MARIN SOFTWARE INC
Form 10-Q
November 07, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 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: 001-35838

Marin Software Incorporated

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**20-4647180**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
123 Mission Street, 25th Floor, San Francisco, CA	**94105**
(Address of Principal Executive Offices)	**(Zip Code)**

(415) 399-2580

(Registrant s Telephone Number, Including Area Code)

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

Indicate by checkmark 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 during the preceding 12 months (or for such shorter time 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 definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

As of October 31, 2013, the registrant had 32,630,905 shares of common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

MARIN SOFTWARE INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands, except par value)

	At September 30, 2013	At December 31, 2012
Assets		
Current assets		
Cash and cash equivalents	$ 111,695	$ 31,540
Accounts receivable, net	13,886	13,133
Prepaid expenses and other current assets	3,505	1,814
Total current assets	129,086	46,487
Property and equipment, net	14,270	9,224
Other noncurrent assets	447	1,513
Total assets	$ 143,803	$ 57,224
Liabilities, Convertible Preferred Stock and Stockholders Equity (Deficit)		
Current liabilities		
Accounts payable	$ 1,148	$ 1,268
Accrued expenses and other current liabilities	11,013	9,661
Deferred revenue	2,884	618
Current portion of long-term debt	3,373	1,572
Total current liabilities	18,418	13,119
Long-term debt, less current portion	3,673	9,243
Other long-term liabilities	1,338	1,858
Total liabilities	23,429	24,220
Convertible preferred stock, net of issuance costs $0.001 par value - 10,000 and 18,804 shares authorized, 0 and 18,753 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively		105,710
Stockholders equity (deficit)		

Common stock, $0.001 par value - 500,000 and 36,000 shares authorized, 32,824 and 4,942 shares issued, 32,610 and 4,658 outstanding at September 30, 2013 and December 31, 2012, respectively		33		5
Additional paid-in capital		225,481		4,638
Accumulated deficit		(105,140)		(77,349)
Total stockholders equity (deficit)		120,374		(72,706)
Total liabilities, convertible preferred stock, and stockholders equity (deficit)	$	143,803	$	57,224

See accompanying notes to the condensed consolidated financial statements.

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MARIN SOFTWARE INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)

(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	**2012**	**2013**	**2012**
Revenues, net	$ 20,113	$ 15,501	$ 55,486	$ 42,507
Cost of revenues	7,944	6,485	23,012	17,728
Gross profit	12,169	9,016	32,474	24,779
Operating expenses				
Sales and marketing	10,281	8,742	31,090	23,615
Research and development	5,072	3,606	15,055	9,651
General and administrative	4,681	3,091	12,755	10,001
Total operating expenses	20,034	15,439	58,900	43,267
Loss from operations	(7,865)	(6,423)	(26,426)	(18,488)
Interest expense, net	(82)	(137)	(375)	(349)
Other income (expenses), net	(16)	(25)	(505)	(222)
Loss before provision for income taxes	(7,963)	(6,585)	(27,306)	(19,059)
Provision for income taxes	(230)	(63)	(485)	(167)
Net loss	(8,193)	(6,648)	(27,791)	(19,226)
Other comprehensive income (loss)				
Comprehensive loss	$ (8,193)	$ (6,648)	$ (27,791)	$ (19,226)
Net loss per share available to common stockholders, basic and diluted	$ (0.25)	$ (1.51)	$ (1.15)	$ (4.46)
Weighted-average shares used to compute net loss per share available to common stockholders, basic and diluted	32,522	4,404	24,136	4,312
Stock-based compensation is allocated as follows (Note 7):				
Cost of revenues	$ 239	$ 121	$ 689	$ 292
Sales and marketing	349	261	1,003	817
Research and development	379	152	990	648

General and administrative	451	295	1,270	2,490

See accompanying notes to the condensed consolidated financial statements.

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MARIN SOFTWARE INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Operating activities		
Net loss	$ (27,791)	$ (19,226)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	3,428	1,802
Amortization of internally developed software	786	346
Noncash expenses related to warrants	436	334
Stock-based compensation	3,952	4,247
Provision for bad debts	288	274
Other noncash expenses		315
Excess tax benefits from stock-based award activities	(41)	
Changes in operating assets and liabilities		
Accounts receivable	(1,041)	(2,894)
Prepaid expenses and other current assets	(1,691)	(831)
Other assets	(34)	(26)
Accounts payable	212	430
Deferred revenue	2,266	129
Accrued expenses and other liabilities	1,135	1,322
Net cash used in operating activities	(18,095)	(13,778)
Investing activities		
Purchases of property and equipment	(3,859)	(4,697)
Capitalization of internally developed software	(2,566)	(1,274)
Net cash used in investing activities	(6,425)	(5,971)
Financing activities		
Proceeds from issuance of common stock in initial public offering, net of issuance costs	109,414	
Proceeds from issuance of note payable, net of issuance costs	1,666	7,314
Repayment of note payable	(8,775)	(4,011)
Redemption of common stock and unvested shares subject to repurchase	(69)	(4,528)
Proceeds from issuance of convertible preferred stock, net of issuance costs		34,294
Proceeds from common stock purchase agreements and option exercises	1,193	1,951
Proceeds from employee stock purchase plan	1,205	
Excess tax benefits from stock-based award activities	41	

Net cash provided by financing activities	104,675	35,020
Net increase in cash and cash equivalents	80,155	15,271
Cash and cash equivalents		
Beginning of period	31,540	1,719
End of period	$ 111,695	$ 16,990
Supplemental disclosure of noncash investing and financing activities		
Accounts payable related purchases of property and equipment	201	48
Conversion of convertible preferred stock to common stock	105,710	
Acquisition of equipment through capital lease	3,167	
Conversion of warrant to purchase convertible preferred stock to common stock warrant	745	
Accrued debt issuance costs	25	

See accompanying notes to the condensed consolidated financial statements.

