenues of $1 billion or more; (ii) April 30, 2017; (iii) the date on which we have, during the previous three-year period, issued more than $1 billion in non-convertible debt; and (iv) the date on which we are deemed to be a large accelerated filer under the Exchange Act. We will be deemed a large accelerated filer on the first day of the fiscal year after the market value of our common equity held by non-affiliates exceeds $700 million, measured on October 31. As of January 31, 2013, 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.

The unfavorable outcome of any pending or future litigation or administrative action and expenses incurred in connection with litigation could result in 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. There can be no assurances as to the favorable outcome of any litigation. In addition it can be costly to defend litigation and these costs could negatively impact our financial results. 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.* 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 breaches of fiduciary duties and breaches of our corporate policies in connection with our acquisition of PowerReviews and certain of our officers and directors sales of shares of our stock. The complaint requests declaratory judgment, a disgorgement of proceeds received from such sales of our stock, damages on our behalf, and equitable relief.

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

As a public company, we have incurred and will continue to incur significant legal, accounting and other expenses that we did not incur as a private company, and greater expenditures may be necessary in the future with the advent of new laws, regulations and stock exchange listing requirements pertaining to public companies, particularly after we are no longer an emerging growth company. The Sarbanes-Oxley Act of 2002 and the Dodd-Frank Act of 2010, as well as rules subsequently implemented by the Securities and Exchange Commission and The NASDAQ Stock Market LLC, impose various requirements on public companies, including establishing effective internal controls and certain corporate governance practices. Our management and other personnel have begun to devote a substantial amount of time to these compliance initiatives, and additional laws and regulations may divert further management resources. Moreover, if we are not able to comply with the requirements of new compliance initiatives in a timely manner, the market price of our stock could decline, and we could be subject to investigations and other actions by the Securities and Exchange Commission and The NASDAQ Stock Market LLC, or other regulatory authorities, which would require additional financial and management resources.

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

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

- creating a classified board of directors whose members serve staggered three-year terms;
- not providing for cumulative voting in the election of directors;

- authorizing our board of directors to issue, without stockholder approval, preferred stock with rights senior to those of our common stock;
- prohibiting stockholder action by written consent; and
- requiring advance notification of stockholder nominations and proposals.

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

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

Unregistered Sales of Equity Securities

On November 5, 2012, we issued 460,449 shares of our common stock as a portion of the consideration for our acquisition of Longboard Media, 230,225 of which shares were deposited into an escrow account to serve as security for the benefit of the Company and its affiliates against the indemnification obligations of the former stockholders of Longboard Media. These shares were valued at approximately $5.8 million based on the closing price of our common stock on the NASDAQ Global Market on the day prior to the date of acquisition. The number of shares of our common stock issued in connection with the acquisition is subject to adjustment based on (i) potential downward purchase price adjustment provisions and (ii) indemnification obligations of the former Longboard Media stockholders after the closing of the acquisition.

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

Use of Proceeds from Public Offering of Common Stock

On February 29, 2012, we completed our initial public offering of 10,906,941 shares of our common stock, of which 10,422,645 shares were offered by us and 484,296 shares were offered by selling stockholders at a price to the public of $12.00 per share. The aggregate offering price for shares sold in the offering was approximately $130.9 million. This offering was effected on February 23, 2012 pursuant to a registration statement on Form S-1 (File No. 333-176506), which the SEC declared effective on such date. Morgan Stanley & Co. LLC, Deutsche Bank Securities Inc. and Credit Suisse Securities (USA) LLC acted as representatives of the underwriters in the offering. The gross proceeds that we raised from the sale of our common stock in the offering was approximately

$125.1 million, resulting in net proceeds from the sale of our common stock of approximately $112.8 million, after deducting underwriting discounts and commissions of approximately $8.8 million and other offering expenses of approximately $3.5 million. No payments were made by us to directors, officers or persons owning ten percent or more of our common stock or to their associates, or to our affiliates, other than payments in the ordinary course of business to officers for salaries, or as a result of sales of shares of common stock by selling stockholders in the offering.

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 investment. In connection with our acquisition of PowerReviews, we used approximately $30.9 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. On December 1, 2012, we used approximately $4.2 million in cash to purchase customer contracts from ShopZilla. We have broad discretion over the uses of the net proceeds. Pending other uses, we plan to invest the remaining net proceeds from our initial public offering in short-term, interest-bearing obligations, investment-grade instruments, certificates of deposit or direct or guaranteed obligations of the U.S. government. There have been no material differences between the actual use of proceeds and intended use of proceeds as originally described in the final prospectus related to our initial public offering as filed with the SEC on February 24, 2012.

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: March 14, 2013

/s/ James R. Offerdahl
James R. Offerdahl
Chief Financial Officer
(Principal Financial Officer)

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
10.1*	Seventh Amendment to Loan and Security Agreement, Joinder and Waiver between the Registrant, PowerReviews, LLC, Longboard Media, Inc. and Comerica Bank, dated November 5, 2012.				
10.2*	Transition Agreement and Release between the Registrant and Erin M. Nelson, dated December 7, 2012.				
10.3*	Offer of Employment between the Registrant and Jim Offerdahl, dated January 23, 2013.				
10.4*	Terms of Employment between the Registrant and Stephen Collins, dated January 7, 2013.				
31.1*	Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-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 Rule 13a-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.
** In accordance with Rule 406T of Regulation S-T, the information in these exhibits is furnished and deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Exchange Act of 1934, and otherwise is not subject to liability under these sections.