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Marin Software Incorporated

Notes to Condensed Consolidated Financial Statements

(dollars and share numbers in thousands, except per share data)

1. Summary of Business and Significant Accounting Policies

Marin Software Incorporated (the Company) was incorporated in Delaware in March 2006. The Company provides a leading cloud-based Revenue Acquisition Management platform, offering an integrated digital advertising management solution for search, display, social and mobile advertising channels. The Company s platform helps advertisers and agencies improve financial performance, realize efficiencies and time savings, and make better business decisions. The Company s corporate headquarters are located in San Francisco, California, and the Company has additional offices in the following locations: New York, Chicago, Austin, Portland, Mountain View, London, Dublin, Hamburg, Paris, Tokyo, Singapore, Sydney, and Shanghai.

On March 27, 2013, the Company closed its initial public offering (IPO) of 7,500 shares of its common stock sold by the Company. The public offering price of the shares sold in the IPO was $14.00 per share. The total gross proceeds from the IPO to the Company were $105,000. After deducting underwriting discounts and commissions and IPO expenses payable by the Company, the aggregate net proceeds totaled $94,659. On April 11, 2013, the underwriters of the IPO fully exercised the over-allotment option granted to them. As a result, the Company issued an additional 1,125 shares for net proceeds of $14,648.

Basis of Presentation and Consolidation

The accompanying unaudited condensed consolidated financial statements and condensed footnotes have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of only normal recurring items, considered necessary for fair statement have been included. The results of operations for the three and nine months ended September 30, 2013 are not necessarily indicative of the results to be expected for the year ended December 31, 2013 or for other interim periods or for future years.

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated on consolidation. The condensed consolidated balance sheet as of December 31, 2012 is derived from audited financial statements as of that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in our Prospectus dated March 21, 2013 filed with the SEC (the Prospectus) pursuant to Rule 424(b)(4) under the Securities Act of 1933, as amended (the Securities Act).

Recent Accounting Pronouncement

In July 2013, the Financial Accounting Standards Board (FASB) issued a new accounting standard update on the financial statement presentation of unrecognized tax benefits. The new guidance provides that a liability related to an unrecognized tax benefit would be presented as a reduction of a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. The new guidance becomes effective for the Company on January 1, 2014 and it will be applied prospectively to unrecognized tax benefits that exist at the effective date with retrospective application permitted. The Company is currently assessing the impact of this new guidance.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original or remaining maturity from the Company s date of purchase of 90 days or less to be cash equivalents. Deposits held with financial institutions are likely to exceed the amount of insurance on these deposits. Cash equivalents consist of money market funds, which are readily convertible into cash and are stated at cost, which approximates fair market value. Cash equivalents were $107,972 and $19,930 as of September 30, 2013 and December 31, 2012, respectively.

Fair Value of Financial Instruments

The Company s financial instruments, including cash equivalents, accounts receivable and accounts payable are carried at cost, which approximates fair value because of the short-term nature of those instruments. Based on borrowing rates available to the Company for loans with similar terms and maturities, the carrying value of borrowings approximates fair value (Level 2 within the fair value hierarchy).

The Company measures and reports certain financial assets at fair value on a recurring basis, including its investments in money market funds. The fair value hierarchy prioritizes the inputs into three broad levels:

Level 1 Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

Level 3 Inputs are unobservable inputs based on the Company s assumptions.

A financial instrument s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The Company s cash equivalents as of September 30, 2013 and December 31, 2012 consisted of money market funds with original maturity dates of less than three months from the date of their respective purchase. Cash equivalents are classified as Level 1. The fair value of the Company s money market funds approximated amortized cost and, as such, there were no unrealized gains or losses on money market funds as of September 30, 2013 and December 31, 2012.

The following table presents the changes in the preferred stock warrant obligation measured and recorded at fair value on a recurring basis, using significant unobservable inputs (Level 3) during the nine months ended September 30, 2013 and 2012:

	Nine Months Ended September 30,	
	2013	**2012**
Balances at beginning of period	$ 507	$ 145
Change in estimated fair value of warrant	238	178
Conversion to common stock warrant	(745)	
Balances at end of period	$	$ 323

Allowance for Doubtful Accounts and Revenue Credits

The allowance for doubtful accounts reflects the Company s best estimate of probable losses inherent in the Company s receivables portfolio determined on the basis of historical experience, specific allowances for known troubled accounts and other currently available evidence. The Company has not experienced significant credit losses from its accounts receivable. The Company performs a regular review of its customers payment histories and associated credit risks and it does not require collateral from its customers. Certain contracts with advertising agencies contain sequential liability provisions, whereby the agency does not have an obligation to pay the Company until payment is received from the agency s customers. In these circumstances, the Company evaluates the credit worthiness of the agency s customers, in addition to the agency itself.

From time to time the Company provides revenue credits to customers and an allowance is made based on historical credit activity. As of September 30, 2013 and December 31, 2012, the Company recorded an allowance for potential customer credits in the amount of $162 and $452, respectively.

Property and Equipment

Property and equipment are stated at historical cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets.

The useful lives of the property and equipment are as follows:

Computer equipment	3 to 5 years
Office equipment, furniture and fixtures	3 to 5 years
Software	3 years
Leasehold improvements	Shorter of useful life or lease term

Upon retirement or sale, the cost and related accumulated depreciation are removed from the balance sheet and the resulting gain or loss is reflected in operations. Major additions and improvements are capitalized while repairs and maintenance that do not extend the life of the asset are charged to operations as incurred. Depreciation and amortization expense is allocated to both cost of revenues and operating expenses.

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Internal Use Software

Costs incurred in the development phase are capitalized and amortized over the product s estimated useful life, which is three years. The Company expenses all costs incurred that relate to planning and post implementation phases of development. Capitalized costs related to internal use software under development are treated as construction in progress until the program, feature or functionality is ready for its intended use, at which time amortization commences. The Company capitalized internal-use software development costs of $1,018 and $440 during the three months ended September 30, 2013 and 2012, respectively, and $2,566 and $1,274 during the nine months ended September 30, 2013 and 2012, respectively. Amortization of capitalized costs related to internal-use software for the three months ended September 30, 2013 and 2012 was $303 and $136, respectively, and for the nine months ended September 30, 2013 and 2012 was $786 and $346, respectively. As of September 30, 2013 and December 31, 2012, unamortized internal use software development costs totaled $3,956 and $2,176, respectively. Amortization of internal use software is reflected in cost of revenues. Costs associated with minor enhancement and maintenance are expensed as incurred.

Revenue Recognition

The Company generates revenues principally from subscriptions to its platform either directly with advertisers or with advertising agencies. The Company s subscription agreements are generally one year or longer in length. The Company s subscription fee under most contracts is variable based on the value of the advertising spend that the Company s advertisers manage through the Company s platform and is generally invoiced on a monthly basis. Contracts with direct advertisers and certain contracts with advertising agencies also include a minimum monthly fee that is payable over the duration of the contract. The Company s customers do not have the right to take possession of the software supporting the application service at any time, nor do the arrangements contain general rights of return. The Company commences revenue recognition for both direct advertisers and advertising agencies when all of the following conditions are met:

- persuasive evidence of an arrangement exists;
- the Company s platform is made available to the customer;
- the fee is fixed or determinable, and;
- collection is reasonably assured.

The Company recognizes the total minimum fee for both direct advertisers and advertising agencies, where applicable, over the duration of the contract, commencing on the date that the Company s platform is made available to the customer, provided revenues recognized do not exceed amounts that are invoiced and due. The variable fee, which is based on a percentage of the value of the advertising spend managed through the Company s platform, is recognized once the amount is fixed or determinable, which is generally on a monthly basis concurrent with the issuance of the customer invoice. Signed contracts are used as evidence of an arrangement. The Company assesses collectability based on a number of factors such as past collection history with the customer and creditworthiness of the customer. Certain agreements with advertising agencies also contain sequential liability provisions, which provide that the agency has no obligation to pay the Company until the agency receives payment from its customers. In these circumstances, the Company evaluates the credit worthiness of the agency s customers, in addition to the agency itself, to conclude whether or not collectability is reasonably assured. If the Company determines collectability is not reasonably assured, the Company defers the revenue recognition until collectability becomes reasonably assured.

Cost of Revenues

Cost of revenues primarily consists of costs related to hosting the Company s cloud-based platform, providing implementation and ongoing customer support, data communications expenses, salaries and benefits of operations and support personnel, software license fees, costs associated with website development activities, allocated overhead, amortization expense associated with capitalized internal use software and intangible assets and property and equipment depreciation.

Stock-Based Compensation

Stock-based compensation is measured at grant date based on the fair value of the award and is expensed on a straight-line basis over the requisite service period.

Fair values of share-based payment awards are determined on the date of grant using an option-pricing model. The Company has selected the Black-Scholes option pricing model to estimate the fair value of its stock options awards to employees and non-employees. In applying the Black-Scholes option pricing model, the Company s determination of the fair value of the share-based payment award on the date of grant is affected by the Company s estimated fair value of Common Stock, as well as assumptions regarding a number of subjective variables. These variables include, but are not limited to, the Company s expected stock price volatility over the term of the stock options and the optionholders actual and projected stock option exercise and pre-vesting employment termination behaviors.

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For awards with graded vesting, the Company recognizes stock-based compensation expense over the requisite service period using the straight-line method, based on awards ultimately expected to vest. The Company estimates future forfeitures at the date of grant and revises the estimates, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Stock options issued to non-employees such as consultants are recorded at their fair value on the measurement date. The measurement of stock-based compensation is subject to periodic adjustment as the underlying equity instruments vest. The fair value of options granted to consultants is expensed when vested. Non-employee stock-based compensation expense was not material for all periods presented.

See Note 7 for further information.

2. Balance Sheet Components

The following table shows the components of property and equipment as of the dates presented:

	September 30, 2013	December 31, 2012
Computer equipment	$ 15,190	$ 8,958
Software	7,020	4,268
Office equipment	597	457
Furniture, fixtures and leasehold improvements	1,847	1,742
	24,654	15,425
Less: Accumulated depreciation and amortization	(10,384)	(6,201)
	$ 14,270	$ 9,224

Depreciation and amortization expense for the nine months ended September 30, 2013 and 2012 was $4,214 and $2,148, respectively.

The following table shows the components of accrued expenses and other current liabilities as of the dates presented:

	September 30, 2013	December 31, 2012
Accrued salary and payroll related expenses	$ 6,678	$ 4,771
Accrued accounts payable	2,877	3,882
Sales and use tax payable	435	17
Other	1,023	991
	$ 11,013	$ 9,661

3. Debt

In February 2013, the Company entered into a capital lease arrangement with an equipment manufacturer to finance the acquisition of computer equipment. The lease has an effective interest rate of 6.0% and is repayable in 36 consecutive equal monthly installments of principal and interest. At the end of the lease period, the Company has the option to purchase the equipment at the estimated fair market value. As of September 30, 2013, the net book value of the equipment under the capital lease was $2,758 and the remaining principal balance payable was $2,876.

In September 2013, the Company entered into an amendment to its existing revolving credit facility pursuant to which Silicon Valley Bank agreed to increase the revolving credit facility to the lesser of $15,000 or 80% of the Company s eligible accounts receivable. Also, the expiration date of the revolving credit facility was extended to July 31, 2015 and the annual interest rate was amended to 0.25% over the Prime Rate payable on a monthly basis. Additionally, the Company s obligation to meet certain financial covenants will be waived when the Company s unrestricted cash balance exceeds $50,000.

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The maturities of all outstanding debt as of September 30, 2013 are as follows:

Periods Ending December 31,	
2013	$ 982
2014	3,130
2015	2,464
2016	677
	7,253
Less:	
Current portion	(3,373)
Discount on long-term debt	(207)
Noncurrent portion of debt	$ 3,673

4. Convertible Preferred Stock

Each share of Preferred Stock was automatically converted into a fully paid share of Common Stock immediately prior to the closing of the IPO. Upon the occurrence of this conversion event, the outstanding warrant to purchase Series B convertible preferred stock converted into a warrant to purchase Common Stock. All of the outstanding shares of Preferred Stock converted into Common Stock at the conversion rate of 1:1.

5. Common Stock

As of September 30, 2013 and December 31, 2012, the Company was authorized to issue 500,000 and 36,000, respectively, shares of $0.001 par value Common Stock. Reserved shares of Common Stock are as follows:

	September 30, 2013	**December 31, 2012**
Preferred Stock and Common Stock Warrants		114
Stock options	12,213	7,213
Employee stock purchase plan	1,000	
Convertible preferred stock		18,804
	13,213	26,131

6. Equity Award Plans

In April 2006, the Company s Board of Directors adopted and the stockholders approved the 2006 Stock Option Plan (2006 Plan). The 2006 Plan provides for the grant of incentive stock options under the federal tax laws and nonstatutory stock options. Only employees may receive incentive stock options, but nonstatutory stock options may be granted to employees, nonemployee directors and consultants. The stock options are exercisable at a price equal to the market value of the underlying shares of common stock on the date of the grant as determined by the Company s board of directors. The term of options granted under the 2006 Plan may not exceed ten years. Certain options are eligible for exercise prior to vesting. Exercised but unvested shares are subject to repurchase by the Company at the initial exercise price. The proceeds from the shares subject to repurchase are classified as a liability and reclassified to equity as the shares vest. Under the 2006 Plan s early exercise feature, the Company may have had the opportunity to repurchase 284 and 214 shares as of December 31, 2012 and September 30, 2013, respectively. The Company records cash received from the exercise of unvested stock options as a long-term liability. As of September 30, 2013 and December 31, 2012, $1,338 and $1,332, respectively, has been recorded as a long-term liability on the condensed consolidated balance sheets.

In February 2013, the Company s Board of Directors and stockholders approved the 2013 Equity Incentive Plan (2013 Plan), under which 4,500 shares have been reserved for issuance. Additionally, all reserved and unissued shares under the 2006 Plan at the time the 2013 Plan became effective are eligible for issuance under the 2013 Plan. The 2013 Plan became effective on March 21, 2013, at which time the Company ceased to grant equity awards under the 2006 Plan. The 2013 Equity Incentive Plan authorizes the award of stock options, restricted stock awards, stock appreciation rights, restricted stock units, performance awards and stock bonuses to the Company s employees, directors, consultants, independent contractors and advisors. On January 1 of each of the first 10 calendar years through 2023, the number of shares reserved under the 2013 Equity Incentive Plan will automatically increase by an amount equal to 5% of the total outstanding shares as of immediately preceding December 31, or such lesser number of shares as determined by the Company s Board of Directors.

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A summary of activity under the 2006 Plan and 2013 Plan is as follows:

	Options Outstanding			
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Balances at December 31, 2012	4,314	$ 4.17	7.61	$ 34,439
Options granted	1,417	12.09	9.45	
Options exercised	(451)	2.54		
Options forfeited and cancelled	(290)	8.18		
Balances at September 30, 2013	4,990	$ 6.33	7.99	$ 31,125
Options exercisable as of September 30, 2013	4,342	$ 5.72	7.79	$ 29,664
Options vested as of September 30, 2013	2,146	$ 2.93	6.83	$ 20,648
Options vested and expected to vest of September 30, 2013	4,737	$ 6.16	7.93	$ 30,373

In February, 2013, the Company s Board of Directors and stockholders approved the 2013 Employee Stock Purchase Plan (2013 ESPP), under which 1,000 shares have been reserved for issuance. The 2013 ESPP became effective on March 22, 2013. The 2013 ESPP provides generally for six-month purchase periods and the purchase price for shares of stock purchased under the 2013 Employee Stock Purchase Plan will be 85% of the lesser of the fair market value of the common stock on (i) the first trading day of the applicable offering period and (ii) the last trading day of each purchase period in the applicable offering period. On January 1 of each of the first 10 calendar years following the first offering date, the number of shares reserved under the 2013 Employee Stock Purchase Plan will automatically increase by an amount equal to 1% of the total outstanding shares as of immediately preceding December 31, but not to exceed 700 shares. As the current offering period is March 22, 2013 through November 14, 2013, no shares were issued under the 2013 ESPP during the three and nine months ended September 30, 2013.

7. Stock-Based Compensation

For stock options granted by the Company, stock-based compensation cost is measured at grant date based on the fair value of the award and is expensed over the requisite service period. The Company recorded stock-based compensation of $1,418 and $829 for the three months ended September 30, 2013 and 2012, respectively, and $3,952 and $4,247 for the nine months ended September 30, 2013 and 2012, respectively.

The Company uses the Black-Scholes option pricing model to estimate the fair value of options. This model requires the input of highly subjective assumptions including the expected term of the option, expected stock price volatility and expected forfeitures. The Company used the following assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Dividend yield				
Expected volatility	53.8%	57.0%	53.8% - 55.8%	57.0%
Risk-free interest rate	1.69% - 2.01%	0.72%	1.37% - 2.47%	0.72% - 1.15%
Expected life of options (in years)	6.25	6.25	6.25	6.25
Forfeiture rate	7.0%	3.2% - 7.0%	7.0%	3.2% - 7.0%

As the Company has limited historical option exercise data, the expected term of the stock options granted to employees was calculated based on the simplified method. Under the simplified method, the expected term is equal to the average of an option s weighted-average vesting period and its contractual term. Pursuant to the Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) No. 110, the Company is permitted to continue using the simplified method until sufficient information regarding exercise behavior, such as historical exercise data or exercise information from external sources, becomes available. The Company estimates the expected volatility of its Common Stock on the date of grant based on the historical stock volatilities of similar publicly-traded entities over a period equal to the expected terms of the options, as the Company does not have sufficient trading history to use the volatility of its own common stock. The Company has no history or expectation of paying cash dividends on its Common Stock. The risk-free interest rate is based on the U.S. Treasury yield for a term consistent with the expected life of the options in effect at the time of grant.

Cash proceeds from the exercise of stock options were $1,193 and $1,451 for the nine months ended September 30, 2013 and 2012, respectively.

Compensation expense is recognized ratably over the requisite service period. As of September 30, 2013, there was $12,345 of unrecognized compensation cost related to options, which is expected to be recognized over a weighted-average period of 2.9 years.

Given the lack of a public market for the Company s outstanding Common and Preferred Stock during the three and nine months ended September 30, 2012 and through March 27, 2013, the Company s Board of Directors established an estimate of fair value for these securities as well as for options and warrants to purchase these securities. The fair value of the Company s Common Stock as used in the determination of the exercise price of stock options was estimated by the Board of Directors based on factors such as the liquidation preference, dividends and other rights of the outstanding Preferred Stock; recent financial and operating performance; the status of the Company s development and sales efforts, revenue growth and additional objectives; the likelihood and proximity of an initial public offering; and the valuation of comparable companies that are publicly traded. Subsequent to the closing of the Company s IPO, the Company has used the closing price of the Company s common stock on the date of the stock option grant as the fair value of the Company s Common Stock and the exercise price of the stock options.

Employee Stock Purchase Plan

The Company estimates the fair value of purchase rights under the ESPP using the Black-Scholes valuation model. The fair value of each purchase right under the ESPP was estimated on the date of grant using the Black-Scholes option valuation model and the straight-line attribution approach with the following assumptions:

	Three and Nine Months Ended September 30, 2013
Dividend yield	
Expected volatility	55.8%
Risk-free interest rate	0.81%
Expected life of options (in years)	0.65
Forfeiture rate	7.0%

8. Income Taxes

The Company s quarterly provision for income taxes is based on an estimated effective annual income tax rate. The Company s quarterly provision for income taxes also includes the tax impact of certain unusual or infrequently occurring items, if any, including changes in judgment about valuation allowances and effects of changes in tax laws or rates, in the interim period in which they occur.

Income tax expense for the nine months ended September 30, 2013 was $485 on a pre-tax loss of $27,306. Income tax expense for the nine months ended September 30, 2012 was $167 on a pre-tax loss of $19,059. As of September 30, 2013, the income tax rate varies from the United States statutory income tax rate primarily due to valuation allowances in the United States and taxable income generated by the Company s foreign wholly-owned subsidiaries.

The Company reviews the likelihood that it will realize the benefit of its deferred tax assets and, therefore, the need for valuation allowances on a quarterly basis. There is no corresponding income tax benefit recognized with respect to losses incurred and no corresponding income tax expense recognized with respect to earnings generated in jurisdictions with a valuation allowance. This causes variability in the Company s effective tax rate. The Company intends to maintain the valuation allowances until it is more likely than not that the net deferred tax assets will be realized.

As of September 30, 2013, the Company s gross uncertain tax benefits totaled $533. As of September 30, 2013, none of the Company s uncertain tax benefits, including related accrued interest and penalties, would affect the Company s effective tax rate if recognized.

9. Net Loss Per Share Available to Common Stockholders

Basic net loss per share available to common stockholders is calculated by dividing the net loss available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. Net loss available to common stockholders is calculated using the two class method as net loss less the preferred stock dividend for the period less the amount of net loss, if any, allocated to the preferred stock based on weighted preferred stock outstanding during the period relative to total stock outstanding during the period. As the Company s convertible preferred stockholders did not have the contractual obligations to share in the losses of the Company, no loss was allocated to the convertible preferred stockholders in the determination of net loss available to common stockholders. The weighted-average number of shares of common stock used to calculate the Company s basic net loss per share available to common stockholders excludes those shares subject to repurchase related to unvested common shares and stock options that were exercised prior to vesting as these shares are not deemed to be outstanding for accounting purposes until they vest. The diluted net loss per share of common stock is computed by dividing the net loss using the weighted-average number of shares of common stock, excluding common stock subject to repurchase, and, if dilutive, potential shares of common stock outstanding during the period. Potential shares of common stock consist of common stock subject to repurchase and stock options to purchase common stock and warrants to purchase convertible preferred stock (using the treasury stock method) and the conversion of the Company s convertible preferred stock (using the if converted method).

The following table presents the calculation of basic and diluted net loss per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	**2012**	**2013**	**2012**
Numerator:				
Net loss	$ (8,193)	$ (6,648)	$ (27,791)	$ (19,226)
Denominator:				
Weighted average number of shares,basic and diluted	32,522	4,404	24,136	4,312
Net loss per share available to common stockholders				
Basic and diluted net loss per common share available to common stockholders	$ (0.25)	$ (1.51)	$ (1.15)	$ (4.46)

The following table presents the potential common shares outstanding that were excluded from the computation of diluted net loss per share available to common stockholders for the periods presented because including them would have been anti-dilutive:

	Nine Months Ended September 30,	
	2013	**2012**
Convertible preferred stock		17,275
Options to purchase common stock	4,990	4,274
Common stock subject to repurchase	214	309
Convertible preferred stock warrants		51
Common stock warrants		37
	5,204	21,946

10. Segment Reporting

The Company defines the term chief operating decision maker to be the Chief Executive Officer. The Chief Executive Officer reviews the financial information presented on a consolidated basis for purposes of allocating resources and evaluation of financial performance. Accordingly, the Company has determined that it operates as a single reportable and operating segment.

Revenues by geographic area, based on the billing location of the customer, were as follows:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2013	**2012**	**2013**	**2012**
United States of America	$ 13,396	$ 11,448	$ 38,019	$ 31,360
International	6,717	4,053	17,467	11,147
Total revenues, net	$ 20,113	$ 15,501	$ 55,486	$ 42,507

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Long-lived assets by geographic area were as follows:

	September 30, 2013	December 31, 2012
United States of America	$ 13,908	$ 8,839
International	362	385
Total long-lived assets, net	$ 14,270	$ 9,224

11. Commitments and Contingencies

Operating Leases

Rent expense for the three months ended September 30, 2013 and 2012 was $1,752 and $1,343, respectively, and for the nine months ended September 30, 2013 and 2012 was $5,016 and $3,343, respectively.

Future minimum lease payments for significant operating leases as of September 30, 2013 were as follows:

Periods Ending December 31,	
2013	$ 1,429
2014	5,200
2015	1,912
2016	717
2017 and thereafter	858
	$ 10,116

Legal Matters

From time to time, the Company may be involved in lawsuits, claims, investigations and proceedings, consisting of intellectual property, commercial, employment and other matters, which arise in the ordinary course of business. In accordance with GAAP, the Company records a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impact of negotiations, settlements, ruling, advice of legal counsel and other information and events pertaining to a particular case. Litigation is inherently unpredictable. If any unfavorable ruling were to occur in any specific period or if a loss becomes probable and estimable, there exists the possibility of a material adverse impact on the Company s results of operations, financial position or cash flows.

Indemnification

The Company enters into standard indemnification agreements in the ordinary course of business. Pursuant to the agreements, each party may indemnify, defend and hold the other party harmless with respect to such claim, suit or proceeding brought against it by a third party alleging that the indemnifying party s intellectual property infringes upon the intellectual property of the third party, or results from a breach of the indemnifying party s representations and warranties or covenants, or that results from any acts of negligence or willful misconduct. The term of these indemnification agreements is generally perpetual any time after execution of the agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. Historically, the Company has not been obligated to make significant payments for these obligations and no liabilities have been recorded for these obligations on the consolidated balance sheets as of September 30, 2013 and December 31, 2012.

The Company also indemnifies its officers and directors for certain events or occurrences, subject to certain limits, while the officer or director is or was serving at the Company s request in such capacity. The maximum amount of potential future indemnification is unlimited; however, the Company has a Directors and Officers insurance policy that limits its exposure and enables the Company to recover a portion of any future amounts paid. Historically, the Company has not been obligated to make any payments for these obligations and no liabilities have been recorded for these obligations on the consolidated balance sheets as of September 30, 2013 and December 31, 2012.

Other Contingencies

The Company is subject to claims and assessments from time to time in the ordinary course of business. The Company s management does not believe that any such matters, individually or in the aggregate, will have a material adverse effect on the Company s financial position, results of operations or cash flows.

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

The following discussion and analysis of our financial condition, results of operations and cash flows should be read in conjunction with the (1) unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q, and (2) the audited consolidated financial statements and notes thereto and management s discussion and analysis of financial condition and results of operations for the fiscal year ended December 31, 2012 included in the final prospectus for our IPO dated as of, and filed with the Securities and Exchange Commission, or the SEC, pursuant to Rule 424(b)(4) on March 21, 2013 (File No. 333-186669). This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These statements are often identified by the use of words such as may, will, expect, believe, anticipate, intend, could, should, potential, predict, project, estimate, or continue, and similar expressions or variations. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified herein, and those discussed in the section titled Risk Factors , set forth in Part II, Item 1A of this Form 10-Q. We disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Overview

We provide a leading cloud-based digital advertising management platform that enables advertisers and agencies to improve financial performance, realize efficiencies and time savings, and make better business decisions. Our Revenue Acquisition Management platform is a software-as-a-service, or SaaS, analytics, workflow, and optimization solution for marketing professionals, enabling them to effectively manage their digital advertising spend across search, display, social and mobile advertising channels. Our software solution is designed to help our customers:

- measure the effectiveness of their advertising campaigns through our proprietary reporting and analytics capabilities;
- manage and execute campaigns through our intuitive user interface and underlying technology that streamlines and automates key functions, such as ad creation and bidding, across multiple publishers and channels; and
- optimize campaigns across multiple publishers and channels in real time based on market and business data to achieve desired revenue outcomes using our predictive bid management technology.

We market and sell our solutions to advertisers directly and through leading advertising agencies. We generate revenues from subscription contracts under which we charge fees generally based upon the amount of advertising spend that our customers manage through our platform. We have achieved 18 consecutive quarters of revenue growth. For the three months ended September 30, 2013, our revenues grew 30% to $20.1 million from $15.5 million for the three months ended September 30, 2012. For the nine months ended September 30, 2013, our revenues grew 31% to $55.5 million from $42.5 million for the nine months ended September 30, 2012. We incurred a net loss of $8.2 million and $27.8 million for the three and nine months ended September 30, 2013, respectively. We must continue to increase revenues at a higher rate than our cost of revenues and operating expenses increase, or we will need to make additional efforts to decrease cost of revenues and operating expenses as a percentage of revenues in order to begin to generate net income.

We generate revenues principally from subscription contracts under which we provide advertisers with access to our platform, either directly or through the advertiser s relationship with an agency that has a contract with us. Our contracts are generally one year or longer in length. Under our subscription contracts with most of our direct advertisers and some of our agency customers, customers are contractually committed to a monthly minimum fee, which is payable on a monthly basis over the duration of the contract and is generally greater than one-half of our estimated monthly revenues from these customers, at the time the contract is signed. However, most of our subscription contracts with our advertising agency customers do not include a committed monthly minimum fee. Our contractual arrangement is with the advertising agency and the advertiser is not a party to the terms of the contract. Accordingly, most advertisers through our agency customers do not have a commitment to use our services and the advertisers may be added or removed from our platform at the discretion of the respective agency. We invoice the advertising agency the amounts due under the contract. Historically, approximately half of our revenues have been generated from advertising agency customers. Our subscription fee under most contracts is variable based upon the value of advertising spend that our customers manage through our platform. Our deferred revenues consist of the unearned portion of billed subscription fees.

Our subscription contracts indicate the date at which we begin invoicing our customers, which is generally the first day of the month following the execution of the contract. We generally invoice the greater of the minimum fee or the percentage of advertising spend on our platform. The implementation process for new advertisers is typically four to six weeks; however, we generally do not charge a separate implementation fee under our subscription contracts.

Our implementation and customer support personnel, as well as costs associated with our cloud infrastructure, are included in our cost of revenues. Our cost of revenues and operating expenses have increased in absolute dollars due to our need to increase our headcount to grow our business and to increase data center capacity to support customer revenue growth on our platform. We expect that our cost of revenues will continue to increase in absolute dollars as we continue to invest in our growth.

In order to grow revenues, we will invest in sales and marketing activities by adding sales executives globally to target new advertisers and agencies. We will also invest in research and development to further expand our platform and support for additional publishers. All of these activities will require us to make investments, particularly in research and development and sales and marketing, and if these investments do not generate additional customers or additional advertising spend managed by our platform, our future operating results could be harmed.

The majority of our revenues are derived from our advertisers in the United States. We believe the markets outside of the United States offer an opportunity for growth and we intend to make additional investments in sales and marketing to expand in these markets. Advertisers from outside of the United States represented 33% and 31% of total revenues for the three and nine months ended September 30, 2013, respectively, and 26% for both the three and nine months ended September 30, 2012.

We were incorporated in 2006 and initially focused on building the core elements of our cloud-based platform, which we currently use to service our customers. In September 2007, we launched Marin Enterprise, which targets large advertisers and agencies. We released Marin Professional Edition in March 2011, which targets mid-market advertisers and agencies. We have an iterative release cycle and we typically release new features every one to two months. Additionally, we have continued to expand internationally, opening our London office in 2009, our Paris, Hamburg, Singapore and Sydney offices in 2011, our Dublin and Tokyo offices in 2012 and our Shanghai office in 2013.

Key Factors Affecting Our Performance

Number of Active Advertisers

We define an active advertiser as an advertiser from whom we recognized revenues in excess of $2,000 in at least one month in a period. We believe the $2,000 threshold best identifies advertisers who are actively using our platform. We focus on revenue in at least one month in a period to account for seasonality in advertising spend by our customers, some of whom may not run digital advertising campaigns in every month of a year but still represent an active advertiser on our platform. We count organizations within the same corporate structure as one advertiser, even if they have signed separate contracts with us for different brands or divisions, whether they are a direct advertiser or an advertiser through an agency. When our subscription contract is with an advertising agency, we include each advertiser whose advertising spend is managed by the agency through our platform as a different advertiser. Advertisers who have advertising spend managed by multiple agencies on our platform are counted as one advertiser. We believe that our ability to increase the number of active advertisers using our platform is a leading indicator of our ability to grow revenues. We had 610 and 502 active advertisers in the quarters ended September 30, 2013 and 2012, respectively. While our active advertiser count has increased over time, this metric can also fluctuate from quarter to quarter due to seasonality and timing and amount of revenue contribution from new active advertisers and therefore, there is not necessarily a direct correlation between the amount of increased revenues and the change in active advertisers in a particular period.

Revenue Retention Rate

We believe our ability to retain and grow revenues from our existing advertisers is an indicator of the stability of our revenue base and the long-term value of our advertiser relationships. We assess our ability to retain and grow subscription revenues using a metric we refer to as revenue retention rate. We calculate our revenue retention rate metric by dividing retained revenues by retention base revenues. We define retention base revenues as revenues from all advertisers in the corresponding prior period, and we define retained revenues as revenues from all advertisers from the prior period that remain advertisers in the current period. This metric is calculated on a quarterly basis, and for annual periods, we use an average of the quarterly metrics. Although we have lost individual advertisers over time, advertisers who have remained on our platform have generally, in the aggregate, increased their advertising spend on our platform. At the same time, advertising spend on our platform may vary quarter to quarter, and as a result, quarterly revenue retention rates may fluctuate quarter to quarter. Our annual revenue retention rate was 114% during the year ended December 31, 2012.

Annualized Advertising Spend on our Platform

We calculate annualized advertising spend as advertising spend in the last month of a period multiplied by 12. We believe that increases in annualized advertising spend generally lead to increases in revenues over time. However, we believe that other factors related to the terms of customer agreements and seasonality can make it difficult to directly correlate annual advertising spend to changes in revenues in a particular period. Our customers collectively managed $4.7 billion in annualized advertising spend on our platform in December 2012, and during the three months ended September 30, 2013, we achieved $5.0 billion in annualized spend under management.

Components of Results of Operations

Revenues

We generate revenues principally from subscription contracts under which we provide advertisers with access to our platform, either directly or through the advertiser s relationship with an agency with whom we have a contract. Under our subscription contracts with most direct advertisers and some of our agency customers, customers contractually commit to a monthly minimum fee, which is generally greater than one-half of our estimated monthly revenues from these customers, at the time the contract is signed. However, most of our subscription contracts with our advertising agency customers do not include a committed monthly minimum fee. Additionally, advertisers we serve through our arrangements with our advertising agencies generally do not have a minimum commitment to continue using our services. Our subscription fee under most contracts is variable based upon the value of advertising spend that our customers manage through our platform, although some customers pay a flat monthly rate over the term of their subscription contract. Our deferred revenues consist of the unearned portion of billed subscription fees.

Cost of Revenues

Cost of revenues primarily includes personnel costs, consisting of salaries, benefits, bonuses and stock-based compensation, for employees associated with our cloud infrastructure and global services for implementation and ongoing customer service organizations. Other costs of revenues include fees paid to contractors who supplement our support and data center personnel, expenses related to the use of a third-party data center, depreciation of data center equipment, amortization of capitalized internal-use software development costs and allocated overhead.

We intend to continue to invest additional resources in our global services teams and in the capacity of our hosting service infrastructure. As we continue to invest in technology innovation through our research and development organization, we expect to have increased amortization of capitalized internal-use software development costs. We expect that this investment in technology should not only expand the breadth and depth of our Revenue Acquisition Management platform but also increase the efficiency of how we deliver these solutions, enabling us to improve our gross margin over time. The level and timing of investment in these areas could affect our cost of revenues in the future.

Sales and Marketing Expenses

Sales and marketing expenses include personnel costs, sales commissions and other costs including travel and entertainment, marketing and promotional events, public relations, marketing activities, professional fees and allocated overhead. All of these costs are expensed as incurred, including sales commissions. Our commission plans provide that payment of commissions to our sales representatives are paid based on the actual amounts we invoice customers over a period that is generally between five to seven months following the execution of the applicable customer contract.

We plan to continue investing in sales and marketing by increasing the number of sales and account management employees, expanding our domestic and international sales and marketing activities, building brand awareness and sponsoring additional marketing events, which we believe will enable us to add new customers and increase penetration within our existing customer base. We expect that, in the future, sales and marketing expenses will increase in absolute dollars and continue to be our largest operating expense category.

Research and Development Expenses

Research and development expenses consist primarily of personnel costs for our product development and engineering employees and executives, including salaries, benefits, stock-based compensation expense and bonuses. Also included are non-personnel costs such as professional fees payable to third-party development resources and allocated overhead.

Our research and development efforts are focused on enhancing our software architecture, adding new features and functionality to our platform and improving the efficiency with which we deliver these services to our customers. We expect that, in the future, research and development expenses will increase in absolute dollars, partially offset by the amount of capitalized internal-use software development costs. We believe that these investments are necessary to maintain and improve our competitive position.

General and Administrative Expenses

General and administrative expenses consist primarily of personnel costs, including salaries, benefits, stock-based compensation expense and bonuses, for our administrative, legal, human resources, finance and accounting employees and executives. Also included are non-personnel costs, such as travel-related expenses, audit fees, tax services and legal fees, as well as professional fees, insurance and other corporate expenses, along with allocated overhead.

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We expect to incur incremental costs associated with supporting the growth of our business, both in terms of size and geographic expansion, and to meet the increased compliance requirements associated with our transition to and operation as a public company. Such costs include increases in our accounting and legal personnel, additional consulting, legal and audit fees, insurance costs, board of directors compensation and the costs of achieving and maintaining compliance with 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 revenues over time.

Results of Operations

The following table is a summary of our consolidated statements of operations. The period-to-period comparisons of results are not necessarily indicative of results for future periods.

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